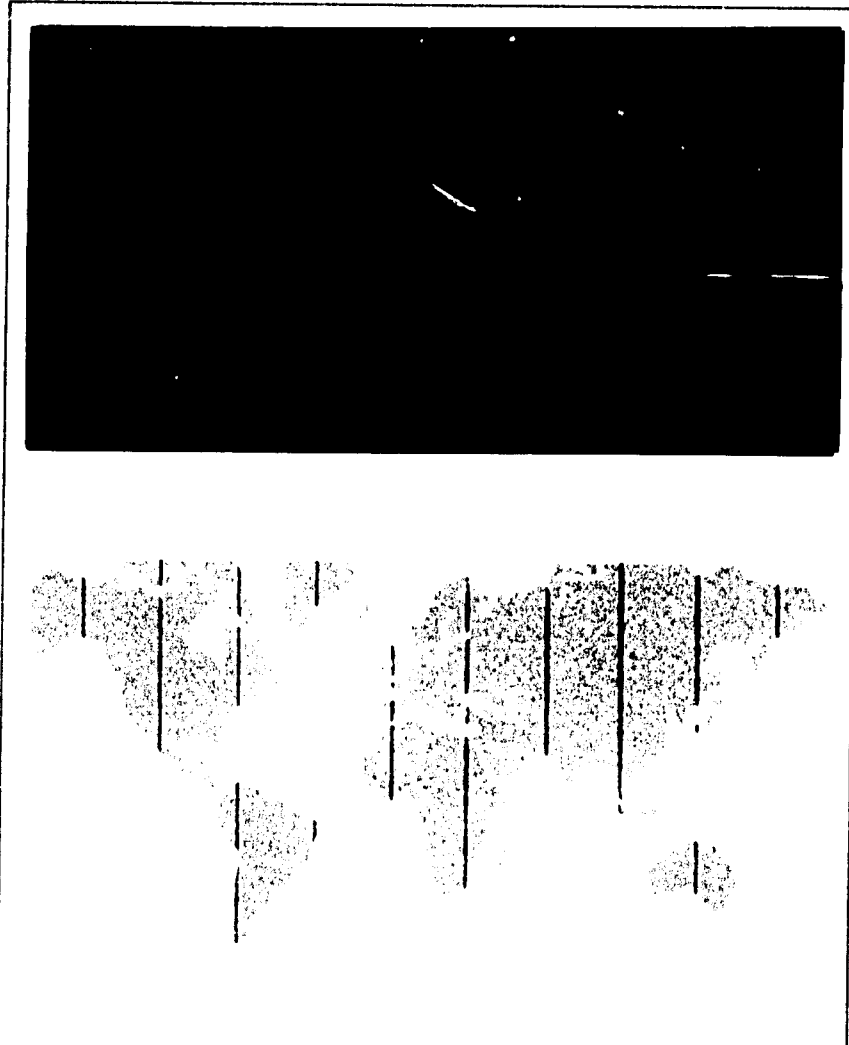


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THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
CAIRO

**AUDIT REPORT
ON
PROBLEMS IN IMPLEMENTING
THE AQUACULTURE DEVELOPMENT PROJECT
IN EGYPT
PROJECT NO. 263-0064**

Audit Report No. 6-263-82-6

Dated June 24, 1982

Few results have been achieved after almost four years of AID support under the Aquaculture Development Project in Egypt. From the outset, design and construction work fell behind schedule. Technical assistance was not provided as needed to implement the project. These delays are caused by poor contractor performance. Until appropriate actions are taken to resolve these problems, additional delays are anticipated. AID needs to consider revising project implementation and financial plans to meet the amended project completion date of August 31, 1984.

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EXECUTIVE SUMMARY

The continued growth of Egypt's population together with the increase in per-capita income generated a rapidly increasing demand for high-protein foods. Fish is traditionally an important high-protein food source in the Egyptian diet, and at present, consumption is restricted by a supply shortage.

AID's project planners recognized the rapid growth in the demand for fish could not be met from natural fisheries and existing fish farms. In December 1977, an AID-financed aquaculture feasibility study identified subsectors of the Egyptian fisheries industry where AID assistance would be most productive. The findings from this and other AID-financed studies of Egyptian fisheries contributed to the design and final project paper for AID's Aquaculture Development Project 263-0064.

In accordance with study reports, AID concentrated on institutional support needed for national planning, research and extension activities as well as a production component of the Egyptian fisheries industry. This project activity coincided with the GOE's medium-term goal to increase the rate of aquaculture development through expansion of the areas used for fish production.

AID entered into a project grant agreement with the GOE's Ministry of Agriculture on September 7, 1978. The project goal was to increase the consumption of high quality protein by providing Egypt with the capacity for sustained development of the fish farming industry on an economic basis. Fish production was to be increased by 4,000 metric tons per year by 1986 through development of new fish farms and supporting infrastructure.

The estimated cost of this five-year project is \$37.0 million. AID's contribution is a grant of \$27.5 million. The remaining balance of \$9.5 million is to be met by the Government of Egypt and consist of land for a national fish farming center, homestead farms, staff salaries plus housing, and a part of operating expense.

AID's \$27.5 million grant was earmarked for technical assistance and engineering services, construction, procurement, training and production farms. Of the total \$27.5 million grant, AID obligated \$3.5 million on September 7, 1978 and \$24.0 million was obligated on May 28, 1980. At March 31, 1982 only \$2.9 million had been disbursed. The project assistance completion date is August 31, 1984. Project officials should consider revising project implementation and financial plans to meet this scheduled termination date.

Two host-country contracts were used for implementing project activities. The first \$3.0 million contract for architectural and engineering design was entered into on July 18, 1979 with Kramer, Chin & Mayo International (KCMi). This consultant was to provide the preliminary and final architectural and engineering design in addition to construction supervision of all project facilities.

The second contract for \$4.3 million was entered into on August 24, 1980. James M. Montgomery, Consulting Engineer, Incorporated and KNBS Consulting and Civil Engineers, a joint venture, was to provide technical assistance to the Ministry of Agriculture to accomplish three major tasks:

- institutional development, educational and training programs to provide a basis for supporting fish farming in Egypt;
- advisory services to assist the Ministry to develop the National Aquaculture Center's capability for applied research, extension and demonstration and training facilities and activities; and
- the establishment of a capability for economic development of fish production in the private sector.

Purpose and Scope

The purposes of our audit were to determine whether the project is being implemented effectively, economically and in accordance with applicable AID regulations and provisions of the contracts.

The audit included an examination of available subcontractors' financial records in Egypt, on-site visits to project activities, and discussions with responsible AID, contractor and Government of Egypt officials. Project activities through March 31, 1982 were included in our review.

Project Progress Is Delayed

Slowness in completing the design work and construction of project facilities are major causes for a two-year delay in project implementation. Construction work was to be completed in July 1981. The consultant's latest request for extension indicates that construction will not be completed until September 1983. A subcontractor in Egypt performed most of the design work, and provided construction supervision. There are some questions whether the U.S. consultant firm is needed to complete the project. In our view, contract costs of about \$500,000 could be saved if the consultant's contract was not extended (page 6).

Technical Advisor's Performance Needs Improvement

JMM/KNBS has not provided the technical assistance needed to implement the project. For example, even though the contract was signed more than one year ago, three of the seven long-term technical advisor positions are still vacant, and four short-term specialists have not visited the project. In addition: participants may not complete their training in time to assume project related work before the departure of the technical assistance team; progress reports are not submitted timely, and in our view, are not a useful tool for USAID/Egypt monitoring; contractor's financial records and controls are not adequate to support project costs; and utilization records for project-funded vehicles are not maintained. Corrective actions should be taken to overcome these problems (page 8).

Questioned Contract Costs

We have questioned contractors' claimed costs and fees totaling \$77,177 and LE104,206. Costs were questioned in those instances where the cost is not permitted by AID regulations or the contract, and where documentation or other justification for the expenditure were not made available to the auditors. Appropriate action needs to be taken to settle these questioned costs (pages 13 thru 19).

Conclusions and Recommendations

The results of the project have been less than planned. The project is about two years behind schedule, and slowness in completing the design and construction of project facilities are major causes for the delay. Technical assistance was not provided as required by the contract scope of work. Thus, there is some doubt whether the GOE will receive the full benefit of AID's assistance to the fisheries industries. Contracts costs are questioned because, in our view, they are not permitted by AID regulations or the contract, and adequate justifications or documents were not available.

Until appropriate actions are taken to resolve these problems, additional delays in project implementation can be anticipated. Accordingly, we recommend that USAID/Egypt:

- inform the GOE that USAID/E will not approve the release of the reserve for inflations and contingencies nor will it approve additional funding for the KCMi contract.
- establish target dates for assignment of key personnel and terminate the contract if targets are not met.
- establish a time phased participant training plan that would identify precise training and the number of participants required to fulfill the stated project training purpose.
- should require that semi-annual progress reports are submitted.
- inform the Ministry that additional grant funds for local support will not be released until adequate financial controls and records are established by contractors, and that a complete accounting of funds advanced to the contractor needs to be made.
- require that project funded vehicles be titled in the name of the Government of Egypt, and require the contractor to establish controls over project funded vehicles to ensure that they are available only for project use.
- take appropriate actions to recover \$77,177 and LE104,206 of questioned costs paid to contractors.

In our view, if implementation problems cannot be resolved timely, USAID should consider terminating the project.

Summary of Management Comments

A copy of our draft audit report was provided to USAID management for review. Their comments are included in this report. At the exit conference USAID management agreed with the report findings and have begun to implement the report's 15 recommendations to improve project implementation.

USAID's response to our draft report included a copy of a "Notice of Termination" dated June 17, 1982 from the Ministry of Agriculture to KCMI notifying the contractor that the contract should terminate on July 31, 1982. Nonetheless, we have retained our recommendation concerning the release of the reserve for inflation and contingencies and that USAID not approve additional funding for the contractor until the KCMI contract is officially terminated.

USAID believes that more emphasis should be placed on the failure of the technical assistance contractor to provide more explicit guidance on training. Our audit report covers the failure of this contractor to provide training as required for the project, and also that more assertive efforts are needed by all parties to accelerate the training component of the project.

BACKGROUND

The continued growth of Egypt's population together with the increased demand for high-protein foods encouraged the design and evaluation work leading up to AID's Aquaculture Development Project 263-0064. Studies conducted by a fisheries review team to Egypt in late 1976 identified subsectors of the Egyptian fisheries industry where AID assistance could best be used.

An AID-funded aquaculture feasibility study report was issued in December 1977. This report concluded that the Abbassa area in Northeast Egypt near the Mediterranean Sea was the most suitable site for a national fish farming center. At the Abbassa center, training and applied research would be conducted, and extension services would be provided to the aquaculture industry. A six-person team, including two fisheries specialists, a hatchery specialist, a marketing specialist, an engineer and a project analyst completed the final design for AID's project paper approved on July 11, 1978. A project grant agreement between the U.S. Government and the Government of Egypt was entered into on September 7, 1978.

The project goal was to increase the consumption of high quality protein foods by providing Egypt with the capacity for sustained development of the fish farming industry on an economic basis. Project planners believed that the rapid growth of Egypt's population coupled with the demand for fish in the local diet could not be met from natural fisheries and existing fish farms. The approved project would assist the Government of Egypt (GOE) through the Ministry of Agriculture (Ministry) establish a research and extension capability in aquaculture and increase the areas for fish production ponds. By reaching these objectives, AID's goal to increase the consumption of high-protein food through the fish farming industry would be reached.

The estimated cost of this five-year project is \$37.0 million including AID's contribution of \$27.5 million. The Government of Egypt's contribution is \$9.5 million, and consists of land for the national center and homestead farms, staff salaries, Egyptian staff housing and part of the operating expenses.

AID grant funds were earmarked for the following:

<u>Description</u>	<u>Amount In Millions</u>
Technical Assistance and Engineering Services	\$ 7.5
Construction	9.2
Procurement	3.5
Training	2.3
Production Farms	<u>5.0</u>
	\$27.5

The project will support and establish the following facilities.

National Committee for Aquaculture Development Technical assistance to support the planning and coordination activities of the Committee including the preparation of a national plan. Funds budgeted for this function are \$0.1 million.

National Aquaculture Center (NAC) at Abbassa The Center in Abbassa will have a total Egyptian staff of 67, and will include facilities for research, extension, and administration, as well as a carp hatchery and a mullet fry nursery.

The Center's staff will conduct applied research to develop practices for fish farming operations in Egypt, including techniques for village farms and mixed poultry and fish operations. It will also conduct applied research in the areas of fish breeding, handling and utilization, nutrition and fish pathology. The Center's extension division will develop and provide assistance to fish farmers, both those established under the project and others in the area served.

The NAC Abbassa hatchery and nursery will produce six to ten million carp fry annually and provide nursery facilities for producing up to 3.4 million mullet fry of two to five grams from .15 gram-fry collected at Al-Mex. Funds budgeted for the Center total \$13.7 million.

Hatchery and Collection Stations The natural carp hatchery at Serow will be improved and its output will be supplemented by the construction of an artificial hatchery raising the production of carp fry from 1.5 million to 10 to 17 million annually.

To ensure the supply of mullet fry in the future, a pilot mullet hatchery will be constructed at Al-Gameel or Al-Gerby to produce six million fry and develop an operational technique that can be applied elsewhere in Egypt and the Middle East.

Two mullet collection facilities will be constructed at Al-Gameel and Al-Gerby on the Mediterranean Coast. These facilities will collect 40 to 60 million mullet fry annually. The collection station at Al-Mex will receive technical assistance in fry transport to assist in reducing fry mortality from 80 to 50 percent.

A modern fish market will be constructed at Zagazig. Space in this facility, which will provide refrigeration and adequate sanitary equipment and will be rented to local entrepreneurs at an economic price. Funds budgeted for the above functions total \$3.9 million.

Participant Training Training will be provided to 69 individuals in fisheries management, fish pathology, engineering, food technology, fisheries biology and other areas. Ten individuals will receive training to the Ph.D. level, 29 will receive Master's level training and 30 will receive a total 140 months of short-term training. It is expected that those receiving training will return to work in the GOE fish farming sector, and that some may complete thesis degree requirements through work at the National Center and other Egyptian facilities. Funds budgeted for this function total \$3.0 million.

Production Farms The project will establish private sector production farms which will be funded through a \$5.0 million revolving credit fund to be established within the Agricultural Credit Bank. The fund will make 15-year loans to fish farmers (both individuals and cooperatives) at the bank's usual rate of interest. The production farms will be established in two stages. In the first stage, 80 farms will be constructed over two years by the project and distributed to 80 or more recent agricultural graduates as homesteaders. Loans will be provided to cover cost of pond construction, equipment, and all operating expenses for the first two years of operation. In the second stage, 180 farms will be established over three years. These farms will be distributed to homesteaders, village cooperatives, women's cooperatives and to the private sector. Funds budgeted for these functions total \$12.7 million.

In addition to the above, the project budget of \$37.0 million includes \$163,000 for other costs and \$3.5 million for contingency.

At March 31, 1982, AID had obligated \$27.5 million. Total disbursements were only \$2.9 million leaving an unliquidated balance of \$24.6 million. It is not likely that these funds can be used prior to the project assistance completion date, August 31, 1984. The tabulation below shows the financial status of AID's project funds at March 31, 1982.

AID-Grant Funds
At March 31, 1982
(\$000)

<u>Description</u>	<u>Obligated</u>	<u>Disbursed</u>	<u>Unliquidated Balance</u>
Consulting Services	\$ 7.499	\$2.308	\$ 5.191
Construction Costs	9.647	.424	9.223
Training	.328	.208	.120
Miscellaneous	.002	.001	.001
Unallocated (Un-subobligated)	<u>10.024</u>	<u>-0-</u>	<u>10.024</u>
	<u>\$27.500</u>	<u>\$2.941</u>	<u>\$24.559</u>
	*****	*****	*****

Note: \$3.5 million was obligated on September 7, 1978, and another \$24.0 million was obligated on May 28, 1980.

To implement the project, the Ministry entered into two host-country contracts. The first contract for architectural and engineering design was entered into on July 18, 1979 with Kramer, Chin and Mayo International (KCFMI). The consulting engineer was to provide the following:

- preliminary design and final architectural and engineering design for construction of the National Aquaculture Center at Abbassa, a Model Homestead Farm at Abbassa, the renovation and modernization of Serow Carp Hatchery, and the Mullet Collection Station at El-Gerby and El-Gameel channels;
- technical review of the design of the Zagazig Fish Market; and
- construction management services for each construction project.

On September 19, 1979, KCMC subcontracted with the joint venture of Parsons Brinkerhoff, an American Firm, and Sabbour Associates, an Egyptian Firm. The joint venture was doing business in Egypt as P.B. Sabbour. The subcontractor was responsible for relations with the Ministry and carried the overall technical and administrative responsibility for performance of services under the prime contract. Under their joint venture agreement, Sabbour Associates would provide Egyptian staff to carry out technical services, management, administrative and accounting services in Egypt. Parsons Brinkerhoff would provide the American staff to P.B. Sabbour to carry out technical and management functions in Egypt and USA. Compensation to be paid P.B. Sabbour for their services included all direct cost plus an overhead cost based on direct salaries.

Total AID funding for the KCMC contract is \$3.0 million which includes a management fee of five percent of the subcontractor's total costs.

The second contract with James M. Montgomery, Consulting Engineers, Incorporated (JMM) and KNBS Consulting and Civil Engineers (KNBS), a joint venture was entered into on August 24, 1980. The purpose of this contract was to provide technical assistance to the Ministry to accomplish the following three major tasks:

- institutional development, educational and training programs within the Ministry in and outside the country and at the National Aquaculture Center to provide a basis for the development of a strong capability for supporting fish farming in Egypt;
- technical assistance and advisory services to assist the Ministry establish and develop the National Aquaculture Center's capability to support and sustain its applied research, extension, and demonstration and training facilities and activities; and
- the establishment of a capability for the development of private sector fish production by at least 4000 tons per year by 1986 through an increase in the area devoted to fish farming.

Under this contract JMM/KNBS is responsible for furnishing the technical personnel needed for the project, while KNBS alone is responsible for providing support services. Payments for Egyptian local staff salaries and local administrative support are made by the Ministry from their own budget. Local expenditures for the purchase of equipment will be paid from AID funds.

This is a cost reimbursement plus fixed fee contract. The total estimated cost of this contract is \$4,346,761 including a fixed fee of \$292,000. The Ministry's contribution is LE177,525 in addition to the dollar cost.

Purpose and Scope

The purpose of our audit was to determine whether the USAID project was effectively and efficiently managed to evaluate project progress, and to determine if AID funds provided were used in accordance with AID's policies and regulations. We examined project documents and reports, and held discussions with responsible officials of the Egyptian Ministry of Agriculture, contractors and USAID. We also observed project activities and contract implementation at project sites. In addition our audit included an analysis of subcontractors' financial records available in Egypt. Project activities through March 31, 1982 were included in our review.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

PROJECT PROGRESS IS DELAYED

The project is about two years behind schedule. Slowness in completing the design work and construction of project facilities are major causes for this delay. Construction work was to be completed by July 1981. Present planning indicates that construction will not be completed until September 1983. Poor contractor performance and the lack of adequate project supervision at the start-up also contributed to these delays. As a result the project is experiencing cost overruns. Moreover, a subcontractor performed most of the design work and provided construction supervision. This arrangement raises the question whether the U.S. consulting engineer is needed to supervise the completion of construction work. In our view, contract costs of \$383,407 plus an additional \$117,000 requested could be saved if the consultant's contract was not extended as requested.

A \$1,745,870 contract between the GOE and KCM I for project design and supervision was signed on July 18, 1979. The consultant's schedule of performance showed a planned completion date for each phase of the A&E design and construction. All work under the contract was to be completed by June 1981. However, the consultant did not meet this schedule and monthly progress reports do not identify reasons why work deadlines were not met.

The consultant subcontracted a local firm, P.B. Sabbour, to design and supervise the construction of project facilities. The original design concept was developed by the consultant, but most of the detail work was done by P.B. Sabbour. The U.S. consultant's function was to assure that work done by the subcontractor met the standards set forth in the original design concept. In fulfilling their responsibilities, P.B. Sabbour assigned a large staff of engineers, draftsmen and administrative support personnel to the project. The U.S. consultant had two U.S. engineers assigned to Egypt to supervise P.B. Sabbour during the design phase. However, KCM I's personnel left Egypt in November 1981 following construction tender evaluations. This left P.B. Sabbour responsible for the day-to-day supervision of the construction, but the U.S. consultant retained overall responsibility for the project. KCM I made periodic trips from the USA to Egypt for this purpose.

In their January 1981 monthly report, KCM I stated that additional funds and time were needed to complete the project. The MOA and USAID/E were reluctant to provide additional funds because they were not satisfied with the consultant's performance. Nonetheless, they approved Amendment No. 2 to the contract on June 7, 1981 to allow the U.S. consultant to complete his design work and to minimize further project delays. Amendment No. 2 increased the contract by \$1,263,802 for a total cost of \$3,009,672. The completion date was extended through February 1983.

The increased funding of \$1,263,802 provided an additional \$644,624 to P.B. Sabbour for construction management and \$619,178 to KCM I for completion of the design and for supervisory responsibilities. With this amendment, P.B. Sabbour would receive \$1,228,683 and KCM I \$1,780,989

Again on March 1, 1982, KCMC requested additional funds to complete their work. The consultant contract needed to be extended to September 1983, the revised target date for completion of construction. KCMC suggested that the \$383,407 allocated for inflation and contingencies be approved for disbursement, and that the contract amount be increased by an additional \$117,000. The consultant stated that these funds were needed to cover estimated monthly expenditures of \$18,000 for home office expense and \$30,000 for subcontractor's expenditures through October 1983.

Amendment No. 2 of the contract had not budgeted funds for home office expense during the construction phase since the U.S. consultant would be traveling to Egypt on a periodic basis. These visits would be to see how the subcontractor was managing the construction. The consultant stated they made a mistake in not foreseeing home office expenditures, and an estimated \$18,000 was needed monthly to review construction reports, correspondence and any other administrative work connected with construction management. Further, if they did not receive this amount they may have to pull out of the project. They contend that additional time is required in the U.S. to meet their contract responsibilities.

The A&E contract costs, not including the requested increase, represent 30% of the project's estimated \$11 million construction cost. This high cost can be partly attributed to the manner in which the contractor is doing the work. We believe that having two organizations perform the same work is not cost effective because duplication of effort may occur which could result in duplicative costs. For example, KCMC is charging 140% of direct salaries for its administrative support plus 5% of subcontractor's total cost, as a management fee. Additionally, the subcontractor is charging 170% of its direct salaries for its administrative support. Consequently, as of October 31, 1981, the contractor had received \$393,962 for administrative support. This amount is 46 percent of the \$854,828 paid to the consultant. At the same time, the subcontractor received LE280,489 for administrative support out of a total LE446,232 reimbursed.

Conclusions and Recommendations

The serious delays and cost overruns caused by the consultant indicate a need for the MOA and USAID/E to make a decision as to whether additional funds will be provided to KCMC. We believe that \$383,407 reserved for inflation and contingencies should not be released for this purpose, and the contract amount should not be increased by \$117,000 as proposed. In our view, the consultant's request for an estimated \$18,000 per month price increase to maintain overall responsibility is not warranted. This responsibility is already a part of the contractual requirements. Moreover, as the consultant stated that he may pull out if additional funds are not provided, now is a suitable time to make other arrangements for construction management.

Accordingly, we recommend the following be implemented to save \$500,407 of additional contract costs.

Recommendation No. 1

USAID/E inform the GOE that USAID/E will not approve the release of the reserve for inflation and contingencies nor will it approve any additional funding for this consultant contract.

TECHNICAL ADVISOR'S PERFORMANCE HAS NOT BEEN ADEQUATE

JMM/KNBS has not provided the technical assistance needed to implement the project. In this regard, three of the seven long-term technical advisor positions are vacant, and four short-term specialists have not visited the project. In addition, participant training has lagged far behind scheduled enrollment, progress reports have not been submitted timely, financial records and control for local expenditure are not adequate to support project costs, and utilization records for project-funded vehicles are not maintained. In our view, the failure of the contractor to provide these services contributed to slow project implementation. Unless corrective actions are taken, the GOE will not receive the benefit of AID's assistance before the project terminates.

Assignment of TA Personnel Is Behind Schedule

JMM/KNBS has not assigned the "Key Personnel" needed to complete work under their technical assistance contract. The contract was signed in August 1980, and the team leader arrived in Egypt in December 1980. Although two more positions, the Extension Specialist and the Mullet Hatchery Specialist, were filled by July 1981, the Civil Aquaculture Engineer did not arrive for project work until November 1981, one year behind schedule. This technical advisor was to work closely with Ministry of Agriculture officials on construction and design activities for the project.

On November 24, 1981, USAID/E wrote to the GOE expressing concerns over the delays of assigning contract personnel to the project. USAID/E stated that "in reviewing the performance of the Technical Assistance Contractor, JMM/KNBS, USAID finds it somewhat lacking." The contract between JMM/KNBS and the Ministry specifies 13 "key personnel" which are deemed essential to the work under this contract. On March 31, 1982, seven of the thirteen contract positions were still vacant.

The tabulation below shows the status of these assignments:

<u>Position</u>	<u>Months of Service</u>	<u>Arrival Date</u>	
		<u>Planned</u>	<u>Actual Arrival Date</u>
*Team Leader	60	Dec. 80	Dec. 80
*Aquaculture Engineer	60	Dec. 80	Nov. 81
*Extension Specialist	54	July 81	July 81
*Carp Hatchery Specialist	24	Oct. 81	<u>1/</u>
*Mullet Hatchery Specialist	36	Sept. 81	July 81
*Food Technologist	48	Sept. 81	<u>2/</u>
*Pond Production Specialist	15	June 81	<u>2/</u>
+Farm Management Credit Specialist	15	June 81	June 81
+Fish Breeding Specialist	7	Sept. 81	<u>2/</u>
+Fish Nutrition Specialist	8	Oct. 81	<u>2/</u>
+Fish Disease Specialist	7	Oct. 81	<u>2/</u>
+Fry Transport Specialist	7	March 81	<u>2/</u>
+Spec. Ed. Training Advisor	12	Oct. 80	Oct. 80

- * Long-Term Technical Assistance in Egypt
- + Short-Term Technical Assistance in Egypt
- 1/ Arrival expected in September 1982
- 2/ Arrival date had not been established

The contractor's primary advisory responsibility includes:

- assistance to ensure that construction activities are coordinated to adhere to timely implementation and completion of the aquaculture center and hatcheries production ponds and to advise on the development of methods for the extension of aquaculture farming information, applied research and training activities;
- overall responsibility for arranging an educational and training program comprised of internal and U.S. long and short-term training;
- development and implementation of a \$5.0 million revolving credit fund for development of 5,000 feddans of production ponds; and
- collection and documentation of adequate baseline economic and social data for evaluation of project results by AID.

The contractor has failed to accomplish these tasks as scheduled. Until key personnel positions are filled, the contract will continue to fail.

Participants Will Not Complete Training In Time

Some participants will not complete their training during the life of the project. This situation will have a negative impact on the project as trained individuals will not return in time to assume project related work before the departure of the technical assistance team. Thus, participants will not have the opportunity to learn from team specialists how to manage and operate project facilities.

The project provided funds for training 69 individuals in Egypt, the United States, and third countries. Of this total, 10 participants would train for Ph.D degrees, 29 participants would work towards a master's degree, and 30 participants would receive short-term training.

The technical assistance contract provided for 12 months of services for a Special Education and Training Advisor. This person would advise the Ministry in the selection of degree and non-degree candidates, prepare required forms and documentation for participant training in the United States, and assist participants in course certifications, acceptance and admission to U.S. universities. Also, the training advisor was to be the liaison between team specialists, the project director, and universities where participants were studying. No progress has been made in meeting the training tasks outlined in the contract, nor has the contractor submitted invoices for their activity.

Long-term training for Ministry participants was scheduled to begin by September 1981. The Ministry selected 13 participants to meet this date, but at March 31, 1982 these participants had not been enrolled in their training programs. Eleven of the 13 participants met the requirements for training, but the earliest possible date now available for admission to U.S. universities is September 1982. In our view, delays in meeting project training requirements are caused in part by the contractor not vigorously pursuing the selection and placement of participants in appropriate institutions, and the Ministry of Agriculture's failure to identify participants qualified in English language writing and speaking.

Unless more assertive efforts are made by all parties to accelerate the training component of the project, including the enrollment of participants for training, AID's project purpose of creating a body of trained personnel capable of supporting all aspects of aquaculture development in Egypt will not be reached.

Progress Reports Have Not Been Submitted

The contract requires that JMM/KNBS submit semi-annual progress reports. The contract was effective August 24, 1980. As of May 1982, the contractor had failed to submit a single semi annual report.

An inception report dated October 31, 1981 was submitted for the period ended March 31, 1981, and draft "field report" for the period ended February 25, 1982 have been made available to the USAID. However, neither of these reports provide substantive information in terms of meeting contract objectives, and the reports contain no recommendations for corrective action. Reports through March 31, 1982 are now required.

Controls Over Advances Are Inadequate

Project funds advanced to the contractor on October 27, 1980 could not be accounted for. USAID/E made advance payments of \$120,000 and LE28,450 to the contractor for procurement of vehicles and equipment. As of March 31, 1982 the contractor (JMM/KNBS) had not submitted vouchers to account for these funds. Also, financial and accounting records were not available to support local expenditures.

The contract provides for a special bank account to be opened in Egypt for cash advances of local currency made to the contractor. The contractor was to justify the need for an advance payment by submitting a "Life of Contract Budget", and a "Statement of Cash Need" for a three month period. Supporting documentation describing how the funds would be used was required for USAID's review and approval prior to disbursement of funds. Advances were to be liquidated by submission of adequate documentation to support the procurement of equipment and property specified by the contract. Amendment No. 1 to the contract included a detail list of equipment to be purchased with local advances made.

In addition to AID grant funds, the Ministry of Agriculture provided their own funds for payment of local project costs of salaries and logistic support. These payments represent a part of GOE's contribution to the project.

During our audit we asked to review financial and accounting records along with documents that would support KNBS local expenditures. We were told that accounting records were not kept in Egypt for AID cash advances. Furthermore, no records were available to account for the Ministry funds received for local project costs. The Ministry made several advances to the contractor to pay local salaries and other project costs.

As of February 1982, USAID/E had recovered \$120,000 advanced to the contractor by offsetting this amount against subsequent dollar reimbursement vouchers. However, LE28,450 had not been fully recovered. Subsequent to our audit, USAID had offset LE11,685 against this advance leaving a balance of LE16,765 to be recovered. A complete accounting of all funds needs to be made and financial records and controls need to be established before the contractor is reimbursed for vehicles and equipment. In addition, USAID should encourage the GOE not to release additional funds to the contractor until adequate financial records are established.

Vehicle Records Do Not Show Usage

Controls have not been established to ensure that vehicles purchased with grant funds are used for official project activities. According to provisions of the contract the contractor should prepare and establish a program to show the use, maintenance, custody and care of vehicles. In addition, title to all equipment purchased with project funds should be registered in the name of the Ministry.

Five vehicles were purchased in February 1982 for the project. Egyptian contract officials reported that vehicles were to be purchased locally with \$120,000 advanced from AID project funds. Vehicles were assigned to specific drivers but trip tickets made no indication how or where the vehicles were being used. Vehicle trip tickets which detail each trip during the day can be used to ensure that vehicles are being effectively and properly utilized.

We determined that one vehicle was assigned to the local office manager for personal use, and that vehicles were under control of an individual who has no official capacity under the project. In addition, vehicles were kept overnight at his home.

The contractor needs to submit a program for vehicle maintenance and use for the Ministry's approval, and establish a procedure for reasonable controls to ensure that the program is enforced. In addition, all vehicles should be titled in the name of the Ministry as required by the contract.

Conclusions and Recommendations

JMM/KNBS's performance has failed to meet contract requirements. Almost two years have elapsed since the contract was signed and seven of the 13 "key personnel" positions are still vacant. More assertive efforts need to be made by all parties to accelerate the training component of the project. As a result, some participants will not complete their training during the life of the project. Also progress reports must be submitted showing identified problems and issues effecting project implementation and the way these problems were overcome. Progress reports are overdue. Moreover, complete accounting needs to be made of all local funds as the contractor's office in Cairo does not maintain books and records adequate to support local expenditures. Lastly, controls over the use of vehicles need to be established to assure that vehicles are used for official project activities. Accordingly, we recommend the following actions.

Recommendation No. 2

USAID/E establish target dates for assignment of key personnel. If these targets are not met, USAID should terminate funding of the TA contract.

Recommendation No. 3

USAID/E establish a time phased participant training plan that would identify the precise training and number of participants required to fulfill their stated project training purpose.

Recommendation No. 4

USAID/E should require the TA contractor to submit semi-annual progress reports.

Recommendation No. 5

USAID/E inform the Ministry that additional funds for local support should not be released until adequate financial controls and records are established.

Recommendation No. 6

USAID/E inform the Ministry of the need to make a complete accounting of their funds advanced to the contractor to determine how project funds were used.

Recommendation No. 7

USAID/E should require that project funded vehicles be titled in the name of the Government of Egypt.

Recommendation No. 8

USAID/E require the contractor to establish controls of project funded vehicles to ensure that they are available only for project use.

QUESTIONED CONTRACT COSTS

We have questioned payments to the contractors for costs and fees in the amount of \$77,177 and LE104,206. Costs were questioned because management fees as claimed are not permitted by AID regulations, salary payments in excess of 40 hours weekly are not allowed by the contract, per diem payments were paid in lieu of housing allowance, and payments for overhead need to be adjusted. In addition, worker's compensation insurance payments are not adequately supported. The following discussion explains the questioned costs in more detail.

Management Fee

The KCMI contract budget includes \$68,596 as a direct cost for managing the subcontractor, P.B. Sabbour. This amount represents five percent of the total estimated cost of the subcontractor.

Through March 31, 1982, KCMI was paid \$37,800 as a direct cost for managing the subcontractor P.B. Sabbour. In our view, this direct charge is a cost based on a percentage of cost which is not allowed under AID regulations.

We asked a contract representative what expenditures were incurred by KCMI to justify the payment of a management fee as a direct cost. The contractor official could not explain the reason for this charge, but believed it represented a profit for KCMI.

In response to a recent USAID inquiry concerning this charge, KCMI cited from a 1978 calendar year overhead audit conducted by the U.S. Environmental Protection Agency. This audit established a 13.9 percent "mark-up," on subcontractors. Further, this mark-up included professional services and professional liability insurances which would be allocated as overhead costs. The contractor also explained that during AID negotiations it was agreed that a five percent management fee on subcontractors would be used because AID did not feel the entire 13.9 percent mark-up was relevant to this project.

Nonetheless we question the \$37,800 direct cost on the basis that a cost plus a percentage of cost contract is prohibited under AID regulations. That is, a contract in which the profit or fee (however described) increases without limitation as the cost of the contract increases. Notwithstanding, the contractor needs to justify expenditures incurred in managing the subcontractor if this direct cost is charged to the contract. In this regard, AID guidelines identify a direct cost of a contract as any cost which can be identified specifically with a particular contract.

Recommendation No. 9

USAID/E should settle the \$37,800 questioned costs paid to KCMI.

Salary Payments in Excess of Forty Hours Per Week

Payments totaling \$7,777 were made to KCMI for work performed by an employee in excess of 40 hours a week. Salary payments of \$3,393 plus the applicable overhead amount of \$4,384 are questioned because the contract does not permit salary payments in excess of forty hours per week. The subject employee's salary is paid on an annual basis, not on an hourly basis. Periods questioned are as follows:

<u>Month</u>	<u>Reported Hours Worked</u>	<u>Available Labor Hours</u>	<u>Differences</u>	<u>Rate</u>	<u>Questioned Costs</u>
November 79	255.5	168	87	12.53	1,096
January 80	203	184	19	12.53	238
February 80	194	160	34	12.53	426
August 80	240	168	72	15.89	1,144
May 81	192	168	24	20.37	489
					3,393
					<u>4,384</u>
					7,777
					=====

Recommendation No. 10

USAID/E should settle the \$7,777 over payment of salary to KCMi.

Payments for Per Diem

Local per diem was paid to a KCMi employee for the period July 1980 through August 1981. Per diem payments are questioned because the contract employee was assigned to Egypt for longer than one year. This employee applied for a resident visa in November 1980. Per diem payments were stopped in August 1981 and a housing allowance was provided in lieu of per diem. The amount questioned is as follows:

Per diem paid from December 1980 through July 1981	LE12,437
Deduct housing allowance that should have been paid in lieu of per diem	<u>6,075</u>
Net Questioned Costs	LE 6,362
	=====

Automotive Fuel Payments

A total of LE4,255 was reimbursed to the contractor for gasoline expenditures which were not supported by proper documentation.

Recommendation No. 11

USAID/E should settle with KCMi the LE10,617 questioned per diem and fuel costs.

Overhead Rate Paid to P.B. Sabbour

The subcontractor is billing a provisional overhead rate of 170 percent of Sabbour & Associates direct salaries. Sabbour and Associates is one of the parent companies of the joint venture, P.B. Sabbour. All of P.B. Sabbour billings have been paid in local currency. We reviewed Sabbour and Associates records to determine the propriety of the overhead rate. Results of our review follows:

Sabbour & Associates
Computation of Overhead Rate
For Fiscal Year Ended 1980

<u>Indirect Expense</u>	<u>Contractor's Proposal</u>	<u>Cost Questioned</u>	<u>Cost Accepted</u>
Indirect Salaries	170,625		170,625
Reproduction of drawings, printing, supplies	206,391	(117,195) <u>1/</u>	89,196
Stationary, printing, stencils	151,192	(2,794) <u>2/</u>	148,398
Medical treatment - Employees	32,356	(32,356) <u>3/</u>	-
Vehicle expense + maintenance	167,988	(167,988) <u>4/</u>	-
Repairs & maintenance	36,439		36,439
Business Development	180,000	(180,000) <u>5/</u>	-
Donations	13,380	(13,380) <u>6/</u>	-
Parties, receptions, publicity	55,067	(55,067) <u>7/</u>	-
Petty Cash - Meals, drinks, cafeteria	44,390	(44,390) <u>7/</u>	-
Insurance	376		376
Rents	22,101	(7,000) <u>2/</u>	15,101
Telephone, cables, telex, postage	20,132	(2,852) <u>2/</u>	17,280
Subscriptions, duties, club memberships	8,323	(8,323) <u>8/</u>	-
Accounting & Legal	320		320
Depreciation	<u>28,544</u>		<u>28,544</u>
	<u>1,137,624</u> *****	<u>(631,345)</u> *****	<u>506,279</u> *****
Direct Labor	<u>662,228</u> *****		<u>662,228</u> *****
Overhead Rate	<u>171.8 %</u> *****		<u>76.5 %</u> *****

- 1/ Cost is questioned because these expenditures were incurred in the preparation and printing of engineer drawings for new proposals or for public relations purposes.
- 2/ Cost claimed for this line item must be reduced by the amount paid directly under the contract in order to preclude duplicate charges.
- 3/ Medical treatment of employees and officials is a fringe benefit and should not be included in the overhead pool.
- 4/ These expenditures represent cost of rental vehicles for the transportation of employees and company officials. These expenditures are for personal convenience and not necessary for the performance of the contract.
- 5/ Expenditures to finance the cost of obtaining new business are not allowable. In addition, these expenditures are not properly supported by paid vouchers.
- 6/ Expenditures do not benefit the contract.
- 7/ Entertainment expenses are not an allowable expense.
- 8/ These expenditures are for club memberships, tenders, stamp taxes and duties which do not benefit the contract.

Based on our review, overhead payments made in Calendar Year 1980 must be adjusted as follows:

Reimbursement for Overhead 1980 (100,095 x 170 %)	LE170,161
Amount based on audited overhead rate (100,095 x 76.5 %)	<u>76.572</u>
Amount Questioned	LE 93,589 *****

The overhead rate for Calendar Year 1981 was not computed because Sabbour and Associates 1981 accounting records had not been finalized at the time of our review.

Recommendation No. 12

USAID/E settle the overpayment to KCMJ
for subcontractor's 1980 overhead payments.

JMM/KNBS Home Office Salaries Questioned

From inception through May 31, 1981 USAID/E disallowed \$2,468 for home office salaries not authorized in the contract. However, USAID/E did not disallow the applicable overhead. Therefore, \$3,600 in overhead is questioned.

Recommendation No. 13

USAID/E obtain reimbursement of \$3,600 from the contractor (JMM/KNBS).

Payments of Workers' Compensation Insurance Premiums Under Host Country Contracts

JMM/KNBS was reimbursed \$28,000 for payments made to Aetna Insurance Co. for workers' compensation insurance. This payment included \$15,500 for coverage from November 1, 1980 thru November 1, 1981 and \$12,500 for a premium deposit for the period November 1, 1981 through November 1, 1985. The total \$28,000 is questioned because: (1) overseas salaries for this period totaled about \$48,000 and based on contractor's budget of 10% of overseas salaries, premiums would be about \$4,800; and (2) contractor did not submit a breakdown of employees these insurance payments were applicable to.

All host country contracts financed by AID grants, or Economic Support Fund, or Security Supporting Assistance loans, involving performance outside the United States must provide Workers' Compensation coverage as required by the Defense Base Act (DBA). This coverage is required unless a waiver is obtained from the U.S. Department of Labor.

AID entered into a blanket contract with the Insurance Company of North America (INA) effective January 1, 1982. This insurance contract provides all AID host country contractors workers' compensation coverage from INA at a substantial savings from premiums previously quoted on the open market. INA has guaranteed a rate of 2.3 percent of overseas salaries for professional services.

The contract between JMM/KNBS and the Ministry budgeted \$100,000 or 11 percent of total budgeted overseas salaries for the cost for DBA insurance. In our opinion savings of about \$80,000 could be realized under this contract if the contractor would take advantage of the INA rate.

Recommendation No. 14

USAID/E require JMM/KNBS to either support the \$28,000 payment for workers' compensation insurance payments or reimburse AID for any unsupported amounts.

Recommendation No. 15

USAID/E request the MOA to take the appropriate action to have JMM/KNBS obtain the INA workers' compensation insurance.

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EXHIBIT II

LIST OF REPORT RECIPIENTS

EGYPT

Director, USAID/Egypt 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 (NE) (Audit Liaison Officer) 1
Bureau for Program and Management Services (SER) 6
Bureau for Program and Policy Coordination 1
Office of Development Information and Utilization (DS/DIU) 4
Office of the General Counsel (GC) 1
Office of Financial Management (FM) 1
Office of Legislative Affairs (LEG) 1
Office of the Inspector General (IG) 3
Office of Policy, Plans and Programs (IG/PPP) 1
Office of Investigations and Inspections (AIG/II/W) 1
Executive Management Staff (IG/EMS) 12

REGIONAL INSPECTORS GENERAL FOR AUDIT

RIG/A/Karachi 1
RIG/A/Karachi--New Delhi 1
RIG/A/LA 1
RIG/A/La Paz Residency 1
RIG/A/Manila 1
RIG/A/Nairobi 1
RIG/A/Washington 1
RIG/A/WA 1