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AUDIT OF
AID'S AGRICULTURAL MECHANIZATION PROJECT

USAID/EGYPT PROJECT NO. 263-0031

Audit Report No. 6-263-85-6

August 7, 1985

memorandum

DATE: August 7, 1985
REPLY TO: *[Signature]*
ATTN OF: Harold R. Gill, RIG/A/Cairo
SUBJECT: Audit Of AID's Agricultural Mechanization Project
USAID/Egypt Project No. 263-0031
Audit Report No. 6-263-85-6
TO: Mr. Frank B. Kimball, Director USAID/Egypt

The subject audit report discusses the results of our review of USAID/Egypt's Agricultural Mechanization Project. The objectives of this audit were to determine if project objectives were realized and to evaluate project management, compliance with AID regulations, and internal controls.

Although benchmarks were not established to measure progress toward achievement of project objectives, it is obvious that some of the project's major targets, establishment of service centers for example, will not be achieved. We believe that, it is therefore important to establish quantitative indicators for project activities to be included in USAID/Egypt's National Agricultural Research Project. In addition, Government of Egypt implementing agencies needed guidance on how to maintain books and records for control of project resources.

We recommended that progress toward project purpose be measured, and that USAID/Egypt provide guidance to the GOE to improve management of project resources (credit funds, operating expenses, commodities and vehicles).

Other matters discussed in this report were questioned contractor's costs for living quarters allowance, and the need for USAID/Egypt to monitor the Government of Egypt's \$7.1 million support to the project.

Management comments at the exit conference on July 9, 1985 were incorporated into this report; written comments were not submitted.

Please advise us within 30 days of the actions taken or planned to close the report's four recommendations. Thank you for the courtesies extended to my staff during the audit.

EXECUTIVE SUMMARY

The Office of the Inspector General made a review of AID's Agricultural Mechanization Project in Egypt. The audit was made to determine: (a) whether project objectives were being achieved; (b) whether project resources were efficiently managed; (c) whether internal controls were satisfactory; and (d) whether project activities were in compliance with AID policies and regulations. It covered financial activities through December 31, 1984 and other project activities through April 30, 1985. The audit was made in accordance with general accepted government auditing standards.

The project purpose is to build Egyptian capabilities to plan, support and carry out appropriate mechanization efforts. According to project documents, the substantive measure of successful project achievement will be well formulated and effectively implemented farm equipment projects, programs and support services contributing to increasing production and farmers' incomes. AID obligated \$40 million for the project through December 31, 1984, while the Government of Egypt agreed to contribute Egyptian currency equivalent of \$7.1 million.

With the exception of problems cited in Part II of this report, we found that project resources were managed in accordance with AID criteria and with good internal controls. However, the successful completion of the project is doubtful because of slow progress made.

Even though an external evaluation issued in July 1984 concluded that "In the last two years the project has shown an accelerated progress toward achieving its goals" our audit showed that project accomplishments could not be measured because project documents did not quantify the project purpose and end-of-project status. Also, output targets are no longer valid to measure project success. Progress and evaluation reports did not compare actual progress with planned results. We recommended that the project Planning and Evaluation Unit measure progress on this project, and that quantitative indicators be established for project activities to be included in USAID/Egypt's new National Agriculture Research Project.

Other project implementation problems discussed below and in Part II of this report require corrective action.

Assurance was needed that all credit funds were used as intended. The Government of Egypt should provide this assurance through submission of required reports to USAID/Egypt in accordance with letters of understanding.

The Government of Egypt needed guidance on how to maintain books and records to comply with Grant Agreement control and reporting requirements with respect to (a) the local expense operating account (\$4 million) and (b) management of AID-financed property (\$5 million).

An unreconciled difference equivalent to \$110 thousand existed in the local operating account. In addition, project vehicles costing \$374 thousand were not licensed as required by a Mission Order. Also, the technical services contractor claimed quarters allowance costs equivalent to \$505 thousand without supporting documentation. We made recommendations to improve management of the credit funds, to improve management of project resources, and to document questioned contractor costs.

On July 1, 1985, a copy of our draft report was submitted to USAID/Egypt for comments. Management comments at the exit conference held on July 9, 1985 were included as appropriate in this final report; written comments were not submitted.

Office of the Inspector General
Office of the Inspector General

AUDIT OF
AID'S AGRICULTURAL MECHANIZATION PROJECT
USAID/EGYPT PROJECT NO. 263-0031

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AUDIT OF
AID'S AGRICULTURAL MECHANIZATION PROJECT

PART I - INTRODUCTION

A. Background

Based on a feasibility study carried out by a U.S. contract team, the Government of Egypt (GOE) requested AID to support an Agricultural Mechanization project. AID's strategy described in its Project Paper dated July 1979 was to assist the Government of Egypt to plan and implement mechanization activities more rationally, and to develop capabilities without committing Egypt to a particular mechanization path. AID's Project Paper reported this project would lead to improved soil resources, better utilization of present equipment, introduction of new equipment and increased livestock productivity.

In September 1979, USAID/Egypt signed a Project Grant Agreement with the Government of Egypt's Ministry of Agriculture to implement an Agricultural Mechanization project over a six year period ending September 1, 1985. The project was to provide assistance in the following sub-project areas:

- o Planning and Evaluation
- o Research and Development
- o Service Center Development
- o Machinery Management Extension
- o Soil Improvement

Project funds were provided for technical assistance, credit, research, training, commodities, equipment and sub-project operating expenses. USAID/Egypt originally obligated \$21 million for the project; a November 1979 amendment raised the obligation to \$40 million.

The Government of Egypt agreed to contribute the Egyptian Pound equivalent of \$7.1 million for the project. In addition, the Government of Egypt agreed to establish a Planning and Evaluation Unit, a Research and Development Center at the Tractor Testing Station in Alexandria, and appoint a Project Director to administer the project.

The Agriculture Mechanization Group was established under the Ministry of Agriculture to administer the project for the GOE. USAID's Associate Director for Agricultural Resources was to assist this Group in carrying out the project.

The project actually started in July 1980 when the Ministry of Agriculture contracted with Louis Berger International, Inc. (Consultant) for technical assistance. The Consultant was to provide 636 man-months of professional advisory services under a cost reimbursable contract, with a completion date of September 15, 1985. AID financed the contract under a Direct Letter of Commitment valued at \$5,955,618 and provided LE1,426,246 (\$2 million) 1/ for Egyptian Pound costs.

At December 31, 1984, AID had committed \$32.3 million of the \$40 million obligation; disbursements were \$25.2 million. Project commitments and disbursements are presented in Exhibit I.

In February 1985, USAID/Egypt extended the original project assistance completion date (PACD) from September 1, 1985 to September 15, 1986.

B. Audit Objectives And Scope

The objectives of our audit were to determine: (a) if project objectives were being achieved; (b) if project resources were efficiently and economically managed by the Government of Egypt and the technical services contractor; (c) if internal controls for AID provided funds, equipment and vehicles were satisfactory; and (d) if project activities were in compliance with AID regulations and policies, and project documents.

Our basic approach was to review project files maintained by the USAID/Egypt project office and identify areas where there appeared to be management problems. We then focused our review on these areas.

We reviewed USAID/Egypt financial and project office records, reports and correspondence as well as the Consultant's office files in Egypt. We examined Government of Egypt documents and records in Cairo and at field locations, and had discussions with the Egyptian Project Director, other officials within the Ministry of Agriculture, the Agriculture Mechanization Group, the technical services contractor, and with USAID/Egypt project management. We visited project operations in Alexandria and field sites in Beheira, Beni Suef, and Minia Governorates.

Audit work began in January 1985 and covered project activities from inception in September 1979 through April 1985. Our audit cut off date for the \$25.2 million disbursements was December 31, 1984. We did not audit the Consultant's US dollar costs because basic records and original documentation were maintained at its US home office. The Consultant's Egyptian Pound costs through July 31, 1983 were examined by a non-federal audit firm. There were no prior AID/IG audits made of this project, but we did review and consider the findings of an evaluation team study made in July 1984.

1/ U.S. dollars shown at the official rate LE.03160=\$1.00.

Our audit was made in accordance with generally accepted government auditing standards and included such tests of the project activities, records and internal controls considered necessary in the circumstances.

AUDIT OF
AID'S AGRICULTURAL MECHANIZATION PROJECT

PART II - RESULTS OF AUDIT

A. Findings And Recommendations

1. Benchmarks Need To Be Established To Measure Progress In Achieving Project Objectives

Quantitative indicators were not established to measure progress toward achievement of the project's objective, and output targets established were no longer valid which led to an overcommitment of project funds. In addition, project documents did not quantify the project purpose and end-of-project status. Management stated that both the statement of purpose and logical framework for this project were intentionally written in general terms to provide flexibility to build on a system in a constant state of change.

AID policy requires establishment of (a) quantitative indicators of progress toward objectives and (b) a management system that includes methods for comparing actual results of programs and projects with those anticipated when they were undertaken. These policies were not closely followed, and as a result, project progress could not be measured to ascertain the benefits received from AID's \$40 million investment.

Recommendation No. 1

We recommend that USAID/Egypt:

- a. have the project's Planning and Evaluation Unit determine the success of this project;
- b. establish quantitative indicators as needed for those project activities to be included in USAID/Egypt's new National Agriculture Research Project; and
- c. reprogram or deobligate excess funds.

Discussion

Program Indicators Need To Be Established

The purpose of the project as stated in the project paper was to "build Egyptian capabilities to plan, support and carry out appropriate mechanization efforts." There were no quantitative indicators established that permitted objective evaluation of whether the purpose of the project was being achieved. The project paper simply stated the substantive measure of project achievement would be well formulated and effectively implemented farm equipment projects, programs and support services contributing to increasing production and farmers' incomes. Other general indicators of purpose achievement listed in the project's

logical framework were "steady flow of management planning information reaching senior decision-makers" and "research information on which to base farm mechanization decision and plans."

Project evaluators and managers reported project accomplishments, but measurable conditions to show how the project purpose of building an institutional capability would be achieved were not established. An external evaluation team in July 1984 made general conclusions that the project would achieve its objectives if additional time for extension of selected activities was allowed, and that the direct and indirect effects of the project measured through beneficiaries were impressive.

Also in its quarterly activity reports, the Consultant reported on project accomplishments, but without reference to how the project purpose was to be achieved in quantitative terms.

In justifying a one-year extension of the project completion date, the USAID/Egypt project officer recognized that although much had been accomplished, there had been several constraints in substantive project areas that required additional time before full project benefits could be measured.

Without quantitative and verifiable indicators of project achievements, it is difficult to know whether the project is achieving its intended purpose. These indicators are crucial because successful activities will be incorporated into USAID/Egypt's National Agriculture Research Project (NARP) and applied on a country-wide basis.

New Targets Are Needed

Output targets established in the project were not valid. Sub-projects called for training individuals at the graduate level, improving large amounts of cultivatable land, and establishing numerous agricultural service centers. We found management problems in each of these areas. The required number of participants were not trained. The acres of land actually improved fell far short of the goal. The number of services centers established was minimal. The project targets in these areas are not achievable within the timeframe for completing the project. New targets need to be established.

Participant Training

The project paper and grant agreement called for long term academic training for 25 individuals at the graduate level. Only six participants were sent to the USA for academic training at the Masters level. The problem was the limited number of applicants who could pass English language requirements. We found no evidence that project designers assessed this capability when planning for academic participants. This resulted in an invalid output target.

A total of 272 individuals applied for academic training with the project, but only eight successfully passed the preliminary American Language Institute, Georgetown University (ALIGU) test. Forty-six unsuccessful candidates were recommended for further English language training, but only 15 candidates successfully completed this training. Thus, only 23 of the 272 academic applicants qualified for the TOEFL (Test of English as a Foreign Language). Ten passed this test with a score above 500 which qualified them for academic training; six actually entered training in U.S. institutions. None had completed training and returned to the project.

The project's financial plan allocated over \$2 million for training, but only \$741 thousand was committed and \$446 thousand disbursed through December 31, 1984. Excess training funds should be reprogrammed for other project activities or deobligated.

Soil Improvement

In the Soil Improvement sub-project, output targets were not valid. The project's logical framework planned for 55,000 feddans (57,200 acres at 1 feddan = 1.04 acres) to be leveled and or sub-soiled annually in Middle Egypt. The grant agreement specified land leveling on 12,000 feddans (12,480 acres) and sub-soiling on 216,000 feddans (224,640 acres). Actually, the project did no sub-soiling and it leveled only 2,850 feddans (2,964 acres) through calendar year 1984. According to the Consultant's Chief of Party and the Soil Improvement advisor, there were a number of reasons for the reduced outputs. The reasons given for the shortfall in outputs were:

- o overstated projections in project documents;
- o equipment for land leveling to be on hand in December 1980 did not arrive until 1983; and
- o focus was placed on land leveling rather than sub-soiling.

The Consultant determined after arrival in country and after a more intensive look at soil conditions, that sub-soiling was not a viable program for the project. Furthermore, the Soil Amelioration Organization (SAO), within the Ministry of Agriculture, which carried out sub-soiling activities in Egypt did not want to be involved in the project.

Service Centers

The project paper and grant agreement called for 20 service centers to be constructed with AID provided credit funds. Only one service center, located in the Minia Governorate, was completed at December 31, 1984.

USAID/Egypt provided \$3.5 million to the Principal Bank for Development and Agricultural Credit (Bank) for a service center credit fund. Seven loans had been approved for LE1,628,600 (\$2 million) after the credit fund was established in October 1981. Through December 31, 1984, after more than three years, the Bank had disbursed only LE426,632 (\$513,000) under five of the seven loans approved. At the time of our audit, the Bank was reviewing five additional applications for loans; three of which the project had sent to the Bank in 1983.

Delays in loan approvals were caused mainly by the Bank's requirements for land registration and proof of land ownership. Loan recipients were required to mortgage the land on which a service center was to be built, or take such legal action that guaranteed the Bank's right to the land. Additional requirements of financial stability were imposed, limiting the number of qualified applicants. Bank loan approval delays precluded the project from reaching its target of 20 service centers. This output target is no longer valid.

The project paper and grant agreement established outputs which could not be reasonably attained. Original targets were not replaced by realistic ones. As a result, sub-projects were being implemented without valid output targets.

Management Comments

USAID/Egypt agreed that an internal evaluation was needed. They agreed to conduct one overall evaluation before the end of this fiscal year and another before the project ends in 1986. Also, the Egyptian Project Director agreed that \$1 million from the training budget should be reprogramed for other project activities.

At the exit conference, USAID officials agreed that quantitative indicators to measure progress were lacking. However, they stated that: (a) they plan to deobligate up to \$7.5 million of the project's remaining funds; (b) this seven year old project only has one more year to completion; and (c) follow-on activities will be included in a new National Agricultural Research Project which will include quantifiable indicators as recommended by the auditors. Given these conditions, they believed establishment of indicators for this project at this stage would be of little value; i.e., measure of progress would be established after implementation had substantially been completed.

2. Controls Over Project Resources Were Not Effective

Project resources were not effectively controlled. The Ministry of Agriculture's implementing agencies received no specific guidance from AID or the technical assistance contractor on how to properly account for them. As a result, there was no assurance that credit funds, operating expenses, commodities and vehicles totaling \$18.9 million were used as intended and agreed upon between USAID/Egypt and the GOE. The Grant Agreement required the Grantee to maintain adequate books and records to show, without limitation, receipt and use of goods and services financed by AID.

Recommendation No. 2

We recommend that USAID/Egypt:

- a. provide guidance to the Government of Egypt on how to maintain books and records needed to comply with the Grant Agreement control and reporting requirements for the credit fund and operating expense account;
- b. have the Government of Egypt Project Director, in conjunction with the Louis Berger Int'l, Inc. Senior Accounting Advisor, assure that all credit funds were used as intended, and submit required reports to USAID/Egypt in accordance with the letters of understanding; and
- c. withhold commitment of an additional \$1.5 million from the Service Center credit fund until such assurance is received.

Recommendation No. 3

We recommend that USAID/Egypt have the project obtain Government of Egypt license plates for all project vehicles to avoid payment of customs duties.

Discussion

Credit Fund

Reporting requirements for the project's three AID-financed credit funds (\$9.5 million) were spelled out in letters of understanding approved by USAID/Egypt, the bank, and Ministry of Agriculture. The Principal Bank for Development and Agricultural Credit (bank) was required to provide quarterly reports to the Agricultural Mechanization Project showing names and addresses of approved loan applicants, loan amounts made during the reporting period, beginning and ending balance of the Special Account, and disbursements and receipts including interest earned for both the Machinery Introduction and the Water Lifting Credit funds. The project was required to consolidate on a quarterly basis all information provided by the bank concerning current status of loan disbursements, repayments and problems, if any. This information was to be included in the project's quarterly report distributed to the Ministry of Agriculture and to USAID/Egypt.

Under the Service Center Credit fund, a Regional Loan Committee chaired by the Bank was required to submit quarterly reports to the project showing the status of all loan and Committee activity.

The project's quarterly reports did not show the beginning and ending balances in the credit funds, the interest earned on loans, or repayments and receipts as required by letters of understanding. The project reports were prepared from data received from the Bank. However, the Bank only provided the project with credits and charges to credit funds. Interest income generated from making loans to farmers was not provided.

In May 1982, the Project Director requested USAID/Egypt's approval to establish a Senior Accounting Advisor position under the Consultant's contract. The advisor was "to provide technical assistance to the PBDAC (Bank) in all matters related to the financial administration of the project credit funds." USAID/Egypt approved the position in September 1982. One of the advisor's duties was to "assist in preparation of reports on credit program activities."

In March 1984, the Egyptian Project Director requested the Bank to provide quarterly financial status reports of loans, repayments and interest for the three credit funds. Again, in March 1985 he made a similar request. Despite these efforts, the Bank did not provide this information to the project nor had the project provided USAID/Egypt with information required under letters of understanding.

USAID/Egypt needs assurances that all credit funds released to the Bank were used as intended before additional funds are committed. (The Service Center Credit Fund was established for \$5.0 million but only \$3.5 million had been committed.) Using the services of the Senior Accounting Advisor, the Egyptian Project Director should provide assurance by submitting status reports to USAID/Egypt as required by the letters of understanding.

Local Operating Expense Account

Under Project Implementation Letter No. 14 as amended April 10, 1983, USAID/Egypt advanced LE4,226,647 (\$5.1 million) to the account based on "cash need" requests by the Egyptian project office. Advances were deposited in a special account at the Cairo Chase National Bank. The project incurred expenses of LE4,840,310 (\$4.6 million) against the account which were recorded in a journal prior to submission of expenditure vouchers to USAID/Egypt (SF-1034). Checks were drawn against the account by the Ministry of Agriculture Finance Department and countersigned by the Project Director.

An unreconciled difference of LE91,384 (\$109,879) between the project's journal balances and the expenditures reported to USAID/Egypt is shown below:

	<u>Egyptian Pounds</u>	<u>U.S. \$ Equivalent</u>
Total AID advances to 12/31/84	LE4,226,647	\$5,082,059
Total expenditures reported through 12/31/84 (SF-1034)	<u>3,840,310</u>	<u>4,617,533</u>
Indicated Cash Balance	LE 386,337	\$ 464,526
Actual journal and cash balance (bank reconciled)	<u>294,953</u>	<u>354,647</u>
Difference	LE 91,384	\$ 109,879
	=====	=====

The current Egyptian project accountant believed the difference represented advances not liquidated but was unable to demonstrate this. She needed guidance from USAID/Egypt on how to comply with the Grant Agreement control and reporting requirements. USAID/Egypt needs to assess the project's capability to meet this requirement, and to provide assistance as appropriate.

Property Management

In our tests of controls over \$2.8 million of AID-financed equipment, we found that the Government of Egypt's property management system did not provide accountability for 33 Ford agricultural tractors costing \$788 thousand. The tractors were delivered directly to various field locations from the Port of Alexandria. They were never properly accounted for.

The Ministry of Agriculture Property Unit in Cairo had received reports for only 22 of the 23 tractors from the field, all from recipients in the Minia Governorate. Nonetheless, Property Unit records in Cairo showed only 18 tractors in its stores ledger for Minia. In contrast, the Consultant's advisors assured us that 26 tractors were actually delivered to Minia. During our field visit to Minia in March 1985, we found that the stores unit in Minia had not recorded the receipt of the tractors.

In a separate transaction, laser equipment costing \$56 thousand was procured through a local dealer. Government of Egypt records did not show where this equipment was delivered, and it was not recorded on the Ministry of Agriculture Property Unit's stores ledger or listing of project equipment. The project's Property Unit Chief did not account for the equipment when received because he had no purchase order for it. According to the Consultant's advisor for Soil Improvement, the equipment had just been moved to Beni Suef.

Better internal control and accountability over AID-financed project property were needed to meet the requirements of the Grant Agreement. The Grantee should maintain books and records to show, without limitation, the receipt and use of goods and services acquired. Closer USAID/Egypt monitorship was needed to assist the Government of Egypt in meeting its requirements under the grant.

Vehicle Management

AID-financed project vehicles costing \$374,000 did not have Government of Egypt official plates. All were cleared from Egyptian Customs on a temporary basis, assigned to individuals, and garaged at their residences. Under a temporary customs release, custom duties must be paid on vehicles when they are disposed of and no longer needed for the project.

Mission Order No. 5-8 dated July 7, 1983 required Government official plates for project vehicles, and vehicles were to be used for official purposes only. There was no evidence that the project tried to obtain Government official plates after the Mission Order was issued.

Project officials said they did not apply for Government official plates because use of vehicles would then be subject to the availability of Government of Egypt drivers; the Consultant's contract personnel and project engineers would be precluded from driving the vehicles.

The project should obtain Government official plates as required by Mission Order No. 5-8. Controls should be established to assure that vehicles are operated only for official purposes.

Management Comments

USAID/Egypt agreed with the need to monitor the credit funds released to the project to assure that all funds were used as intended and will officially contact the project director and the Bank regarding this whole issue. In addition, Management agreed to request a bank account reconciliation when the next expenditure report for the Local Operating Expense Account is submitted for the project. Also, Management agreed to continue working with the project to improve property management.

USAID/Egypt project officials did not agree that placing Government official license plates on project vehicles was in the best interests of the project. They suggested Mission Order No. 5-8 be amended to permit sufficient mobility for project vehicles.

3. Contractor's Costs Are Questioned

Louis Berger Int'l, Inc. (Consultant) claimed LE419,603 (\$504,525) in quarters allowance costs for which it did not provide supporting documentation. The Consultant interpreted its host country contract and AID regulations as not requiring receipts or evidence for quarters allowance costs. As a result, overpayment may have occurred.

Recommendation No. 4

We recommend that USAID/Egypt have Louis Berger Int'l, Inc. provide receipts or other evidence for LE419,603 (\$504,525) quarters allowance costs questioned, and recover unsupported costs claimed through a Bill for Collection or deduction on expenditure vouchers.

Discussion

The Consultant's Egyptian Pound costs equivalent to \$940,448 (LE782,152) claimed from July 31, 1980 through July 31, 1983 were examined by a non-federal audit firm. In their report issued September 18, 1983, the auditors questioned costs of LE271,308 (\$326,217) claimed for quarters allowances because the Consultant did not provide leases for actual housing costs in support of fixed quarters allowances.

USAID/Egypt reinstated the costs on the basis that "it is LBI's (Consultant) consistent personnel practice to provide a fixed living/housing allowance to its employees. This allowance, in Egypt, is less than authorized for a single person and is considered reasonable and acceptable."

The Consultant continued to claim quarters allowances on the same basis. For the period through October 31, 1984 we questioned LE419,603 (including the non-federal auditor's questioned costs) based on our interpretation of the contract and AID regulations.

AID Handbook 11 (Chapter 4, Cost Principles for Borrower Grantee Contracts) states living quarters allowance are to "reimburse an employee for substantially all of the cost for residence quarters...."

The host country contract (Article IX B(2)) states that allowances "shall be reimbursed in accordance with regulations governing direct hire AID employees in Cairo...."

AID employees are governed by Handbook provisions. AID Handbook 26 defines living quarters allowance as being governed by Standardized Regulations (Government Civilians Foreign Areas). Section 132.5 of the Standard Regulations requires submission of SF 1190 and "actual annual expenses of rent and utilities, supported by receipts or other satisfactory evidence...." This submission establishes the amount of payment for actual expenses not to exceed a maximum housing allowance.

The Consultant's fixed housing allowance claimed does not constitute satisfactory evidence of actual expenses, as would lease agreements or rent and utility receipts. Without these, the Consultant's housing allowance costs may not be reimbursable even though amounts claimed may be below authorized maximum amounts. Therefore, we question LE419,603 (\$504,525) claimed by the Consultant for living quarters allowances paid to its employees through October 31, 1984.

B. Compliance And Internal Controls

Compliance

This project was authorized to implement an Agricultural Mechanization program in Egypt. The project operated within that authorization. Overall, it operated within the provisions of Agency Handbooks and within agreements between USAID/Egypt, the Government of Egypt and the technical services contractor, Louis Berger International, Inc. Nothing significant came to our attention as a result of procedures examined that would cause us to believe that untested items were not in compliance with applicable laws and regulations. But we found that closer adherence to AID policy and project agreements was needed. Those instances are reported in the audit findings section on pages 4 and 8.

Internal Controls

One of our stated audit objectives was to determine if internal controls were satisfactory. We found instances where internal controls did not protect AID resources from possible unauthorized use. These were in the areas of credit funds, project property, operating expense fund and vehicles (See page 8). We have recommended corrective action in this report as appropriate.

C. Other Pertinent Matters

GOE Project Support Not Monitored

USAID/Egypt had not documented Government of Egypt contributions to the project. According to Government officials, project contributions were not reported because, USAID/Egypt had not asked for an accounting. Thus, USAID/Egypt could not be sure the Government of Egypt had met its obligations under the Grant Agreement to provide project financial support.

The Grant Agreement (Sect. 3.2) and its financial plan (Annex I Attachment) specified that the Government of Egypt would contribute the Egyptian pound equivalent of \$7.1 million including "in-kind" costs. It did not say how the Government of Egypt would demonstrate its financial support to the project. However, section B.5 required the Grantee to furnish AID such information and reports as AID may reasonably request.

While the Government of Egypt had made observable contributions to the project such as staffing and facilities, and had thereby demonstrated project support, the extent of total contributions had not been reported to USAID/Egypt. USAID/Egypt should request these reports under the Grant (Sect. B.5) to fulfill its monitoring responsibilities and to ensure that the Government of Egypt meets its \$7.1 million obligation under the Grant Agreement.

AUDIT OF
AID'S AGRICULTURAL MECHANIZATION PROJECT
PROJECT NO. 263-0031

PART III - EXHIBITS AND APPENDICES

EXHIBIT 1

AID'S AGRICULTURAL MECHANIZATION PROJECT
Financial Summary
December 31, 1984
(\$ 000)

	<u>Commitments</u>	<u>Disbursements</u>
1. Louis Berger Int'l, Inc. Contract Services	\$ 7,973	\$ 5,776
2. Commodities	6,093	5,343 <u>1/</u>
3. Training - U.S. and Third Countries	741	446
4. Credit Funds	9,500	9,500
5. Local Operating Expense Account - GOE Support	7,698	4,029
6. Evaluation - Special Studies	92	89
7. Miscellaneous	<u>2</u>	<u>2</u>
	\$32,299	\$25,185
8. Uncommitted	<u>7,701</u>	<u> </u>
Funds Obligated	\$40,000 *****	\$25,185 *****

1/ Includes vehicles procured at cost of \$374,000.

LIST OF RECOMMENDATIONS

	<u>Page</u>
<u>Recommendation No. 1</u>	4
We recommend that USAID/Egypt:	
a. have the project's Planning and Evaluation Unit determine the success of this project;	
b. establish quantitative indicators as needed for those project activities to be included in USAID/Egypt's new National Agriculture Research Project; and	
c. reprogram or deobligate excess funds.	
<u>Recommendation No. 2</u>	8
We recommend that USAID/Egypt:	
a. provide guidance to the Government of Egypt on how to maintain books and records needed to comply with the Grant Agreement control and reporting requirements for the credit fund and operating expense account;	
b. have the Government of Egypt Project Director, in conjunction with the Louis Berger Int'l, Inc. Senior Accounting Advisor, assure that all credit funds were used as intended, and submit required reports to USAID/Egypt in accordance with the letters of understanding; and	
c. withhold commitment of an additional \$1.5 million from the Service Center credit fund until such assurance is received.	
<u>Recommendation No. 3</u>	8
We recommend that USAID/Egypt have the project obtain Government of Egypt license plates for all project vehicles to avoid payment of customs duties.	
<u>Recommendation No. 4</u>	12
We recommend that USAID/Egypt have Louis Berger Int'l, Inc. provide receipts or other evidence for LE419,603 (\$504,525) quarters allowance costs questioned, and recover unsupported costs claimed through a Bill for Collection or deduction on expenditure vouchers.	

APPENDIX 2

Report Distribution

	<u>No. of Copies</u>
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Office Of Financial Management (M/FM/ASD)	2
Office Of Contract Management (M/SER/CM)	1
Center For Development Information And Evaluation (PPC/CDIE)	3
Inspector General	1
Assistant Inspector General For Audit (AIG/A)	1
Office Of Policy, Plans And Programs (IG/PPP)	1
Executive Management Staff (IG/EMS)	12
Assistant Inspector General For Investigations And Inspections (AIG/II/W)	1
Regional Inspector General For Investigations And Inspections/Cairo (RIG/II/C)	1
RIG/A/Dakar	1
RIG/A/Karachi	1
RIG/A/Tegucigalpa	1
RIG/A/Manila	1
RIG/A/Nairobi	1
RIG/A/Washington	1