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MEMORANDUM AUDIT REPORT ON REVIEW OF COSTS
AND OTHER ISSUES ASSOCIATED WITH LOUIS BERGER
INTERNATIONAL HOST COUNTRY CONTRACTS
IN-SOMALIA

Audit Report No. 3-649-83-9
March 3, 1983

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
RIG/A/NAIROBI

March 3, 1983

TO : Mr. James M. Kelly, Director USAID/Somalia
FROM : Ray D. Cramer, RIG/A/N *RDC*
SUBJECT: Review of Costs and Other Issues Associated With Louis
Berger International, Inc. Host Country Contracts In
Somalia.
Memorandum Audit Report No. 3-649-83-9

Introduction

We made an audit of three Louis Berger International, Inc. (LBII) host country contracts -- two in Somalia and one in Kenya. This audit was made primarily to look at contracting procedures, and the effect of time rate contracts and lump sum contracts provisions on project costs. This report includes a minor issue we believe needs attention, and questioned costs which must be resolved.

Background

During 1981, three host country contracts to implement AID projects in East Africa were awarded to LBII. Each of these contracts was a time rate contract and each contained provisions for fixed lump sum payments to LBII or LBII personnel. The projects under two of these three contracts were in Somalia:

- .. Central Rangelands Development
- Comprehensive Groundwater Development

The two host country contracts in Somalia were signed in 1981. The Central Rangelands project was for \$7 million and the Comprehensive Groundwater project was for \$6.5 million. The LBII contracts were to provide technicians to implement the projects.

The Central Rangelands Development Project (No. 649-0108) began in Somalia on August 18, 1979, with a Project Assistance Completion Date of September 30, 1986. Planned AID financing over the life of

the grant project is \$14.9 million. The GSDR agreed to provide the equivalent of \$5 million for the project, representing a 25 percent project contribution.

The Central Rangelands Development Project consists of a multi-donor effort to assist Somalia in (a) improving range management, livestock water supplies and veterinary services, (b) establishing non-formal training for pastoralists, and (c) improving Somalia's ability to implement range development by training staff at all levels and by providing an internationally recruited senior technical staff. The project is to implement a system of range management which balances animals and forage to optimize livestock production while preserving the range resources. Project activities should consolidate and improve rangeland and livestock production, increase income of the pastoralists through the introduction of a system of range utilization, and contribute to the gradual concentration of pastoral communities. In December 1981, the GSDR entered into a \$7 million host country contract with LBII to implement this project.

The Comprehensive Groundwater Development Project (No. 649-0104) began in Somalia on September 30, 1979, with a Project Assistance Completion Date of September 30, 1984. Planned AID financing over the life of the grant project is \$13 million. The GSDR agreed to provide the equivalent of \$5.0 million for the project, representing a 27.6 percent project contribution.

The Comprehensive Groundwater Development Project consists of an overall water development program beginning with hydrological and geophysical studies followed by a production drilling program while continuing the data collection begun with the initial studies. In August 1981, the GSDR entered into a \$6.5 million host country contract with LBII to implement this project.

Purpose and Scope

We conducted a limited scope review of the three LBII host country contracts. The purpose of the examination was to:

- Review effectiveness of procedures followed by Kenya and Somalia in selecting the contractor and contract teams, and the degree of support and assistance provided by USAID/Somalia, USAID/Kenya, and AID's Regional Economic Development Services Office for East Africa (REDSO/EA).
- Review lumpsum reimbursements to the contractor and/or its employees and related contract provisions paying particular attention to areas where profits in addition

to the fees included in the time rate can be made. (As a result of this review we also identified certain costs which were questionable.)

- Identify and report on significant implementation and other problem areas.

We reviewed records, reports, and correspondence at USAID/Kenya, USAID/Somalia, REDSO/EA, LBII/Somalia, LBII headquarters office in the U.S., and both host governments; and held discussions with officials from those organizations.

This report includes only one minor issue we believe needs further attention, and questioned costs which must be resolved. The issues related to host country contracting procedures and time rate contracts will be presented in a report to be issued in the near future.

Findings, Conclusions and Recommendations

LBII Contract Employees in Somalia Used Different Per Diem Rates When Traveling Outside Mogadishu

LBII technicians have two different per diem rates when traveling outside Mogadishu in Somalia.

The per diem section of both LBII contracts with the Government of the Somali Democratic Republic (GSDR) states that the per diem rates in Somalia will be adjusted from time to time to match AID rates prevailing at the time. This implies that the same per diem rate is applicable to both contracts.

We found that the per diem amounts charged for travel outside Mogadishu varied for each contract. Generally, personnel from the Rangelands contract bill \$10 per day when travelling outside Mogadishu, and personnel from the Groundwater contract charged one-half the Somalia per diem rate, which has ranged from \$38.50 to \$22.50 since September 1, 1981.

We applied AID per diem rates to both contracts and found that the Rangelands contract underbilled per diem by \$526 and the Groundwater contract overbilled per diem by \$761. The net dollar effect is not significant; however, amounts reimbursed to individuals may be.

Prior to our departure, USAID/Somalia advised us they were in process of analyzing per diem rates for Somalia to determine if a field per diem rate should be established for direct hires. We

agree that such an analysis should be made and suggest that consistent and realistic per diem rates be established for contract personnel.

Conclusion and Recommendation

In-country per diem rates are not consistent between contracts, providing one team with double that received by the other.

In response to our draft audit report, USAID/Somalia pointed out that it is possible for different rates to be charged under the terms of the contracts, depending on the type of accommodations provided. This is a valid point, however, the rates need to be analyzed and clarified. For example, we found that contract employees on the Groundwater project never billed the full support accommodation rate of \$10; but instead charged one-half the Somalia per diem rate. We believe this situation was caused by a lack of understanding of the per diem rate to be applied by the contract employees.

In their response, USAID/Somalia advised us that they were in process of establishing new per diem rates to be used by all contract and direct hire employees in Somalia, and expected that such a policy would be issued shortly. We are retaining our recommendation until the policy has been put into effect.

Recommendation No. 1

USAID/Somalia establish realistic field per diem rates to be used by all contract employees.

Questioned Costs on LBII Somalia Contracts

We reviewed \$596,829 of costs claimed from inception through August 31, 1982 for the Rangelands Project Contract. We question costs totaling \$6,750. See Exhibit A.

We reviewed \$1,458,400 of costs claimed from inception through September 30, 1982 for the Groundwater Project Contract. We question costs totaling \$9,227. See Exhibit B.

In response to our draft report, USAID/Somalia stated that in conjunction with the GSDR they would review the questioned costs, and where appropriate deduct overpayments from a future invoice.

Recommendation No. 2

USAID/Somalia, in conjunction with the GSDR, review the costs questioned totaling \$15,977 under the two LBII contracts and take action to recover applicable amounts from LBII.

cc: AA/M
AA/AFR (5)
LEG
GC
OPA
IG
AFR/EA (2)
M/SER/CM (2)
FM/ASD (2)
PPC/E
S&T/DIU (4)
REDSO/EA (3)

EXHIBIT A

Central Rangelands Development Contract

Summary of Costs Claimed and Costs Questioned For The
Period From Inception Through August 31, 1982

<u>Cost Component</u>	<u>Costs Claimed</u>	<u>Costs Questioned</u>
1. Fees for Technical Assistance	\$445,416	\$ 6,203 <u>A/</u>
2. Defence Base Insurance	-0-	
3. Local Staff Salaries	-0-	
4. International Air Travel	27,771	
5. Excess Luggage	1,444	
6. Mobilization Allowance	7,600	
7. Storage and Transport	45,000	
8. Education Allowance	43,368	
9. Per Diem	10,488	[526] <u>B/</u>
10. Office Operations	6,529	
11. Reports	-0-	
12. Contractor Furnished Equipment	4,169	1,073 <u>C/</u>
13. Aircraft Rentals	-0-	
14. Renovations	-0-	
15. Utilities	-0-	
16. Guard Service	-0-	
17. Locally Purchased Goods	-0-	
18. Imported Materials/Spare Parts	-0-	
19. Escalation and Contingency	<u>5,044</u>	
Totals	\$596,829	\$ 6,750

A/ The \$6,203 cost questioned consists of:

- \$7,069 billed for services before the contract start date.
- \$ 866 underbilled due to errors in converting to the daily billing rate.

B/ The \$ [526] cost questioned represents the amount underbilled for per diem rates.

C/ The \$1,073 cost questioned consists of:

- \$ 846 duplicate billing for household goods.
- \$ 176 unsupported shipping cost.
- \$ 51 adjustment in procurement fee.

Groundwater Development Contract

Summary of Costs Claimed and Costs Questioned For The
Period From Inception Through September 30, 1982

<u>Cost Component</u>	<u>Costs Claimed</u>	<u>Costs Questioned</u>	
1. Fees for Technical Assistance	\$1,115,135	\$[1,741]	A/
2. Defence Base Insurance	11,295		
3. Local Staff Salaries	-0-		
4. International Air Travel	51,466	6,319	B/
5. Excess Luggage	1,837	275	C/
6. Mobilization Allowance	11,200	100	D/
7. Storage and Transport	110,000		
8. Education Allowance	32,001		
9. Per Diem	36,498	761	E/
10. Office Operations	16,893	5	F/
11. Reports	1,500		
12. Contractor Furnished Equipment	44,437	3,434	G/
13. Utilities	-0-		
14. Guard Services	-0-		
15. Locally Purchased Goods	-0-		
16. Imported Material/Repair Parts	1,719	73	H/
17. Operating Costs for Contractor Vehicles	-0-		
18. Rentals	-0-		
19. Renovations	218		
20. Escalation and Contingency	24,201		
 Totals	 <u>\$1,458,400</u>	 <u>\$ 9,227</u>	

A/ The \$[1,741] cost questioned represents the amount underbilled due to errors in converting to the daily billing rate.

B/ The \$ 6,319 cost questioned consists of:

- \$ 6,166 in transportation costs in violation of the Fly American Act.
- \$ 153 unsupported transportation costs.

- C/ The \$ 275 cost questioned are unsupported excess luggage costs.
- D/ The \$ 100 cost questioned represents two allowances for one person; one as a dependent and one as a short term staff member.
- E/ The \$ 761 cost questioned represents the amount overbilled for per diem rates.
- F/ The \$ 6 cost questioned represents the amount overbilled due to errors in converting to the daily billing rate.
- G/ The \$3,434 cost questioned consists of:
- \$ 119 duplicate billing for a pump.
 - \$ 3 billing errors.
 - \$2,979 unsupported office equipment cost.
 - \$ 99 adjustment in procurement fee.
 - \$ 234 National Well Water Association non-member fee which is an overhead item.
- H/ The \$73 cost questioned represents a billing error.
- 1)