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**Audit of Local Expenditures of Boyle  
Engineering Corporation and National Education  
Corporation, Joint Venture Under USAID/Egypt  
Project No. 263-0176 (L/COM No. 263-0176-01)**

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Report No. 6-263-92-03-N  
November 26, 1991



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

November 26, 1991

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

FROM : RIG/A/C, *Philip L. Darcy*

SUBJECT: Audit of Local Expenditures of Boyle Engineering Corporation and National Education Corporation, Joint Venture Under USAID/Egypt Project No. 263-0176 (L/COM No. 263-0176-01)

The attached report dated August 1, 1991 by Hazem Hassan & Co. presents the results of a financial audit of Boyle Engineering Corporation and National Education Corporation, Joint Venture's (Boyle's) local expenditures under L/COM No. 263-0176-01. Boyle assists managers of the Ministry of Reconstruction and Housing and the National Organization for Potable Water and Sanitary Drainage in the implementation of solutions to various water sector problems.

We engaged Hazem Hassan & Co. to perform a financial audit of Boyle's local expenditures totaling \$870,196 for the period August 31, 1988 to December 31, 1990. The audit scope excluded \$74,287 in costs previously disallowed by either the GOE or USAID/Egypt. 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 Boyle's internal controls and compliance with applicable laws, regulations and grant terms as necessary in forming an opinion regarding the Funds Accountability Statement.

Hazem Hassan & Co. questioned \$21,203 of Boyle's claimed costs (including \$2,193 in unsupported costs). Questioned items include gains on currency exchange earned from A.I.D.-financed activities, but not credited to USAID/Egypt, erroneous subcontractor billings, office supply costs which were not adequately supported and the charging of transportation costs not included in the contract budget. Hazem Hassan & Co. noted no reportable conditions regarding Boyle's internal control structure, but did report compliance findings regarding compliance with contract budget line items and Federal Acquisition Regulations (FAR) concerning allocability (FAR 31.201-5).

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

In general, Boyle management agreed with the audit findings. However, they believed that questioned transportation costs could be reclassified into an appropriate budget line item. Management also claimed that the exchange rate gain due USAID/Egypt had effectively been delivered by Boyle agreeing to an extension of its contract at no additional cost to A.I.D. Mission and contractor management are exploring these issues.

**Recommendation No. 1.1:** We recommend that USAID/Egypt resolve the questioned and unsupported costs of \$19,010 and \$2,193 appearing on page 7 of the audit report.

**Recommendation No. 1.2:** We recommend that USAID/Egypt calculate and recover the Federal cost of money associated with exchange rate gains made by Boyle over the life of its contract.

These recommendations 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. 1.1 is considered unresolved. This recommendation can be resolved when we receive the Mission's formal determination as to the amounts sustained or not sustained. Recommendation No. 1.2 can be resolved when USAID/Egypt issues a bill for collection to Boyle for amounts due. These recommendations can be closed when any amounts determined to be owed to A.I.D. are paid by Boyle.

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.

**AUDIT OF LOCAL EXPENDITURES OF**  
**BOYLE ENGINEERING CORPORATION AND NATIONAL**  
**EDUCATION CORPORATION, JOINT VENTURE**  
**UNDER USAID/EGYPT'S**  
**WATER / WASTEWATER SECTOR INSTITUTIONAL SUPPORT**  
**L/COM NO. 263-0176-01**  
**PROJECT NO. 263-0176**

**AUDIT OF LOCAL EXPENDITURES OF**  
**BOYLE ENGINEERING CORPORATION AND NATIONAL**  
**EDUCATION CORPORATION, JOINT VENTURE**  
**UNDER USAID/EGYPT'S**  
**WATER / WASTEWATER SECTOR INSTITUTIONAL SUPPORT**  
**L/COM NO. 263-0176-01**  
**PROJECT NO. 263-0176**

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# **KPMG** Hazem Hassan & Co.

Accountants & Consultants

74, Mohi Eldin Abul Ezz Street  
Mohandiseen, Cairo  
Telephones: 3499588-3499677  
Telex: 93798, 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

Ref.: 0007A/AT/

Date: August 1, 1991

Dear Mr. Darcy

On December 5, 1990 we contracted with your office to perform a financial audit of Boyle Engineering Corporation and National Education Corporation L/Com No. 263-0176-01 under USAID/Egypt's Water/Wastewater Sector Institutional Support Project (WWISP) No. 263-0176 for the period August 31, 1988 to December 31, 1990.

## 1. BACKGROUND

Boyle Engineering Corporation and National Education Corporation formed a joint venture, henceforth Boyle & NEC, in the United States of America under California Laws.

In August 1988, a contract was signed by the National Organization for Potable Water and Sanitary Drainage (NOPWASD) and the Joint Venture firms of Boyle Engineering Corporation and National Education Corporation for the implementation of USAID/Egypt's Project No. 263-0176.

WWISP Project was conceived by the Government of Egypt (GOE) and the USAID to create a more functional and effective national Water/Wastewater Sector. A well developed and properly managed Water/Wastewater Sector is essential to the health, well-being and productivity of the workforce and general populace.

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This is a cost reimbursable plus fixed fee contract with a ceiling value. The original contract amount was \$ 8,314,038. The contract was amended twice, once in July 1989 and the second time was in November 1990. The total price for the basic contract and amendments was \$ 9,238,377.

Boyle & NEC have subcontracted with TEAM Misr, Ahmed Abd-El Wareth (A.A.W.), Eco-resources Inc., and Robert R. Nathan Associates Inc. . The project is composed of a series of tasks being conducted at the Ministry of Reconstruction and Housing (MRH) and at NOPWASD. Contract tasks include advising on policy, organization matters, and long range strategic planning. The objective of the project is to assist MRH and NOPWASD managers in the implementation of solutions to various sector problems.

2. AUDIT SCOPE, OBJECTIVES AND METHODOLOGY

We performed a financial audit to report on the Fund Accountability Statement of locally incurred costs of Boyle & NEC. Accordingly, our audit included an examination of the projects' locally incurred costs which were subsequently reimbursed by USAID/Egypt.

The objectives of this audit are to determine whether :

- 1) the costs reported as incurred under the contract are in fact allowable, allocable, and reasonable in accordance with the terms of the contract and A.I.D. Handbook 11, Chapter 4;
- 2) the internal controls, accounting systems and management practices of Boyle & NEC were adequate;
- 3) Boyle & NEC complied with the applicable contract terms (including standard contract provisions) which may have affected the costs incurred under the contract..

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 examinations and tests of documents supporting \$ 372,717 in locally incurred costs out of total locally incurred costs of \$ 870,196. We reviewed the existing accounting system and internal control structure, 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 judgemental basis. Our selection was structured to test compliance with the prescribed internal control procedures and to test the validity of the transactions. We tested 36% of subcontractors costs, 54% of travel and transportation costs, 72% of equipment costs, and 46% of other expenses. Additionally, we conducted substantive testing on procurement procedures, General and Administrative (G&A) expenses, physical observations and a count of project assets. Also, we reviewed the applicable contractor notices issued by USAID/Egypt, contract standard provisions and USAID regulations. We held several meetings with Boyle & NEC's management and key personnel.

Our audit steps and procedures were designed in such a way, to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the Fund Accountability Statement amounts or the results of this financial audit.

Our review and evaluation of internal control system and of compliance with contract terms, USAID regulations and applicable laws included interviews with Boyle & NEC's management and key personnel, internal control questionnaire and other procedures to ascertain if the accounting system utilized is sufficient for Boyle & NEC's needs, and if it meets with USAID requirements.

Boyle & NEC 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 contract provisions.

### 3. RESULTS OF AUDIT

#### Statement of Locally Incurred Costs

We found unsupported and questioned subcontractors charges, transportation allowances, other direct costs and gains from fluctuations of exchange rates.

#### Internal Control Structure

No material weaknesses have been found in the internal control structure of Boyle & NEC.

**Compliance with Contract Terms and Applicable Laws and Regulations**

Boyle & NEC was billing the USAID/Egypt for items that were not in the project budget. Boyle & NEC did not credit USAID/Egypt for gains realized from \$ exchange rate fluctuations, a noncompliance with FAR allocability criteria. (FAR 31.201-4)

**Questioned and Unsupported Costs**

Our findings include \$ 19,010 in questioned costs and \$ 2,193 in unsupported costs out of total incurred costs and subsequently reimbursed by USAID/Egypt of \$ 870,196 for the period August 31, 1988 through December 31, 1990 (see Appendix I for details of questioned and supported costs).

**Management Comments**

An exit conference was held on September 11, 1991 in which Boyle & NEC's management responded to our audit findings. Management comments are included in Appendix II.

This report is intended solely for use by the United States Agency for International Development and may not be suitable for other purposes.

Hazem Hassan & Co.

M. Kamel

Cairo , Egypt  
August 1, 1991

# **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  
Regional Inspector General for Audit  
United States Agency for  
International Development  
Mission to Egypt  
Cairo , EGYPT

## The Fund Accountability Statement Independent Auditor's Report

We have audited the Fund Accountability Statement of locally incurred costs for the period August 31, 1988 to December 31, 1990 of Boyle Engineering Corporation and National Education Corporation, Joint Venture, L/Com No. 263-0176-01 under USAID/Egypt's Water/Wastewater Sector Institutional Support Project No. 263-0176. The Fund Accountability Statement is the responsibility of Boyle & NEC'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 Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Fund Accountability 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 and for indirect costs billed in accordance with contractual provisions. Consequently, costs are recognized when cash is disbursed not when the liability is incurred. Accordingly, the accompanying statement is not intended to present results in accordance with generally accepted accounting principles.

**KPMG** Hazem Hassan & Co.

As disclosed in the findings section, Boyle & NEC has incurred \$21,203 of questioned and unsupported costs out of total locally incurred and subsequently reimbursed by USAID/Egypt costs of \$ 870,196.

In our opinion, except for the effects of the questioned and unsupported expenditures as discussed in the preceding paragraph, the Fund Accountability Statement of locally incurred costs referred to above presents fairly, in all material respects, Boyle & NEC's locally incurred costs for the period August 31, 1988 to December 31, 1990, in conformity with cash basis of accounting and in accordance with the terms of the contracts referred to above.

This report is intended solely for use by the United States Agency for International Development and may not be suitable for other purposes.

Hazem Hassan & Co.

M. Kamel

Cairo , Egypt  
August 1, 1991

**Boyle Engineering Corporation**  
**And**  
**National Education Corporation Joint Venture**

KPMG  
Hazem Hassan & Co.

**Fund Accountability Statement (Note 1)**  
**for the period**  
**August 31, 1988 to December 31, 1990**

	<u>Local Cost Billed</u> \$	<u>Disallowed Costs (Note 3)</u> \$	<u>Local Cost Reimbursed by USAID</u> \$	<u>Questioned Costs (Note 4)</u> \$	<u>Unsupported Costs (Note 4)</u> \$	<u>Schedule No.</u>
- Subcontractors' Costs	662,588	40,696	621,892	17,994	322	1
- Local travel & transportation	18,172	15,895	2,277	1,016	-	2
- Equipment	88,740	1,511	87,229	-	-	-
- Miscellaneous	174,105	16,185	157,920	-	1,871	3
- Insurance	878	-	878	-	-	-
	----- 944,483 =====	----- 74,287 =====	----- 870,196 =====	----- 19,010 =====	----- 2,193 =====	

The accompanying notes are integral part of the Fund Accountability Statement.

**Note 1:**            **Accounting Basis**

The Fund Accountability Statement of Boyle Engineering Corporation & National Education Corporation Joint Venture is prepared on the basis of cash receipts and disbursements, except for subcontractor costs and for indirect costs billed in accordance with contractual provisions. Consequently costs are 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 disbursements is a comprehensive basis of accounting other than generally accepted accounting principles. The cash basis of accounting is permitted by USAID Handbook 11. Additionally, the statement is prepared in accordance with the cost principles set forth in "USAID Handbook 11", which discusses host country contracts and audits, and prescribes the nature of reimbursable costs not specifically defined in the contract.

**Note 2:**            **Description of the Contract**

The contract is a direct cost reimbursable plus fixed fee contract between Boyle Engineering Corporation & National Education Corporation Joint Venture and NOPWSD for Water and Wastewater Institutional Support Project. The USAID finances both the US Dollars and Egyptian Pound costs. All payments are made in US Dollars under a USAID Direct Letter of Commitment by checks issued in the name of the Boyle & NEC Joint Venture.

**Note 3:**            **Disallowed Costs**

The terms of the contract provide for Boyle & NEC to submit their billings to NOPWSD for review prior to the billing being submitted to USAID for payment. The USAID has the right to disallow any costs that do not comply with USAID regulations. Disallowed costs represent those rejected by NOPWSD and by USAID/Egypt as a result of their reviews of the costs invoiced, and were not paid by the USAID.

**Note 4:**            **Questioned and Unsupported Costs**

Questioned and unsupported costs consists 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 No. 1. The findings are detailed in the findings section of this report.

Boyle Engineering Corporation  
And  
National Education Corporation Joint Venture

**FINDINGS**

1. The allowability of certain subcontractors' charges are questionable ( Schedule No. 1 )

Our audit identified a total of \$ 18,316 in subcontractors costs recorded by Boyle & NEC. The allowability of such costs is questionable. The break-down of such questionable costs is as follows :

1.1 Our audit revealed that \$ 322 were charged to the USAID as subcontractors' employees cost but there were no time reports to support such charges.

The time report for the subcontractor showed 180 hours for one employee and zero for another one, while the time charged to the contract was 232 hours for the first and 16 hours for the second the total difference is  $52 \times 2.5 = \$ 130$  and  $16 \times 12 = \$ 192$ .

1.2 Gains from changes in the exchange rate in the local market are questioned as a reduction to local subcontract costs billed by Boyle & NEC J.V. to USAID/Egypt. ( Schedule No. 1 )

Our examination revealed that a gain of \$ 17,994 has been realized due to fluctuations of exchange rates during the period between the date of the subcontractors billings and the date of reimbursement.

Although a footnote to the subcontractor invoice states that the amount billed is based on an assumed exchange rate and an adjustment should be made at the date of payment. Boyle & NEC did not perform any adjustment. This gain should be paid to the subcontractors or refunded to A.I.D.

2. The allowability of certain transportation costs is questionable ( Schedule No. 2 )

We identified \$ 1,016 in local transportation costs that was billed by Boyle & NEC and subsequently reimbursed by USAID/Egypt.

We question this amount in accordance with FAR allowability criteria (FAR 31.201-2). The budget did not have any allocation for local transportation costs.

3. The allowability of other direct costs (office supplies and printing costs) is questionable

Boyle & NEC billed USAID/Egypt for \$ 1,871 of office supplies and printing costs that were not supported by appropriate documentation.

# **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 of Internal Control Structure Independent Auditor's Report

We have audited the Fund Accountability Statement of locally incurred costs for the period August 31, 1988 to December 31, 1990 of Boyle Engineering Corporation and National Education Corporation, Joint Venture, L/Com No. 263-0176-01 under USAID/Egypt's Water/Wastewater Sector Institutional Support Project No. 263-0176, and have issued our report thereon dated August 1, 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 Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement of Boyle & NEC is free of material misstatement.

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

The management of Boyle & NEC is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control

structure are to provide management with reasonable, but not absolute, assurance that the 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 financial statements 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;
- Subcontractors' costs;
- Travel, Transportation and per diem;
- Purchases and disbursements.

For all the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to management of Boyle & NEC in a separate communication dated July 31, 1991.

**KPMG** Hazem Hassan & Co.

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

Hazem Hassan & Co.

*M. J. Carnot*

Cairo , Egypt  
August 1, 1991

# **KPMG** Hazem Hassan & Co.

Accountants & Consultants

74, Mohi Eldin Abul Ezz Street  
Mohandiseen, Cairo  
Telephones: 3499588-3499677  
Telex: 93798, HMCO 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 Auditor's Report**

We have audited the Fund Accountability Statement of locally incurred costs for the period August 31, 1988 to December 31, 1990 of Boyle Engineering Corporation and National Education Corporation, Joint Venture, L/Com No. 263-0176-01 under USAID/Egypt's Water/Wastewater Sector Institutional Support Project No. 263-0176, and have issued our report thereon dated August 1, 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 Controller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Fund Accountability Statement of Boyle & NEC are free of material misstatement.

Compliance with laws, regulations, contract terms and conditions is the responsibility of Boyle & NEC's management. As part of obtaining reasonable assurance that the costs claimed are free of material misstatement, we performed tests of Boyle & NEC 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 disclosed the following material instances of noncompliance, the effects of which have been corrected in Boyle & NEC's Fund Accountability Statement. The material instances of noncompliance are noncompliance with contract terms (Schedule F) and with FAR clause 31.201-5 .

We considered these material instances of noncompliance in forming our opinion as to whether Boyle & NEC's Fund Accountability Statement is presented fairly, in all material respects, in conformity with the cash basis of accounting, and this report does not affect our report dated August 1, 1991 on the Fund Accountability Statement .

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 Boyle & NEC 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 Boyle & NEC had not complied, in all material respects, with those provisions.

This report is intended solely for use by 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  
August 1, 1991

**Boyle Engineering Corporation**  
**And**  
**National Education Corporation Joint Venture**

**Findings :**

**1. Instances of Noncompliance with Contract Terms and FAR Clauses :**

**1.1 Contract terms (Schedule F)**

As amended - does not allocate any amounts to local currency costs of transportation of personal effects, house hold effects and Equipment, but Boyle & NEC billed the USAID/Egypt for \$ 1,016 in local transportation.

**1.2 FAR clause 31.201-5**

States that the applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund.

Boyle & NEC did not comply with this clause. The result was a gain from fluctuations of exchange rates during the period between the date of subcontractors' billings and the date of reimbursement to the subcontractors. This gain was not credited to USAID/Egypt nor was it paid to the subcontractor.

**Recommendation No. ( 1 )**

**We recommend that Boyle & NEC :**

- Comply with contract terms and FAR regulations.**

**Appendix I**

**Schedules for Questioned and Unsupported Costs**

Boyle & NEC  
Questioned and Unsupported Costs  
of Subcontractors

Unsupported salaries \$ 322.00

Questioned exchange rate gains

Amounts reimbursed by USAID/Egypt  
to Boyle & NEC \$ 569,585.00

Amounts reimbursed by Boyle & NEC  
to subcontractors 551,591.00

----- 17,994.00

-----  
**Total \$ 18,316.00**  
-----

**Boyle & NEC**  
**Schedule of Questioned Costs**  
**of Local Travel and Transportation**

	<b><u>Budgeted</u></b> <b><u>LE Cost</u></b>	<b><u>Questioned</u></b> <b><u>Costs</u></b>
Transport - personnel effects	-	456.00
Transportation - house effects	-	202.00
Transportation - Equipment	-	358.00
		-----
Total questioned costs		<b>\$ 1,016.00</b>
		-----

**Boyle & NEC**  
**Schedule of Questioned and Unsupported Costs**  
**of Miscellaneous Expenses**

**Schedule No.**

**Unsupported costs**

<b>Office supplies</b>	<b>1,871.00</b>
	<b>-----</b>
<b>Total</b>	<b>\$ 1,871.00</b>
	<b>*****</b>

**Appendix II**

**Auditors' Response to Management Comments**

AUDITORS RESPONSE TO MANAGEMENT COMMENTS  
ON THE AUDIT FINDINGS OF BOYLE & NEC

Item 1. Allowability of transportation cost:

Boyle & NEC's billed the UAID/Egypt for 1,016 as local expenses for transportation costs, the budget for the project had no allocation for such expense. Boyle & NEC agreed that they misclassified this cost and they are going to file an adjustment to USAID/EGYPT to correct the misclassification.

Item 2. The allowability of certain subcontract costs is questionable

Our audit identified \$322 of overfilling by one of the subcontractors. The time reports of the subcontractor did not agree with the time billed to the USAID/ Egypt. Boyle & NEC'S management agreed that the subcontractor failed to reconcile the difference of \$322 and this cost should remain as unsupported cost.

Item 3. The allowability of certain subcontractors' charges

During the course of our audit we were not able to reconcile the time reports of one of the subcontractors with the time billed to USAID/Egypt. Accordingly, we questioned the total amount of the voucher which was \$29,708. Management of Boyle & NEC provided us with time sheets and an auditor went back to the company premises and he conducted the required tests to reconcile and to verify the time sheets with the charges and he found that the charges reconcile with the time sheets. Accordingly, the finding was removed.

Item 4. Gains from changes in the exchange rate in the local market are questioned.

Our examination revealed that a gain of \$17,994 has been realized by Boyle & NEC due to fluctuations of exchange rates between the date of the subcontractors billings and the date of reimbursement. Boyle & NEC'S management agreed to the finding and it asserts that it corrected the situation with USAID/Egypt. The finding was included in the report to be verified by USAID/EGYPT.

**Item 5. Documentation supporting other direct costs is inadequate.**

Our audit identified a total of \$13,237 in miscellaneous expenses whose allowability is questioned. Management provided us with enough supporting documents to support the expenses of \$1,342 in communication cost, and with the original contract between the Boyle & NEC and the drivers who provided the vehicles to the firm. This contract and the related evidence were enough to support the \$10,024 vehicle rent expense. The remaining unsupported other direct costs are the \$1,871 office supplies expense that management agreed that the quality of the supporting documents were not acceptable.

**Items 6 and 7. Instances of noncompliance with the applicable laws and regulations**

Our report indicated that Boyle & NEC does not have a legal entity in Egypt. After a thorough study and evaluation of Contractor Notice 6-88 and the Memo from the legal department of USAID/Egypt, we conclude that the legal presence of Boyle & NEC in Egypt is not a requirement to conduct business in Egypt for this contract. Accordingly, the noncompliance findings with Egyptian Corporate law, Tax law, and Social Insurance Authority are removed.



## UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

NOV 20 1991

RECEIVED  
20 NOV 1991MEMORANDUM

TO: Philippe Darcy, RIG/A/C

FROM: George Wachtenheim, D/DIR

SUBJECT: NFA Report on Local Expenditures of Boyle Engineering Corporation and National Education Corporation, J.V. under USAID/Egypt Project No. 263-0176 (L/COM No. 263-0176-01)

The following are the actions Mission will take to resolve and close Recommendation Nos. 1.1 and 1.2 of the subject report:

Recommendation No. 1.1:

We recommend that USAID/Egypt resolve the questioned and unsupported costs of \$19,010 and \$2,193 appearing on page 7 of the audit report.

Mission Response:

The Mission is working with the joint venture to determine the status of the questioned and unsupported costs of \$19,010 and \$2,193. Mission will request Recommendation No. 1.1 be resolved when the status of the questioned and unsupported costs has been determined. Closure of this recommendation will be requested when adequate supporting documentation, recovering of costs from reimbursement claims and/or a refund has been received from the joint venture.

Recommendation No. 1.2:

We recommend that USAID/Egypt calculate and recover the Federal cost of money associated with exchange rate gains made by Boyle over the life of its contract.

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Mission Response:

The joint venture is preparing a worksheet for each currency transaction for the life of the contract to determine the amount of exchange gains made by the joint venture. Mission will review the worksheet and request that Recommendation No. 1.2 be resolved when the analysis is complete showing total exchange rate gains. Closure of this recommendation will be requested when the total amount of the exchange gain has been recovered.

**APPENDIX IV****Report Distribution**

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