PD-ABD-712

Regional Inspector General for Audit
Cairo, Egypt

Audit of Local Expenditures of International Development & Energy Associates Under USAID/Egypt Contracts Number 263-0123-C-00-9035-00 & 263-0140-C-00-9030-00 (Projects Number 263-0123 & 263-0140)

Report No. 6-263-92-09-N
January 26, 1992

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL/AUDIT

January 26, 1992

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford

FROM : RIG/A/C, Philippe L. Darcy

SUBJECT: Audit of Local Expenditures of International Development & Energy Associates Under USAID/Egypt Contracts No. 263-0123-C-00-9035-00 and 263-0140-C-00-9030-00 (Projects No. 263-0123 & 263-0140)

The attached report dated March 2, 1991 by Hazem Hassan & Co. presents the results of a financial audit of International Development & Energy Associates' (IDEA's) local expenditures under USAID/Egypt Contracts No. 263-0123-C-00-9035-00 and 263-0140-C-00-9030-00. Under the first contract, IDEA provided supporting analysis, training, information dissemination and implementation of the Renewable Energy Information System. Under the second contract, IDEA assisted the Science and Technology Cooperation Executive Director in formulating and redirecting Egyptian science and technology cooperation activities.

We engaged Hazem Hassan & Co. to perform a financial audit of IDEA's local expenditures, totaling $502,794 in direct costs, for the period January 18, 1989 to December 31, 1990. The purpose of the audit was to evaluate the propriety of costs incurred in this period and in performing the audit, Hazem Hassan & Co. evaluated IDEA's internal controls and compliance with applicable laws, regulations and contract terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Hazem Hassan & Co. questioned $51,901 of IDEA's claimed direct costs, including $4,084 in unsupported costs (associated indirect costs and fee of $12,985 were also questioned). These questioned costs include, but are not limited to, gains on currency exchange earned from A.I.D.-financed activities, but not credited to USAID/Egypt, the cost of commuting and entertainment expenses. Hazem Hassan & Co. noted several internal control conditions which it considered to be material weaknesses as well as instances of non-compliance with laws, regulations and/or contract provisions. However, since these contracts have recently been completed, these issues would only be of interest if future awards to IDEA are contemplated.

U.S. Mailing Address:
Box 10, RIG/A/C
APO New York 09674-0006

Eleventh Floor
Cairo Center Building
Garden City, Cairo, Egypt

Tel. Country Code (202)
No. 357-3345/6/7
FAX: (011-202) 355-4318

IDEA management does not agree with the audit findings. After review of IDEA's response, the auditors modified their findings. However, a significant number of unresolved questioned costs remain.

> **<u>Recommendation No. 1:</u> We recommend that USAID/Egypt resolve the questioned and unsupported direct costs of $47,817 and $4,084 and associated indirect costs and fee totaling $12,985.**

This recommendation will be included in the Inspector General's audit recommendation follow-up system. Until we are advised of USAID Egypt's determination regarding the questioned and unsupported costs, Recommendation No. 1 is considered unresolved. This recommendation can be resolved when we receive the Mission's formal determination as to the amounts sustained or not sustained. This recommendation can be closed when any amounts determined to be owed to A.I.D. are paid by IDEA.

Please advise this office within 30 days of any actions planned or taken to close the recommendations. We appreciate the courtesies extended to the staff of Hazem Hassan & Co. and to our office.

KPMG Hazem Hassan & Co.

AUDIT OF LOCAL EXPENDITURES OF
INTERNATIONAL DEVELOPMENT & ENERGY ASSOCIATES (IDEA)
UNDER USAID/EGYPT CONTRACT NUMBERS
263-0123-C-00-9035-00 & 263-0140-C-00-9030-00

KPMG Hazem Hassan & Co.

AUDIT OF LOCAL EXPENDITURES OF INTERNATIONAL DEVELOPMENT & ENERGY ASSOCIATES (IDEA) UNDER USAID/EGYPT CONTRACT NUMBERS 263-0123-C-00-9035-00 & 263-0140-C-00-9030-00

Table of Contents

KPMG Hazem Hassan & Co.

Accountants & Consultants

74, Mohi Eldin Abul Ezz Street
Mohandiseen, Cairo
Telephones: 3499588-3499677
Telex: 93796, HHCO UN
Fax: (202)-3497224

Mr. Philippe L. Darcy (CPA)
Regional Inspector General for Audit
United States Agency for
International Development
Mission to Egypt
Cairo, Egypt

March 2, 1991

Dear Mr. Darcy,

On November 25, 1990 we contracted with your office to perform a financial audit of International Development & Energy Associates' (IDEA) locally incurred expenditures under USAID/Egypt's "Renewable Energy Field Testing" (REFT - Project No. 263-0123), for the period March 1, 1989 to December 31, 1990 on Contract No.263-0123-C-00-9035-00, and "Science and Technology Cooperation" (STC - Project No. 263-0140) for the period January 18, 1989 to December 31, 1990 on Contract No. 263-0140-C-00-9030-00.

1. BACKGROUND

IDEA provides engineering and management consulting services in the fields of energy management, engineering design and aerospace engineering. In 1989, IDEA entered into two contracts(1), with USAID/Egypt to fulfil and perform the requirements set forth in

---

(1) In actuality, A.I.D. awarded the contracts to the Small Business Administration which subcontracted the work to IDEA under "8(a)" program procedures as outlined in Part 19 of the Federal Acquisition Regulations. The effective date for REFT project was March 1, 1989 and for STC project was January 18, 1989.

the Renewable Energy Field Testing (REFT), and the Science and Technology Cooperation (STC) Projects. Under the REFT contract, IDEA has agreed to work with the New Renewable Energy Authority (NREA), representing the Egyptian Ministry of Electricity and Energy (MOEE), by providing supporting analysis, training, information dissemination and implementation of the Renewable Energy Information System (REIS). Under STC, IDEA agreed to work with the STC Executive Director of the project secretariat to formulate and redirect Egyptian STC activities in three major programs; the National Research Program (NRP), the Local/Regional Research Program (LRP), and the Advanced Technology Program (ATP). NRP was subgranted for immediate implementation of illustrative research of constructive material, industrial minerals and chemicals; LRP was tasked with solving rural development problems in water and wastewater treatment and small scale industry. ATP encompassed the national effort in applying the relevant techniques to crops for semi-arid lands, as well as applying computer-based technology in increasing industrial productivity.

Contract Number 263-0123-C-00-9035-00 covered a 24-month period while Contract Number 263-0140-C-00-9030-00 covered a 26-month period. Federal funds awarded under these contracts are $2,508,000 and $1,156,431 for Contracts Numbers 263-0123-C-00-9035-00 and 263-0140-C-00-9030-00, respectively.

2. AUDIT SCOPE, OBJECTIVES AND METHODOLOGY

We performed a financial audit of International Development and Energy Associates (IDEA) to report on the allowability, allocability, and reasonableness of locally incurred costs, adequacy of internal controls and compliance with USAID regulations, contracts terms and applicable laws. Accordingly, our audit included an examination of projects revenues and costs incurred and reimbursed for both contracts.

The objectives of this audit are to determine whether:

1. the fund accountability statement for IDEA presents fairly, in all material respects, project revenues and costs incurred and reimbursed for both contracts in conformity with the applicable accounting principles;
2. the cost reported as incurred under both contracts is in fact allowable, allocable, and reasonable in accordance with the terms of the contracts, AID Handbook 14, and the Federal Acquisition Regulations (FAR);
3. the internal controls, accounting system and management practices of IDEA are adequate for USAID/Egypt contracts;
4. IDEA is in compliance with the contract terms (including standard contract provisions) which may have affected the costs incurred under the contracts;
5. IDEA has taken adequate corrective action on recommendations in the Preaward Survey Audit Report No. 6-263-89-03-N.

The audit was conducted in accordance with the "Government Auditing Standards", (1988 revision) issued by the Comptroller General of the United States. The audit included selective examination and testing of supporting documents of $435,057 locally incurred costs out of total locally incurred costs of $502,794. We reviewed the existing accounting systems and internal controls, tested locally incurred costs, and reconciled monthly costs recorded and disbursed with costs recorded and subsequently reimbursed by USAID/Egypt. Our selection of costs to be tested was made on a judgmental basis. Our selection was structured to test compliance with the prescribed internal control procedures and to test the validity of the transactions. We tested 48% of salaries, 99% of travel costs, 100% of per diems, 100% of allowances, and 71% of other direct costs. Additionally, we calculated the financial effects of the findings on fringe benefits, overhead, General and Administrative expenses (G&A) and fixed fees. We reviewed the applicable contractor notices of USAID/Egypt, standard provisions in the contracts, and USAID regulations. In addition, we conducted interviews with IDEA's management and key personnel. We were alert to situations or transactions that could be indicative of fraud, abuse, and/or illegal expenditures and acts.

In order to review, evaluate and report on internal control systems, costs incurred, and compliance with contract terms, USAID regulations and applicable laws, we designed our audit methodology to initiate the examination by dividing IDEA's activities and operations

into the following categories:

- Financial accounting system
- Payroll
- Labor hour accumulation
- Travel and allowances
- Purchases and disbursements

Our audit procedures as they relate to internal accounting controls included interviews with IDEA's management and key personnel, completion of an internal control questionnaire and other procedures to ascertain if the accounting system utilized is sufficient for IDEA's needs and USAID requirements.

The management reporting system was reviewed in accordance with USAID's regulatory requirements. Budgets and reports to USAID were reviewed in accordance with USAID regulations and contracts' provisions.

3. RESULTS OF AUDIT

Fund Accountability Statement

Our findings include certain unsupported and questionable subcontractor charges, gains from fluctuations of US $ exchange rates, fringe benefits, other direct costs, and travel costs.

Internal Control Structure

Our findings include inadequate control over IDEA's billing procedures, improper application of cash basis of accounting, lack of control procedures to supervise and monitor locally incurred costs, and lack of control over vehicle utilization.

Compliance with contract terms and applicable laws and regulations

IDEA's subcontractors did not adhere to subcontract terms in providing services. IDEA did not contribute to the Social Insurance fund for Egyptian employees required by Egyptian law. IDEA did not credit USAID/Egypt for gains realized from US $ exchange rate fluctuations, a noncompliance with FAR 31.201-5 credits criteria. Finally, IDEA did not withhold income taxes from Egyptian employees, a noncompliance with Egyptian law.

Questioned and Unsupported Costs

Our findings include $ 47,817.05 in questioned costs and $ 4,084.41 in unsupported costs out of total incurred costs of $502,794.03 for the period March 1989 through December 1990. In addition to related indirect costs of $ 12,984.95 out of total indirect costs of $138,763.86 which are calculated in accordance with contractual provisions (See Appendices I, and II for details of questioned and unsupported costs).

The Preaward Survey Audit

Our audit revealed that the Preaward Survey Audit was conducted in the United States by Price Waterhouse. The recommendations of the Preaward Survey Audit were related to IDEA's financial capability, accounting system, internal controls and computation of the actual overhead rate..

Since all the recommendations were related to IDEA,s head-office in the United States, we could not report on the compliance with the Preaward Survey Audit recommendations.

Management Comments

An exit conference was held on July 8, 1991 in which IDEA's management responded to the audit findings. Management comments and our response to these comments are included in Appendix IV.

We appreciate the courtesy extended by IDEA's management and staff to our firm during the audit.

Hazem Hassan & Co.

Cairo Egypt

March 1st, 1991

KPMG Hazem Hassan & Co.

Accountants & Consultants

74, Mohi Eldin Abul Ezz Street
Mohandiseen, Cairo
Telephones: 3498588-3499677
Telex: 93796, HHCO UN
Fax: (202) - 3497224

Mr. Philippe L. Darcy (CPA)
Regional Inspector General for Audit
United States Agency for
International Development
Mission to Egypt
Cairo, Egypt

Fund Accountability Statement

Independent Auditor's Report

We have audited the accompanying combined Fund Accountability Statement for the periods March 1, 1989 to December 31, 1990 under Contract Number 263-0123-C-00-9035-00 (Project No. 263-0123), and January 18, 1989 to December 31, 1990 under Contract Number 263-0140-C-00-9030-00 (Project No. 263-0140) of International Development and Energy Associates Inc. (IDEA). The Fund Accountability Statement is the responsibility of IDEA's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and Government Auditing Standards (1988 Revision), issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the accompanying Fund Accountability Statement has been prepared on the basis of cash disbursements, except for subcontractor costs, which have been stated on accrual basis, and for indirect costs billed in accordance with contractual provisions. Consequently, costs invoiced are not recognized when the liability is incurred. Accordingly, the accompanying statement is not intended to present results in accordance with generally accepted accounting principles.

As disclosed in the findings section, IDEA has incurred $47,817.05 of questioned costs and $ 4,084.41 of unsupported costs out of total locally incurred costs of $502,794.03 for the years 1989 and 1990. In addition to related indirect costs of $12,984.95 out of total indirect costs of $138,763.86. Total questioned costs is $64,886.41 out of total costs billed of $641,557.89.

In our opinion, except for the effects of the questioned and unsupported expenditures as discussed in the preceding paragraph, the Fund Accountability Statement referred to above presents fairly, in all material respects, IDEA's locally incurred costs for the periods ended December 31, 1989 and 1990, in conformity with cash basis of accounting and in accordance with the terms of the contracts referred to above.

Hazem Hassan & Co.

M. Kamel

Cairo Egypt

March 1st, 1991

International Development & Energy Associates, Inc. (IDEA)
Renewable Energy Field Testing Project - Egypt (REFT)
Science and Technology Cooperation Project (STC)
Combined Fund Accountability Statement (Note 1)
for the Period March 1, 1989 to December 31, 1990 for (REFT) and
for the period January 18, 1989 to December 31, 1990 for (STC)

	Billed Costs	Audited Costs	Questioned Costs
Salaries	$ 35,295.68	$ 17,027.79	$ -
Travel	34,603.02	34,216.88	126.68
Per diem	39,301.27	39,301.27	-
Allowance	92,057.59	92,057.59	12,403.55
Other direct costs	55,655.62	34,757.25	1,164.55
Equipment	103,123.60	82,694.53	12,623.96
Subcontract	134,992.20	134,992.20	17,817.67
Fringe benefits	7,765.05		7,765.05
Subtotal	502,794.03	435,047.51	51,901.46
Overheads	4,379.14		789.68
Gen. & Admin.	80,530.41		6,834.19
Fixed Fees	53,854.31		5,361.08
Total Cost and Fee	$641,557.89	$435,047.51	$64,886.41

See accompanying notes to the Fund Accountability Statement.

International Development & Energy Associates, Inc. (IDEA)
Renewable Energy Field Testing Project - Egypt (REFT)
Contract No. 263-0123-C-00-9035-00
Fund Accountability Statement
for the Period March 1, 1989 to December 31, 1990

	Billed Costs	Audited Costs	Questioned Costs	Schedule No.
Salaries	$ 29,306.09	$ 12,659.27	$ -	-
Travel	32,852.13	32,585.20	-	-
Per diem	39,301.27	39,301.27	-	-
Allowance	58,853.28	58,853.28	3,540.00	1/1
Other direct costs	52,382.39	33,215.95	794.32	1/2
Equipment	58,219.47	37,790.40	12,623.96	1/3
Subcontract	134,992.20	134,992.20	17,817.67	1/4
Fringe benefits	6,447.34		6,447.34	1/5
Subtotal	412,354.17	349,397.57	41,223.29	
Overheads	3,575.34		644.73	1/6
Gen. & Admin.	65,701.76		3,370.79	1/7
Fixed Fees	46,429.25		4,361.00	1/8
Total Cost and Fee	$528,060.52	$349,397.57	$49,599.83	

See accompanying notes to the Fund Accountability Statement.

International Development & Energy Associates, Inc. (IDEA)

Science and Technology Cooperation (STC)

Contract No. 263-0140-C-00-9030-00

Fund Accountability Statement

for the Period January 18 , 1989 to December 31, 1990

	Billed Costs	Audited Costs	Questioned Costs	Schedule No.
Salaries	$ 5,989.59	$ 4,368.52	$ -	-
Travel	1,750.89	1,631.68	126.68	2/1
Allowance	33,204.31	33,204.31	8,863.55	2/2
Other direct costs	3,273.23	1,541.30	370.23	2/3
Equipment	44,904.13	44,904.13	-	
Fringe benefits	1,317.71	-	1,317.71	2/4
Subtotal	90,439.86	85,649.94	10,678.17	
Overheads	803.80	-	144.95	2/5
Gen. & Admin.	14,828.65	-	3,463.40	2/6
Fixed Fees	7,425.06	-	1,000.06	2/7
Total Cost and Fee	$113,497.37	$ 85,649.94	$15,286.58	

See accompanying notes to the Fund Accountability Statement.

International Development And Energy Associates, Inc. (IDEA)
Notes to the Combined Fund Accountability Statement

Note 1: Accounting Basis

The Fund Accountability Statement of IDEA is prepared on the basis of cash receipts and disbursements, except for subcontractor costs billed on accrual basis and for indirect costs billed in accordance with contractual provisions. Consequently cost is recognized when paid rather than when the liability is incurred and revenues are recognized when received rather than when the receivable is established. The accounting basis of cash receipts and disbursement is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting is permitted.

Note 2: Description of the Contract

In actuality, A.I.D. awarded the contracts to the Small Business Administration which has subcontracted the work to IDEA under "8(a)" program procedures as outlined in Federal Acquisition Regulation Part 19. The effective date for REFT project was March 1, 1989 and for STC project was January 18, 1989.

The USAID finances both the U.S. Dollars and Egyptian pound costs. All payments are made in U.S. Dollars under a USAID Direct Letter of Commitment by cheques issued in favour of IDEA.

Note 3: Questioned and Unsupported Costs

Questioned and unsupported costs consist of audit findings proposed on the basis of the terms of the contract, the amendments to the contract, and the accounting principles described in Note 1. These findings are detailed in the findings section of this report.

International Development And Energy Associates, Inc. (IDEA)
Renewable Energy Field Testing Project for Egypt (REFT)

Findings

1- The allowability of certain subcontract charges is questioned: (Schedule 1/4)

Our audit identified $ 15,819.94 in questioned cost due to unapproved substitution of personnel by the local subcontractor. The personnel specified in clause 9 .A. of the subcontract were considered to be so essential to performing the work that the failure of the subcontractor to provide nominated personnel may be cause for termination of the subcontract.

For the period July 89 to September 90, the local subcontractor billed IDEA (REFT) for 287 working days of three specifiç consultants at the rate of $ 220.50 a day(2). Those 3 consultants were below the required experienced level specified in the contract and according to 89/90 budget, their daily rate should have been $ 165.38 versus $220.50 (a $ 55.12 variance). Accordingly, a total amount of $ 15,819.44 ($ 55.12 x 287 days) is questioned. (See Appendix I, Schedule 1/4 for details)

2- Gains from changes in the exchange rate in the local market are questioned as a reduction to local subcontract cost billed by IDEA-REFT to USAID/Egypt: (Schedule 1/4)

Our examination revealed that a gain of $ 1,997.73 has been

---

(2) These consultants were classified as experts having 8 - 12 years experience. Accordingly their daily labour rate had been adjusted to $ 205.

realized due to fluctuations of exchange rates during the period between the date of the subcontractor billings and the date of reimbursement. Although the contract does not stipulate how such gains by IDEA can be used, we believe that such gains should be credited to A.I.D. since they originate due to the contracts with USAID/Egypt.

3- The allowability of Egyptian fringe benefits is questioned: (Schedule 1/5)
Our audit revealed $ 6,447.34 in questioned "Fringe Benefits" which is calculated at 22% of the total Egyptian employees' salaries. In paragraph (b)(2), FAR 52.216.7 stipulates that:

> Contractor contributions to any pension, profit sharing, or employee stock ownership plan funds that are paid quarterly or more often may be included in indirect costs for payment purposes, provided that the contractor pays the contribution to the fund within 30 days after the closure of period covered. Payments made 30 days or more after the closure of a period shall not be included until the contractor actually makes the payment. Accrued costs for such contributions that are paid less often than quarterly shall be excluded from indirect costs for payment purposes until the contractor actually makes the payment.

IDEA has been delinquent in paying such costs under the contract. They neither contributed to the social insurance fund in Egypt nor recorded or provided for the required amount of subscription. In our opinion, the Egyptian fringe benefits claimed is questionable.

4- <u>The allowability of certain other direct costs is questioned:</u> (Schedules 1/2 - 1/3)

Our audit identified a total of $ 3,428.77 in other direct costs recorded by IDEA with questionable allowability. $2,634.45 of this amount was classified in USAID/Egypt vouchers as equipment cost. The annotated details of such questionable charges are contained in the complete listing of questioned costs. (See Appendix I, Schedules 1/2 and 1/3)

4.1 <u>Tips and miscellaneous costs at the airport are questioned</u>: (Schedule 1/2)

IDEA recorded, and subsequently claimed on vouchers submitted to A.I.D. $ 243.26 in costs described as "Meet and Assist at airport". This amount was inadequately supported.

4.2 <u>Bank charges for printing check book are questioned:</u> (Schedule 1/2)

IDEA charged the USAID/Egypt for $ 4.87 in direct costs. However, all bank charges should be considered indirect costs covered by G&A pool. Additionally, it is not IDEA's policy to charge such items directly to contracts.

4.3 <u>Provisional payments and gratuities are questioned:</u> (Schedule 1/2)

IDEA paid $ 255.70 in a series of monthly fixed sums to a plumber , an electrician, and a lift operator as retainers for office maintenance services. Amounts paid to the lift operator are considered gratuities because he is a GOE employee. We believe that IDEA should pay for plumbing and electrical services as the need arises rather than paying for regular monthly visits. Additionally, we questioned the reasonableness of these payments on a monthly basis.

4.4 Entertainment Costs are questioned: (Schedule 1/2)
IDEA incurred entertainment costs of $ 290.49 for food and beverage for its staff, GOE officials, and other individuals. FAR 31.205-14 states that:

"Cost of amusement, diversion, social activities, and directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable".

4.5 Overtime paid to one of NREA drivers is questioned:
(Schedule No. 1/3)
IDEA incurred $ 1,032.49 in direct costs which were billed to and reimbursed by USAID/Egypt under the "Equipment" line item. The NREA driver is a GOE employee, and is not officially on IDEA's payroll. IDEA's personnel policy (revised September 27, 1990) stipulates that: "overtime will be paid for designated administrative employees only, at time and a half for hours over and above the standard 40 hour-week". Accordingly, this cost as overtime to an individual who is not on the payroll of IDEA is questioned.

4.6 Bonus and Gratuities paid to NREA personnel are questioned: (Schedule No. 1/3)
$ 169.39 was paid to NREA personnel for guarding computer equipment for 15 days after import from the USA. The amount was recorded and billed to USAID/Egypt as equipment. In our opinion, NREA should have arranged for storage facilities to safeguard equipment imported specifically for its own utilization and any salary related costs should be covered by GOE employee salaries. The cost stated above is deemed questionable.

4.7 <u>Fixed maintenance and garage allowances for 4 drivers are questioned:</u> (Schedule No. 1/3)
IDEA recorded, claimed and subsequently was reimbursed for $ 1,432.57 as maintenance and garage allowances, which were paid in a series of fixed monthly sums, to four drivers, three of whom were NREA employees. Apparently, these sums were paid to the drivers, for taking care of the motor vehicles in their possession. These vehicles are parked overnight near the drivers' residences. In our opinion, these allowances are unreasonable.

5- <u>The allocability of certain travel, per diem, and other direct costs is questioned:</u> (Schedule No. 1/3)
We identified $ 3,620.13 in direct costs, the allocability of which is questionable under cited FAR criteria.
<u>FAR 31.201.4</u> defines a cost as allocable if it is assignable or chargeable to one or more cost objectives on the basis of relative benefits or any other equitable relationship.

The FAR identify factors in determining allocability if the cost:

a- is incurred specifically for the contract.
b- benefits both the contract and other work, and can be distributed to them in reasonable proportion to the benefits received; or
c- is necessary to the overall operation of the business, although a direct relationship to any particular cost objectives can not be shown.

While a detailed list of the questionable cost is contained in schedule 1/5, categories of such charges are presented below:

5.1 Motor vehicles expenses (categorized in USAID voucher as equipment): (Schedule 1/3)

IDEA-REFT project uses four USAID-financed motor vehicles, two of which were seconded to NREA. IDEA reimbursed NREA drivers for the cost of fuel consumption and maintenance services. We question $ 3,620.13 in fuel consumption by NREA which was charged to USAID/Egypt. Since IDEA did not maintain vehicle logs and did not obtain an adequate analysis of vehicle usage to allow us to determine the allocability of such expenses to the contract, such expenses, in our opinion, cannot be accounted for a specific cost objective.

6- Unsupported certain direct cost items:

We identified $ 3,423.95 in direct costs whose supporting documentation is inadequate. These direct costs include expenses categorized as equipment costs. Except as described below, the costs incurred by IDEA, and subsequently billed to and were reimbursed for by USAID/Egypt, were supported by adequate documentation. (Schedule 1/10)

6.1 Costs of commuting services are questioned: (Schedule 1/3)

IDEA used USAID-financed motor vehicles to provide commuting and personal use services to its employees. According to USAID/Egypt contractor Notice # 8-90, dated 4/15/90, the cost of commuting is a personal expense to the employee and not reimbursable. Since IDEA neither maintained motor vehicle logs nor provided us with an analysis of vehicle use during the past 20 months against which we could audit, we developed an estimate of the cost of commuting and personal use services. We assumed that IDEA's motor vehicles would be used for one hour in the morning and one hour in the evening providing commuting services to IDEA and NREA employees in Cairo. These two hours, plus the normal eight hours available in a work day, total ten hours of vehicle service. Since two hours out of ten total hours equal 20%, we questioned 20% of IDEA's total allowable and reasonable cost which we obtained by deducting total questioned costs from total incurred costs ($ 44,105.32 - $ 27,956.69). Accordingly, we questioned $ 3,229.73, of IDEA's billed vehicle cost as unsupported costs.

6.2 <u>Documentation supporting motor vehicle expenses is inadequate</u>: (Schedule 1/3)

We were unable to reconcile and verify $ 194.22 of motor vehicle expenses because these expenses were not adequately supported.

$ 98.57 car registration expenses
$ 11.80 freight & customs clearance
$ 26.98 car maintenance expenses
$ 56.87 Fuel, oil, & parking expenses

7- <u>The reasonableness of certain allowances, travel and per diem, and other direct costs is questionable:</u> (Schedule 1/9)

We identified $ 6,485.43 in direct cost categories whose reasonableness is questionable.

The FAR defines a cost as reasonable if, in its nature and amount, it doesn't exceed that which would be incurred by a prudent person in the conduct of competitive business.

While a detailed list of the questioned costs above is contained in schedules (1/1 to 1/3), categories of such charges are presented as follows:

7.1 <u>Housing allowance of $ 3,540.00 is questioned:</u>
(Schedule 1/1)

IDEA's Chief of Party was paid housing allowance that was greater than amounts permitted in USAID/Egypt guidance, and contractor notice No. 21-89, dated August 24, 1989. We questioned the reasonableness of $ 3,540.00 paid in excess of the permitted housing allowance for a family of 7 at post.

7.2 <u>Fuel consumption for the amount of $ 2,945.43 is questionable:</u> (Schedule 1/3)

Fuel consumption, reimbursed to IDEA's drivers for two different types of cars, appears to be rather excessive, for instance during the period from August 1989 to Octobre 1989 one car consumed 3,800 liters of fuel. This means, assuming an average consumption rate of 12.5 kilometers/liter (31 miles/gallon), that the car travelled 47,500 k.m. within 3 months; the equivalent of 49 trips between Cairo and Aswan. Another car consumed 2,983 liters in 3 months during 1990. This means, assuming an average consumption rate of 10 km/liter (25 miles/gallon), that the car travelled 30,000 km in 3 month period; the equivalent of 30 trips between Cairo and Aswan. Since IDEA did not maintain a vehicle log, nor did they provide a relevant analysis to justify the excessive consumption of fuel, and since our review of maintenance costs revealed no extraordinary conditions, we questioned one half the recorded fuel costs as being unreasonable.

International Development And Energy Associates, Inc. (IDEA)
Science and Technology Cooperation Project (STC)

Findings:

1. The allowability of Egyptian fringe benefits is questionable: (Schedule 2/4)
Our audit revealed an amount of $ 1,317.71 in fringe benefits that is in violation of FAR 52.216-7 which indicates that the fringe benefits billed as indirect costs is allowed provided that the contractor pays the contribution to the social insurance fund within 30 days after the closing of the period covered. Accrued costs for such contributions that are paid less often than quarterly shall be excluded from indirect costs for payment purposes until the contractor actually makes the payment. IDEA-STC has been delinquent in paying such costs because they did not contribute for their employees into the Egyptian social insurance fund. This has rendered this cost questionable.

2. Documentation supporting certain direct costs is inadequate: (Schedule 2/9)
We questioned an amount of $ 660.46 in direct costs billed by IDEA the allowability of which is questionable due to inadequate documentation. Except as described below, the costs incurred by IDEA-STC, which were subsequently billed to and reimbursed by USAID/Egypt, were supported by adequate documentation.

2.1 Inadequately supported travel and local transportation costs in the amount of $ 126.68:
This amount was billed to USAID/Egypt without adequate supporting documents or analysis. (Schedule 2/1)

2.2 Inadequately supported living quarter expenses in the amount of $163.55:

This amount was claimed without being supported by receipts or other documents. The amount included gas, electricity and water consumption paid during temporary lodging. (Schedule 2/2)

2.3 Inadequately supported miscellaneous expenses in the amount of $370.23:

IDEA was unable to provide adequate supporting documentation for $329.27 of total office supplies and $40.96 of communication costs (fax-telex). (Schedule2/3)

3. The reasonableness of certain allowances, and other direct costs is questionable: (Schedule 2/2)

We identified an amount of $ 8,700.00 in direct cost categories the reasonableness of which is questionable under FAR 31.201-3 criteria. IDEA-STC's Chief of Party was paid housing allowance that was greater than the amount permitted in USAID/Egypt guidance to contractors (Contractor Notice No. 21-89 dated August 24, 89). We questioned the reasonableness of $ 8,700 paid in excess of permitted housing allowance for a family of one to two at post.

KPMG Hazem Hassan & Co.

Accountants & Consultants

74, Mohi Eldin Abul Ezz Street
Mohandiseen, Cairo
Telephones: 3499588-3499677
Telex: 93796, HHCO UN
Fax: (202) - 3497224

Mr. Philippe L. Darcy (CPA)
Regional Inspector General for Audit
United States Agency for
International Development
Mission to Egypt
Cairo
Egypt

Report on Internal Control Structure

Independent Auditor's Report

We have audited the Fund Accountability Statement for the periods from March 1, 1989 to December 31, 1990 under Contract No. 263-0123-C-00-9035-00 (Project No. 263-0123), and January 18, 1989 to December 31,1990 under Contract No. 263-0140-C-00-9030-00 (Project No. 263-140) of the International Development and Energy Associates Inc. (IDEA), and have issued our report thereon dated March 1st, 1991.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United Sates (1988 revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement of IDEA is free of material misstatement.

In planning and performing our audit of the Fund Accountability Statement, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the costs incurred and billed, and not to provide assurance on the internal control structure.

The management of IDEA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of certified vouchers in accordance with cash basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Financial accounting system
- Payroll
- Labor hour accumulation
- Travel and allowances
- Purchases and disbursements

For all the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures applicable to the local part of the awarded contracts and whether they had been placed in operation. We also assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure which, in our judgement, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the certified vouchers submitted to USAID/Egypt.

These reportable conditions are:

- Inadequate control over USAID/Egypt billing procedures.
- Lack of an adequate financial accounting system (in STC project).
- Inadequate review of expenditures for conformity with contract terms and applicable regulations.
- Lack of retention and custodial procedures (in STC project).

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the amounts being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable conditions described above are material weaknesses.

This report is intended solely for use by IDEA management and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Hazem Hassan & Co.

M. Kamel

Cairo Egypt

March 1, 1991

International Development And Energy Associates, Inc. (IDEA)

Findings:

1. Inadequate Internal Control over USAID billing procedures: IDEA-REFT erroneously overbilled and duplicated chargeable costs to USAID/Egypt vouchers due to lack of timely reconciliations of accounting records with vouchers submitted to A.I.D. In order to perform our audit, we had to ascertain locally incurred costs which were subsequently billed to USAID, whether in local currency or in US dollars, match them with expenses recorded and actually paid by IDEA, and exclude all internal transfers as well as nonreimbursable expenses. This difference was partially adjusted in the December 1990 voucher, submitted to USAID/Egypt during our audit, by crediting relevant expense accounts; and was partially clarified as being locally billed, but paid by the home office in Washington D.C. Even though an assurance was given by IDEA's official that there is no duplication on clearing such amounts, we believe that duplicated charges could have been avoided by reconciling invoices submitted to A.I.D. with accounting records on a timely basis, and by having the reconciliations filed with copies of submitted vouchers.

2. The quality of internal accounting control in IDEA Cairo offices is questionable:
   2.1 IDEA-STC didn't maintain the necessary internal accounting procedures to supervise and monitor locally incurred costs charged to the USAID contract. We were not able to reconcile costs billed to costs recorded in order to determine accuracy and completeness of proper costs at the IDEA-STC office in Cairo. IDEA-STC's management did not retain or maintain records or

original documents. Accordingly, we had to resort to USAID/Egypt's office at Cairo to obtain photocopies of the submitted certified vouchers and supporting documents, within the audited period, to ascertain and compile local costs charged to USAID/Egypt and reimbursed to the project. On the other hand, IDEA-REFT maintained adequate accounting records.

2.2 Our audit indicated that payments to the REFT project's local subcontractor lacked proper review. Local subcontractor personnel work directly for NREA, yet IDEA approves the subcontractor invoices for payment. IDEA approves these invoices even though it is not receiving progress reports from NREA to provide information on actual subcontractor labour utilized. Without the benefit of such reports, or at least the subcontractor's time sheets which should be approved by NREA, IDEA does not have a reasonable basis for approving subcontractor invoices.

<u>Recommendation (1)</u>

We recommend that IDEA should reconcile invoices submitted to USAID/Egypt with accounting records on a timely basis.

<u>Recommendation (2)</u>

We recommend that IDEA-STC office in Cairo should maintain proper accounting records to enable management of monitoring locally incurred costs.

<u>Recommendation (3)</u>

We recommend that IDEA should not approve any payment to the local subcontractor without obtaining progress reports from NREA and NREA's approval on subcontractor time reports.

KPMG Hazem Hassan & Co.

Accountants & Consultants

74, Mohi Eldin Abul Ezz Street
Mohandiseen, Cairo
Telephones: 3499588-3499677
Telex: 93796, HHCO UN
Fax: (202) - 3497224

Mr. Philippe L. Darcy (CPA)
Regional Inspector General for Audit
United States Agency for
International Development
Mission to Egypt
Cairo, Egypt

Report on Compliance with Contract Terms and Applicable Laws and Regulations Independent Auditors Report

We have audited the Fund Accountability Statement for the periods from March 1, 1989 to December 31, 1990 Under Contract No. 263-0123-C-00-9035-00 (Project No. 263-0123), and January 18, 1989 to December 31,1990 under Contract No. 263-0140-C-00-9030-00 (Project No. 263-140) of the International Development and Energy Associates Inc. (IDEA), and have issued our report thereon dated March 1st, 1991.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States (1988 revision). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the local costs claimed by IDEA, Inc. are free of material misstatement.

Compliance with laws, regulations, contract terms and conditions is the responsibility of IDEA's management. As part of obtaining reasonable assurance that the costs claimed by IDEA are free of material misstatement, we performed tests of IDEA's compliance with certain provisions of laws, regulations and contracts. However, our objective was not to provide an opinion on overall compliance with such provisions.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions, contained in laws, regulations or contracts that cause us to conclude that the aggregation of the misstatements resulting from those violations is material to the costs claimed. The results of our tests of compliance revealed that 11% of the local disbursement vouchers examined contained costs whose compliance with the FAR and USAID/Egypt's contractor's guidance is questionable, and 1% of local disbursement vouchers examined have inadequate supporting documentation.

IDEA neither contributed nor provided for the employer's proportion of the Egyptian Social Insurance fund for its Egyptian employees. Moreover, IDEA did not comply with Egyptian payroll tax articles by withholding income tax from its employee salaries in the Cairo offices. Additionally, IDEA did not comply with Article 44 of Income Tax Law 157 requirements of withholding amounts for vendors income tax accounts maintained by the Egyptian tax department per USAID/Egypt contractor guidance.

Although these actions did not have a material impact on local costs billed and contained in IDEA's vouchers, they are in violation of Egyptian Income Tax Law No. 157 and Special Insurance Fund Law No. 54/1975 and could result in future assessment of penalties by the Government of Egypt.

We considered the above instances of noncompliance in forming our opinion as to whether the Fund Accountability Statement had been presented fairly in all material respects, in conformity with the cash basis of accounting. This report does not affect our report on the local costs claimed by IDEA, Inc.

Our testing of transactions and records disclosed instances of noncompliance with laws and regulations. All instances of noncompliance that we found are identified in the accompanying schedule of findings and questioned costs.

Except as described above, the results of our tests of compliance indicate that with respect to the items tested IDEA Inc. complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that IDEA had not complied, in all material respects, with those provisions.

This report is intended solely for use by IDEA management and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Hazem Hassan & Co.

Cairo Egypt
March 1, 1991

International Development And Energy Associates, Inc. (IDEA)

Findings:

A. Instances of noncompliance with contract terms and FAR clauses:

1. Subcontract term 9 (B): States that, the personnel specified in the contract are considered to be essential to the work being performed hereunder. If at any time, EMCO believes that, for whatever reason, it may not be able to provide the personnel specified in the subcontract for the number of days approved under this subcontract, it shall promptly notify IDEA and shall submit justification in sufficient details to permit evaluation of the impact on the program. No diversions or substitutions shall be made by EMCO without the written consent of IDEA.
The local subcontractor changed the grade of consultants to those with less experience and reduced the number of days required by nominated key personnel, without obtaining prior approval from IDEA and without appropriate adjustments in the billing rates. This noncompliance resulted in questionable costs of $15,819.44.

2. FAR Clause No. 52.216 - 7: entitled "Allowable Cost and Payments" stipulated that contractor contributions to any pension ... that are paid quarterly or more often may be included in indirect costs for payment purposes, provided that the contractor pays the contribution to the fund within 30 days after the closing of the period covered. Payments made 30 days or more after the

closing of the period covered shall not be included until the contractor actually makes the payment.

IDEA did not contribute to the Social Insurance fund for the Egyptian employees which rendered the fringe benefits portion calculated on their base salaries questionable.

B. Instances of noncompliance with the applicable laws in Egypt:

1. IDEA did not withhold payroll taxes from its employees' salaries in violation of part 3 chapter 2 Article No. 57 of Income Tax Law No. 157/1981.

2. IDEA did not contribute to the Social Insurance fund for its employees neither did it withhold the employee portions of special insurance funds according to Law No. 54/1975 and 64/1980.

3. IDEA did not comply with Article 44 of Income Tax Law No. 157/1981 as per USAID/Egypt advisor memorandum circulated as a contractor guidance. Article 44 entitled "Discount, Addition and Collection for the Tax Account" stipulated that:

   The parties stated hereafter shall deduct from any amount exceeding LE 10 in return for transactions of purchase, supply, contracting or service to any of the persons of the private sector, a proportion of such an amount for the account of industrial and commercial profits tax due to them .... paragraph (1) included branches of foreign companies or those who are subject to other special laws among parties required to comply with this article.

Recommendation (4)

We recommend that USAID/Egypt require IDEA to:

- take the necessary corrective action to comply with special Social Insurance Fund Law No. 54/1975 and thereby, contribute for its employees.
- compute and provide for the payroll taxes to be paid to the cognizant district tax department on Egyptian personnel salaries.

APPENDIX I

SCHEDULES OF QUESTIONED AND UNSUPPORTED COSTS

OF IDEA's - REFT PROJECT

Schedule No 1/1

IDEA, Inc. REFT Project
Schedule of Questioned Allowance
COP Housing Allowance

	$	$
Total direct housing allowance vouchered		32,400.00
Annual housing allowance for a family of 7 members 1 or more at post	19,240.00	
COP is entitled to housing allowance during the period from April 89 to Dec. 90 (18 months) x 1.5		
Total reasonable cost entitled	----------	28,860.00

Total costs questioned		3,540.00
		=========

Schedule No 1/2

IDEA, Inc. REFT Project
Schedule of Questioned Other Direct Costs
Classified as "Other Direct Costs" in USAID Vouchers

	$
Disallowable costs:	
Tips and miscellaneous at airport (personal exps.)	243.26
Bank charges for check book (G&A)	4.87
Gratuities paid to lift operator & plumber (G&A)	255.70
Food and dessert (entertainment)	10.06
Lunch, juices, and beverage (entertainment)	280.43

Total of other direct costs questionable	794.32
	=========

Schedule No 1/3

IDEA, Inc. REFT Project
Schedule of Questioned Other Direct Costs
Classified as "Equipment" in USAID Vouchers

	$	$
Unsupported Costs:		
Commuting services	3,229.73	
Car registration expenses,	98.57	
Freight and customs clearance,	11.80	
Car maintenance expenses,	26.98	
Fuel, oil, and parking expenses,	56.87	

Total questioned due to lack of documentation		3,423.95
Disallowable costs:		
Overtime paid to one of NREA's drivers	1,032.49	
Bonus and gratuities paid to NREA personnel	169.39	
Fixed maintenance allowance to 4 drivers	1,432.57	
	--------	2,634.45
Unallocable Costs:		
Fuel consumption paid to NREA driver car # 28322	1,212.76	
Fuel consumption paid to NREA driver car # 26641	2,407.37	
	--------	3,620.13
Unreasonable Costs:		
Fuel consumption of car # 28235	1,574.13	
Fuel consumption of car rented	712.82	
Fuel consumption of car # 12354	658.48	

		2,945.43

Total Questioned costs		12,623.96
		=========

Schedule No 1/4

IDEA, Inc. REFT Project

Schedule of Questioned Subcontractor Costs

	$	$	$
Subcontractor costs billed by IDEA			134,992.20
Less: Subcontract direct labor cost			
1- Grade consultants before Sept.90 Revision:			
- Nominated S. consultants ($220.5 x 65 days)	14,332.50		
- Nominated consultant ($220.5 x 94.5 days)	20,837.25	35,169.75	
2- Grade experts before Sept.90 Revision ($ 165.38x287 days)		47,464.01	
3- After Sept. 90 Revision			
S. Consultants $ 308 x 22 days		6,776.00	
Consultants $ 255 x 52 days		13,260.00	
Experts $ 205 x 80.5 days		16,502.50	119,172.26
Questioned costs due to over rating			15,819.94
Add: Gains from US$ fluctuations of exchange rate:			
Total US$ billed to IDEA		134,992.20	
*Subcontractor bill No. 133/18 Dec. 1990		10,543.00	
Total bills paid			124,449.20
Actual US$ paid versus total billed			122,451.47
Net gains questioned as a reduction of total cost			1,997.73
Questioned subcontract costs			17,817.67

* December 1990 bill was still pending until the end of our audit.

Schedule No 1/5

IDEA, Inc. REFT Project
Schedule of Questioned Fringe Benefits

	$
Total national employees' salaries	29,306.09
IDEA's provisional Egyptian fringe billing rate	22%
Questioned Egyptian fringe benefits	6,447.34

Schedule No 1/6

IDEA, Inc. REFT Project
Schedule of Questioned Overheads

	$	Sched. No.
Questioned fringe benefits	6,447.34	1/5
Field staff overhead	10%	

Questionable overhead amount charged to USAID	644.73	
	========	

Schedule No 1/7

IDEA, Inc. REFT Project
Schedule of Questioned General and Administrative Costs

	$	Note Schedule
Questioned administrative costs:		
Egyptian fringe benefits	6,447.34	1/5
Field office overhead	644.73	1/6
Allowances	3,540.00	1/1
Other direct cost	794.32	1/2

Questioned G&A Base	11,426.39	
IDEA's REFT contract provisional G&A billing rate	29.5%	

Questioned G&A	3,370.79	
	========	

Schedule No 1/8

IDEA, Inc. REFT Project
Schedule of Questioned Fixed Fee

	$	Note Sched. No.
Questioned administrative costs:		
Egyptian fringe benefits	6,447.34	1/5
Field office overhead	644.73	1/6
Allowances	3,540.00	1/1
Other direct cost	794.32	1/2
G&A	3,370.79	1/7
Subcontractors costs	17,817.67	1/4
Equipment costs	12,623.96	1/3
Total questioned costs	45,238.81	
IDEA's REFT fixed fee percentage used for billing purposes	9.64%	
Questioned fee	4,361.02	

Schedule No 1/9

IDEA, Inc. REFT Project
Schedule of Costs Which are in Noncompliance with FAR and Handbook 14

	$	$	Sched. No.
Questioned Salaries and Subcontractors Cost:			
Egyptian fringe benefits in non-compliance with FAR clause		6,447.34	1/5
Subcontractor costs due to:			
- Non-compliance with FAR clause	15,819.94		
- Non-compliance with Handbook 14	1,997.73		
		17,817.67	1/4
Other direct costs whose conformity with FAR allowability criteria is questionable:			
- Other direct costs	794.32		1/2
- Other direct costs classified as "Equipment"	2,634.45		1/3
		3,428.77	
Other direct costs whose conformity with FAR allocability criteria is questionable:			
- Other direct costs classified as "Equipment"		3,620.13	1/3
Other direct costs whose conformity with FAR reasonability criteria is questionable:			
- housing allowance	3,540.00		1/1
- Other direct costs classified as "Equipment"	2,945.43		1/3
		6,485.43	
Total direct costs whose conformity with FAR criteria is questionable		37,799.34	

Schedule No 1/10

IDEA, Inc. REFT Project

Schedule of Unsupported Other Direct Costs

	$	Sched.No.
Questioned other direct costs classified as equipment:		
Commuting services	3,229.73	1/3
Motor vehicle expenses	194.22	1/3
Total unsupported costs	3,423.95	

Schedule No 1/11

IDEA, Inc. REFT Project
Schedule of Indirect Costs and Fee whose Payment is Questionable

	$	Note Sched. No.
Questioned Indirect Costs:		
Field office overheads	644.73	1/6
General and Administrative expenses	3,370.79	1/7
Fixed fee	4,361.02	1/8
Total questionable indirect costs and fees	8,376.54	

APPENDIX II

SCHEDULES OF QUESTIONED AND UNSUPPORTED COSTS

OF IDEA's - STC PROJECT

Schedule No 2/1

IDEA, Inc. STC Project
Schedule of Questioned Travel Costs

	$
Total costs charged	1,750.89
Less: Total allowable travel costs	1,624.21
Total questioned travel costs	126.68

Schedule No 2/2

IDEA, Inc. STC Project

Schedule of Questioned and Unsupported Allowances

	$	$
- Unsupported temporary lodging allowance:		
Unsupported living quarter expenses	84.26	
Unsupported gas, electricity and water charges	79.29	
	------	163.55
- C.O.P. Housing allowance the reasonability of which is questioned:		
Total direct housing allowance charged	19,800.00	
$ 2200 x 9 months (Jan 90 - Dec. 90)		
Annual housing allowance for number of family at post 1-2 to maximum cost of:		
(14800/12) x 9 months	11,100.00	

Housing allowance costs where reasonability was questioned		8,700.00

Total questioned costs		8,863.55
		=========

Schedule No 2/3

IDEA, Inc. STC Project

Schedule of Questioned Other Direct Costs

	$
Unsupported Costs:	
Unsupported local office supply	210.47
Purchase of phone lacks supporting documentation	118.80
Communication charges without supporting documentation	40.96
Total questioned costs	370.23

IDEA, Inc. STC Project
Schedule of Questioned Fringe Benefits

	$
Total salaries charged	5,989.59
Fringe benefits @	22%
Total fringe benefits questioned	1,317.71

Schedule No 2/5

IDEA, Inc. STC Project
Schedule of Questioned Overheads

	$
Fringe benefits questioned	1,317.71
Overheads for field staff CCN @	11%
Total overhead questioned	144.95

Schedule No 2/6

IDEA, Inc. STC Project
Schedule of Questioned General and Administrative Costs

	$	Note Sched. No.
Questioned Administrative Costs:		
Egyptian fringe benefits	1,317.71	2/4
Overhead	144.95	2/5
Travel cost	126.68	2/1
Allowances	8,863.55	2/2
Other direct cost	370.23	2/3
Questioned G&A Base	10,823.12	
IDEA's STC contract provisional G&A billing rate	32%	
Questioned G&A	3,463.40	

IDEA, Inc. STC Project
Schedule of Questioned Fixed Fee

	$	Note Sched. No.
_Questioned Administrative Costs:		
Egyptian fringe benefits	1,317.71	2/4
Overhead	144.95	2/5
Travel cost	126.68	2/1
Allowances	8,863.55	2/2
Other direct cost	370.23	2/3
G&A	3,463.40	2/6

Total questioned costs	14,286.52	
IDEA's STC fixed fee percentage used for billing purposes	7%	

Questioned costs	1,000.06	
	=========	

Schedule No 2/8

IDEA, Inc. STC Project
Schedule of Costs which are in Noncompliance with FAR

	$	Sched. No.
Egyptian fringe benefits	1,317.71	2/4
Other direct costs whose conformity with the FAR reasonability criteria is questionable:		
- C.O.P. housing allowance	8,700.00	2/2

Total direct costs whose conformity with FAR criteria is questionable	10,017.71	
	=========	

Schedule No 2/9

IDEA, Inc. STC Project
Schedule of Unsupported Direct Costs

	$	Sched. No.
Travel costs	126.68	2/1
Temporary lodging allowance	163.55	2/2
Other direct costs	370.23	2/3

Total unsupported costs	660.46	
	======	

Schedule No 2/10

IDEA, Inc. STC Project
Schedule of Indirect Costs and Fee
whose Payment is Questionable

	$	Sched. No.
Questioned Indirect Costs:		
Field office overheads	144.95	2/5
General and Administrative expenses	3,463.40	2/6
Fixed fee	1,000.06	2/7

Total indirect costs and fees whose payment is questionable.	4,608.41	
	=========	

APPENDIX III

NONCOMPLIANCE PERCENTAGE

Non Compliance Percentage

	REFT	STC	Total of Audited Cost	Percent
Unsupported costs	3,423.95	660.46	4,084.41	1%
Compliance costs	37,799.34	10,017.71	47,817.05	11%
	41,223.29	10,678.17	51,901.46	
Audited	349,397.57	85,649.94	435,047.51	

APPENDIX IV

MANAGEMENT COMMENTS AND AUDITOR'S COMMENTS

idea

International Development and
Energy Associates, Inc.

August 5, 1991

Mr. Mamdouh Sultan
Partner
KPMG - Hazem Hassan Management Consultant
74 Mohi Eldin Abul Ezz Street
Mohandiseen
Cairo
Egypt

Re: International Development & Energy Associates (IDEA, Inc.)
Audit Report of Local Expenditures, dated March 2, 1990.

Dear Mr. Sultan:

Enclosed please find our comments to your audit report along with additional submissions.

Your staff spent many hours in Cairo working diligently on the report and it is a significant document.

We do have some overall comments regarding the scope, findings and conclusions, and some specific comments and submissions regarding the findings.

GENERAL

First, the reports date of "March 2, 1991" is a puzzle, as one of our former employees was called to an exit conference for July 8, 1991, in Cairo. We trust the document has not been submitted to USAID in its draft form without an exit conference, as provided in the FAR.

I have written you two letters to date about the audit, and have not received any acknowledgement by you of them. I trust you have received them.

At this time there is no IDEA staff in Cairo authorized to discuss this audit report with you or your staff. As mentioned in my letters, IDEA's management is in Washington, DC with the corporate records.

The report addresses a "Funds Accountability Statement" [December 20 letter, Sultan to Smith, para. 3.1, and Audit Report, p. 3, para. 3.1]. This Statement and its continued reference as being prepared "by the management of IDEA" is of question here. I, as

Suite 802, 1111 14th Street N.W. • Washington, D.C. 20005 USA • Phone (202) 289-4332
Telex MCI/WUI 65027136?8 MCI or 798735 IDEA WSH. Fax (202) 371-9015

Controller, never prepared such a statement, nor did Dr. Peter Meier, Vice President of Finance, nor Mr. Gil Richard, who are the management of IDEA. Any reconstruction made by our local staff was never cleared by management.

In fact, the books of the Corporation, including all proper reconciliations of the accounts are maintained in Washington, DC, and no requests were ever made to examine those books. The Funds Accountability Statement is KPMG's own reconstruction of what went on and certainly not the submitted representation of IDEA's Management [Audit p. 7, para. 1 & 2]. IDEA's Management never prepared the document. However, given that the audit was based on this "Statement" and your findings and recommendations are complete, except for management's response now, we will assume it is properly representative of the "Local" expenditures.

The statement has many items which were not charged in the local currency accounts, but were incurred in and for the Cairo accounts. For example, the AMEX charges for tickets are purchased in Cairo and paid in DC, not via the Cairo accounts.

It must also be noted here that the financial statements of the firm's funds expended in Cairo are only fully and properly recorded in DC, not Cairo. [January 29 letter Stern to Sultan, para. 2 & 3.]

The next item of overall concern is the complete lack of response on Item 5 [Sultan to Smith, 20 December 1990, and Audit p. 3, item 5] of the Scope of the Audit. This issue was not addressed as any part of the Results of the Audit [Audit p. 5, Item 3]. We would like your staff's professional opinion as per Item 5, namely, has IDEA taken adequate corrective action on recommendation in the Preaward Survey Audit Report No. 6-263-89-03N (see Attachment 1).

It must also be pointed out that IDEA is a Washington DC - based firm, and the two contracts whose local costs were audited represent our two local currency disbursement accounts only. The information on disbursement from the field office are properly reconciled and adjusted in the home office in DC, not in Cairo. These two local accounts are for reimbursements of local disbursements and their records are entered in the corporate books and ledgers as "Accounts Payable," and their disbursements entered against "Accounts Payable." Therefore, the statement that IDEA maintains its books on a cash basis is valid only for the local accounts and not for the corporate accounts. [Audit p. 8, para 1 references on cash basis.] Accordingly, the statement prepared by KPMG on p. 8 that the "costs invoiced are not recognized when the liability is incurred," which is followed by the statement "The accompanying statement is not intended to present results in accordance with GAAP" is incorrect.

The corporate accounts are in complete compliance with GAAP. The internal controls and corporate records are based on an accrual basis of accounting and all costs invoiced are fully

59

recognized when the liability is incurred. The following are IDEA's Management's comments and submissions regarding the draft audit report:

Pg. 12, Note 1 - Accounting Basis

The local reimbursement accounts are correctly described as on a cash basis. They are, however, reimbursement accounts only. The liability for all project expenses are posted to the companies general ledger in the period received, through the accounts payable module of the Deltek Accounting system. When items are paid, the items are paid out of the local currency account and accordingly posted as a disbursement from the Cash in Cairo local currency account. The corporation is on a accrual accounting system within the guidelines of GAAP. The project invoices are generated from the full job costing modules of the corporations general ledger.

Pg. 13, Item 1 - The allowable

One of the main tasks of IDEA's contract was to design, procure hardware and software, and implement the Renewable Energy Information system (REIS). Subcontracts with the US-based firm TEM associates and EMCO, based in Cairo, were signed to assist IDEA in this task. EMCO's main task was to support TEM in the design, procurement and implementation of the REIS, in addition to providing all in-country training requirements.

After several meeting between IDEA, EMCO, TEM and NREA, it became clear and all parties agreed that the training component needed to be expanded from what was first envisioned and that EMCO would take the lead in this area (testing by EMCO of NREA personnel computer literacy was conducted during this period). The team approach subsequently changed; training and preliminary design of the REIS were going to proceed concurrently on parallel tracks.

The personnel specified in Clause 9A of the Subcontract were not substituted by three consultants, as indicated in the audit report, but assigned to support TEM in the preliminary design of the Local Area Network (LAN). Three (3) consultants were added by EMCO to train NREA personnel, since training was identified by the team (IDEA, TEM, EMCO and NREA) as being crucial to the success of REIS. Although these three consultants were below the experience level specified in the contract, their qualifications were outstanding and approved by IDEA's Chief of Party (COP) with the concurrence of TEM and NREA's Information System Manger. Therefore, EMCO did not substitute three consultants in lieu of 2 key personnel, but added these three consultants, at a loaded rate of $220.50, when training became an important issue with the full knowledge and approval of IDEA's COP (refer to exhibit).

This decision was made for technical reasons with the concurrence of the technical team and was well justified since 154 NREA employees, most of whom were computer illiterate, have been trained in basic computer skills, word processing, spread sheets, data base management, graphics, project management and a host of other specialized software.

The reasonableness of these expenditures should not be questioned since they are justified, approved, necessary, allocable and allowable to this contract.

Pg. 13, Item 2, Gains from changes . . .

As it is true that there are fluctuations of exchange rates between U.S. dollars and Egyptian pounds during the period of the contract, IDEA has taken numerous steps internally and externally to do proper accounting for these exchanges within the FAR.

There are number accounting and contracting controls that IDEA uses in regard to this foreign currency procedure.

1. The FAR requires IDEA to invoice the contract from its books and ledgers. IDEA, when it receives a voucher from its subcontractors or vendors, books the A/P at the most current exchange rate in dollars. When IDEA pays its voucher, it charges the A/P account in the same dollars. In Cairo, the liability is in L.E. and the payment is in LE. There is no currency loss or gain in the books in Cairo or U.S., but only in the account after the fiscal year ends, or when the project ends.

2. Although the rates of USD to LE have fluctuated over the period of the contract, the report fails to reconcile when IDEA buys LE and at what price. IDEA buys LE with USD many months before it disburses them. If, for example, IDEA buys 2600 LE on January 1, 1990, for $1000, receives a subcontractor voucher for 2500 LE on February 1 and the rate then is 2.5 LE/USD, then we charge the contract USD 1,000. If IDEA then pays on March 1, 1990, the 2,500 LE and the then current rate is 2.4 LE, your report is indicating a current decrease of 2,500 LE/2.4 = 1041.67 or $41.67. Although technically correct, the calculation does not reflect the fact that we paid 2.6 for those LE, not 2.5 as billed.

The realized gain or loss in the account must be reconciled at the end of the project or the end of the year for the entire project. It is not reasonable to view the gain or loss on a local currency account by the audit of just one or two subcontractors vouchers. IDEA continually buys LE and waits and then disburses them. The inventory of LE purchased cannot be treated as an FIFO/LIFO problem because there are three significant points in time (the initial LE purchase, the invoiced dollar amount, and the rate when paid) and all three are important.

Mostly importantly, there are purchases made at 2.5, billed at 2.5, paid out at 2.5 where the company paid 2.4 for those LE. These losses were not identified in the audit report.

61

The billing of all project expenses is 1) in dollars, 2) from the books of the corporation in D.C., and 3) on an accrual basis and comply with GAAP and the FAR.

The REFT bank account reconciliation for the Fiscal Year 1990 indicated a total project currency fluctuation of $3,515 (currency loss) on a total disbursement of $250,147. This latter amount can be adjusted as suggested in the report on the final project voucher, if not adjusted by contracts at AID/Cairo before.

<u>Pg. 14, Finding 3 - Allowability of certain direct labor charges</u>

IDEA has five (5) employees in its office in Cairo. As a matter of policy and practice, these employees are granted an annual salary increase should their performance warrant. The salary increases for the two employees in question reflect the following:

1. Mrs. Vivian Aziz was granted a 27% salary increase due to exceptional circumstances. A group of U.S. experts from Burns & Roe met with tragedy during their trip to Egypt. Two of these experts and two NREA staff were killed in an automobile accident. Two other experts and one NREA staff member were severely injured. Mrs. Aziz volunteered her time to repatriate the seriously injured and her performance was beyond the call of duty. She received a letter of commendation from USAID/Cairo Mission Director, Mr. Marshall Brown (see Attachment 2). This salary increase was given to her due to her exceptional performance. Eight months later she received a 15% increase which reflected her annual increase commensurate with her yearly performance.

2. Mr. Atef Ghabour was hired for the project by Louis Berger International on a trial basis. He was promised by the Resident Project Manager, that upon successful completion of his probation period of six months he would be paid at the same rate as the previous accountant. The LBII's Resident Project Manager was subsequently hired by IDEA. Mr. Ghabour completed his probation period successfully, and his pay rate was adjusted accordingly.

<u>Pg. 14, Finding 4</u>

The cited FAR 52.216.7 is a reference to 52.216-7 b-iii where it is applied to the Allowable Cost Payment of a "Pension, Deferred Profit Sharing," etc., not fringe benefits on the entire corporation. The cited FAR applies to a corporate-wide fringe pool, <u>not</u> just the Cairo employees' fringe. Specifically, the same FAR 52.216-7,(d) cites the Final Indirect Cost Rates will be established for the annual period and those rates, after audit of the company-wide rates, will be the determinant factor in the application of the allowability of an indirect cost. The application or questioning of just one segment, namely, the pension plan, seriously misrepresents the FAR and the cited classes as the basis for this questioned item.

The resolution of this item and all items of indirect cost are the responsibility of the corporation's USAID cognizant audit office in DC, not the field office in Cairo who is auditing local expenditures. The final application of this and any indirect rate fall outside the scope of this local currency report. These rates should be negotiated at the USAID Contract Officer level, after an audit of the company-wide base and pools of indirect expense. It is our opinion that the questions regarding these amounts are inappropriate.

Pg. 15, Finding 5 - Allowability of certain direct costs

1. Finding 5.1 - Tips and Miscellaneous costs at the airport

Prior to IDEA's contract, the REFT project used the services of American Express to "Meet and Assist" at Cairo Airport all consultants, subcontractors and project staff. These services were provided to expedite formalities at the airport for project staff coming from the US after a very long and tiring trip. After receiving several complaints from consultants (American Express will "Meet and Assist" personnel from several companies at the same time) the Resident Project Manager requested that the Project Accountant, who was an ex-police officer, contact some of his colleagues at the airport to "meet and assist" project staff. These police officers performed these services outside of their duty schedule and were compensated for their services. The service was much more efficient and reduced the processing time at the airport by an average of one hour. Since these services were performed by individuals it was impossible to obtain an invoice from each of them.

2. Finding 5.2 - Bank charges for printing checkbooks

Printing checkbooks and banking expenses for a Project Account is a direct charge, not an indirect charge. It is IDEA's policy to charge such items directly, since such costs are allocable solely to the project in question and ought not be burden to G&A pool allocable across all projects. The FAR allocability criteria addresses this issue as a direct change.

Pg. 16, Finding 5.3 - Provisional payments and gratuities

IDEA, by contract, was required to maintain an office on the 8th floor of a building owned by the Egyptian Electricity Authority (EEA). This office was located adjacent to NREA's office. This building had serious violations of the electrical codes and plumbing codes. Even to the untrained eye, it is not hard to believe the frequency of power outages and water leaks. The need for an electrician and plumber under these circumstances was constant, not sporadic as the report implied. IDEA had experienced power outages every other day for a period of 6 months due to poor wiring. It also experienced two serious floodings of its office due to corroded piping in addition to toilets malfunctioning at least once a week. Using normal services from an accredited plumber and electrician would have cost the project much more, without mentioning the response time of these people who are not always available when needed. It was without question cheaper to identify a plumber and an electrician within the building (they worked for the Nuclear Authority) and have them respond to our problems quickly, by paying them each between LE15-20 a month or US$4.50 a month.

It is correct that the lift operator is a GOE employee. Even though he lives in the building, his working hours are from approximately 9:00 a.m. to 2:00 p.m. IDEA's office working hours are from 8:00 a.m. to 4:00 p.m. Paying him LE10.00/month or US$3.00/month was the only way to have him unlock the elevator doors and for IDEA staff subcontractors, consultants and visitors to use the lifts during IDEA's normal working hours.

The reasonableness of these expenses should not be questioned as they are necessary, allocable and allowable to this contract.

Pg. 16, Finding 5.4 - Entertainment Cost

The $290.49 was not spent for entertainment of IDEA staff, GOE officials and other individuals. This amount was spent in the context of a business presentation made by IDEA and its subcontractors TEM Associates and EMCO. This amount was first denied by the Controller's office and subsequently approved by the Contracting office. This was a business meeting on the project's work, approved by the AID Contracting Office, and subsequently paid by the controllers office.

Pg. 16, Finding 5.5 - Overtime paid to one of NREA's drivers

One of NREA's drivers is a GOE employee assigned to IDEA for the duration of the REFT project. As an employee of NREA his work schedule was from 9-10 a.m. to 2 p.m. and 10-11 a.m. to 2 p.m. during the month of Ramadan. IDEA's office hours are from 8 a.m. to 4 p.m. all year long including Ramadan. This driver had to work longer hours during the week without any pay increase from the GOE. On the contrary, his bonuses and incentives were cut off once he was assigned to IDEA. This made for a disgruntled driver. Repeated attempts to plead his case to NREA by the Resident Project Manager (RPM) were unsuccessful. Since all his duties were project related the RPM, with the full knowledge of USAID, paid him for the extra hours he worked for the project. These hours included some weekends when he had to drive IDEA staff to the field test sites outside Cairo. The word "overtime" is a misnomer. More accurately this was "time" spent by this driver beyond his schedule as a GOE employee.

These payments were not charged against the "salaries" line item because he was not an IDEA employee, but charged against the "Equipment and Vehicles" line item so that no overhead, fringes and G&A would be collected against his payments.

Pg. 17, Finding 5.6 - Bonus and gratuities paid to NREA personnel

About one thousand (1,000) cubic feet of computer equipment worth close to US$180,000 was delivered to IDEA's office. This equipment was under the responsibility

64

of IDEA until all boxes could be opened and their contents verified. Once verified they had to be turned over to NREA. IDEA checked into the possibility of storing this equipment in a warehouse. The cost and logistics of turning over the equipment made that a very bad option. We then engaged the NREA staff assigned to cleaning IDEA's office for guarding the equipment 24 hours/day until the completion of the turnover. Since this equipment was still under IDEA's responsibility, paying US$169.39 for safeguarding US$180,000 worth of equipment was deemed appropriate and reasonable expenditure of project funds.

As required in any U.S. Government contract, it is the responsibility of contractor to safeguard all non-expendable equipment purchased with U.S. Government funds until the non-expendables are properly transferred to the government agency or client. We feel the questioning of this security service is incorrect and these costs should be reinstated.

Pg. 17, Finding 5.7 - Fixed maintenance and garage allowances

In March 1987, when the RPM arrived at post in Cairo he instructed that the two cars under his control be parked next to the project despite objections from his local staff. The next day both cars had their windshields broken and the cars were vandalized. A sum of LE50 was subsequently allotted to each driver for the purpose of renting a parking slot next to their home and to wash the cars as necessary each month. Although it is true that the cars are parked near the drivers' residences, they are not parked in the street but in garages since all drivers lived in areas that are prone to vandalism. These payments were continued in 1989 by IDEA. After IDEA took over the contracts. We feel these payments for the security of the vehicles at night are reasonable and allowable, they are not allowances, but a payment for services.

Pg. 17, Finding 6.0 - Summary Response

The citing of the FAR for the allocability question absolutely proves the point. The use of gasoline and maintenance for project cars for the project obviously a) is allocable to the contract; b) benefitted AID's contract objectives; c) was absolutely necessary for the AID project. The allocation of the fuel to any other area of direct or indirect cost would not meet the FAR or CAS objectives. We insist the allocation of project gasoline for the four AID-financed vehicles was in fact allocated properly according to the cited FAR and USAID's objectives.

Pg. 18, Finding 6.1 - Motor vehicles expenses

The REFT project purchased four vehicles during 1984-1985. These vehicles were purchased under the Louis Berger (LBII) contract. Two of these vehicles were immediately assigned to NREA and two others to the LBII project office. When the present RPM arrived at post in March 1987, this was already a "fait accompli." The RPM, during April 1987, tried to bring under his control two cars assigned to NREA since they were purchased under the LBII's contract. This led to strong objections from NREA. During this period

65

an inordinate amount of meetings were devoted to this subject. Meanwhile, technical implementation of various tasks were being delayed. It became obvious to the RPM that control of these two vehicles struck a sensitive cord at NREA and gaining control of the vehicles would jeopardize the working relationship. The RPM had no other option than to relinquish control of these two vehicles to NREA so as to proceed with project implementation. It was made necessary to the overall operation of business. These actions were taken with the full knowledge of USAID project office. IDEA's contract was signed in April 1989 and the same RPM took over as IDEA's Chief of Party (COP). Having gone through this experience once he decided that it was an inappropriate time to try to bring these two vehicles under his control since time was running out for completing the REFT project.

On the other point, the project, in fact, maintained numerous logs, registers and wrote endless reports on the vehicles' maintenance, support, operation, uses and purpose. These logs and numerous reports were submitted to USAID monthly during the term of the contract and were frequently discussed.

Attachment 4 is a sample of the vehicle monthly reports. Each vehicle had its own vehicle log. The monthly logs are available for all the vehicles.

Pg. 19, Finding 7.1 - Costs of commuting services

USAID-financed motor vehicles were not used for personal services to IDEA employees. It is true that they provided commuting services on an occasional basis. The cars, as explained previously, were parked in garages close to the drivers' house. If there were no prearranged duties, the driver picked up the administrative staff on his way to the office. This pickup did not add any mileage nor did it cost more in fuel and maintenance since the driver did not go out of his way for the pickup. Instead of driving to the office with an empty car he drove in with two more people without incurring any additional mileage. The same is true during the afternoon at 4 p.m. when he dropped the two IDEA staff on his way home unless his duty called for him to be elsewhere.

The two hours of commuting time alleged by the audit is totally unrealistic. The two administrative staff live, at most, 5 to 8 minutes from IDEA's office specially when traffic is light in Heliopolis at 7:30 a.m. and after 4 p.m.

In addition, the COP is picked up by another driver on his way to the office. At 7:30 a.m. and after 4 p.m. commuting time from the COP home to the office is 16 to 18 minutes. IDEA's budget included US$3,000 for the COP to import his private car to Egypt. This allowance was never used by IDEA's COP. The COP felt that these funds could be better used for other project tasks, if necessary. The use of a project car for his commuting resulted in savings to the project, in comparison to the alternatives. This is also a standard practice in USAID Missions worldwide.

The cited USAID/Egypt Contractor Notice #8-90 dated 4/15/90, was, in fact, dated 4/13/90. If a questioned item is sustained, then only the costs incurred after the Contractor Notice would apply.

The method used to obtain the questioned amount, namely 20% or 2 hours of 10, is without reasonable justification. The cost of the vehicles would be in miles (km) not hours used. The logs would support this and the distances traveled at the beginning and end of every day. The final amount for the actual commuting would probably be deemed immaterial in any event.

Pg. 19, Finding 7.2 - Documentation supporting motor vehicle expense is inadequate

a) US$98.57 and US$11.80: These are expenses incurred every year to register the four cars. Some of these expenses can be verified by looking at stamps required and others have been paid to the Customs and Traffic Police for administrative handling. The cost for administrative handling is usually very difficult to verify and varies from time to time. It is impossible to obtain receipts for these payments. As local Cairo residents, the auditors must use reasonable assumptions. Registering cars through the Alexandria Customs and Cairo Police is a difficult and expensive process. To say no expenses were incurred is unreasonable. The documentation, whether provided or not, cannot be fully called unsupported because the cars were in fact registered and therefore the fees by default must have been disbursed.

b) US$26.98 and US$56.87: When cars are serviced by regular repair shops we have provided invoices for these services. The US$26.98 was paid for several instances when cars would break down on highways or streets and help was provided by local mechanics roaming these streets and highways helping people for a small fee. They, of course, have no way of providing receipts for services provided. US$56.87 was paid when parking was not available at official parking garages. This was paid during a 20-month period when the parking space available was taken by someone else. IDEA paid the $56.87 for alternative parking security service so that we would not find AID's car vandalized (tires slashed). In Cairo, we must protect our vehicles while having them parked and provide security against vandals. The cost is certainly reasonable as detailed in the FAR and presented under Finding 8.0.

All the above expenditures cannot be verified with receipts but they are reasonable during a 20-month period of driving four cars in Cairo, and were absolutely necessary to the overall operation of business, as their claim during the project is reasonable, allocable and allowable.

Pg. 20, Finding 8.0. - Summary

The FAR definition of "reasonable" provided can be used here regarding the questionable items, as well as in the previous sections about unsupported costs. Not to obtain a receipt for a terribly minor item and later have it claimed as unsupported, is not what a prudent business person expects. IDEA hires professional, honest people. We must allow some threshold for accepting a minor claim, for a reasonable, allowable and allocable expense without full documentation of items on the order of 50 cents.

Pg. 20, Finding 8.0 - Summary

In this case the FAR's definition is superseded by the AIDAR of the contract. (See attachment 4). The AIDAR 752.7002-70 Travel Expenses Transportation and Storage (Aug 86) states that International (a) travel costs shall be reimbursed in an amount not greater than economy class. In AIDAR 752.202-70 definitions (Apr 84) under the definition of (i) Economy Class it states "Economy Class air travel (also knows as jet economy, air coach tourist class, etc.) shall mean a class of travel which is less than first class."

After reviewing the schedule 1/2 we see two items that total $3,032: the $2,180 amount plus the $852 amount. These two which total $3,032 cannot be found in any of our vouchers. We would appreciate an expansion of your claim so we could identify the items and respond accordingly. However, if that amount was the $3,320.00 amount (June 90 Invoice) where the numbers were transposed from $3,320 to $3,032, then the purpose of that trip was not R&R, but a trip back to the home office for consultation, a trip to the subcontractor, TEM in SFO/California during the training session there and a combined purpose of returning and setting in of the COP family to their home in Kansas. Additionally, the amount question at $852.00 is of puzzle also. The family did not go on a R&R, but they returned from post to home on a CAI/LON/STL/MCI ticket. As stated in schedule 1/2, if the question was for more than the economy class given AIDAR 752-7001-70, by definition of AIDAR 752.202-70 (i), the COP and family did not travel for more than economy class. They did travel on "business class", but by definition that is less than first class.

Regarding the $2,894.86 trip, (and attachment 5-1) is a copy of the contractors request to the AID CO for the travel, and the Contract Officers approval dated 10/24/89.

Given the approval and the above explanations of the AID travel policy, we believe these three items are allowable.

Pg. 20, Finding 8.2 - Housing allowance of US$3,540.00

USAID contractor's notice issued on August 24, 1989 was issued after IDEA's contract was signed in April, 1989. The COP had already signed a lease for his family housing amounting to US$1,800/month. This amount was included during the contract's negotiations with USAID, and was not questioned or objected to at that time. The lease was signed for the term of the contract at US$1,800/month. Again, the contractor believes that this amount should not be questioned as it was reasonable and within AID guidelines when initiated.

Pg. 21, Finding 8.3.1 - Car Rental

Problems with project vehicles were a common occurrence and were reported in IDEA's quarterly reports from 1989-1991 and in LBII's quarterly reports from the end of 1986 to 1989. Servicing US-made cars in Egypt was a continuous source of frustration and high costs because of the lack of US automobile spare parts in the Egyptian market. Seventy to 80% of spare parts had to be flown in from the US at great cost and delay. Because of these problems the USAID project officer approved the use of rental cars on June 19, 1988 (ARE 0037/88C). Subsequently, IDEA, during contract negotiations included $2,500/month allowance in the budget for the maintenance, fuel and renting of cars. Of course, options into purchasing a vehicle were explored on several occasions. But because the project was scheduled to initially end in August 1988, and then August 1990, then February 1991, USAID felt each time that purchasing a replacement vehicle was unwarranted. Furthermore, on April 9, 1990, a meeting was held with USAID Contracting Office to discuss various options: buying, leasing or renting a project vehicle (ARE 0035/90C). It was decided to stay on course and rent a vehicle on an as-needed basis. IDEA's COP was requested by the CO to keep a "paper trail" of this meeting with a memorandum to file.

Therefore, rental of a project car was done with the full knowledge of USAID. Its approval and the cost was included in IDEA's budget under line item "Equipment" and under sub line item "Maintenance and parts for 4 project vehicles." (See Attachment 6 for the latter referenced documents).

The subline budgets under "Equipment" were used because of a financial savings to USAID/Cairo. In IDEA's indirect cost rate structure, items included in the broad categories of "Equipment and Subcontracts" are excluded from the base of direct costs for the application of G&A. This means that the cost of the items in the "Equipment" line item were not burdened with IDEA's indirect G&A cost, which was provisionally at 29.5%.

This was to save AID money, not to misdirect charges to other line items as numerously implied throughout the report. The cost of the vehicles was proposed in the "Equipment" line item and charged correctly and consistently to the "Equipment" line item.

Lastly, the audit report questioned the "reasonableness" of the car rental, not the allowability. The car was rented from a commercial Egyptian entity. The objection, if any, should be on the allowability, not the reasonableness. All proper receipts were presented and fully documented. Reasonableness in the FAR needs some comparison to alternatives and alternative methods of procurement.

Pg. 21, Finding 8.3.2 - Fuel Consumption

IDEA has always maintained a vehicle log for the two vehicles under its control and has provided USAID with quarterly vehicle utilization reports. (See Attachment 7).

The assumption made by the auditors in their draft report for two cars consuming respectively 31 miles/gal. and 25 miles/gal. is totally unreasonable. One of the cars is a GMC "Suburban" with a V8 engine and two air conditioners. The other is a GMC bus also with a V8 engine and also two air conditioners. Taking into account that these are 1984 models and therefore pretty old, a safe assumption would be a maximum of 8 to 10 miles/gal. in city driving and 15-16 miles/gal. on highway driving. The assumption of 25 to 31 m.p.g. is absurd.

Furthermore, during the period of August 1989 to October 1989 all IDEA's subcontractors and consultants were mobilized. We experienced during this period a great increase of travelers from the US to Egypt. One of the main tasks of IDEA under this project was the field tests oversight. Two of these field tests were located outside of Cairo:

- one in Ras Ghareb, 450-500 kms from Cairo;
- the other in Wadi Riyan, 150 kms from Cairo.

During this period of three months, teams of subcontractors and consultants went at least once a month to both sites for at least one-week periods (5 working days). Each time the IDEA team went to Ras Ghareb, a second project car with NREA staff went with them. This was necessary because NREA staff could be housed at the GPC facilities in Ras Ghareb while IDEA's staff had to travel to Hurghada, located 140-150 kms from Ras Ghareb for their accommodations. Each day staff were transported back and forth from Hurghada to Ras Ghareb to perform their job. Accommodations for Wadi Riyan were located in Fayoum (50 kms away) and again staff were transported on a daily basis to the field.

Given the more accurate mileage consumption for both cars, the very busy period of August to October 1989, and the location of the field tests, one can see why fuel consumption for this period was at one of its highest but not unreasonable as mentioned in the report.

We, therefore, take exception to Finding 8.3.2 regarding the fuel consumption. The amount of fuel used was reasonable, allocable and allowable. Travel logs and the project history, if considered, easily justify this claim.

Pg. 22, Recommendation (1)

We take exception to the questioned costs presented and feel there is no basis for the items of Schedule 1/11. We also feel that after more than 6 months these items could have easily been resolved if the COP or the DC office was properly consulted regarding these questioned items.

10

Pg. 22, Recommendation (2)

We take exception to the supposed unsupported costs of Schedule 1/12. These items have been earlier addressed and, within all reasonable assumptions, should be reinstated. The securing of very minor receipts for very small expenditures is impractical in many instances and address no material issue of contract compliance.

Additionally, USAID reviews our vouchers with very careful voucher examiners each and every month. The normal practice and integrity of IDEA has been questioned a second time for these expenses and we are confident our overall system of record keeping and honest contracting will have these small items deemed immaterial a second time.

Pg. 22, Recommendation (3)

The application of indirect rates as per the FAR is to be applied upon audit of the entire firm by the Cognizant Audit Agency of IDEA, which is the RIG/A/DC.

The presentation of Schedule 1/13 presents a misrepresentation in two areas. The first regards the "fixed fee". It is not an indirect rate, but a provisional billing rate.

In conformity with the FAR, this is a CPFF type contract and the application of the fixed fees paid, have been, by definition, paid on provisional basis, based on the provisional payments. The fees paid and fees to be paid are a fixed amount, again as per the FAR.

The second area is the similar full application of the "overheads" summarized in schedule 1/13 and presented in schedule 1/8 where the field staff overheads, namely the "Provisional Billing Rate" for Overheads was applied to the earlier questioned salaries (Schedule 1/1) and fringe benefit (Schedule 1/1). As pointed out in the comments on the fringe benefits (pg. 14, Findings 4), we take exception to the full application of indirects prior to audit as outlined in the FAR for either the fringe, overheads and G&A's.

We, therefore, take exception to this recommendation, as the FAR precludes this recommendation until after the audit of the firm's indirects. The fee however, is in fact, "fixed."

We also understand that it is the job of the auditor to point this out in his audit report and propose these adjustments. It however presents a distorted picture of the actual findings in Appendix III - Non Compliance Percentage.

Pg. 23, Finding 1.0: Allowability of certain labor charges.

Ms. Noor, the office manager of IDEA-STC project was hired on a 3-month probationary period. Following her successful completion of the probation period she was given a salary increase as called-for by her contract. This is in conformity with IDEA's personnel policies for the project's local employees. Therefore, the $638.21 should not be questioned.

Pg. 23, Finding 2- The Allowability of Egyptian Fringe Benefits

The auditor is requested to refer to the contractors response referring to Page 14, Findings 4 from the REFT Section of the audit response.

Pg. 23, Finding 3- Documentation Supporting certain direct costs is inadequate

Pg. 24, Finding 3.1: Inadequately supported travel and local transportation in the amount of $126.68

The STC project did not have any USAID-financed vehicle. IDEA's COP had to attend a number of meetings and local taxi was the only means of transportation. Taxis in Cairo do not provide receipts. An amount of $126.68 for local transportation is reasonable during a 2-year period and should not be questioned.

Pg. 24, Findings 3.2: Living quarters expenses in the amount of $163.55 is inadequately supported

IDEA's first COP had to set up his office and find temporary living quarters for his family among other things at his arrival at post in Cairo. Utilities receipts for his temporary living quarters were misplaced during this very busy period. His claim for $163.55 for utilities is reasonable since the quarters include several air conditioners.

Pg. 24, Findings 3.3: Miscellaneous expenses in the amount of $370.23 is inadequately supported

As in Finding 3.2, some receipts for miscellaneous expenses were misplaced. Others were lost in the mail. Unlike the REFT project, STC invoices to USAID were prepared in IDEA's Washington office and consequently all local receipts were regularly mailed to the headquarters. Some of the receipts were lost between Cairo and Washington.

Pg. 24, Findings 4.0 - Reasonableness of certain allowances is questioned in the amount of $8,700

IDEA's contract was signed in March 1989, prior to the contractor notice No. 21-89 dated August 1989. The COP housing allowance of $2,200/month was included in the budget negotiated with USAID Cairo. IDEA's COP signed an 18-month lease for $2,200/month including utilities, and furniture and maintenance and "make-ready" costs.

It is important to point out that these other costs were included under "rent." Apartments located on the Corniche in Cairo rented for this amount, especially from foreigners. This expenditure for housing is therefore reasonable under the circumstances.

Pg. 28, Finding 1: Inadequate Internal Control over USAID Billing Procedures

The listed finding has no basis for the resultant conclusion of "Inadequate Internal Controls."

IDEA has established and exercises numerous internal and external financial controls on the expenses incurred and billed to all USAID contracts, including the REFT & STC programs.

As described during the audit procedure by Dr. Peter M. Meier, IDEA performs quality internal audit reports of all its contracts.

The procedure for these internal audits we described in a January 3, 1991 memo from Stern to A. Elalfy (See Attachment 8). This procedure was designed by Mr. Richard McGann (AID/RIG/A/DC & Cairo) in 1984. The internal audit papers, as others, were offered to the audit group, but never requested. The internal year end audit reconciles all booked expenses with all claimed costs.

A comparison is made and a detailed review is instituted to reconcile the differences. These differences are provided as either credit or debits in the December vouchers, or quarterly, as necessary. The internal audit of IDEA contracts assumes management ~~of~~ compliance with FAR, CAS and AIDAR.

As mentioned, there was an instance of an overbilling on some costs in the REFT. These costs were discovered by IDEA during the year end internal audit and adjustments were made with credits to the December 30, 1990 invoice.

Labeling this internal audit procedure as "Inadequate", when the auditors themselves saw the procedures working and yielding proper credits is unfair at best. The self-correcting internal audits of contracts at IDEA coupled with immediate and timely credit is the definition of internal control. IDEA is, in fact, billing its contracts from its books and ledgers, and internally controlling and reviewing its daily operations with excellent internal control.

Implying that "duplicate charges could have been avoided" (line 13) implies that the internal control structure at IDEA exists and is working. Since you saw them working, you can only give USAID the absolute assurance that "the costs incurred and billed are free of material misstatement" (pg 25, line 14), as you witnessed the process of the internal audit and internal controls.

13

In this case, your definition that errors may go undetected (page. 26, line 12) without internal controls was a perfect example that if errors do occur, and with proper internal controls, they are detected and reconciled. This is IDEA's internal control.

The material deficiency here is the lack of acknowledgement of a well established system of internal controls. The statement that USAID/Cairo would have any desire whatsoever to see a reconciliation of IDEA's Cairo disbursement account is totally without substance. The AID/Cairo fiscal office is required to receive our vouchers with proper documentation for all claimed costs. These claimed costs are required by that FAR to come from our books and records (the General Ledger) not from our local bank statements.

Submitting the bank reconciliations with the vouchers would not provide USAID any assurance against duplicate charges, especially since reconciling disbursements, payables, identifying non reimbursable and reimbursable expenses, currency fluctuations, internal transfers from DC to Cairo in dollars and intrabank transfers from the Cairo dollar and local currency accounts, etc., all provided your auditors with a material amount of work. All of which is reconciled quarterly with the internal audit book vs billed analysis.

To summarize, the management of IDEA is confident that its internal controls and internal policies provide management with a reasonably high level of assurance that its assets and liabilities are safeguarded regarding its international operations and its U.S. Government contracting responsibilities.

Pg. 28, Findings 2 - The quality of internal accounting control in IDEA Cairo offices is questionable

It is not the policy of IDEA to have its field offices supervise or monitor costs charges to USAID contracts. This responsibility rests with the management of the company, not field office managers.

In the case of the STC project, the local office maintained a local reimbursement currency account in both USD & L.E.

As the STC-COP disbursed funds and his supply of money was reduced, he was reimbursed additional corporate funds. He was reimbursed only upon submission of receipts, bank statements and documentation regarding the locally incurred costs. Proper management and internal control reviewed his expenditures and documentation before reimbursement each time. The total amount spent each month was less than $3,500/month of which $2,200 was for housing, approximately $400 for local salaries, and $400 for local ODC expenses.

IDEA did not maintain an accounting system for the project in the STC office. It was unwarranted and we could not reasonably support the cost either directly or indirectly. The expenses were submitted and entered into the corporate books and record when received, and then billed to the invoices to AID accordingly. There was and is no logical reason for the local STC office to retain copies of all accounting records as its purpose was to do technical work, not accounting.

Pg. 29, Finding 2.2 - Quality of internal accounting control in IDEA Cairo office is questionable

The successful implementation of a complex task such as the Renewable Energy Information System (REIS) assumes that all objectives set forth in the Project Paper and the Prime IDEA contract have been reached on schedule and within budget. It is impossible to therefore implement successfully this task without technical and financial controls. Both are necessary.

EMCO's main task was to implement local training of NREA staff on the 8th floor of the building housing NREA offices as well as IDEA's Cairo office. In fact, the training center was located next to IDEA's office. IDEA's Chief of Party (COP) was therefore aware of all EMCO personnel present and the course being taught and which group NREA personnel was being trained. Furthermore, NREA's manager assigned to this task (Eng. Rafik Georgy) held a bi-weekly meeting with EMCO task manager (Mr. Sharif el Mougy) and IDEA's Project Manager, where various issues were discussed and planning of future activities were agreed upon.

As a result of this very close collaboration, the implementation of the REIS was one of the success stories of the REFT project. This is the opinion of the project office at the USAID Cairo Mission, NREA management and staff and USAID Washington.

The audit report suggested that IDEA approved EMCO's invoices only after receiving progress reports or that EMCO's staff timesheets be approved by NREA.

In response to that finding, the contractor clearly states and supports the findings point:

1) The EMCO subcontract is with IDEA, not NREA,

2) approval of their timesheets is the responsibility of IDEA's COP, not NREA.

3) Progress reports are a rational basis for approving invoices if, and only if, there are not other ways to evaluate their reasonableness of invoices submitted for payment. As described above, because of IDEA's clear involvement with the team of IDEA and NREA, IDEA's COP had a very reasonable basis for approving EMCO's invoices.

Pg. 33, Finding - A.1

15

These were responded to earlier and IDEA maintains these annual salary increases were both reasonable and allowable as well being in compliance with the FAR and contract terms.

Pg. 33, Finding - A.2

This was addressed in our response for Pg. 3, Finding 1.

Pg. 33, Finding - A.3

This finding was responded to regarding FAR 52.216.7(d) [Re: Pg. 14, Finding - 4] for the application of indirect rates upon audit. IDEA again states indirect costs are not based on one segment of the cost structure, but the entire pool of indirect costs and the entire base of direct costs.

Pg. 34, Finding B & Recommendation 10

IDEA admits to the Finding B regarding the labor related noncompliance laws of Egypt given the circumstances described in our earlier responses.

When we attempted to remedy this situation, we were advised by two of the three employees that it was not an issue with them. The third wanted the situation remedied and IDEA paid not only IDEA's portion of the taxes, but also the employees.

Conclusion

We hope the enclosed response has been clear and responsive to the items of issue. If you have any additional questions, please feel free to call me or fax.

Sincerely,

Robert Stern
Comptroller

RS/ro

Management response

Auditor's Comments

1. **IDEA's response on the preaward survey audit report No. 6-263-89-03N:**

   The fifth objective of IDEA's financial audit is to determine whether IDEA has taken adequate corrective action on the preaward survey audit. Since all the recommendations were related to IDEA's head-office in the U.S., we could'nt report on the compliance with the preaward survey audit recommendations. However, we have obtained IDEA's management assertion on the financial capability, accounting system, internal controls, and the computation of the actual overhead rate.

   All documents were sent to the "Regional Inspector General for Audit Office" together with recommendation that USAID-overhead Branch at Washington D.C. audit the actual overhead rates which were computed and submitted by IDEA's home-office.

2. **IDEA's Fund Accountability Statement for local expenditures**

   Enclosed are copies of the representation letters signed by IDEA's managers, who are authorized to manage IDEA's projects in Egypt. Although, IDEA's management at home-office denied the responsibility, it was aware of and was duly consulted on daily basis concerning all audit procedures, steps, scope, and findings. Three meetings were held at IDEA's offices in Cairo with the Resident Project Manager (RPM) -Vice President- IDEA Inc., Cheif of Party (COP), IDEA STC's project manager and other key personnel during the audit. Please refer to attachement (1).

3. **IDEA's accounting system and internal control Over USAID billing procedures:**

   We considered the internal control structure and the accounting system of IDEA's home office as part of our assessment of the internal control and accounting systems of IDEA's projects in Egypt. Our audit revealed reportable conditions related to significant deficiencies in the internal control structure of IDEA's projects in Egypt.

   While we were reconciling the recorded expenses with the billed expenses we discovered overbilling, that occurred in early 1989. The refund to USAID/Egypt that occurred in December 1990 was one of the results of our audit.

Management response agrees with our recommendation to file timely reconciliation with each bill to prevent any confusion between costs locally incurred and costs paid by home-office. Please refer to attachment No. (2).

4. Gains from US $ Exchange rates

Enclosed is the computation of gains and losses realized from the fluctuations of the $ exchange rates. Management comment does not clarify the questioned amount. Please refer to attachment (3)

5. The allowability of certain subcontract charges:

IDEA's management response did not consider the facts that:
No documentary evidence was found supporting time incurred or time charged by specified personnel in clause 9A of the subcontract. The loaded rate of $ 220.5, which caused the overbilling, was revised and corrected commencing September 1990 by REFT RPM.

RPM management assertion that was obtained on March 12, 1991 states that :

" Closer examinations of EMCO time sheets by myself few months later lead me to the conclusions that :
a. More time was spent by EMCO experts than their Senior Managers"
" .. Based on this examination IDEA requested EMCO to discontinue the practice of billing the weighted average salaries and agree to have EMCO billed on actual rates of people working on this project."

We believe that, the time required in accordance with clause 9A of the subcontract of certain level of effort of senior consultants and managers, was never reported to IDEA, neither did IDEA claim the erroneously overbilled cost by the subcontractor.

6. The allowability of Egyptian fringe benefits is questiond:

The finding states that IDEA should not have billed or claimed the percentage of the fringe benefits of the local national employees because IDEA did not contribute to the Egyptian Social Insurance Fund. IDEA's management response did not address the finding. IDEA's management comment that the finding misrepresents the FAR clause 52.216.7 and that the questions regarding these amounts are inappropriate, is incorrect. In our opinion IDEA has been delinquent in paying such costs. The provision for this cost was calculated by IDEA and was reimbursed by USAID/Egypt. We are aware of our scope limitation, and have addressed the finding and recommendation to highlight the subject matter of the Egyptian Social Insuracne.

18

Furthermore, IDEA was in noncompliance with Social Insurance Laws in Egypt. IDEA asserted that it has attempted to remedy the situation by contributing in the Social Insuracne but its employees refused. We believe that IDEA's compliance with the Egyptian laws is management responsibility.

7. Allowability of certain other direct costs

Under this heading management response addresses the following costs: tips and miscellaneous costs at Cairo airport, bank charges for printing check books, provisional payments and gratuities, entertainment costs, overtime paid to one of NREA's drivers, bonus and gratuities paid to NREA personnel, and fixed maintainance and garage allowances. It is up to USAID/Egypt to accept management assertions. We still view these items as questionable charges under cited FAR criteria.

8. Motor vehicles expenses

Attachment (7) is an inventory list for vehicles used, it does not include daily usage of vehicles, distances for each trip, neither does it measure the mileage. Such inventory lists are not logs and can not be used in lieu of proper logs to control fuel consumption, and excessive repairs and maintenance. No other Logs or Registers were maintained by REFT Project.

9. Costs of commuting services

We agree with IDEA's management assumption that Motor vehicle Logs would have provided better supporting If those Logs were maintained on the first place. Since such Logs did not exist we had to resort to some reasonable estimate taking in consideration that 2 vehicles out of four were used by NREA employees. However, we would accept any other reasonable estimate approved by USAID/Egypt.

10. Documentation supporting motor vehicle expense is inadequate

Management response disagreed with the finding on the basis that such costs could not be verified, and that the registration fees, by default, must have been disbursed because cars were registered. However, we have never questioned such costs. All costs which were found to be related to small repairs or sundries and were supported by receipts signed by the project accountant were considered appropriate and adequately supported expenses.

19

We questioned those costs which were unsupported by necessary documents or were not verified (i.e. the difference between the sum of the expenses in the expense reports and the expenses that have supporting documents.)

11. Housing allowance of REFT COP

Management response does not clarify the questioned cost.

12. Fuel consumption

IDEA's management commented on motor vehicles expenses useing the same format attachment 4. [The quarterly vehicle utilization reports sample is submitted as attachment 7.] As it has been indicated before, this format is an inventory list. It does not provide the necessary information to control vehicles running costs. IDEA did not maintain vehicle log for any car under its control for the 20 month audited period.

13. Documentation supporting certain direct costs is inadequate (STC)

IDEA's management agrees that these costs are unsupported.

14. Reasonableness of COP Housing Allowance (STC)

IDEA's response agrees that these costs are not in conformity with AID contractor notices.

15. Allowability of certain direct labour charges

We reviewd IDEA's personnel policy which was in conformity with contract standard provisions and USAID regulations. IDEA's policy allows annual salary increase only after 12 month of satisfactory performance for all IDEA's employees whether in USA or in Egypt. We accepted management clarification on the basis of the acceptable normal practice in case of outstanding performance, recognized and appreciated by USAID/Egypt. Also, we accepted the case of the continuation of an employee's contract when IDEA tookover the REFT Project. Questioned annual salary increases costs of $ 633.14 on REFT project and of $ 638.21 on STC project can be removed together with all related indirect costs.

16. Travel costs $ 5,926.86 can be removed from the questioned costs

a. IDEA's management provided us with USAID/Egypt approval for the Oct. 1989 round trip ticket to USA. The questioned costs of $ 2,894.86 is removed based on the evidence provided to us.

b. For the CAI/PAR/DCA return ticket in June 1990, we did not question the total cost of the ticket ($ 3,320), but merely the sum of $ 2,180.00 which is the difference between economy class and first class.

c. For the 3,518.00 the cost of CAI/LON STL family R & R tickets, we questioned only $ 852.00.

We accept management assertion according to AIDAR 752-7002-70 travel expenses on the basis that AIDAR governs the contracts between IDEA and USAID/Egypt.

17. Car rental for usage of COP ($ 18,562.46)

This costs is removed because IDEA's management provided us with USAID/Egypt approval to rent a car for COP. in fact, the approval was issued to Louis Berger on June 19, 1988 and continoued when IDEA tookover the project. The reason for this approval was the secondment of two of IDEA's vehicles to NREA.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

23 DEC

December 23, 1991

M E M O R A N D U M

TO: Reuben Hubbart, A/RIG/A/C

FROM: Frederick Will, OD/DIR/CS

SUBJECT: Draft Report on Local Expenditures of the International Development & Energy Associates under USAID/Egypt Contracts No. 263-0123-C-00-9035-00 and 263-0140-C-00-9030-00 (Project Nos. 263-0123 & 263-0140)

Following is the Mission response to the following draft audit recommendation:

Recommendation No. 1:

We recommend that USAID/Egypt resolve the questioned and unsupported costs of $47,817 and $4,084.

Mission Response:

Mission has reviewed the subject draft report and is working with the contractor to determine the status of the questioned and unsupported costs of $47,817 and $4,084. Mission will request that this recommendation be resolved when the status of the questioned and unsupported costs has been determined.

Report Distribution

	No. of Copies
U.S. Ambassador, Egypt	1
Mission Director, USAID/Egypt	5
Assistant Administrator Bureau for Near East AA/NE	2
Associate Administrator for Finance and Administration, AA/FA	1
Associate Administrator for Operations, AA/OPS	1
Office of Press Relations, XA/PR	1
Office of Financial Management, FA/FM	1
Office of Legislative Affairs, LEG	1
Office of the General Counsel, GC	1
Office of Egypt, NE/MENA/E	1
POL/CDIE/DI, Acquisitions	1
FA/MCS	1
IG	1
AIG/A	1
IG/A/PSA	1
IG/A/PPO	2
IG/LC	1
AIG/I	1
IG/RM/C&R	5
Other RIG/A's	1 each