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UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

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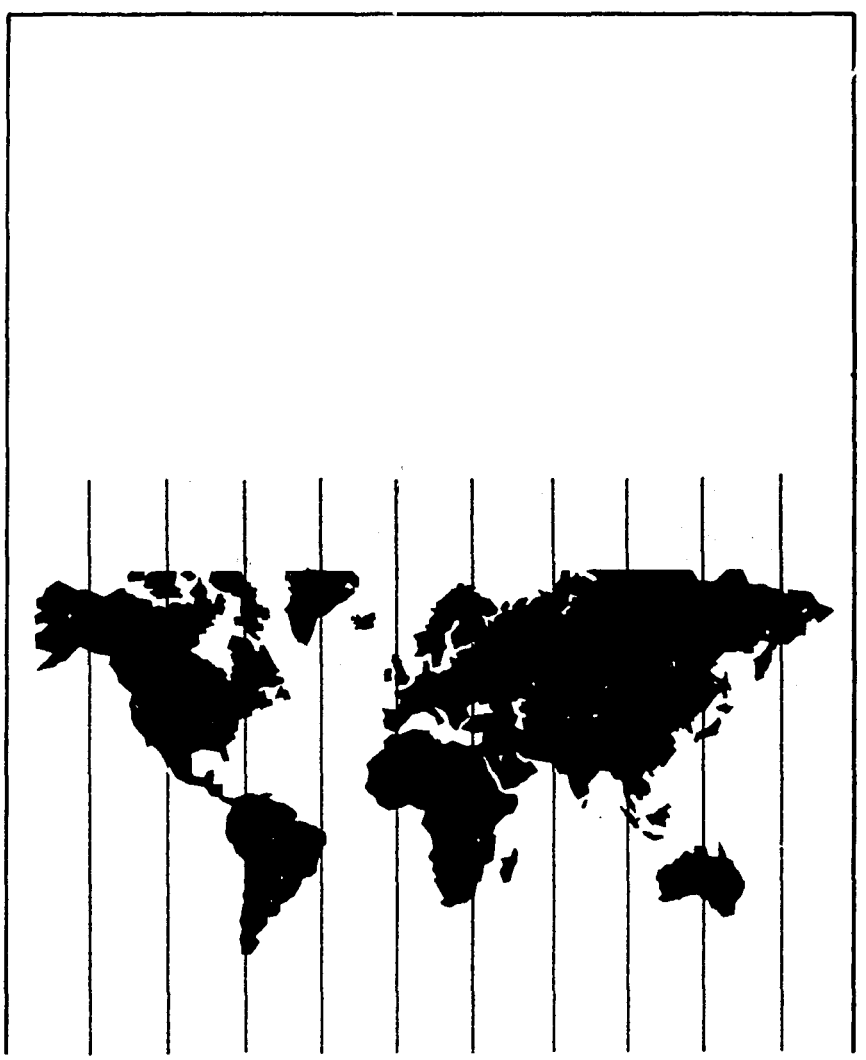
THE INSPECTOR GENERAL



Regional Inspector General for Audit
CAIRO

AN AUDIT OF THE POULTRY IMPROVEMENT PROJECT

(Grant No. 263-0060)

With Emphasis on a Contract between Mathtech Inc.

and the Government of Egypt

Audit Report No. 6-263-81-1

June 16, 1981

The Government of Egypt has been interested in improving and developing the field of poultry production because it meets criteria which does not conflict with land used for cotton. Cotton is a major export item. By 1987, the GOE plans to increase present poultry production to 1.5 billion eggs and 600 million broilers. The Grant was for $4.5 million which is being used to finance (a) a contract with Mathtech Inc. for studies and analysis; (b) training of 69 participants; and (c) the improvement of 3 hatcheries and poultry farms.

Our emphasis was the contract with Mathtech Inc. because the survey showed serious problems in that area. The Contractor fulfilled his technical responsibilities in a satisfactory manner. However, his fiscal and administrative responsibilities were not satisfactory. Some problems bordered on very serious improprieties and are due to the Contractor's management and administrative practices and also to the accounting system. Some examples: the Contractor billed on the basis of hours at unadjusted standard cost, but reimbursed employees at fixed monthly salaries; certifications were made that inordinate number of hours were being worked; advance of funds were not accounted for; claims for per diem of many consultants are questionable. We are recommending that Mathematica Inc. and all subsidiaries be suspended. The report also recommends (a) disallowances of $114,951 and LE 10,226; (b) suspension, pending further negotiations, of $74,866 and LE 45,251; and acceptance of $1,943,573 and LE 272,849.

Two of the project objectives were achieved. The 49 comprehensive reports made by the Contractor represent a very thorough coverage of all poultry interrelated fields. Also sixty-nine trainees are working in Egypt. Project monitoring by the USAID/E has been adequate. The USAID/E did commendable work in filtering some abuse of the Contractor. But, some areas related to internal controls could be improved by the USAID/E. These are discussed in the report.

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EXECUTIVE SUMMARY

Introduction

According to different studies, Egypt could probably be self-sufficient in food and feed crops. But, it is unable to do so because the need for foreign exchange requires Egypt to use substantial quantities of land to grow cotton which has a comparative market advantage over other products. For this reason, the Government of Egypt (GOE) had been interested in improving and developing the field of poultry production because it meets the necessary criteria and does not conflict with the land use requirements. It is the long-term goal of the GOE to increase present poultry production to 1.5 billion eggs and 600 million broilers annually by 1987.

Grant No. 263-0060 for the Poultry Improvement Project (PIP) was signed on August 1977. Under its terms, the USAID/E agreed to provide up to $4.5 million in U.S. currency and the equivalent of $491 thousand in local currency to finance three basic things:

- Needed technical studies, analysis, and consultancy to be provided by a qualified Contractor. The Contractor that was eventually selected was Mathtech Inc., the Technical Research and Consulting Division of Mathematica Inc. The contract was in effect during the two year period of September 1, 1978 to September 12, 1980 and the Contractor made 49 interrelated special studies covering the poultry sector in Egypt.

- Training of an estimated 76 participants who would be working in the poultry sector. The funds were to be provided through the above contract with Mathtech Inc. Eventually, 69 participants were trained by Mathtech Inc. through sub-contracts with the University of Florida and the University of Georgia.

- The improvement of 3 (of 13) breeding-hatching farms operated by the Ministry of Agriculture. This was a separate part of the Grant and was in progress of implementation, at the time of our audit, and somewhat behind schedule. Moreover, the scope of the Grant was being modified to provide additional funding in this area.

As of April 15, 1981, the financial profiles of this project showed the following: funds obligated--$5.0 million; funds sub-obligated for the Mathtech Inc. contract--$2.6 million; funds sub-obligated for the 3 breeding farms--$2.4 million; funds disbursed--$2.3 million (all for the the Mathtech Inc. Contract); and, remaining balance of funds--$2.7 million. The GOE was contributing its share of about $1.3 million in salaries, budgetary support and in-kind support.

Audit Purpose and Scope

This is the first audit to be made by this office of the Poultry Improvement Project of Egypt. It is a full-scope audit. However, the major emphasis of our review centered on the B/G contract between Mathtech Inc. and the GOE, for several reasons: (a) all of the disbursements under the Grant have been for the contract or contract-related items; (b) most of the activities of this project to date have taken place in the implementation of this contract; (c) the survey phase of the review showed that USAID/E management had problems with the financial claims of this Contractor; and (d) the survey phase also indicated the potentials for serious problems with the financial portion of the contract. The main objectives of the review, then, were to determine propriety of expenditures claimed by the Contractor and to evaluate the Contractor's performance. We also made a cursory assessment of project accomplishments.

The review was made in accordance with sound auditing principles. To meet our audit objectives, we were assisted by the RIG/A/Washington, who made the examination of accounts of U.S. dollar costs at the home office of the Contractor, and by DHHS, who examined the accounts of the sub-contractor. The result of this work was later coordinated by us with work performed by this RIG/A/C and also by the USAID/E Office of the Controller to eliminate duplications in disallowances and suspensions of costs.

Conclusions

There is a marked difference between the way that Mathtech Inc. fulfilled its technical responsibilities under the contract and the way that this Contractor fulfilled his fiscal and administrative responsibilities; i.e., managed and billed for the financial resources sub-obligated by the Agency for the contract. The Contractor fulfilled his technical responsibilities under the contract in a satisfactory manner; these responsibilities were stated in the form of 11 principal tasks which were further divided in many sub-tasks. The Contractor employed about 41 different technicians and specialists who provided approximately 5,345 person-days; according to the USAID/E Project Manager, the persons were very well qualified for the job. A total of 48 special reports, and a comprehensive final report were made covering the spectrum of the poultry sector. In addition, the Contractor provided training to 69 participant trainees. In sum, Mathtech Inc. fulfilled his technical responsibilities in a satisfactory manner and his technical performance may be rated between good and very good.

However, the administrative and fiscal responsibilities of the contract were not fulfilled in a satisfactory manner. In fact, costs claimed by the Contractor for services of the contract were not reliable and some patterns of problems noted in our review showed them to border on very serious improprieties; they have their origin, in our opinion, in the management practices or policies of the parent organization of Mathtech Inc., i.e., Mathematica Inc. Consequently, all contractswith this company stand an equal chance of being affected with identical or similar problems.

A brief synopsis of the unusual problems noted are as follows:

- In line with accounting policies of Mathematica Inc., the Contractor paid its employees on the basis of fixed monthly amounts, regardless of hours worked. Billings for contract costs, on the other hand, were on the basis of hours priced at standard rate without adjustments. After adding the additive multipliers, improper billings by the Contractor --variances and overtime costs not paid to employees-- amounted to $84,361.

- The Contractor submitted signed "Certificate and Agreement with the Agency." These certificates were signed by temporary employees who could not know the accuracy of the billings and not by responsible officials. The billings, themselves, included timesheets showing that some employees were working inordinate number of hours; for example, timesheets of one employee showed he worked 29 days (out of 31 day month) consistently between 12 to 18 hours each day.

- The Contractor bypassed reimbursement procedures to obtain duplicate reimbursement of $124,414 from both the USAID/E and AID/W.

- A furnished apartment was leased by the Contractor and used by the short-term employees and consultants. Costs to the personnel was much less then the cost of a hotel room. Yet, per diem claims were for the maximum authorized. Since the per diem was to be claimed at the "lodging plus subsistence method", these payments are overstated. The overstatement is difficult to determine, but the range is between LE 14,612 to LE 38,792.

- The Contractor departed Egypt without (a) accounting for or refunding $24,000 of an advance made by the USAID/E under the terms of the contract; and (b) paying US $8,100 to the Egyptian Wire & Wireless Communication Organization for telex services covering a one year period.

We are making two recommendations which are intended to protect the interests of the Agency. First, all active contracts with this Contractor need to be reviewed and work that is not of a critical nature should be suspended until an audit of the contract is completed. Second, Mathematica Inc. and all its subsidiaries should be suspended from participating in any future contracts funded by AID until there are reasonable assurances that the accounting system and management practices have been corrected and that similar problems will not take place in currently active or future contracts (page 6).

The Contractor submitted claims for reimbursement totaling US $2,104,214 and LE 328,326 for the period covered by the contract. Based on audit results:

- We are recommending for acceptance $1,943,573 and LE 272,849. These costs are considered acceptable and allowable under the contract (page11).

- We are recommending for disallowance a total of $114,951 and LE 10,226. The majority of the disallowances represent the costs which were not paid to the respective employees together with the respective additive multipliers of fringe benefits, indirect costs, and G & A costs. Other disallowances include: claims for per-diem in excess of that authorized by the regulations; claims of per diem in US Dollars rather than Local Currency; shipment of HHE in foreign vessels; rates charged for Xerox paper in excess of standard rates; claims for bank charges; duplicate billings for certain participant training costs; claims for fixing vans or vehicles not related to the project or authorized by the GOE; payment for consulting services not approved by USAID/E; claims for per diem for employees assigned to Egypt; overbilling of per diem claims; claims for deposits on rental of an apartment, for gasoline accounts, or for telex services; claims for repairs of damaged cars; and others (page 12).

- We are not expressing an opinion on the propriety of $74,866 and LE 45,251. This suspension is required for several reasons. Among them: (a) the audit team did not have sufficient information to formulate a conclusion regarding some costs related to the subcontract between Mathtech Inc. and the University of Florida; (b) the main contract is not clear on the criteria that applies in the case of participant training costs and the intent must be defined by management; (c) some costs exceeded the budget and management must make a determination whether the increases should be granted; and (d) many of the suspended costs need some clarification or some documentation (page 13).

In general, we felt that project monitoring by the USAID/E had been adequate. From a technical point-of-view, the USAID/E had completed one Evaluation Report and another was in process of completion. The USAID/E was abreast of project problems and knowledgeable of the progress of the project. On the financial side, the audit brought to light several complex issues and problems. But, in many respects, the USAID/E did a commendable job of reviewing Contractor's claims on a monthly basis and filtering out some abuse of the Contractor. Nevertheless, we are pointing several areas in the audit report where the USAID/E review and approval procedures of Contractors claims for reimbursement could be strengthened in the future (page 24).

A brief assessment of the program achievements of this project follows. Two of the three goals of the Poultry Improvement Project have been achieved. The remaining portion of the project objectives relates to improvement of three hatcheries and poultry farm; this area will be expanded and the completion date of the project is to be extended. The 49 special studies completed by the Contractor provide a wealth of knowledge about the poultry sector of Egypt. But, they present a more pessimistic picture than that shown in the draft Evaluation Report being finalized by the USAID/E. The Contractor's reports should be very useful to the GOE and USAID/E. A total of 69 persons were trained under this project and the multiplier effect should be felt in the future.

Recommendations

This report contains 5 recommendations listed in Appendix I.

INTRODUCTION

1. Background

AID began assisting the Government of Egypt (GOE) in the field of poultry production in 1976 when three separate studies were undertaken. These studies indicated that Egypt could probably be self-sufficient in food and feed crops. However, the need for foreign exchange dictated the use of substantial quantities of land to grow cotton which has a comparative market advantage. Therefore, GOE agricultural planners and policy makers have been interested in improving the field of poultry production because it meets the following critiera: (a) it does not require substantial amounts of land; (b) it is not heavily capital intensive; (c) it relies, in part, upon low value raw materials input and not on massive imports; (d) it has a relatively short "turn-around" time; and (e) it represents least-cost production consistent with maximum efficiency/yield. Therefore, the long-term goal of the GOE is to increase present poultry production to 1.5 billion eggs and 600 million broilers annually by 1987.

To assist the GOE to reach this long-term goal, Grant Agreement No. 263-0060 for the Poultry Improvement Project (PIP) was signed in August 1977. The grant provides the following funding plan:

	US $000 or equivalent		
	AID	GOE	TOTAL
U.S. Dollars funded out of the grant	$4,542		$4,452
Local Currency*	491		491
Budgetary and in-kind support*		$1,266	1,266
Total	$5,033	$1,266	$6,299

* Local currency was converted to U.S. Dollars at LE.70 per U.S. $1.00.

The aim of the PIP was basically to provide analysis, plans, and foundation for expansion of the poultry sector so that future resources could be channelled in a manner that would assure the GOE to reach its long term goals of increasing poultry meat and egg production. It was, therefore, the objective of this project to contribute only in an indirect manner to the goals of the GOE. Six component actions were planned under the project:

(a) An analytical assessment of the poultry sector requirements. This included both technical assistance and training of GOE personnel.

(b) Recommendations to the MOA for a national poultry breed and hatchery improvement program.

(c) Assistance and consultancy to the Egyptian General Poultry Company (GPC).

(d) Development of a national plan for increasing availability of pharmaceuticals to the poultry sector.

(e) An analysis of village flock production.

(f) Improvement of three (of 13) breeding-hatching farms operated by the Ministry of Agriculture (MOA).

As of our audit cut-off date, April 15, 1981, the following implementation actions were taking place:

- The GOE had signed a Borrower/Grantee (B/G) contract with Mathtech Inc. This company is the Technical Research and Consulting Division of Mathtematica Inc. and is headquartered in Princeton, N. J. The contract, which was effective during the period September 1, 1978 through September 12, 1980, had a ceiling of $2.1 million funded in U.S. Dollars and LE340,773 funded in local currency. The objectives of this "Cost-plus-fixed fee" contract was to carry out the different studies, analysis, training, and other aspects called under the grant, i.e., the assessment of the poultry sector, recommendations on the national poultry breed, consultancy to GPC, etc. Performance of this contractor is covered in more detail beginning on page 24 of this report.

- A total of 69 participants had attended courses and seminars in the U.S. This training was conducted first by the University of Florida and later by the University of Georgia and Mathtech Inc. The training funds were provided under the terms of the B/G contract between Mathtech Inc. and the GOE.

- The USAID/E and the GOE were in process of awarding the contract for equipment and ancillary services that will improve the three breeding-hatching farms.

- The USAID/E had also decided not to undertake a follow-on multi-million poultry project; this has been cancelled. However, the funding of Grant 263-0060 was to be increased to supply the GOE with additional breeding-hatching equipment.

The funding status of this project, as of the same cut-off date, was as follows:

	Obligated	Disbursed	Balance
Funds earmarked for hatcheries	$2,432,361	-0-	$2,432,361
Sub-Obligated for contracts:			
Mathtech Inc.			
US Dollar Portion	2,104,214	$1,835,343	268,871
Local Currency Portion 1/	486,819	469,068 2/	17,751
Sub-Obligated for PIO/O Costs	5,380	5,380	-0-
Total	$5,028,774	$2,309,791	$2,718,983

1/ Local currency was converted at LE.70 equals US $1.00.

2/ Includes an unliquidated advance to Mathtech of LE16,800 or $24,000.

2. Purpose and Scope

This is the first audit to be made by this office of the Poultry Improvement Project of Egypt. It is a full-scope audit. However, the major emphasis of our review centered on the B/G contract between Mathtech Inc. and the GOE. for several reasons: (a) all of the disbursements have been for the contract or contract-related items; (b) most of the activities of this project to date have taken place in the implementation of this contract; (c) the survey phase of the review showed that USAID/E management had problems with the financial claims of this contractor; and (d) the survey phase also indicated the potentials for serious problems with the financial portion of the contract.

For the above reasons, the main objectives of reviewing this project were to verify the propriety of fund expenditures and contractor's cost claims, and to evaluate the contractor's performance in relation to contractual requirements. Additionally, we made an assessment of project accomplishments in relation to the expected objectives. The audit covers the period from inception of the project through April 15, 1981, and was made accordance with sound auditing principles.

To meet our audit objectives, we were assisted by the Office of the Regional Inspector General for Audit in Washington (RIG/A/W); this office made the examination of accounts of U.S. Dollar costs at the home office of Mathtech Inc. We were also assisted by the Department of Health & Human Services (DHHS); this office made the examination of accounts of U.S. Dollar costs at the University of Florida, one of the sub-contractors of Mathtech Inc. The results of audit of the RIG/A/W and DHHS were coordinated by us with voucher reviews made by the USAID/E Office of the Controller over the life of the contract.

In Egypt, we also (a) reviewed pertinent files and available Evaluation Reports in the offices of the USAID/Egypt; (b) reviewed a sample of local currency costs claimed by the contractor and reimbursed by the USAID/E; (c) reviewed a selected number of reports submitted by Mathtech Inc. in accordance with the terms of the contract; (d) obtained and reviewed a list of the participants that were trained under the contract and project; and (e) discussed the Project activities with the USAID/E Project Manager, Office of the Controller and other officials.

3. USAID/E Comments

The results of our audit were discussed with the Project Manager and the office of the Controller and the draft audit report was submitted for comments. The USAID/E found the report constructive and helpful. They also agreed with the recommended corrective actions indicated in the report. Certain requests of the USAID/E were adopted by us in the finalization of the report.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

1. Contractor's Performance

There is a marked difference between the way that Mathtech Inc. fulfilled its technical responsibilities under the contract and the way that this Contractor managed and billed for the financial resources sub-obligated by the Agency for the contract; in other words, his fiscal and administrative responsibilities Based on Project documentation and reports, his technical responsibilities may be rated mostly between good to very good. His cost claims, on the other hand, were consistently inappropriate and often unsupported. In effect, some of the problems noted in our review bordered on very serious improprieties. The nature of the problems are due, in our opinion, to management practices or policies of the parent organization (Mathtematica Inc.). For this reason, and to protect the interest of the Agency, we are recommending that AID suspend this contractor until the Agency can have some assurances that similar problems will not take place in the future.

The Contractor fulfilled his technical responsibilities in a satisfactory manner

Under the terms of the B/G contract between Mathtech Inc. and the GOE, the contractor was to accomplish 11 principal tasks; these principal tasks were further divided in to many sub-tasks. The principal tasks included: (a) a value analysis and the initial plans to assign permanent personnel and temporary teams to do the studies; (b) determining a data base, impacts, interrelationship of activities, and teaching of a simplified econometric input-output model of the National Poultry Sector; (c) a comprehensive analysis of the poultry sector resulting on the basis for a final follow-on project recommendations; (d) a survey of the genetic and hatchery improvement program, statement on needs, and recommendations for a national breed and hatchery improvement program: (e) consultancy to the General Poultry Company (GPC) inclusive of an assessment of activities, constraints, distribution and marketing systems, etc.; (f) a study designed to assess the role and possible contributions of other GOE organizations and the Private Sector in poultry production; (g) an analytical study of village flock inclusive of recommendations for Extension Service support role; (h) a study to identify capability or availability of pharmaceutical, biological, vaccines, and additives; (i) training and management development of about 76 personnel in required operational and/or technical areas; (j) development of plans and specifications related to the hatchery expansion program; and (k) a plan to report findings, submit other communications to, and coordinate the project activity with the Ministry of Agriculture, AID, and other project team personnel.

Mathtech Inc. began work under the contract almost immediately after the B/G contract was signed on September 1, 1978. In the 24 months that followed, the Contractor employed about 41 different technicians and specialists who provided approximately 5,345 person-days to accomplish the different tasks under the contract. According to the USAID/E Project Manager, the technicians and specialists were very well qualified for the job. Through sub-contracts with the University of Florida and afterwards with the University of Georgia, the Contractor provided training to 69 participant trainees. In this regard, the goals of training 76 participantswere not reached; they were short by 7 participants. The Contractor also submitted to GOE and AID a total of 24 monthly progress reports, 48 special reports, and a comprehensive final report covering all tasks. In a draft Evaluation Report of the project, the USAID/E Project Manager rated 32 sub-tasks as follows:

Judgement on Quality of Output	Total	Percentage
Very good	4	12.5
Good	18	56.3
Fair	7	21.9
Poor	2	6.3
Not Acceptable	1	3.0
Total	32	100.0%

During our examination, we reviewed selected monthly progress reports, some special study reports, and the final report of the Contractor. Additionally, we discussed performance with the Project Manager and reviewed two Evaluation Reports on the Project. Based on our review, we believe the ratings given on the technical performance of the Contractor are fair representations of the performance. Some of the studies and the final report were, in fact, extremely comprehensive and analytical. Later in the report we will try to briefly point out some of the problems facing the poultry sector of Egypt, according to the Contractor.

The Contractor did not implement his fiscal responsibilities in a satisfactory manner

Early in our survey we noted indicators showing the possibilites of serious problems with the financial part of the contract. These observations were fully confirmed during the audit and as shown, in more detail, in subsequent parts of this report, we have questioned and are recommending for disallowances and/or suspensions costs amounting to U.S. $189,817 and LE55,476 (US $79,251). At this point, however, we feel that the broader implications of the problems noted during the review should be discussed. In our opinion, some of the problems have their origin in management practices or policies of Mathematica Inc.; consequently, all contacts with this company stand an equal chance of being affected with identical or similar problems.

Our review showed that the USAID/E had problems with the Contractor's monthly "Requests for Reimbursement Vouchers" almost from the very beginning; the USAID/E Project Manager and the Office of the Controller did commendable work, in many ways, in filtering out improper costs submitted by the Contractor. Some of the unusual problems noted in the audit follow:

- The Contract with the GOE is a cost-plus-a-fixed-fee type of contract. Under this type of contract, the Contractor is reimbursed for costs actually incurred. In line with accounting policies of Mathematica Inc. the Contractor paid its employees on the basis of a fixed monthly amount, regardless of hours worked. Contract billings, on the other hand, were on the basis of hours, priced at standard rate without adjustments. On this basis, the Contractor claimed $38,598 in costs which were not paid to the respective employees. After adding the additive multipliers (overhead, fringe benefits, G&A) the total improper claims to the Agency amounted to $84,361.

- The Direct Letter of Commitment was the financing mechanism used to fund this contract. Under the terms of the DL/Comm, the Contractor was required to submit a signed Contractor's Certificate and Agreement with the Agency for International Development (Form AID 1440-3) to support each monthly claim for reimbursement. The person signing this form for Mathtech certifies, among other things, that the money requested is due and owing under the terms of the contract. The signatory further acknowledges that he is signing and submitting the Certificate for the purpose of receiving payment from AID funds and that AID in making funds available for such payment will rely on the truth and accuracy of this personal Certification as well as all other representations in the Certificate. Several billings included salary claims which were supported by timesheets which showed that some of the employees were working an inordinate number of hours per month, sometimes for months on end. The time sheet of the U.S. based project manager was the most glaring example. According to his timesheets, he worked almost every day of the week including Saturdays and Sundays, and much of the time, he put in more than the normal 8 hour day. In July 1979, for example, his timesheets showed that he worked 29 days of that month for a total of 288 hours. The only days he did not work were Sunday and the "Fourth". The shortest day he worked was 12 hours and the longest was 18 hours. This is not realistic. Based on audit results, $84,361 were claimed erroneously by the Contractor. Thus, the accuracy of the certification is now questionable.

- But the certification was in itself unusual. Because the financial records of Mathematica Inc., used to support U.S. Dollar costs, are maintained at the corporate headquarters in New Jersey, the certification should have been signed by someone from corporate headquarters involved in the preparation of the claim or someone with supervisory responsibility. The certifications, however, were all signed by one of the Mathtech technicians stationed in Cairo; these persons were mostly short-term or non-permanent employees of the contractor and had no idea whether the dollar claims were factual and/or accurate. The question regarding possible impropriety in the Contractor's certification has been transmitted to RIG/II/C.

- Since the D/L Comm was the financing mechanism used to fund this contract, the contractor was required to submit his reimbursement claims for review and approval by both the GOE and USAID/E. The Contractor by-passed the procedure at one point and obtained a duplicate reimbursement of $124,414 from AID/W. The error was caught and corrected by the USAID/E.

- Because of hotel space availability, the Contractor leased, sometime in October 1978, a furnished apartment in Dokki (near the center of Cairo). Short-term technicians were expected to use these facilities in lieu of a hotel. When these facilities were full, the Contractor leased additional space. Indications are that the Contractor charged about LE 15 per night for these accommodations. The contractual terms, however, specifically incorporated the U.S. Government Travel Regulations. The per diem, therefore, was to be determined by the "lodging plus subsistence method." Under this method, the traveler is reimbursed for the cost of the lodging, up to 50 percent of maximum per diem rate for the locality, plus 50 percent of the per diem rate. Government regulations require a receipt for lodging. The billings by the employees were mostly at the maximum amount for Cairo (LE 47.60 until October 1979 and LE 51.70 since then) and were not accompanied by receipts. Consequently, all indications are that billings by the Contractor and payments to employees and consultants for per diem are overstated. Due to the lack of records and information, the exact amount of overstatement, however, is not easily determinable (See page 21 for more details).

- The accounting system of the Contractor also does not guarantee that adjustments made by the USAID/E are reduced from accounts receivables, or the accounts of the contract. For example, many costs disallowed or questioned by the Office of USAID/E Controller were subsequently encountered by RIG/A/W and once again questioned.

Under the terms of the contract, the USAID/E provided the Contractor with an advance of LE 70,000. This advance was subsequently reduced as a result of expenditures. However, the contractor departed Egypt without accounting for or refunding the remaining unexpended balance of LE 16,800 (US $24,000).

As of our cut-off date, the Egyptian Wire & Wireless Communication Organization was requesting reimbursement for an unpaid debt of Mathtech Inc. amounting to US $8,100 for telex services.

In sum, the above patterns of problems indicate a deficiency in the management practices or policies of Mathtech Inc. and its parent organization (Mathematica Inc.). Therefore, there is a very strong possibility that the conditions found in this audit will be found in any audit of any contract between Mathematica Inc. and the Agency (or other U.S. Government Organizations). According to SER/CM, Mathematica Inc. had one other active contract with AID.

We believe the following recommendations are warranted to protect the financial interests of the Agency:

Recommendation No. 1

AA/SER should (a) review all active direct and B/G contracts, funded by the Agency, with Mathematica Inc. and its subsidiaries; (b) suspend all work which is not considered of a critical nature until the desired corrective action is taken; and (c) request audit services for the remaining Agency funded contracts with Mathematica Inc. not covered by our review.

Recommendation No. 2

AA/SER should suspend Mathematica Inc. and all its subsidiaries from participating in any future contracts to be funded by AID until there are reasonable assurances that the accounting system has been corrected and that similar problems resulting from management practices will not take place in currently active or future contracts.

In addition, a sample of the timesheets show work being performed by Mathematica Inc. for other U.S. Government organizations, e.g., U.S. Department of Agriculture, Department of Defense, Department of Justice, Department of Transportation, and others. We suggest that a copy of the letter suspending the Contractor be sent to the proper officials of the above-mentioned organizations and to the cognizant Defense Contract Audit Agency (DCAA).

2. Summary of Cost Recommendations

As shown in Exhibits A, B and C, the Contractor submitted claims for reimbursement totaling US $2,104,214 and LE 328,326. Based on audit results, the overall cost recommendations follow:

	US $ Dollar Costs	Local Currency Costs
Total Costs Claimed	$ 2,104,214	LE 328,326
Costs Recommended for:		
Disallowances	(114,951)	(10,226)
Suspensions	(74,866)	(45,251)
Total Acceptable Costs	$ 1,943,573	LE 272,849

Some clarifications are in order:

Throughout the life of the contract and submission of invoices, the USAID/E had deducted $98,410 because costs claimed by the Contractor were considered unallowable. During the audit by RIG/A/W many of these same costs were encountered and again questioned. RIG/A/C has analyzed all figures and made the necessary adjustments to eliminate all possible duplications.

Based on interim audit recommendations, the USAID/E withheld an additional $115,685. In other words, the USAID/E has retained a total of $214,095 ($98,410 plus $115,685). On the other hand, the Contractor did not liquidate his local currency advance and there were additional costs questioned during the audit. Exhibit B shows the complete status on the amounts withheld to date. If no additional costs were accepted for the contract, the amount that should be refunded by the Contractor would be $25,967. This amount should be reduced by any amount of costs that are accepted after the issuance of this report.

B/G contract between Mathtech Inc. and the GOE was active from September 1, 1978 to September 12, 1980. Some of the USAID/E disbursements were made as recently as April 1981. For this reason, our cut-off date is as of April 15, 1981.

Regarding Fringe Benefits, Overhead and G&A, DCAA had completed their audit of Mathtech's fringe benefits, overhead and G&A rates for Fiscal Year 1978. However, the audits for Fiscal Years 1979 and 1980, which cover the Egypt contract period, have not been completed. Therefore. these adjustments represent the provisional fringe benefit, overhead and G&A rates applied to the appropriate questioned costs. DCAA does not have a firm date when the FY 1979 and 1980 rates will be available.

Recommendation No. 3

In coordination with the GOE, the USAID/E should consider US $1,943,573 and LE 272,849 as acceptable and allowable contract costs.

3. Costs Recommended for Disallowances

Based on audit results, we are recommending for disallowance a total of US $114,951 and LE 10,226 (US $14,609). The details of these recommended disallowances may be found in Exhibits A, A-1, B, C and C-1. Briefly, the majority of the recommended disallowances represent the costs which were not paid to the respective employees together with the respective additive multipliers of fringe benefits, indirect costs, and G & A costs. Other recommended disallowances include: claims for per diem in excess of that authorized by the regulations; claims of per diem in US Dollars rather than Local Currency; shipment of HHE in foreign vessels; rates charged for Xerox paper in excess of standard rates; claims for bank charges; duplicate billings for certain participant training costs; claims for fixing vans or vehicles not related to the project or authorized by the GOE; payment for consulting services not approved by USAID/E; claims for per diem for employees assigned to Egypt; overbilling of per diem claims; claims for deposits on rental of an apartment, for gasoline accounts, or for telex services; claims for repairs of damaged cars; and others.

Regarding the $84,361 of salary and additive multiplier claims made by the Contractor but not paid to the employees, Mathtech Inc. did not dispute the facts disclosed by the audit. However, the Contractor felt all costs should be considered allowable. They stated:

> "The Company's existing accounting system for recording labor charges of professional employees is to use a standard hourly rate. The method has been followed consistently by the Company since fiscal 1975 in all proposals and record keeping activities. Hours worked were necessary to meet contract deadlines and schedules. All credits resulting from the application of the standard hourly rate method are included in overhead and are allocated to all contracts on the basis of direct labor dollars, thereby reducing overhead costs. Accordingly, we recommend these costs be reinstated as allowable under this contract."

Our recommendation for management to disallow these costs is being made on two basic premises. First, the Contractor did not incur or pay these costs to the employees. Second, the "use of standard costs for direct material and direct labor" is authorized by the Federal Procurement Regulations (Para 1-3.1220-7) providing certain fundamental requirements are met, as follows:

> "Standard costs may be used for estimating, accumulating, and reporting costs of direct material and direct labor only when all of the following criteria are met:
>
> (a) Standard costs are entered into the books of account;
>
> (b) Standard costs and related variances are appropriately accounted for at the level of the production unit; and
>
> (c) Practices with respect to the setting and revising of standards, use of standard costs, and disposition of variances are stated in writing and are consistently followed."

The methodology used by the Contractor to adjust the "variance" between standard and actual costs is not "at the level of the production unit," i.e., the contracts themselves. Therefore, the Contractor's system gives rise to billings of hours that are priced at unadjusted standard costs. It is our firm opinion, then, that such costs should not be allowed under the contract and we make the following recommendation.

Recommendation No. 4

In coordination with the GOE, the USAID/E should (a) disallow a total of US $114,951 and LE 10,226 as summarized on Exhibits A and C and detailed in Exhibits A-1 and C-1 of this report; and (b) inform Mathtech Inc. of such action.

4. US Dollar Costs Suspended

There were a series of questions and issues, related to $74,866, which audit could not resolve during the review. In some cases, the Contractor could not provide the supporting document, or he had not submitted the supporting document with the voucher. In others, there are some Management interpretations or decisions that must be made. Yet, in other items, the question was raised after the Stateside audit work had been completed and the information was not available in Egypt. Consequently, we are not expressing an opinion on the propriety of these costs and are recommending that they be suspended from acceptance or disallowance pending further clarification by the Contractor and/or study by USAID/E Management. In this connection, when costs are suspended, it does not mean that Mathtech Inc. must refund this

amount at this particular moment; it only means that acceptance or rejection is deferred until further clarification or additional action is taken.

The draft audit report included a series of recommendations that were designed to address each particular transaction related to $74,866 and LE 45,251 of costs recommended for suspension. In responding to the draft report, the USAID/E agreed with all of the draft recommendations; but, felt that the process of resolving the recommendations would certainly extend beyond six months. The process of resolving costs recommended for suspension will include: opening a dialogue with the Contractor; extensive written communications between the parties; obtaining and analyzing additional information relative to costs; accepting, rejecting and negotiating numerous transactions; and, obtaining a "Legal Release" from the Contractor. Consequently, the USAID/E suggested that the draft audit report recommendations concerning costs recommended for suspension be presented as one formal recommendation in the published audit report. We concurred with this suggestion and the following recommendation represents cumulative costs recommended for suspension. Detail information addressing each of the recommended suspensions is contained in the body of the report and in Exhibits A, A-2, B, C, and C-2.

Recommendation No. 5

In coordination with the GOE, the USAID/E should initiate the necessary action(s) to resolve questions related to costs recommended for suspension in the amounts of $74,866 and LE 45,251.

Although individual draft report recommendations concerning costs recommended for suspension have been consolidated into Recommendation No. 5, we have used a system in this report of "Required Actions" that will enable the USAID/E to control the negotiation process and provide the RIG/A/C evidence on the progress of negotiations.

In order to protect the interest of the USAID/E and the GOE and to avoid the possibility of a protracted dispute with the Contractor, we believe the following action should be taken:

Required Action No. 1

The USAID/E needs to obtain a "Legal Release" from Mathtech Inc. and Mathematica Inc. either before considering any suspended items of cost or at the time a final settlement of this contract is made.

(a) Direct salaries and related additive multipliers

The following costs were incurred after the termination of the contract:

Direct Salaries	$ 2,538
Fringe Benefits	685
Overhead	1,827
G & A Costs	505
Total	$ 5,555

Required Action No. 2

The USAID/E needs to request the Contractor to clarify these costs.

(b) Consultant costs and related additive multipliers

The following costs were questioned by audit because the fees could not be supported by documentation at the central office. However, the vouchers submitted to the USAID/E contain "Time and Activity Reports" for two consultants and we cannot be certain if these charges are proper:

Consultant costs	$ 1,296
Overhead	933
G & A costs	223
Total	$ 2,452

Required Action No. 3

The USAID/E needs to require Mathtech Inc. to sumbit the original "Time and Activity Reports" for the two consultants involved in support of the $2,452.

The Contractor claimed that a certain Consultant worked 15 days in the month of December 1978. This Consultant earned $200 per day and thus the total claim was for $3,000. The "Time and Activity Report" supported only 14 days and $200 was disallowed through Recommendation No. 4. However, the Contractor could only show the Audit Team documents supporting $2,100 of disbursements to the Consultant. Thus the following costs must be explained by the Contractor:

Consultant	$ 700
Overhead	504
G & A costs	120
Total	$ 1,324

Required Action No. 4

The USAID/E needs to require Mathtech Inc. to submit proof of payment to the Consultant of the $700.

The contract authorized a budget of $220,994. Costs claimed by the Contractor were $228,544. Therefore, the following costs exceed the budgeted ceiling for Consultant's costs:

Consultant costs	$ 7,550
Overhead	5,436
G & A costs	1,299
Total	$14,285

According to the final report of the Contractor, certain assumptions of the Project Paper were not correct. For instance, the scope of the project expanded as it progressed through completion to encompass all facets of the Egyptian economy; this in turn, increased the number of man-days to be provided from 2,500 to at least 5,345 person-days actually provided. Some other area which required an increase in number of Consultants used included the fact that major elements--such as feed situation, poultry health problems, marketing and distribution, relevant economic factors inhibiting sector development, etc.--had not, according to the Contractor, been specified in the initial project outline.

Required Action No. 5

The USAID/E needs to (a) evaluate the circumstances which required an increase in the use of Consultants on this project by $14,285 and (b) either amend the contract to increase the line item ceiling or notify the Contractor of the disallowance.

(c) Travel, transportation and related costs

The Contractor needs to clarify, explain, or justify certain costs claimed in connection with the accounts payable to two employees, per diem payments to a person who appears to be the wife of a technician, and a trip by the Chief of Party to Paris and Rome (Required Action No. 6):

Costs Suspended	$ 1,461
G & A costs	146
Total	$ 1,607

Required Action No. 6

The USAID/E needs to require the Contractor to clarify, explain & justify these costs.

The Contractor needs to submit receipts for the following airline costs or to justify and submit receipts for car rentals for two months.

Costs Suspended	$ 3,812
G & A costs	381
Total	$ 4,193

Required Action No. 7

The USAID/E needs to require the Contractor to submit the required receipts.

As stated in Exhibit A-2, the cost of one airline ticket for one person was not budgeted:

Suspended costs	$ 1,130
G & A costs	113
Total	$ 1,243

Audit cannot be certain if this problem was related to the increase in the scope of work of the contractor as stated on page 27 or whether the technician should not have been sent to Egypt by the Contractor.

Required Action No. 8

The USAID/E needs to review the circumstances which required the need for the technician involved to be sent to Egypt.

(d) Other Direct and related costs

The review showed that the Contractor transferred funds to Cairo:

Suspended costs	$ 4,080
G & A costs	408
Total	$ 4,488

The suspended costs appear to be estimated telex costs. The actual costs are required.

Required Action No. 9

The USAID/E needs to (a) request Machtech Inc. to explain the $4,488 and submit the actual costs for the months of March, April, and May 1980; (b) evaluate explanation or costs submitted by the Contractor; (c) ensure that submitted costs have not been reimbursed to the Contractor.

The Contractor did not submit receipts or cancelled tickets covering shipment of household effects, telex maintenance, slides, computer costs, university registration, etc:

Suspended Costs	$ 5,299
G & A costs	530
Total	$ 5,829

Required Action No. 10

The USAID/E needs to require the Contractor to submit the supporting documentation for $5,829.

The GOE's Ministry of Agriculture suspended the following costs:

Suspended costs	$ 356
G & A costs	36
Total	$ 392

The vouchers did not give a reason for the suspension. In addition, it was not clear whether the intention was to suspend or to disallow the costs. A final determination is needed.

Required Action No. 11

The USAID/E needs to make a final determination on the allowability of $392.

(e) Participant Training and related costs

Exhibit A-2 details the costs of participant training that was suspended by the USAID/E:

Suspended costs	$ 15,432
G & A costs	1,543
Total	$ 16,975

The $15,432 was suspended by the USAID/E and the Contractor has not re-submitted the corresponding claims. The terms of the contract are ambiguous on how costs in this area were to be managed by the Contractor. Task IX "Management Development and Training" on pages A1-AIX.3.b of the contract, in part states "immediately before departure from Cairo, the departing Participants will be provided with a 2 weeks advance Per Diem less scheduled cost of accommodations for that period. This will be repeated every 2 weeks during the course of their training. These advances will be by U.S. Dollars." There is only one other reference on how the face sheet of the PIO/P should be filled out. The contract is not clear whether the Contractor was to have used exactly the same guidelines and policy stated in AID Handbook No. 10 "Participant Training". If this was the case, such things as per diem advances, book shipping costs, seminar fees, etc. might be considered allowable costs up to the limitations stated in the handbook. Therefore, given the lack of criteria regarding these costs, a final determination must be made by management.

Required Action No. 12

The USAID/E needs to (a) review the terms of the contract in relation with AID Handbook 10, Chapter 25; (b) interpret the intent of how the Contractor was to manage the financial resources related to participant training costs; (c) evaluate the suspended costs; (d) obtain a certification from the Contractor that it has not obtained a reimbursement for these costs; and (e) negotiate all or any portion of the $16,975.

(f) Sub-contract and related costs

The sub-contract between Mathtech Inc. and the University of Florida was signed on September 14, 1978. Indications are that the initial proposal of the University of Florida amounted to $240,073. However, any contract exceeding $50,000 with the University is subject to a time-consuming examination by the State of Florida. Therefore, to bypass this review, the initial ceiling was set at $45,000,subject to further incremental contract adjustments. This ceiling was subsequently increased, on November 5, 1979, to $80,000. The purpose of the sub-contract was to train the Egyptian participants, who would later work in policy positions or in jobs

within the poultry sector of Egypt, in technical and management practices of U.S. poultry production. The University of Florida hired a specific person (Project Director) to manage the training program of this contract. However, the GOE participants and officials felt that the training placed too much emphasis on the academic side and insufficient emphasis on the practical aspects of the program. On August 14, 1979, Mathtech Inc. requested the University of Florida to modify its program thereby reversing the emphasis. The University of Florida found the changes unacceptable and announced its intention to terminate the sub-contract on August 27, 1979. There was a disagreement between the two parties on claims and payments of termination costs; this disagreement revolved around payment of salary to the Project Director. Eventually, Mathtech Inc. agreed to allow termination costs amounting to $11,946 and for the total cost of the contract to be $91,946.

Since the sub-contract between Mathtech Inc. and the University of Florida is a cost-reimbursable type and it contains provisional overhead rates (29%) and fringe benefit rates (51%) an audit was made by the Department of Health and Human Services to determine acceptable direct and indirect costs. The audit of DHHS was based on a "Final Fiscal Report" certified correct by the University of Florida which showed that the total project costs were $116,643. The following conclusions were drawn by the Audit Team:

- $80,000 could be allowable and reimbursable if both the sub-contract ceiling and termination dates were enforced.

- $83,423 could be allowable and reimbursable if the period of performance (September 1, 1978 through August 30, 1979) was enforced without regard to the authorized ceiling.

- $33,220 was questioned by the audit team and recommended for disallowance by RIG/A/C, for different reasons which are available in our workpapers.

- $68,402 was paid to the University of Florida; therefore the sub-contractor could possibly claim between $11,598 and $15,021 more, depending on the settlement to be made with the Prime Contractor.

After discussing the audit findings of DHHS with the USAID/E, the Mission expressed some reservations regarding any additional amounts due to the sub-contractor; they pointed out that the sub-contractor did not perform in a satisfactory manner and that no services were probably received for a certain period. Given the apparent insufficient information available to audit regarding the $15,021, the RIG/A/C has recommended:

- Acceptance, through Recommendation No. 3, of $75,242 ($68,402 plus G&A of $6,840) as allowable and reimbursable sub-contract costs.

- Disallowance, through Recommendation No. 4, of $7,842 ($7,129 plus $713 of G&A)

- Suspension for further consideration of the USAID/E, of a total of $16,523 ($15,021 plus $1,502 G&A).

We believe the Regional Legal Advisor and the Contract Specialist should review the circumstance surrounding the $16,523. There are questions that could not be answered in our audit regarding: (a) acceptance by either the USAID/E or GOE of the $80,000 ceiling; (b) authorizations given either by USAID/E or GOE to Mathtech Inc. to amend the contract on November 5, 1979; (c) the applicability of the Code of Federal Regulations (41CFR 1-15.205-4Y) in relation to reasonable termination costs.

Required Action No. 13

The USAID/E needs to (a) review the circumstances surrounding the $16,523 in costs claimed by the University of Florida and actions of Mathtech; (b) review the legal aspects of the matter; and (c) determine whether to allow or disallow these costs.

(g) Overall contract overrun

As noted in Exhibits A and A-2, the Contractor had an overrun of this contract of $29,176. The USAID/E must also decide if any portion of this overrun will be allowed. If any amount is allowed, the contract may have to be amended to provide additional funding.

Required Action No. 14

The USAID/E needs to (a) determine the justifications of the Contractor to incur the $29,176 overrun in the contract; (b) determine whether any portion should be allowed; and (c) take the necessary action to disallow all or any portion or to amend the contract to provide additional funding.

5. Local Currency Costs Recommended for Suspension

Based on our audit results, we are recommending a total of LE 45,251 to be suspended from acceptance or disallowances pending further clarification as detailed on Exhibit C-1 and below.

(a) Employees use of leased apartment

Mathtech Inc. leased a furnished apartment in Dokki and encouraged the short-term technicians to use these facilities in lieu of a hotel. Since the "lodging plus subsistence method" of per diem was to be used, the employees and consultants of the Contractor appear to have overstated their lodging costs for the time they were on temporary duty in Cairo. The exact amount of overstatement is not easily determinable, but the range is between LE 14,612 and LE 38,792.

The contract incorporates U.S. Government travel regulations and per diem rates. The per diem, therefore, was to be determined by the "lodging plus subsistence method." Under this method, the traveler is reimbursed for the cost of the lodging up to 50 percent of maximum per diem rate for the locality, plus 50 percent of the per diem rate. Government regulations require that receipts for lodging must be submitted with the travel vouchers. As per the terms of the contract, travel costs incurred in Egypt are reimbursed in Egyptian pounds. The per diem rate for Cairo was LE 47.6 from inception of the contract through October 1979. Since then, the rate has been LE 51.7.

A major portion of the contract services was performed in Cairo by Mathtech's U.S.-based professional employees and by consultants employed by Mathtech on a daily basis. Our review of Mathtech's local currency claims showed that per diem for 1663 days of TDY in Cairo from inception of the contract through June 1980, was claimed for reimbursement. The employee's and consultant's travel vouchers showed that almost invariably, the per diem was claimed at the maximum rate. Except for some of the more recent travel, the employee's and consultant's travel vouchers which Mathtech submitted to the USAID to support the claim for reimbursement, were not supported by lodging receipts. Our review of Mathtech's local currency cost records and supporting files disclosed that the lodging receipts were not on file there either.

We were told by an employee of Mathtech that because of a shortage of hotel space, Mathtech had leased an apartment near its Cairo headquarters to house its TDY visitors. He said Mathtech had this apartment under lease for about a year at a cost of LE 500 per month plus utilities and that the apartment could accommodate four people. At times there were more than four TDY people in Cairo and another apartment was rented, at a cost of LE 600 per month, to take care of the overflow. He was not sure as to the amount Mathtech charged the TDY people for the use of the apartments but something like LE 15 per day was mentioned. Records regarding the apartments were apparently handled outside the contract and were not made available for review. In our review of Mathtech's files, we located one reference to the leased apartment. The quote below was taken from a Mathtech/Cairo newsletter dated November 5, 1978.

"Lodging: - Because of hotel space availability, Mathtech has leased furnished apt. in Dokki thereby obligating itself (for the team members convenience). While these spaces may not meet optimum quality levels, for Cairo they are better than average accommodation which provide team members the opportunity for the best use of their authorized per diem rate. In accordance with AID rules, we can provide per diem for actual expenses incurred for lodging, as noted on the receipt the team members must obtain from their lodging source (hotel, apt., etc...). The Dokki team apartments provide the best possible return to the team members for their utilization of per diem. We hope the individual team members will assist Mathtech in fulfilling the obligation for the apartment lease, by using the apartment whenever in Cairo. Mathtech employees are, of course, required to use the apartment. Should there be an insufficient use of the apartment by team members, we would have no choice but to cancel the lease and let all personnel make their own arrangements. Unfortunately, past experience has shown that type of free lance arrangements resulted in many less than desirable severely sub-quality accommodations."

To summarize the available facts known to us:

- Mathtech Inc. appears to have leased an apartment on a continued basis at a monthly cost of LE 500 plus utilities. When there was an overflow of transient personnel, a second apartment was rented at a cost of LE 600 per month plus utilities.

- The employees were required and the consultants were encouraged to utilize the leased quarters.

- The employees and consultants staying at the apartment were charged about LE 15 per night.

- Employees and consultants of Mathtech Inc. claimed per diem for 1663 days TDY in Cairo--443 days by employees and 1220 days by 21 consultants.

- The total amount of the claims was about LE 80,000. These claims were almost invariably made at the maximum per diem rate which meant that the daily cost for lodging had to be, according to regulations, at least LE23.80 when the per diem rate was LE 47.60 and LE 25.85 after the rate was increased to LE 51.70.

- Receipt for lodgings were not submitted with the vouchers or available at the Contractor's office for 1612 days. The receipts were available to cover 51 days.

There are indications, then, that the employees and consultants did not always spend at least LE 23.80 and later LE 25.85 for their daily lodging. The exact amount of the overclaim, however, is difficult to ascertain. The following computations will provide the USAID/E a guide on the range of the possible disallowance:

(a) The maximum disallowance:

1404 days	x	LE $\frac{47.6}{2}$	=	LE 33,415.20
208 days	x	LE $\frac{51.7}{2}$	=	LE 5,376.80
Total 1612 days				LE 38,792.00

(b) The minimum disallowance:

Total maximum disallowance	LE 38,792.00
Deduct cost per night to employees:	
1612 x LE 15	24,180.00
Total	LE 14,612.00

Required Action No. 15

The USAID/E needs to negotiate with the Contractor the disallowance of per diem claims. The disallowance should be in the range of LE 14,612 to LE 38,792.

(b) Clarification and receipts required

As shown on Exhibit C-2, costs claimed amounting to LE 5,424 are being recommended for suspension because they were not properly supported with receipts, copies of airline tickets, additional documentation, etc.

Required Action No. 16

The USAID/E needs to (a) request Mathtech Inc. to submit the needed supporting documentation; (b) evaluate the Contractor's response.

(c) Costs exceeding budget

As shown on Exhibit C-2, the USAID/E suspended some costs on the basis that they exceeded funds availability, or budget. No other explanation was given on the voucher.

Required Action No. 17

The USAID/E needs to (a) review the suspended amount involved, and (b) make a final determination on whether to allow or disallow the LE 1,035.

6. Project Monitoring

At the time of our audit, the USAID/E had completed one Evaluation Report and was in process of finalizing a second one on the project. From our review, we got the impression that the USAID/E was abreast of project problems and knowledgeable of the progress in the project. On the financial side, the audit did find numerous and complex issues and problems with the B/G contract between the GOE and Mathtech Inc. In many respects, the USAID/E (Project Manager and Controller) did a commendable job of reviewingContractor's claims on a monthly basis and filtering out some abuse by the Contractor. Therefore, the USAID/E already has certain procedures in place which provide safeguards against erroneous billings. However, we noted some areas where USAID/E's review and approval procedures of Contractor's claims for reimbursement could be strengthened in the future. The details of the condition found have been discussed earlier in the report; therefore, the following informal recommendations are made:

The USAID/E should also ensure that the individual items of costs claimed meet a test of "reasonableness". For example, the time sheets submitted in the monthly billings showed that employees were working excessive number of hours. One employee worked, according to the time sheets, 29 days in the month of July 1979 for a total of 288 hours. Most times, he was working between 12 to 18 hours a day. This is not realistic. This condition should have been questioned by the USAID/E.

The USAID/E should also ensure that certifications are made by responsible officials. In the case of the certifications of Mathtech Inc. the certifications were being made by temporary employees who had no way of knowing whether the claims were proper or not.

The USAID/E should also ensure that there is consistency in the application of the "additive multipliers" (overhead, fringe benefits, G & A). Our detailed analysis showed numerous instances where there was a disallowance or suspension made of a principal item of cost, but the corresponding action on the additive multiplier had not been taken into account.

A need to establish a control record to reflect the cumulative status of items suspended, resubmitted, and disallowed is evident. In the case of this contract, there had been 66 vouchers submitted by the Contractor to claim U.S. dollar (33 Vouchers) and Local Currency Costs (33 Vouchers). There had been both cost suspensions and disallowances made by the USAID/E. The Contractor had resubmitted for costs suspended and there had been additional suspensions and disallowances. Sorting out such a convoluted history required a great expense of time.

The contracts need to be carefully written so that the appropriate criteria is within the document. Two problems with the B/G contract of the GOE and Mathtech Inc. come to mind. For example: the B/G contract (a) was silent on altering the budgeted line items of costs; and (b) was not clear on how the Contractor was to manage the resources earmarked for the participant training.

The above observations are being made for the record and the USAID/E should take the necessary action to correct the condition or improve its internal controls for the future; however, no formal recommendation is being made.

7. Program Achievements

The Poultry Improvement Project began in August 1977 and was to have been completed in December 1981. At the close of our audit, two parts of the original program--accumulation of data and preparation of studies and training of participants--had been completed. The third part (improvement of hatcheries and farms) was behind schedule, but the scope of the grant was being modified to increase the assistance in this area. In addition, the picture on the poultry sector of Egypt is changing.

A total of 49 special studies were made by the Contractor

As stated previously, the Contractor made some good studies that covered all interrelated areas on the entire poultry sector of Egypt. Some examples: a survey of the organizational structure of the M.O.A., poultry vaccine specifications, poultry industry requirements, cost-benefit analysis of poultry sector programs, hatchery improvement expansion, poultry health situation in Egypt, feed situation of Egypt, price elasticity studies, and many others. According to a draft Evaluation Report, the special studies "...contain a tremendous amount of information that has not previously been documented in such a comprehensive manner. As such these documents represent a valuable and useful source of technical information that can be used to develop futu poultry programs and projects or provide a policy information base for decision makers..."

According to the Contractor, the Poultry Sector of Egypt should be assisted by the USAID/E and developed by the GOE. But the sector does face some serious problems in the future. Some of these problems can only be resolved through needed policy changes. The problems are complex and affect the assistance being provided by the Agency in several ways. For example:

> There is no centralized control or coordinating point in Egypt for all factors involved in successful poultry production, marketing, and sectorial conditions. Thus, there is no coordination between market needs and supply. Consistently, the Ministry of Supply, using either AID's Commodity Import Program funds or other funds, imports broilers generally in amounts of 2,500 metric tons and "dumps" the importations in the market at a time when private or public producers are also selling; thus, the market conditions become chaotic and "...many Egyptians of entrepreneural spirit, entered poultry production business with high hopes of profits, only to be bankrupted overnight by such dislocation in the marketplace..." Thus, the importation of poultry through the CIP is counterproductive to efforts being made on the Poultry Improvement Program. But the main problem is much broader than the two programs of the Agency and can only be resolved by policy reforms and re-structuring of GOE organizations.
>
> There are certain feed, vaccine, and pharmaceutical constraints in Egypt which affect poultry production. They include: distribution and allocation procedures; waste and mismanagement in processing and formula preparation; and a need to interrelate requirements and allocations between and for livestock, dairy, human nutrition programs and poultry. As a result of these problems, the "...Team members were repeatedly advised that hatchery capacities were not being utilized because not enough feed was available to support the parent breeder stock..." and "mortality and disease were found to be significantly more prevalent in village flocks than in private flocks and GPC units... vaccination and disease prevention programs are almost non-existent in the infrastructure supporting..." the village or traditional sector which accounts for 50% of poultry production. Unless these problems are resolved, AID's assistance to the poultry sector needs to be most selective to make much impact.

A total of 69 participants were trained

From the USAID/E computer records, four significant statistical profiles on the 69 participant trainees can be obtained. These profiles show the following:

> A total of 53 participants went to the University of Georgia. The remaining 16 attended the University of Florida.

The main employers of the participants were: the General Poultry Company (29); the Ministry of Agriculture (12);the Animal Production and Research Institute (20); the Animal Health Research Institute (2); the Agriculture Research Center (2); and four participants from four different organizations.

The length of training was: 41 participants attended courses of one month duration; 18 for two months; and 10 for three months.

The area of study was mostly in poultry management (42). But, the remaining trainees attended studies in poultry improvement (4); poultry health and disease prevention (9); and others.

The scope of the grant is being changed

At our cut-off date, there was a proposed amendment to the Project Paper which would allow for financing of three additional breeding/hatching farms, an initial post hatching poultry health program, a vaccine/pharmaceutical market demand study, and a small amount of supporting technical assistance training. When this is approved, the completion date of this project will be extended to about June 1, 1983.

There have been changes in the poultry sector

According to the most current Evaluation Report (in draft form), there has been a tremendous expansion of the poultry industry and the proliferation of poultry projects, both governmental and private which was not foreseen at the time the original Project Paper was written. Several governmental agencies are engaged in the production of chicken meat and eggs, including GPC, ORDEV and the Agrarian Reform organization. In addition, most of the 25 Egyptian governorates are developing poultry projects. Therefore, according to the draft Evaluation Report, the picture on the poultry sector is much brighter than that presented in the reports by the Contractor.

To summarize audit conclusions: two of the three goals of the Poultry Improvement Project have been achieved. The remaining portion of the project objectives relates to improvement of three hatcheries and poultry farm; this area will be expanded and the completion date of the project is to be extended. The 49 special studies completed by the Contractor provide a wealth of knowledge about the poultry sector of Egypt. But, they present a more pessimistic picture than that shown in the draft Evaluation Report of the USAID/E. The Contractor's reports should be very useful to the GOE and USAID/E. A total of 69 persons were trained under this project and the multiplier effect should be felt in the future.

EXHIBIT A

Audit of the Poultry Improvement Project (AID Grant 263-0060)
Summary of Cost Claimed by MATHTECH, Inc. and
Results of Audit of U.S. Dollar Costs
For the Period September 1, 1978 Through April 15, 1981

Description	Costs Claimed	Costs Recommended For Disallowances	Suspensions	Acceptance	Related Notes Exhibit A-1 & Exhibit A-2
Salaries	$ 470,745	41,996	2,538	426,211	1.0
Consultants	230,740	200	9,546	220,994	2.0
Fringe Benefits	125,304	11,221	685	113,398	3.0
Overhead	505,069	30,381	8,700	465,988	4.0
Travel and Transportation	51,391	(1,180)	6,403	46,168	5.0
Allowances	43,058	3,795	-0-	39,263	6.0
Other Direct Costs	73,163	8,464	9,735	54,964	7.0
Equipment, Vehicles, Materials and Supplies	22,817	436	-0-	22,381	8.0
Participant Training	138,576	2,059	15,432	121,085	9.0
Subcontracts	107,333	7,129	15,021	85,183	10.0
G & A	173,902	10,450	6,806	156,646	11.0
Sub-Total	1,942,098	114,951	74,866	1,752,281	
Fixed Fee	191,292	-0-	-0-	191,292	12.0
Sub-Total	2,133,390	114,951	74,866	1,943,573	
Less Cost Overruns	(29,176)	-0-	(29,176)	-0-	13.0
Total Costs	2,104,214	$114,951	$ 45,690	$1,943,573	

Note: (a) See Exhibit A-1 and A-2 for related details on the reasons for recommending that costs be either disallowed or suspended.

(b) Sub-contract accepted costs include $68,402 to the University of Florida and $16,781 to the University of Georgia (Cooperative Extension Services).

Audit of the Poultry Improvement Project (AID Grant 263-0060)
Details on US Dollar Costs Recommended for Disallowances for the Contract between Mathtech Inc. and the GOE
For the Period September 1, 1978 Through April 15, 1981

		Total
1.0 Direct Salaries		
1.1 The contract is a cost-plus-fixed fee contract. The contractor is reimbursed for costs actually incurred. This disallowance represents cost claimed by the contractor, but not paid to the respective employees.		$ 38,598
1.2 The contract stipulated that salaries were not to be increased for one year. Contractor increased the employee salaries in less time.		2,510
1.3 The contractor used standard hourly rates not actual average rate of the employee involved.		888
Total		$ 41,996
2.0 Consultants		
2.1 The contractor claimed 15 days for one consultant, but time records show that only 14 days can be supported.		200
Total		$ 200
3.0 Fringe Benefits		
3.1 This cost adjustment represents fringe benefits related to disallowed costs:		
	9/78-6/30/79 / 7/1/79-9/30/80	
Direct Salaries disallowed	$ 11,815 / $ 30,181	
Provisional Fringe Benefit Rate	x 26% / x 27%	
	3,072 / 8,149	$ 11,221
3.2 Note: The Defense Contract Audit Agency (DCAA) had established the final FB rates for 1977. However, it had not audited or established rates for 1979 and 1980.		
Total		$ 11,221

4.0 Indirect or Overhead Costs

4.1 This cost, which should be disallowed, represents adjustment of overhead costs in the following manner:

	Disallowed	
Direct Salaries	41,996	
Consultant Costs	200	
Sub-Total	42,196	
Provisional Overhead Rate	x 72%	$ 30,381

4.2 Note: As in the case of Fringe Benefits, DCAA had not established an Overhead Rate for 1979 and 1980.

Total	$ 30,381

5.0 Travel and Transportation

5.1	Contractor claimed business lunches which are not reimbursable under the contract and also overbilled for per diem.	$ 2,775
5.2	This disallowance is for a duplicate air fare.	518
5.3	Travel expenses booked in October 1980, but were actually incurred prior to the expiration date.	(4,473)
	Total	($1,180)

6.0 Allowances

6.1	The contractor claimed subsistence expenses in excess of standard per diem rates allowed by the contract.	$ 3,056
6.2	Allowances which should have been claimed as local currency costs and not from the U.S. Dollar portion of the contract.	739
	Total	$ 3,795

7.0 Other Direct Costs

7.1	The household effects of one employee were shipped on a foreign flag vessels.	$ 4,965
7.2	Distribution of telephone installations costs and certain long distance calls not related to the project.	339
7.3	Xerox paper charges in excess of standard rates.	3,242
7.4	Bank charges not allowed by regulations.	322
7.5	Local currency costs which should have been billed in Egyptian Pounds.	997
7.6	Other miscellaneous charges disallowed by USAID/E and accepted by contractor.	368
7.7	Allowable costs incurred prior to contract expiration date, but not recorded until October 1980.	(1,769)
	Total	$ 8,464

8.0 Equipment, Vehicles, Materials and Suppliers

8.1	These disallowances were made by USAID/E Controller and accepted by contractor.	$ 436
	Total	$ 436

9.0 Participant Training

9.1	The contractor duplicated his costs claimed; USAID/E disallowed these costs.	$ 1,811
9.2	Cost of repairing a van belonging to the contractor.	248
	Total	$ 2,059

10.0 Sub-Contracts

10.1	An unsupported adjustment to the cumulative computer statement was made by Contractor.	$ 1,962
10.2	Recommended for disallowance by the Department of Health & Human Resources (A/R 04-17202).	5,167
	Total	$ 7,129

11.0 General and Administrative (G&A)

11.1 DCAA has established 10% as Mathtech Inc. provisional G&A rate. The G&A rates for 1979 and 1980 have not been established. G&A cost are on the bases of total cost disallowances:

	Disallowances	
Salaries	$ 41,996	
Consultant	200	
Fringe Benefits	11,221	
Indirect Costs	30,381	
Travel and Transportation	(1,180)	
Allowances	3,795	
Other Direct Costs	8,464	
Equipment, Vehicles	436	
Participant Training	2,059	
Sub-Contracts	7,129	
Sub-Total	104,501	
Provisional G&A Rate	x 10%	
		$ 10,450
Total		$ 10,450

12.0 Fixed Fee

12.1	No fee disallowed	-0-
	Total	-0-

13.0 Cost Overruns

-0-

Total Costs recommended for Disallowances. $114,951

Audit of the Poultry Improvement Project (AID Grant 263-0060)
Details on US Dollar Costs Recommended for Suspension for the
Contract between Mathtech Inc. and the GOE
For the Period September 1, 1978 Through April 15, 1981

1.0 Direct Salaries

1.1 Costs claimed by contractor were apparently incurred after termination of the contract. The USAID/E controller suspended the costs on a voucher dated April 1, 1981. $ 2,538

Total 2,538

2.0 Consultants

2.1 These costs were questioned by RIG/A/W because the fees could not be supported by documentation. However, vouchers submitted to the USAID/E contain "Time and Activity Reports" for the following consultants and a determination needs to be made if they are acceptable:

Name of Consultant	Invoice No.	Date	
A	2187603-2044	Dec. 30, 1978	546
B	2187603-2044	Dec. 30, 1978	750

2.2 Costs claimed for Consultant C in December 1978 were $3,000; however, RIG/A/W could only locate payments to the consultant for $2,100. 700

2.3 Budget for consultants was $220,994; costs claimed and acceptable were $228,544. This suspended costs represent the excess over budget. 7,550

Total $ 9,546

3.0 Fringe Benefits

3.1 These cost suspensions represent the adjustment for the provisional fringe benefit applicable to direct salaries:

	9/78-6/30/79	7/1/79-9/30/80	
Direct Salaries	-0-	2,538	
Provisional FB Rate		x 27%	$ 685
Total			$ 685

4.0 Indirect or Overhead Costs

4.1 Indirect costs follow the labor base. The following indirect costs need to be suspended since they relate to suspended salaries and consultant costs:

Direct Salaries	$ 2,538	
Consultants	9,546	
Sub-Total	12,084	
Provisional overhead rate	x 72%	$ 8,700
Total		$ 8,700

5.0 Travel and Transportation

5.1 The contractor did not clarify or explain an accounts payable to two employees (reference:Invoice No. 2267414-2044, or expenditure report (ER) for September 1979). $ 445

5.2 Per diem payments to one person was not justified. This person appears to be the wife of an employee, but audit is not certain. (Invoice No. 2258915-2044, or ER for October 1979). 86

5.3 The contractor did not submit receipts for airline costs or justification and receipts for car rentals in the following two months:

Invoice No.	E.R. for	
2297119-2044	Feb. 1980	1,390
2309220-2044	March	2,422

5.4 Cost of one airline ticket for one person was not budgeted (see Voucher dated June 30, 1980). 1,130

5.5 A trip by the Chief of Party to Paris and Rome seems unrelated to the project. The USAID/E requested justification and prior approval (see Voucher dated June 30, 1980). 930

Total $ 6,403

6.0 Allowances

6.1 No Costs suspended -0-

Total -0-

7.0 Other Direct Costs

7.1 These suspended costs refer to transfer of funds made between central office and Cairo. They appear to be estimated telex costs, not actuals. Date of transfer follows:

March 1980	999
April	1,801
May	1,280

$ 4,080

7.2 Shipment of household effects and POV for an employee; no receipts submitted (Voucher of April 1, 1981). $ 4 190

7.3 Unsupported costs of telex maintenance. 79

7.4 Printing of slides. No receipts submitted. (Invoice No. 2260313-2044; Voucher of December 1979). 193

7.5	Costs suspended by MOA; no reasons given (Invoice No.2258915-2044; Voucher of January 1980).	356
7.6	Computer costs suspended for lack of receipt (Invoice No. 2297119-2044; Voucher of June 16, 1980).	130
7.7	No receipt covering a university registration (Voucher dated January 4, 1981).	315
7.8	Copy of a TWA cancelled ticket was not attached (Voucher date[1] April 1, 1981).	392
	Total	$ 9,735

8.0 Equipment, Vehicles, Materials and Supplies

8.1	No costs suspended	-0-
	Total	-0-

9.0 Participant Training

9.1 The terms of the contract are ambiguous on how costs related to participant trainees were to be managed by the contractor. The contractor submitted advances made to trainees for per diem, shipment of books, etc. The following costs were suspended by USAID/E:

Expenditure Report for Month of	Purpose	
October 1979	Per diem Advance	$ 9,735
November	Tuition/Fee	1,351
November	Subsistence	535
November	Book & Shipping	240
December	Per diem advance	600
December	Book & Shipping	80
January 1980	Tuition/Fee	641
January	Book & Shipping	480
February	Book & Shipping	640
March	Seminar Fee	360
April	Book & Shipping	480
April	Per diem Advance	90
September	Medical bills	200

9.2 USAID/E project manager and controller should review these costs after analyzing intent of contractual terms and relation to the provisions of AID Handbook 10, Chapter 25.

Total $ 15,432

10.0 Sub-Contracts

10.1 Although the audit of DHHS concluded that the full $80,000 could be accepted, the USAID/E felt that no services had been provided by the University of Florida to earn these costs. They are therefore suspended. $ 11,598

10.2 Costs which exceed the subcontract ceiling and are part of the termination costs agreed upon by Mathtech Inc. and University of Florida, per A/R 04-17202 of DHHS. $ 3,423

Total $ 15,021

11.0 General and Administrative (G&A)

11.1 A 10% G&A rate has been established as a provisional rate. G&A costs are on the basis of total costs suspended:

	Suspended	
Salaries	2,538	
Consultants	9,546	
Fringe Benefits	685	
Indirect Costs	8,700	
Travel and Transportation	6,403	
Allowances	-0-	
Other Direct Costs	9,735	
Equipment, Vehicles, etc.	-0-	
Participant Training	15,432	
Sub-Contracts	15,021	
Sub-Total	68,060	
Provisional G&A Rates	x 10%	$ 6,806
Total		$ 6,806

12.0	Fixed Fee	
12.1	No suspension recommended.	-0-
	Total	-0-

13.0	Cost Overruns	
13.1	The contractor overran the contract by this amount.	$ (29,176)
	Total	(29,176)
	Total costs recommended for suspension.	$ 45,690

Audit of Poultry Improvement Project (AID Grant 263-0060)
Reconciliation of Actions Recommended or Taken
on the Mathtech Contract
For the Period September 1, 1978 Through April 15, 1981

	Costs Suspended/Questioned by RIG/A/W			Costs Susp./Disal. by USAID/E Contr.				Conclusions of the RIG/A/Cairo			
	Per Memo Report (A)	Adjustments Required (B)	Total (C)	Per Voucher (D)	Adjustment Required (E)	Total (F)	Total (G)	Costs Recommended Disallowances (H)	For Suspension (I)	Withheld To-date (J)	Additional Deduction Required (K)
Salaries	41,057	(2,459)	38,598	5,936	-0-	5,936	44,534	41,996	2,538	(5,937)	38,598
Consultants	2,196	7,350	9,546	200	-0-	200	9,746	200	9,546	(200)	9,546
Fringe Benefits	10,967	(518)	10,449	3,886	(2,429)	1,457	11,906	11,221	685	(3,886)	8,020
Overhead	31,142	3,522	34,664	13,329	(8,912)	4,417	39,081	30,381	8,700	(13,329)	25,752
Travel and Transportation	(2,683)	(1,149)	(3,832)	9,055	-0-	9,055	5,223	(1,180)	6,403	(9,055)	(3,832)
Allowances	3,056	-0-	3,056	739	-0-	739	3,795	3,795	-0-	(739)	3,056
Other Direct Costs	15,047	(11,955)	3,092	15,107	-0-	15,107	18,199	8,464	9,735	(15,107)	3,092
Equipment and Vehicles	-0-	-0-	-0-	436	-0-	436	436	436	-0-	(436)	-0-
Participant Training	-0-	-0-	-0-	17,491	-0-	17,491	17,491	2,059	15,432	(17,491)	-0-
Sub-Contracts	88,254	(77,701) 1/	10,553	20,189	(8,591)	11,598	22,150	7,129	15,021	(20,189)	1,961
G & A	18,904	(8,291)	10,613	5,734	910	6,644	17,256	10,450	6,806	(5,734)	11,523
Sub-Total	207,940	(91,201)	116,739	92,102	(19,022)	73,080	189,817	114,951	74,866	(92,103)	97,716
Fixed Fee	-0-	-0-	-0-	6,307	(6,307)	-0-	-0-	-0-	-0-	(6,307)	(6,307)
Sub-Total	207,940	(91,201)	116,739	98,409	(25,329)	73,080	189,817	114,951	74,866	(98,410)	91,409
Cost Overrun	(29,176)	-0-	(29,176)	-0-	-0-	-0-	(29,176)	-0-	(29,176)	-0-	(29,176)
Sub-Totals	$178,764	$(91,201)	$87,563	$98,409	$(25,329)	$73,080	$160,641	$114,951	$45,690	$(98,410)	$62,233
Deduct: U.S. Dollars Amounts Withheld:											
June 1980							-0-	-0-	-0-	14,732	14,732
July							-0-	-0-	-0-	(55,417)	(55,417)
August							-0-	-0-	-0-	(75,000)	(75,000)
Sub-Total							$235,513	$107,480	$128,033	$(214,095) 2/	$(53,452)
Add: Local Currency Activities (See Exhibit D):											
Outstanding Advance											24,000
Additional suspended amounts											55,419
Total Amount Refundable by Contractor											$25,967 3/

Notes: 1/ RIG/A/C adjusted this amount when the DHHS report was received.

2/ $98,410 was adjusted by Controller on the basis of analysis of vouchers; the remainder was retained on the basis of our interim recommendations.

3/ If no additional costs are accepted, the contractor should refund $25,967.

EXHIBIT C

Audit of the Poultry Improvement Project (AID Grant 263-0060)
Summary of Costsclaimed by Mathtech Inc. and
Results of Audit of Local Currency Costs
For the Period September 1, 1978 Through April 15, 1981

Description	Costs Claimed[1/]	Costs Recommended For Disallowances	Suspensions	Acceptance	Related Notes Exhibit A-1 and Exhibit A-2
Salaries	LE 13,080	LE 550	LE -0-	LE 12,530	1.0
International Travel	131,654	195	1,687	129,772	2.0
Allowances					
A. Per Diem	87,492	2,977	39,730[2/]	44,785	3.0
B. Quarters	49,581	2,212	-0-	47,369	4.0
Other Direct Cost	16,893	1,046	2,078	13,769	5.0
Equip., Supply, Vehicles	29,115	2,925	721	25,469	6.0
Participant	190	-0-	-0-	190	7.0
Others	321	321	1,035	(1,035)	8.0
Total	LE328,326	LE10,226	LE45,251	LE272,849	

Note: 1/ The computer statement of Mathtech Inc. shows that a total of LE 332,732 was incurred for the contract. The difference of LE 4,406 represents mathematical errors made by the contractor and unexplained adjustments not claimed nor allowable under the contract.

2/ This amount includes LE 38,792 recommended by RIG/A/Cairo to be suspended.

Audit of the Poultry Improvement Project (AID Grant 263-0060)
Details on Local Currency Costs Recommended for Disallowances for the Contract between Mathtech Inc. and the GOE
For the Period September 1, 1978 Through April 15, 1981

1.0	Salaries		
1.1	Represents a salary to a person whose services were not approved by the USAID/E.	LE	550
	Total	LE	550
2.0	International Trave		
2.1	The contractor used unauthorized foreign flag transportation which was not authorized by the USAID/E.	LE	155
2.2	Math error made by contractor.		40
	Total	LE	195
3.0	Per Diem		
3.1	The contractor claimed per diem for an employee assigned to Egypt. Contractor should have requested temporary housing allowance.	LE	1,910
3.2	The per diem of a contractor's employee was overbilled.		818
3.3	This represents a duplicate charge for per diem.		249
	Total	LE	2,977
4.0	Quarter Allowances		
4.1	This amount of disallowance represents the deposit made by an employee on rental of his apartment. Deposits are not an expense.	LE	2,200
4.2	Personal telephone costs are not allowable		12
	Total	LE	2,212

5.0	Other Direct Costs	
5.1	Cost of entertainment is not allowed.	LE 46
5.2	Deposit on telex; this was not an expense.	1,000
	Total	LE 1,046
6.0	Equipment, Supply and Vehicles	
6.1	Deposit for a gasoline account; this was not an expense at this point.	LE 500
6.2	Cost of repairing a car covered by insurance. The claim should have been against the insurance company. AID eventually reimbursed LE 733 not covered by insurance.	2,161
6.3	Renewal of two car licenses overbilled by contractor.	19
6.4	Cost of repairing a second car covered by insurance. The claim should have been against the insurance company.	245
	Total	LE 2,925
7.0	Participants	
7.1	No disallowances	-0-
	Total	-0-
8.0	Other Type Costs	
8.1	These disallowances were made by the GOE (MOA).	LE 119
8.2	These costs represent taxes paid on two vehicles.	122
8.3	The contractor use a different rate of exchange to convert some costs.	43
8.4	Mathematical errors made by contractor.	37
	Total	LE 321
	Total Costs Recommended for Disallowance	LE10,226

Audit of the Poultry Improvement Project (AID Grant 263-0060)
Details on Local Currency Costs Recommended for Suspension for the Contract between Mathtech Inc. and the GOE
For the Period September 1, 1978 Through April 15, 1981

1.0	Salaries	
1.1	No suspensions.	-0-
	Total	-0-
2.0	International Travel	
2.1	Copies of airline tickets for one employee were not submitted by contractor (Ref: Invoice No. 2346727-2044A; ER October 1980).	LE 1,687
	Total	LE 1,687
3.0	Per Diem	
3.1	No receipts or expenditure report submitted with voucher (Ref: Invoice 2311521; ER April 1980).	LE 938
3.2	This amount is recommended by RIG/A/C for suspension. See complete discussion in body of report.	38,792
	Total	LE39,730
4.0	Quarter Allowances	
4.1	No suspensions.	-0-
	Total	-0-

5.0 Other Direct Costs

5.1	Additional documentation and justification required for certain figures shown on Invoice No. 2324623-2944A; ER of June 1980.	LE 2,078
	Total	LE 2,078

6.0 Equipment, Supplies and Vehicles

6.1	No supporting documentation submitted by contractor for rental of a car (Ref: Invoice No. 2191303-2044; ER of November 1978).	LE 510
6.2	The contractor did not submit documentation or justification for payment of auto tags (Ref: Invoice No. 2324623-2944A; ER of June 1980).	211
	Total	LE 721

7.0 Participant Training

7.1	No suspensions	-0-
	Total	-0-

8.0 Other Miscellaneous Costs

8.1	USAID/E suspended some costs on the basis that they exceeded funds available. (Ref: Invoice No. 2324623-2944A; ER of June 1980).	LE 1,035
	Total	LE 1,035
	Total Costs Recommended for Suspension.	LE45,251

EXHIBIT D

Audit of the Poultry Improvement Project (AID Grant 263-0060)
Reconciliation of Actions Recommended or Taken
On the Local Currency Portion of the Mathtech Inc. Contract
For the Period September 1, 1978 Through April 15, 1981

	Costs Recommended for Total	Disallowances	Suspensions	Withheld To-date	Additional Deductions Required
Salaries	LE 550	LE 550	LE -0-	(LE 550)	LE -0-
International Travel	1,882	195	1,687	(1,882)	-0-
Allowances:					
A. Per Diem	42,707	2,977	39,730	(3,914)	38,793 1/
B. Quarters	2,212	2,212	-0-	(2,212)	-0-
Other Direct Cost	3,124	1,046	2,078	(3,124)	-0-
Equip. Supply, Vehicle...	3,646	2,925	721	(3,646)	-0-
Participants	-0-	-0-	-0-	-0-	-0-
Others	1,356	321	1,035	(1,356)	-0-
Sub-Total	LE55,477	LE10,226	LE45,251	(LE16,684)	38,793
Outstanding advance					16,800
Total					LE55,593 2/

Note: 1/ This amount was recommended to be suspended by RIG/A/E.

2/ This amount equals US $79,419 converted at LE 1.00 equals US $1.429. The amount was transferred to Exhibit B so that the entire picture on collectibles from the importer may be better realized.

LIST OF REPORT RECOMMENDATIONS

Page

Recommendation No. 1 — 9

AA/SER should (a) review all active direct and B/G contracts, funded by the Agency, with Mathematica Inc. and its subsidiaries; (b) suspend all work which is not considered of a critical nature until the desired corrective action is taken; and (c) request audit services for the remaining Agency funded contracts with Mathematica Inc. not covered by our review.

Recommendation No. 2 — 9

AA/SER should suspend Mathematica Inc. and all its subsidiaries from participating in any future contracts to be funded by AID until there are reasonable assurances that the accounting system has been corrected and that similar problems resulting from management practices will not take place in currently active or future contracts.

Recommendation No. 3 — 11

In coordination with the GOE, the USAID/E should consider US $1,943,573 and LE 272,849 as acceptable and allowable contract costs.

Recommendation No. 4 — 12

In coordination with the GOE, the USAID/E should (a) disallow a total of US $114,951 and LE 10,226 as summarized on Exhibits A and C and detailed in Exhibits A-1 and C-1 of this report; and (b) inform Mathtech Inc. of such action.

Page

Recommendation No. 5 13

In coordination with the GOE, the USAID/E should initiate the necessary action(s) to resolve questions related to costs recommended for suspension in the amounts of $74,866 and LE 45,251.

LIST OF REPORT RECIPIENTS

USAID/EGYPT	
Director	5
Regional Inspector General for Investigations & Inspections (RIG/II/C)	1
AID/WASHINGTON	
AID Deputy Administrator	1
Assistant Administrator/Bureau for Near East (AA/NE)	5
Office of Egypt/Israel Affairs (Egypt Desk NE/EI)	1
Bureau for Near East (Audit Liaison Officer)	1
Bureau for Program and Management Services (AA/SER/SA)	6
Assistant Administrator/Bureau for Development Support	1
Office of Development Information and Utilization (DS/DIU)	4
Office of Legislative Affairs (LEG)	1
Office of the General Counsel (GC)	1
Office of Financial Management (FM/ASD)	1
Bureau for Program and Policy Coordination/Office of Evaluation (PPC/E)	1
Legislative and Public Affairs Office of IDCA	1
Office of the Inspector General (IG)	1
Office of Policy, Plans and Programs (IG/PPP)	1
Office of Executive Management Staff (IG/EMS)	12
Office of Investigations and Inspections (IG/II/W)	1
Office of the Regional Inspector General for Audit/Washington (RIG/A/W)	1
Regional Inspectors General for Audit	
RIG/A/Karachi	1
RIG/A/Karachi--New Delhi	1
RIG/A/Manila	1
RIG/A/Nairobi	1
RIG/A/Panama	1
RIG/A/La Paz Residency	1