
**Audit of Environmental Quality
International's Direct, Indirect Costs and
Fringe Benefit Rates for the Years
Ending December 31, 1988, 1989 and 1990**

Report No. 6-263-93-01-N

October 5, 1992





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

October 5, 1992

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

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

**SUBJECT: Audit of Environmental Quality International's
Direct, Indirect Costs and Fringe Benefit Rates for the
Years Ending December 31, 1988, 1989 and 1990.**

The attached report dated August 31, 1991 by Hazem Hassan & Co. presents the results of a financial audit of Environmental Quality International's (EQI) local expenditures incurred under Indefinite Quantity Contract (IQC) Nos. 263-0000-I-00-9013 and 263-0000-I-00-0027 and all flexibly priced agreements related to USAID/Egypt projects for the years ended December 31, 1988, 1989 and 1990. EQI provides quick response technical services for periods of up to 120 calendar days for financial, system and compliance reviews. They also provide assessments of projects, programs, and automation systems for USAID/Egypt in the assessments of contracts, grants and cooperative agreements issued in the furtherance of program objectives. The issuance of this report was delayed due to extensive coordination between RIG/A/C and Hazem Hassan auditors needed to reach agreement on the large amount of questioned costs.

We engaged Hazem Hassan & Co. to perform a financial audit of EQI's locally incurred direct costs in Egyptian Pounds and U.S. Dollars of LE 1,101,104 and \$347,999 respectively for the period January 1, 1988 to December 31, 1990. The purpose of the audit was to evaluate the propriety of costs incurred during this period. In performing the audit, Hazem Hassan & Co. evaluated EQI's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statements. The auditors also determined the actual indirect cost and fringe benefit rates for the years ending December 31, 1988, 1989 and 1990.

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Hazem Hassan & Co. questioned \$35,892.50 and \$115,649.00 of EQI's claimed direct and indirect costs, respectively. Questioned direct costs include billings in excess of incurred costs and unsupported costs. Indirect questioned costs include unreasonable labor charges, travel, telephone, stationary, rental and costs lacking adequate supporting documentation. Hazem Hassan & Co. noted material weaknesses in EQI's internal controls such as inadequate controls over USAID/Egypt billing procedures, accounting procedures and disbursements. Finally, Hazem Hassan & Co. also noted noncompliance with contract terms, USAID Standard Provisions and with clauses in the Federal Acquisition Regulations (FAR).

Recommendation No. 1.1: We recommend that USAID/Egypt resolve questioned direct costs of \$35,892.50 consisting of ineligible costs of \$18,817.50 and unsupported costs of \$17,075.00 as detailed on pages 22 through 26 of the audit report.

Recommendation No. 1.2: We recommend that USAID/Egypt resolve questioned indirect costs of \$115,649.00 consisting of ineligible costs of \$88,041.00 and unsupported costs of \$27,608.00 as detailed on pages 15 through 17 of the audit report.

Recommendation No. 1.3: We recommend that USAID/Egypt determine EQI's final indirect and fringe benefit rates for the years ending December 31, 1988, 1989, and 1990 based on the resolution of indirect costs questioned in the audit report.

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 costs and indirect and fringe benefit rates, Recommendations No. 1.1, 1.2 and 1.3 are considered unresolved. These recommendations can be resolved when we receive the Mission's formal determination as to the amounts sustained or not sustained and can be closed when any amounts determined to be owned to A.I.I. are paid by EQI.

Recommendation No. 2.: We recommend that USAID/Egypt require EQI to address the inadequate internal control procedures over their accounting system as noted in the audit report on pages 34 through 37.

This recommendation will be included in the Inspector General's audit recommendation follow-up system. This recommendation can be resolved when the Mission provides our office with a copy of its request that EQI address its internal control weaknesses. The recommendation can be closed when we have assessed EQI's response and USAID/Egypt's follow-up for adequacy.

Recommendation No. 3: We recommend that USAID/Egypt require EQI to address the inadequate procedures in place to insure compliance with applicable contract terms, USAID Standard Provisions and FAR clauses as detailed on pages 41 through 42 of the audit report.

This recommendation will be included in the Inspector General's audit recommendation follow-up system. This recommendation can be resolved when the Mission provides our office with a copy of its request that EQI address its compliance weakness. The recommendation can be closed when we have assessed EQI's response and USAID/Egypt's follow-up for adequacy.

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.

FINANCIAL AUDIT OF
ENVIRONMENTAL QUALITY INTERNATIONAL'S
USAID/EGYPT FUNDED
FLEXIBLY PRICED AGREEMENTS
FOR FISCAL YEARS 1988, 1989 AND 1990

FINANCIAL AUDIT OF
ENVIRONMENTAL QUALITY INTERNATIONAL'S
USAID/EGYPT FUNDED FLEXIBLY PRICED AGREEMENTS
FOR FISCAL YEARS 1988, 1989 AND 1990

Table of Contents

	<u>Page</u>
Transmittal Letter and Summary:	
Background	1
Audit Scope, Objectives, and Methodology	3
Results of the Audit	5
The Fund Accountability Statement:	
Independent Auditor's Report	8
The Fund Accountability Statement	11
Notes to the Combined Fund	
Accountability Statement	12
Overhead and Fringe Benefit Rates	14
Findings:	
. Audit of Direct Costs	21
. Audit of Indirect Costs	26
Internal Control Structure:	
Independent Auditor's Report	30
Findings and Recommendations	34
Compliance with Contract Terms and Applicable	
Laws and Regulations:	
Independent Auditor's Report	38
Findings and Recommendations	41
Appendix I	
Detailed Fund Accountability Statement for Projects	43
Appendix II	
Schedules of Questioned and Unsupported Costs	50
Appendix III	
Schedules of Costs Excluded from	
the Overhead and Fringe Benefit	
Computations	57
Appendix IV	
Management Comments	73
Appendix V	
Auditors' Comments	87

5

KPMG Hazem Hassan & Co.

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

August 31, 1991.

Dear Mr. Darcy:

On May 9, 1991, we contracted with your office to perform a financial audit of direct and indirect costs billed to USAID/Egypt by Environmental Quality International (henceforth referred to as EQI) under Indefinite Quantity Contract (IQC) Nos. 263-0000-I-00-9013 and 263-0000-I-00-0027 and all flexibly priced subcontracts for the years ended December 1988, 1989 and 1990.

1. BACKGROUND

EQI is an Egyptian consulting firm specializing in urban management, particularly in the areas of solid waste management, urban development, municipal management, advisory services, and financial and management consulting services. EQI has been working with A.I.D. since 1986 and has performed on two IQC's and several subcontracts related to A.I.D. projects. A description of these agreements follows.

IQC No. 263-0000-I-00-9013 commenced in November 1988. Under this IQC, EQI provided financial, systems and compliance reviews including audits and assessments of projects, programs and automation systems

for A.I.D. Total expenditures incurred under the five work orders, for the period ending December 1990 was \$ 18,433 (LE 60,329).

IOC No. 263-0000-I-00-0027-00 was signed on April 12, 1990. This established terms and conditions for performing special Social Science Research and Economic/Financial studies. These studies included literature reviews, rapid low-cost reconnaissance methods, project economic/financial analyses, and institutional and economic analyses of non-project interventions. While two work orders were issued, only one, for \$ 13,571 (LE 44,783), was billed by and reimbursed to EQI before the end of 1990.

In addition, EQI entered into subcontracts with several USAID/Egypt prime contractors during the years 1988-1990. DAC International (DAC) executed two contracts with EQI in April 1988. These subcontracts were for the provision of professional and technical services to the Government of Egypt (GOE) and to administer the GOE's private and voluntary grants system. The first subcontract was for \$ 78,859 (LE 260,236) and the second was for \$ 148,873 (LE 491,283).

The Cooperative League of USA (CLUSA) and The National Cooperative Business Association (NCBA) signed a three month contract with EQI to provide professional and logistical support in the preparation of a small business credit project and to assist in the preparation of a draft proposal. The total contract amount was \$ 27,050 , however, the actual amount billed was \$ 36,772.50. No amendment was made to increase the original contract between CLUSA-NCBA and EQI.

CLUSA-NCBA and EQI signed another contract on April 12, 1989 for EQI to supply all necessary personnel, equipment, and materials to develop staff and systems necessary for the expansion of productive

Small and Micro Enterprises. The total budgeted cost was \$ 439,867 and the total amount billed by and reimbursed to EQI was \$ 291,227 for the period April 1989 to December 1990.

2. AUDIT SCOPE, OBJECTIVES AND METHODOLOGY

We performed a financial audit of local direct and indirect costs billed by and reimbursed to EQI for the years ending December 1988, 1989 and 1990. Our audit included examinations of all contracts' revenues and expenses, tests of compliance with contracts' terms and a review of EQI's internal control structure.

The objectives of this audit were to determine whether:

- 1) the Fund Accountability Statement of EQI presents fairly, in all material respects, revenues and costs incurred and reimbursed for the contracts in conformity with the applicable accounting principles;
- 2) the direct and indirect costs billed to USAID/Egypt by EQI under the contracts or sub-contracts are in fact allowable, allocable and reasonable in accordance with the terms of the contracts and A.I.D. Hand book 14 as well as Federal Acquisition Regulation (FAR) part 31.2;
- 3) the accounting system, internal controls and management practices of EQI are adequate;
- 4) the overhead rates for the years under audit are properly calculated using an equitable methodology and whether costs used to calculate the overhead rate are correctly classified and allowable, allocable and necessary; and

- 5) EQI complies with applicable contracts' terms (including standard contract clauses and provisions).

The audit included a selective examination and testing of the documents supporting direct costs incurred locally in Egyptian pounds of LE 1,101,104 (\$ 333,668), and incurred locally in US dollars of \$ 347,999.12. These amounts together represent all of the direct costs billed by and reimbursed to EQI during the audit period. We also audited 100% of the indirect costs for 1988, 88% of those for 1989 and 92% of those for 1990. In addition, we computed the actual overhead and fringe benefits rates for the years 1988, 1989 and 1990.

Our review and evaluation of the internal control structure included interviews with EQI's management and key personnel, an internal control questionnaire and other procedures to determine whether the accounting system utilized by EQI meets its needs and complies with USAID requirements.

Our audit steps and procedures were designed in such a way as to provide reasonable assurance of detecting errors, irregularities and illegal acts that could have a direct and material effect on the Funds Accountability Statement amounts or the results of this financial audit. We also performed tests to ascertain EQI's compliance with applicable laws, regulations and contracts.

A meeting was held at the A.I.D. Regional Inspector General for Audit's office in June 1991 between our firm and Price Waterhouse (PW) (auditors of A.I.D.'s NCBA - SME project) to agree upon the exchange of relevant information and the reliance upon each other's work. Accordingly, we relied upon Price Waterhouse's audit results of the NCBA - SME project.

3. RESULTS OF THE AUDIT

Our findings include results of the USAID funded projects audit conducted by our firm, but those for the SME project are in the audit results included in PW's report of CLUSA - NCBA. The findings pertaining to the SME project stated in this report are those resulting from the audit of EQI's annual salary increases and salary scales.

3.1 Fund Accountability Statement:

a. Audit of Direct and Indirect Costs

Our audit of direct costs identified unsupported and questionable direct charges including labor, transportation expenses, office expenses, salary increases as well as unreasonable salaries. Questioned direct costs totalled \$ 35,892.5 of which \$ 17,075 lacked adequate supporting documentation.

We identified questionable indirect costs including, but not limited to, travel, telephone, stationery and rental costs. Questioned indirect costs totalled \$ 115,649 of which \$ 27,608 lacked adequate supporting documentation.

b. Actual Overhead and Fringe Benefit Rates

We computed the following actual overhead and fringe benefit rates, which have been adjusted for questioned costs:

	<u>Overhead rate</u>	<u>Fringe benefits</u>
1988	132.9%	11.6%
1989	122.0%	13.3%
1990	115.0%	14.9%

3.2 Internal Control Structure

Our review identified inadequate controls over invoice preparation and disbursements, an inadequate accounting system, lack of appropriate supporting documentation and weak controls over the recording of transactions.

3.3 Compliance with Contract Terms and Applicable Laws and Regulations

Our findings include noncompliance with FAR clauses, and contract terms. These instances of noncompliance resulted in the exclusion of certain costs from the indirect cost pools.

4 Management comments

We discussed the audit findings with EQI officials and were able to resolve certain issues before completion of our audit. EQI's management asserts that they have committed themselves to the development and implementation of a new internal control system to eliminate the weaknesses outlined in this report.

An exit conference was held on February 26, 1992, in which EQI's management responded to our audit findings. Management comments are included in Appendix IV.

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

KPMG Hazem Hassan & Co

**We appreciate the courtesy extended by EQI management and staff
to our firm during the audit.**

Yours sincerely;

Hazem Hassan & Co.

Cairo, Egypt.

KPMG Hazem Hassan & Co.

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

August 31, 1991.

FUND ACCOUNTABILITY STATEMENT **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying combined local cost Fund Accountability Statement of Environmental Quality International for the period January 1, 1988 to December 31, 1990 under USAID/Egypt funded flexibly priced agreements. The Fund Accountability Statement is the responsibility of EQI's management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States (1988 Revision). 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 the examination, on a test basis, of evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit

also includes the assessment of the accounting principles used and significant estimates made by management, as well as the evaluation of the overall Fund Accountability Statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We meet the 80 hours CPE requirement, but we do not meet the 24 hours US Government related subjects requirement since no such courses are available in Egypt. We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the KPMG worldwide internal quality control program which requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

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

As disclosed in the findings section, EQI incurred \$ 35,892.5 in questioned costs of which \$ 17,075 had inadequate supporting documentation.

KPMG Hazem Hassan & Co.

In our opinion, except for the effects of the questioned and unsupported costs, as discussed in the preceding paragraph, the Fund Accountability Statement referred to above presents fairly, in all material respects, EQI's locally incurred costs for the periods ended December 31, 1988, 1989 and 1990, in conformity with the cash basis of accounting and in accordance with the terms of the contracts referred to in the background section of this report.

Hazem Hassan & Co.

Cairo, Egypt.

Environmental Quality International (EQI)
Combined Fund Accountability Statement of
USAID/Egypt Funded
Flexibly Priced Agreements
January 1, 1988 to December 31, 1990

<u>Description</u>	<u>US \$</u>	<u>Questioned costs</u> <u>US \$</u>
<u>Revenues</u>	661,667.12	
<u>Expenditures</u>		
- <u>Direct Costs:</u>		
1. Salaries	268,055.81	20,362.50
2. Transportation	18,484.68	3,837.00
3. Travel & Per diem	44,235.26	-
4. Office expenses	41,872.58	11,693.00
	-----	-----
	372,648.33	35,892.50
	-----	-----
- <u>Indirect Costs:</u>	289,018.79	(42,153.00)
	-----	-----
TOTAL	661,667.12	* (6,260.50)
	=====	=====

* This amount represents the net effect of our audit findings and our overhead rate computation.

A detailed Fund Accountability Statement for each of the flexibly priced contracts in which EQI was either an A.I.D. prime contractor or subcontractor is included in Appendix I.

Notes to the Combined Fund Accountability Statement

Note 1: Accounting Basis

The Fund Accountability Statement of EQI is prepared on the basis of cash receipts and disbursements, except 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.

Note 2: Basis of Presentation

The first two columns of the Combined Fund Accountability Statement are the presentation of EQI's management, while the questioned costs column represents the results of our audit. A detailed Fund Accountability Statement for each of the flexibly priced contracts in which EQI was either an A.I.D. prime contractor or subcontractor is included in Appendix I.

Note 3: Questioned and Unsupported Costs

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

Note 4: US dollar Presentation

All the LE amounts were translated to US dollars using the current exchange rate of US \$ 1 = LE 3.3 for presentation purposes only. Any amounts that should be refunded to the USAID or be paid to EQI must be in the currency designated in the contract related to the questioned costs.

Environmental Quality International (EQI)
Schedules of Actual Overhead
and Fringe Benefit Computations
January 1, 1988 to December 31, 1990

II. Actual Overhead and Fringe Benefits Calculation:

- 1988 Overhead Computation
- 1989 Overhead Computation
- 1990 Overhead Computation
- 1988 Fringe Benefits Calculation
- 1989 Fringe Benefits Calculation
- 1990 Fringe Benefits Calculation

Environmental Quality International (EQI)
Schedule of Overhead Rate
For the year ended December 31, 1988

<u>Description</u>	<u>Claimed by EQI</u> \$ Note (3)	<u>Expenses</u> \$ Note (1)	<u>Exclusions/ Unallowable Expenses</u> \$	<u>Direct Salaries Cost Base</u> \$ Note (2)	<u>Indirect Cost Pool</u> \$	<u>Schedule No.</u>
1. Salaries	149,988	207,654	748	106,731	100,175	III.1
2. Rent	8,727	8,727	318		8,409	III.3
3. Translation	251	251	160		91	"
4. Stationery	6,727	6,727	1,975		4,752	"
5. Electric supplies	430	430	225		205	"
6. Legal fees	697	697	591		106	"
7. Computer supplies	2,051	2,136	1,246		890	"
8. Light, Water and Electricity	1,208	1,208	75		1,133	"
9. Telephone, Telex and Courier	8,201	8,280	4,680		3,600	"
10. Transportation expenses	16,362	16,425	11,274		5,151	"
11. Travel & Accommodation	23,974	22,129	20,947		1,182	"
12. Maintenance & Repairs	2,343	2,393	229		2,164	"
13. Consumables	1,867	2,120	1,317		803	"
14. Miscellaneous	4,053	2,828	1,269		1,559	"
15. Depreciation	8,400	7,555	1,208		6,347	"
16. Professional fees	5,303	5,303	-		5,303	"
TOTAL	240,582	294,863	46,262	106,731	141,870	

$$\text{Overhead rate computation} = \frac{\text{Indirect cost}}{\text{Direct salaries}} = \frac{\text{US\$ 141,870}}{\text{US\$ 106,731}} = 132.9 \%$$

Note 1: Expenses represent total EQI company-wide expenses for 1988.

Note 2: Direct salaries are used as an allocation base for distributing EQI indirect costs for the year ended December, 1988. Direct salaries include questioned labor costs since in accordance with FAR 31.203 (c) all direct salaries, irrespective of their acceptability as government contract costs, should bear a pro rata share of EQI's indirect costs.

Note 3: EQI's claim did not include part of its consultants' salaries, and managing director's salary.

Note 4: The first column represents EQI's claim while the second column represents the adjusted costs that actually reconcile with EQI's books.

20

Environmental Quality International (EQI)
Schedule of Overhead Rate
For the year ended December 31, 1989

<u>Description</u>	<u>Claimed by EQI</u> \$	<u>Expenses</u> \$ Note (1)	<u>Exclusions/ Unallowable Expenses</u> \$	<u>Direct Salaries Cost Base</u> \$ Note (2)	<u>Indirect Cost Pool</u> \$	<u>Schedule No.</u>
1. Salaries	234,752	237,156	5,074	129,758	102,324	III.1.1
2. Rent	13,009	12,045	881		11,164	III.3.1
3. Stationery	4,233	4,233	554		3,679	"
4. Consumables	1,169	1,169	1,169		-	"
5. Telephone, Telex, Fax, and Courier	9,958	9,540	1,433		8,107	"
6. Transportation expenses	7,411	6,756	487		6,269	"
7. Computer & Photocopy	1,499	1,499	-		1,499	"
8. Electricity	1,268	1,268	-		1,268	"
9. Cleaning materials	378	378	-		378	"
10. Miscellaneous expenses	3,671	3,671	166		3,505	"
11. Travel & Per diem	20,663	8,660	3,714		4,946	"
12. Electric supplies	165	165	-		165	"
13. Maintenance & Repairs	8,692	8,692	3,137		5,555	"
14. Auditing fees	3,939	3,939	606		3,333	"
15. Depreciation	9,226	9,907	3,783		6,124	"
TOTAL	320,033	309,078	21,004	129,758	158,316	

Overhead rate computation = $\frac{\text{Indirect cost}}{\text{Direct salaries}}$ = $\frac{\text{US\$ 158,316}}{\text{US\$ 129,758}}$ = 122 %

Note 1: Expenses represent total EQI company wide expenses for 1989.

Note 2: Direct salaries are used as an allocation base for distributing EQI indirect costs for the year ended December, 1989. Direct salaries include questioned labor costs since in accordance with FAR 31.203 (c) all direct salaries, irrespective of their acceptability as government contract costs, should bear a pro rata share of EQI's indirect costs.

**Environmental Quality International (EQI)
Schedule of Overhead Rate
For the year ended December 31, 1990**

<u>Description</u>	<u>Claimed by EQI</u> \$	<u>Expenses</u> \$ Note (1)	<u>Exclusions/ Unallowable Expenses</u> \$	<u>Direct Salaries Cost Base</u> \$ Note (2)	<u>Indirect Cost Pool</u> \$	<u>Schedule No.</u>
1. Salaries	349,660	332,031	5,230	194,802	131,999	III.1.2
2. Rent	16,341	16,341	2,667		13,674	III.3.2
3. Photocopying & Office supplies	7,369	7,369	96		7,273	"
4. Miscellaneous expenses	14,168	14,168	4,375		9,793	"
5. Maintenance & Repairs	773	3,910	156		3,754	"
6. Electricity expenses	1,827	1,827	-		1,827	"
7. Electric supplies	206	206	-		206	"
8. Cleaning materials	644	644	-		644	"
9. Consumables	2,730	2,730	1,551		1,179	"
10. Consulting fees	8,597	8,597	6,212		2,385	"
11. Auditing fees	14,394	14,394	-		14,394	"
12. Project expenses	2,157	2,157	2,157		-	"
13. Photocopiers & Computer supplies	7,369	4,552	1,965		2,587	"
14. Depreciation	11,502	14,863	5,036		9,827	"
15. Transportation & Car expenses	6,917	6,917	802		6,115	"
16. Travel & Accommodation	18,363	18,363	14,581		3,782	"
17. Teleph, Telex, Fax, and Courier	18,126	18,126	3,555		14,571	"
TOTAL	481,143	467,195	48,383	194,802	224,010	

Overhead rate computation = $\frac{\text{Indirect cost}}{\text{Direct salaries}}$ = $\frac{\text{US\$ 224,010}}{\text{US\$ 194,802}}$ = 115 %

Note 1: Expenses represent total EQI company wide expenses for 1990.

Note 2: Direct salaries are used as an allocation base for distributing EQI indirect costs for the year ended December, 1990. Direct salaries include questioned labor costs since in accordance with FAR 31.203 (c) all direct salaries, irrespective of their acceptability as government contract costs, should bear a pro rata share of EQI's indirect costs.

Environmental Quality International (EQI)
Schedule of Actual Fringe Benefits Rate
For the year ended December 31, 1988

<u>Description</u>	<u>Total</u> <u>\$</u>	<u>Schedule</u> <u>No.</u>
1. Cost of holidays, vacations & sick leaves	14,779	
2. Social insurance paid (Employer)	11,492	
3. Medical insurance	572	

	26,843	
 4. <u>Less:</u>		
- Social securities refunded costs by Development Consulting Group "DCG" project for seconded staff	(2,574)	III.4
- Effect of unreasonable salary increases proportioned on holidays, vacations & sick leaves	(159)	

	(2,733)	

Total actual cost of fringe benefits during 1988	24,110	
	=====	

Fringe benefits rate computation = $\frac{\text{Total fringe benefits cost}}{\text{Total salaries}}$ = $\frac{\text{US \$ 24,110}}{\text{US \$207,654}}$ = 11.60 %

23

Environmental Quality International (EQI)
Schedule of Actual Fringe Benefits Rate
For the year ended December 31, 1989

<u>Description</u>	<u>Total</u> <u>\$</u>	<u>Schedule</u> <u>No.</u>
1. Cost of holidays, vacations & sick leaves	23,428	
2. Social insurance paid (Employer)	10,684	
3. Housing allowance	2,091	

	36,203	
 4. <u>Less:</u>		
- Social securities refunded costs by "DCG" project for seconded staff	(4,440)	III.4
- Effect of unreasonable salary increases proportioned on holidays, vacations & sick leaves of employees' labor time analysis	(153)	

	(4,593)	

Total actual cost of fringe benefits during 1989	31,610	

Total fringe benefits cost	US \$ 31,610	
<u>Fringe benefits rate computation</u> = ----- = ----- = 13.30 %		
Total salaries	US \$237,156	

- 24 -

Environmental Quality International (EQI)
Schedule of Actual Fringe Benefits Rate
For the year ended December 31, 1990

<u>Description</u>	<u>Total</u> <u>\$</u>	<u>Schedule</u> <u>No.</u>
1. Cost of holidays, vacations & sick leaves	32,789	
2. Social insurance paid (Employer)	12,175	
3. Housing allowance	10,000	
4. Representation allowance	2,121	
5. Travel allowance	1,494	

6. <u>Less:</u>		
- Social securities refunded costs by "DCG" project for seconded staff	(8,447)	III.4
- Effect of questioned salary increases proportioned according to certain employees' labor time analysis	(32)	
- Effect of questioned salaries exceeding those of Egyptian employees in similar positions	(723)	

	(9,202)	

Total actual cost of fringe benefits during 1990	49,377	
	=====	

Fringe benefits rate computation = $\frac{\text{Total fringe benefits cost US \$ 49,377}}{\text{Total salaries US \$332,031}}$ = 14.87 %

Notes:

3. & 5. Housing & Travel allowances are paid to expatriate consultants.
4. Representation allowance is paid to the newly promoted Deputy Managing Director .



Environmental Quality International (EQI)
Funds Accountability Statements of USAID/Egypt
Funded Flexibly Priced Agreements
From January 1, 1988 to December 31, 1990

Findings

I. Audit of direct costs incurred and billed by "EQI" to USAID/Egypt for the following projects:

- | | | |
|----|----------------------------------|----------------|
| 1. | IQC No. 263-0000-I-00-9013-00 | 1989-1990 |
| 2. | IQC No. 263-0000-I-00-0027-00 | 1990 |
| 3. | LD II PVO - DAC | 1988-1989-1990 |
| 4. | Small business credit CLUSA-NCBA | 1988 |
| 5. | SME - NCBA | 1989-1990 |

II. Overhead rate and fringe benefits computation for the years 1988-1989-1990:

1. 1988 Overhead Computation
2. 1989 Overhead Computation
3. 1990 Overhead Computation
4. 1988 Fringe Benefits Calculation
5. 1989 Fringe Benefits Calculation
6. 1990 Fringe Benefits Calculation

Environmental Quality International (EQI)
Funds Accountability Statements of USAID/Egypt
Funded Flexibly Priced Agreements
From January 1, 1988 to December 31, 1990

Findings

I. Audit of direct costs incurred and billed by EQI:

1. IOC No. 263-0000-I-00-9013-00

- 1.1 EQI billed USAID/Egypt for 16 days more than the actual time spent on Work Order No.1 in violation of the FAR clause addressing reasonableness (31.201.3). The total cost for these days was \$ 1,122 (LE 3,701.10 - Schedule No. II.1)
- 1.2 EQI overbilled USAID/Egypt \$ 411 (LE 1,357) on Work Order No.2. EQI used 252 working days per year as the base for computing the daily billing rate, rather than using the approved standard of 260 days per year. In our opinion, this practice violates the contract terms (Schedule No. II.1) .
- 1.3 EQI billed USAID/Egypt for 15 days more than the actual time incurred on Work Order No.5. The amount of time billed to USAID was 41 days while the amount of actual time verified was 26 days. The total questioned cost is \$ 1,632 (LE 5,385.54 - Schedule No. II.1) .

1.4 Our audit of Work Order No.5 revealed that one employee's salary was in excess of that specified on USAID/Egypt's schedule of compensation for foreign service nationals. We questioned this \$ 95.00 (LE 315.00) as being unreasonable (Schedule No. II.1)

2. IQC No. 263-0000-I-00-0027-00

2.1 EQI overbilled USAID/Egypt 46 days on Work Order No.2. The amount of time billed to USAID/Egypt was 219 days while the actual time verified was 173 days. The amount of the overbilling was \$ 2,426 (LE 8,006.41 - Schedule No. II.2).

2.2 EQI billed and was reimbursed for photocopying and transportation costs that amounted to \$ 692 (LE 2,283.24). Actual costs verified that had supporting documents were \$ 78 (LE 258.60). The difference of \$ 614 (LE 2,024.64) was billed on estimates and was not actually incurred. No supporting documents were provided for these costs. (Schedule No. II.2)

3. LD II PVO - DAC:

3.1 EQI overbilled LD II PVO - DAC project a total of \$ 7,900 (LE 26,068) in direct labor charges. \$ 3,833 (LE 12,648.30) of this amount was a result of EQI's practice of using 252 working days per year instead of the standard 260 days. The remaining \$ 4,067 (LE 13,420.03) resulted from differences between the number of days billed to USAID/Egypt for EQI's consultants for the period April 1988 to December 1990 and the number of days recorded on the consultants' timesheets.

EQI billed consultant fees for 3,917 days while the timesheets reflect 3,643 days. We believe these overbillings, totaling \$ 7,900, are unreasonable (violation of FAR 31.203 - Schedule II.3).

3.2 EQI billed the LD II PVO - DAC project \$ 112,030 (LE 369,701.03) for project consultants, while the actual salaries paid were \$ 110,485 (LE 364,603.08). The difference of \$ 1,545 (LE 5,097.95) is unsupported. (Schedule II.3)

3.3 Our audit revealed that EQI billed the LD II PVO - DAC project for salary increases of more than 10% after employees completed 12 months of satisfactory performance. Our audit identified the following:

- one employee received a 90% increase in 1988 and an additional 40% increase in 1989.
- another employee received an increase of 27% in 1988, 47% in 1989 and 24% in 1990.

We question \$ 1,152 (LE 3,802.50) in salary increases. This amount represents the unreasonable salary increases after considering a 10% annual increase for each employee. In our opinion, these incremental increases are not compatible with the acceptable 10% increase for national employees and FAR clause 31.201.3 determining reasonableness. (Schedule No. II.3)

3.4 EQI billed LD II PVO - DAC project for transportation costs of \$ 7,582 (LE 25,021). This amount was based on estimates

and did not represent actual costs. Actual costs verified, after adjusting for depreciation of the motor vehicle dedicated to the project together with its driver's salary and operating expenses, was \$ 4,346 (LE 14,342). The difference of \$ 3,236 (LE 10,679) is questionable because of inadequate supporting documentation . (Schedule No. II.3.1)

4. Small Business Credit. CLUSA - NCBA

4.1 EQI overbilled CLUSA-NCBA \$ 3,535.00 for consultant and field surveyors salaries. EQI billed to and was reimbursed by NCBA for \$ 25,092 while the actual cost verified was \$ 21,557.00. The difference of \$ 3,535.00 is questioned. (Schedule No. II.4)

4.2 Our audit identified certain employees who received annual salary increases in excess of 10%. Direct labor billed to CLUSA-NCBA included \$ 148.00 associated with unreasonable salary increases. (Schedule No. II.4)

4.3 EQI billed and was reimbursed for \$ 11,680 in other direct office expenses. This amount represents the subcontract budget amount for providing logistical support to the project. We determined that there were no documents to support these expenses nor were we able to identify or reconcile these expenses with EQI's accounting books. Thus, we question the entire amount due to lack of supporting documentation. (Schedule No. II.4)

5. Small and Micro Enterprises - NCBA:

5.1 Our audit identified certain employees who received salary

increases before completing 12 months of satisfactory performance in violation of article 2.2 of the contract terms, which addresses annual salary increases. The effect was an overbilling of \$ 318.50. (Schedule No. II.5)

5.2 We questioned \$ 78.00 that was billed to NCBA for salaries in excess of USAID/Egypt's compensation plan for the same position. (Schedule No. II.5)

II. Audit of EQI indirect costs in order to determine actual overhead rate and fringe benefits rate:

1. Reasonableness of certain indirect salaries is questioned:

1.1. Unreasonable indirect salary increases:

Our audit revealed that certain employees received salary increases amounting to more than 10% before completing 12 months of satisfactory performance. These salary increases were allocated among projects according to each employee's time sheet to determine the effect on indirect salaries computations. The salary increases, the reasonableness of which was questioned, were allocated among projects, USAID and non-USAID projects, based on each employee's time sheet. This allocation was made to determine the effect of questioned salary increases on the indirect salaries computations. Indirect salaries computation includes an analysis of the cost of time billed and time unbilled; time billed is the time charged to projects, time unbilled is the time of G & A staff and of EQI headquarters. In addition, the effect of these salary increases on fringe benefits and other staff allowances was computed.

The resulting inflation of indirect labor follows:

- 1988: \$ 748 (LE 2,470) Sched. III.1
- 1989: \$ 5,074 (LE 16,745) Sched. III.1.1
- 1990: \$ 1,255 (LE 4,143) Sched. III.1.2

Also, these questioned costs, which include direct and indirect labor as well as holidays, vacations and sick leaves, affected the computations of the fringe benefits.

Accordingly, the questioned fringe benefits are as follows;

- 1988: \$ 159 (L.E. 524)
- 1989: \$ 153 (L.E. 505)
- 1990: \$ 32 (L.E. 105)

1.2. Salaries exceeding USAID standard salary scale:

Our audit identified two employees whose annual salaries exceeded USAID/Egypt's salary scale for foreign service national employees in similar positions. One received \$ 4,777 (LE 15,763) and the other received \$ 2,518 (LE 8,308) in excess of the ceiling salaries applicable to their positions. The effect of this was determined according to their labor time analysis, the questioned excessive salaries amount to \$ 3,975 (LE 13,119) and the associated questioned fringe benefits are \$ 723 (LE 2,386) included in the cost of actual holidays, vacations and sick leaves.

2. Social security for EQI personnel seconded to the Development Consulting Group (DCG) project:

EQI received \$ 15,462 (LE 51,023.31) from the DCG project to cover the employer's portion of social security for the years 1988, 1989

and 1990. No adjustments were made by EQI to account for this amount. Accordingly, we credited the refunded cost to remove its effect on the actual fringe benefits rate of each year. (Schedule No. III.4)

3. The allowability of certain personal charges is questionable:

EQI did not develop criteria and controls to avoid the charging of personal expenses to the indirect costs pool. Therefore, we developed estimates to avoid the inclusion of personal expenses in this cost pool. These estimates were discussed with EQI officials and are considered a reasonable basis for adjustment:

- 15% of long distance international phone calls and courier service was considered personal,
- 1/3 of the operational expenses of the managing director's private car was considered personal,
- 100% of the business lunches, dinners and entertainment expenses was considered personal.

This analysis resulted in total exclusions of \$ 21,117.00 (LE 69,685) during the period audited. Exclusions for 1988 were \$ 2,611 (LE 8,617), 1989 - \$ 6,683 (LE 22,053) and for 1990 - \$ 11,823 (LE 39,015).

4. Documentation supporting office expenses is inadequate:

Our audit revealed that indirect costs of \$ 27,608 (LE 91,103) were overbooked, double counted, incorrectly documented or entirely lacking documentation supporting the charged costs. The annotated details for each individual line item are contained in the schedules supporting our overhead calculations.

In computing the overhead, we excluded \$ 19,172 (LE 63,263) in 1988, \$ 1,371 (LE 4,524) in 1989 and \$ 7,065 (LE 23,316) in 1990. (Schedule III.3, III.3.1 and III.3.2).

5. Inclusion of projects' direct costs in EQI indirect costs pool is questioned:

EQI's accounting policy is not in conformity with FAR clause 31.202(a) (Definition of Direct Costs). All project costs during the preliminary stages, together with project financial losses or costs not refunded by EQI clients, were charged to the indirect cost pool irrespective of their relation to a particular cost objective. Therefore, the indirect cost pools have been adjusted by allocating the following direct costs to the appropriate projects:

- 1988:	\$ 21,116	(LE 69,682.75)
- 1989:	\$ 8,211	(LE 27,097.50)
- 1990:	\$ 20,462	(LE 67,524.25)

6. Allowability of certain charges is questioned:

Our audit revealed a total of \$ 8,162 (LE 26,937) which was not accounted for in accordance with the appropriate accounting principles. This amount represents costs such as advances and the purchase of fixed assets. We found that these costs were charged to the indirect cost pools. Accordingly, we excluded these costs and made adjustments whenever necessary. The details composing this amount are as follows:

- 1988: \$ 1,935 (LE 6,387) fixed assets purchased.
\$ 318 (LE 1,050) advance paid for January 1989 rent.
- 1989: \$ 1,137 (LE 10,352) cost of office renovations.
\$ 881 (LE 2,908) advance paid for January 1990 rent.
- 1990: \$ 1,891 (LE 6,240) fixed assets purchased.

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Cairo, Egypt.

August 31, 1991.

INTERNAL CONTROL STRUCTURE INDEPENDENT AUDITOR'S REPORT

We have audited the combined local cost Fund Accountability Statement of Environmental Quality International for the period January 1, 1988 to December 31, 1990 under USAID/Egypt funded flexibly priced agreements, and have issued our report thereon dated April 30, 1992.

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 Fund Accountability Statement is free of material misstatement.

In planning and performing our audit of EQI 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 EQI 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 the Fund Accountability Statement in accordance with the cash basis of accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, the 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 into the following categories:

- Financial accounting system
- Salaries and payroll
- Direct costs
- Indirect costs

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.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants.

Reportable conditions involve matters which came to our attention related to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the Fund Accountability Statement.

These reportable conditions, which are detailed in the findings section of this report, are:

- Inadequate control over USAID/Egypt billing procedures.
- Inadequate accounting procedures.
- Lack of documents to support financial transactions.
- Lack of control over disbursements.
- Lack of control over bookkeeping procedures.

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 Fund Accountability Statement 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

KPMG Hazem Hassan & Co.

all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe the reportable conditions described above are material weaknesses.

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

Hazem Hassan & Co.

Cairo, Egypt.

Environmental Quality International (EQI)

Report on the
Internal Control Structure

Findings & Recommendations

Findings

1. **Inadequate control over billing procedures:**

Our audit disclosed many deficiencies in EQI's billing procedures which led to questionable costs. Such costs were the result of billing procedures that were based on estimates, budgets and incorrectly calculated labor rates rather than on actual costs. EQI's billing procedures were not based on project subsidiary ledgers, and did not allow for the required accounting adjustments in allocating and charging actual costs incurred, and in reconciling billed costs with reimbursed costs.

2. **Inadequate accounting procedures:**

EQI overbooked travel and per diem costs charged to LD II PVO - DAC. EQI paid advances to its employees and then directly charged them to the project account, irrespective of actual costs incurred. We were not able to reconcile verified travel and per diem documents with the monthly invoices EQI submitted to DAC due to overbooking and lack of control over documentation. There was no reference to tie supporting documents with the invoices or to match advances paid with the relevant supporting bills. Accordingly, risk of double-counting costs existed. Additionally, it was difficult to verify proper settlement of

advances by reconciling between advances and the related incurred expenses because of the large number of supporting documents filed without reference to bills or cross-reference to advanced cheques.

3. Lack of supporting documents to financial transactions:

EQI's direct costs charged to projects included instances of inadequate supporting documents. Furthermore, our audit revealed that more than 7 % of the total costs audited during the three years ending December 1990, lacked proper supporting documents due to overbooking, double counting, documents addressed to entities other than EQI and the absence of supporting documents.

4. Inadequate control procedures over certain disbursements:

Our review revealed that EQI did not maintain logs to control and allocate the following items:

- International long distance calls & couriers.
- Motor vehicle operating expenses.
- Office equipment operating expenses.
- EQI's Managing Directors' expenses.

Although we do not question the reasonability of such costs, material errors could occur and not be detected or corrected. Susceptibility of overbooking, double counting, misclassification of direct costs as indirect costs and defalcation of EQI's resources are possible. Accordingly, the quality of control over the aforementioned costs is questioned.

5. Inadequate bookkeeping procedures:

EQI does not maintain a cash register for foreign currency transactions. Foreign currency transactions are converted into LE and recorded in the Journal/Ledger as LE expenses. Foreign currency bank statements are not reconciled in a timely manner. In addition, project subsidiary ledgers are not maintained according to their functional currency. Project transactions are recorded as incurred in LE. This method of recording does not permit proper and timely reconciliation of project's cost incurred with cost reimbursed.

Recommendations

Recommendation (1)

We recommend that EQI:

- review the entire billing process and redesign it based on actual costs recorded.
- use the 260 working days a year as a standard to establish the billing rates for administrative personnel and for professional field staff.
- reconcile the monthly hours billed with the actual hours recorded and approved in every individual time sheet.
- maintain a biographical data sheet for every staff member showing his/her earnings history; a copy should be filed with each project proposal.

Recommendation (2)

We recommend that EQI design and implement a filing system that facilitates the monthly billing process. In addition, EQI should conduct a monthly reconciliation to ensure accuracy and correctness.

Recommendation (3)

We recommend that EQI design and implement a system that ensures proper documentation for procurement and disbursement transactions.

Recommendation (4)

We recommend that EQI maintain proper logs and follow appropriate accounting procedures in recording cash disbursements and for allocation of incurred costs.

Recommendation (5)

We recommend that EQI maintain a foreign currency register and conduct a monthly bank reconciliation. In addition, another monthly reconciliation should be made between costs incurred in LE converted at the current rate of exchange with costs reimbursed in the project's functional currency.

Management comment:

Internal control weaknesses and deficiencies were generally discussed with EQI's management. EQI's management asserted that it is committed to remedy weaknesses, rectify findings noted in this report and develop a new internal control structure that is based on our recommendations.

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

August 31, 1991.

COMPLIANCE WITH CONTRACT TERMS
AND APPLICABLE LAWS AND REGULATIONS
INDEPENDENT AUDITOR'S REPORT

We have audited the combined local cost Fund Accountability Statement of Environmental Quality International for the period January 1, 1988 to December 31, 1990 under USAID/Egypt funded flexibly priced agreements, and have issued our report thereon dated April 30, 1992.

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 that the Fund Accountability Statement is free of material misstatement.

Compliance with laws, regulations, contracts, grants, and binding policies and procedures is the responsibility of EQI's management. As part of obtaining reasonable assurance that the Fund Accountability Statement is

free of material misstatement, we performed tests of EQI's compliance with certain provisions of laws, regulations, contracts, and binding policies and procedures. However, it was not our objective to provide an opinion on compliance with such provisions.

The material instances of noncompliance are violations of laws, contracts, or binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from those violations is material to the Fund Accountability Statement. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have been reported in the audit findings of the Fund Accountability Statement.

The material instances of noncompliance with contract terms and applicable laws and regulations, which are detailed in the findings and recommendations section of this report, are:

- Noncompliance with Article No. 4 of CLUSA-NCBA contract terms of field work compensation.
- EQI exceeded the budget of the small business credit project without obtaining any amendments to the contract.
- Noncompliance with FAR clause 31.201.3 [REASONABLENESS], the result of noncompliance was overbilling of labor costs on many contracts and subcontracts.
- Noncompliance with FAR clause 31.202 which defines direct and indirect costs.

We considered these material instances of noncompliance in forming our opinion on whether EQI's Fund Accountability Statement for the period January 1, 1988 to December 31, 1990 is presented fairly, in all material respects, and in conformity with the cash basis of accounting. This report does not affect our report dated August 31, 1991 on the Fund Accountability Statement.

All instances of noncompliance disclosed by our testing of transactions and records are identified in the accompanying schedule of findings.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, EQI 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 EQI had not complied, in all material respects, with those provisions.

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

Hazem Hassan & Co.

Cairo, Egypt.

Environmental Quality International (EQI)
Report on Compliance

Findings & Recommendations

Findings

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

1. Small business credit project, CLUSA - NCBA:

- a. Article No. 4 of the contract states that "EQI agrees to provide 'CLUSA' with contractor's biographical data sheets (AID form 1420-17) for each professional and field staff person to be billed to CLUSA. CLUSA reserves the right to adjust the reimbursement to EQI for any person whose proposed daily rate exceeds his earnings history". We were not able to compare actual costs incurred with billing rates charged to CLUSA due to absence of these biographical data sheets.
- b. Annex B of the contract states that the budgeted amount for salaries was \$ 17,650 while the actual amount charged and reimbursed to EQI was \$ 25,092. EQI did not provide us with any amendments to the contract.
- c. Additional noncompliance with FAR and contract terms associated with questioned costs is detailed in the findings section of our report on the Combined Fund Accountability Statement.

II. Instances of inconsistent practice with FAR clauses:

Our audit revealed that EQI included \$ 49,789 (LE 164,304.50) in the indirect costs pool which should have been classified as direct costs. Accordingly, we excluded this amount from the indirect cost pools. This EQI practice is in noncompliance with FAR clauses 31.202 and FAR 31.203 which define direct and indirect costs respectively.

III. Instances of inconsistency with USAID standard provisions:

In computing overhead rates, EQI included \$ 23,820 (LE 78,606) which represented excessive salary increases and salaries that exceeded USAID/Egypt's salary scale for Foreign Service Nationals for similar positions. Accordingly, we excluded these costs from our overhead and fringe benefits rate computation. These costs are in violation of USAID contract standard provisions applied to USAID projects.

Recommendation

Recommendation (6)

We recommend that EQI takes the necessary corrective action by designing appropriate systems and procedures, in order to ensure future compliance with applicable laws and regulations.

Appendix I

Detailed Fund Accountability Statements by Project

Environmental Quality International (EQI)
January 1, 1988 to December 31, 1990

I. Funds Accountability Statements:

I.1 IQC No. 263-0000-I-00-9013-00

I.2 IQC No. 263-0000-I-00-0027-00

I.3 LD II PVO - DAC

I.4 Small Business Credit CLUSA - NCBA

I.5 Small & Micro Enterprises - NCBA

Environmental Quality International (EQI)
IOC No. 263-0000-I-00-9013-00
Fund Accountability Statement
January 1, 1989 to December 31, 1990

<u>Description</u>	<u>1989</u>	<u>1990</u>	<u>Questioned costs</u>		<u>Reference</u>
	<u>\$</u>	<u>\$</u>	<u>Ineligible</u>	<u>Unsupported</u>	
<u>Revenues</u>	9,886	8,548			
	=====	=====			
<u>Expenditures</u>					
1. <u>Salaries</u>					
. Work Order 1	2,798		1,122		Sched. II.1
. Work Order 2	3,916		411		"
. Work Order 3	3,172				"
. Work Order 4		2,479			"
. Work Order 5		6,069	1,727		"
	-----	-----	-----		
	9,886	8,548	3,260		
	=====	=====	=====		

Schedule No. I.2

Environmental Quality International (EQI)
IOC No. 263-0000-I-00-0027-00
Fund Accountability Statement
January 1, 1990 to December 31, 1990

<u>Description</u>	<u>1990</u> <u>\$</u>	<u>Questioned costs</u>		<u>Reference</u>
		<u>Ineligible</u> <u>\$</u>	<u>Unsupported</u> <u>\$</u>	
<u>Revenues</u>	13,571			

<u>Expenditures</u>				
1. Salaries	12,789	2,426		Sched. II.2
<u>Other Direct Costs</u>				
2. Transportation	667		601	"
3. Per diem	90			
4. Photocopying	25		13	"
	-----	-----	---	
	13,571	2,426	614	
	*****	*****	---	

51

Environmental Quality International (EQI)
LD II PVO-DAC Fund Accountability Statement
April 1, 1988 to December 31, 1990

<u>Description</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>Questioned costs</u>		<u>Reference</u>
				<u>Ineligible</u>	<u>Unsupported</u>	
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	
<u>Revenues</u>	37,555	93,218	170,890			
	=====	=====	=====			
<u>Expenditures</u>						
1. Salaries	15,853	37,276	58,902	9,052	1,545	Sched. III.1
2. Transportation	4,032	3,550	-	-	3,236	"
3. Travel & Per diem	739	12,851	22,020	-	-	
4. Photocopying	-	-	157	-	-	
	-----	-----	-----	-----	-----	
	20,624	53,677	81,079	9,052	4,781	
	=====	=====	=====	=====	=====	
5. <u>Indirect Costs:</u>						
- Fringe benefits	-	-	7,415	(8,142)		
- Overhead	13,951	32,802	69,739	(17,791)		
- Fixed fee	2,980	6,739	12,657	-		
	-----	-----	-----	-----	-----	
	16,931	39,541	89,811	(25,933)		
	-----	-----	-----	-----	-----	
	37,555	93,218	170,890	(16,881)	4,781	
	=====	=====	=====	=====	=====	
				(12,100) *		
				=====		

* This amount represents the net effect of our audit findings and our overhead rate computation.

5/2

Environmental Quality International (EQI)
Small Business Credit - "CLUSA - NCBA"
Fund Accountability Statement
March 1, 1988 to May 31, 1988

<u>Description</u>	<u>1 9 8 8</u>		<u>Questioned costs</u>		<u>Reference</u>
	<u>\$</u>	<u>\$</u>	<u>Ineligible</u> <u>\$</u>	<u>Unsupported</u> <u>\$</u>	
<u>Revenues</u>		36,772.50			
		=====			
<u>Expenditures</u>					
<u>1. Salaries:</u>					
- Consultants	16,380.00				
- Field surveyors	3,200.00				
	-----	19,580.00	1,724.00		Sched. II.4
<u>2. Supporting Staff:</u>					
- Administrators	2,450.00				
- Word processors	1,102.50				
- Secretary	1,347.50				
- Office assistant	612.50				
	-----	5,512.50	1,959.00		
<u>3. Direct Office Expenses:</u>					
- Field survey expenses	1,500.00				
- Office rent	3,000.00				
- Transportation	2,700.00				
- Word processor (Rental of 2 computers)	1,700.00				
- Office supplies & Photocopying	2,780.00				
	-----	11,680.00	-	11,680.00	
<u>Total costs reimbursed</u>		36,772.50	3,683.00	11,680.00	
		=====	=====	=====	

53

Environmental Quality International (EQI)
Small & Micro Enterprises (SME)
Fund Accountability Statement
April 1, 1989 to May 31, 1990

<u>Description</u>	<u>1989</u>	<u>1990</u>	<u>Questioned costs</u>		<u>Reference</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	
<u>Revenues</u>	107,655.38	183,571.24			
	=====	=====			
<u>Expenditures</u>					
1. Salaries	35,404.69	64,304.62	396.50		Sched. II.5
2. Transportation	4,027.86	6,207.82			
3. Travel & Per diem	3,612.27	4,922.99			
4. Office expenses	14,922.06	15,088.52			
	-----	-----	-----		
	57,966.88	90,523.95	396.50		
	=====	=====	=====		
<u>5. Indirect office expenses:</u>					
- Fringe benefits	4,322.87	10,279.08	331.00		
- Overheads	34,959.96	65,633.47	(16,551.00)		
- G & A	7,779.97	12,828.33	-		
- Fixed fee	2,625.70	4,306.41	-		
	-----	-----	-----		
	49,688.50	93,047.29	(16,220.00)		
	-----	-----	-----		
	107,655.38	183,571.24	(15,823.50) *		
	=====	=====	=====		

* This amount represents the net effect of our audit findings and our overhead rate computation.

54

Appendix II

Schedules of Questioned and Unsupported Costs

Schedule No. II.1

IOC No. 263-0000-I-00-9013-00
Audit findings (1988-1990)
Questioned salaries

<u>Description</u>	<u>Level of Effort</u>	<u>\$</u>	<u>\$</u>
<u>Work Order No. 1</u>			
Total amount billed	40 days	2,798	
<u>Less:</u> Actual costs verified	24 days	1,676	
Questioned labor costs		-----	1,122
 <u>Work Order No. 2</u>			
Total amount billed	56 days	3,916	
<u>Less:</u> Actual costs verified	56 days	3,505	
Questioned labor costs		-----	411
 <u>Work Order No. 5</u>			
Total amount billed	41 days	6,069	
<u>Less:</u> Actual costs verified	26 days	4,437	
Questioned labor costs		-----	1,632
 <u>Add:</u> Excessive direct salary charges questioned			
			95

Total questioned labor costs			3,260

56'

IOC No. 263-0000-I-00-0027-00
Audit findings (1988-1990)
Questioned salaries and other direct costs

<u>Description</u>	<u>Level of Effort</u>	<u>\$</u>	<u>\$</u>
<u>Work Order No. 2</u>			
Total salaries billed	219 days	12,789	
<u>Less:</u> Actual costs verified	173 days	10,363	
Questioned labor costs		-----	2,426

Total questioned labor costs			2,426
<u>Other direct costs</u>			
<u>Transportation</u>			
Costs billed		667	
<u>Less:</u> Actual costs verified		66	
Questioned costs		-----	601
<u>Photocopying</u>			
Costs billed		25	
<u>Less:</u> Actual costs verified		12	
Questioned costs		-----	13

<u>Total questioned costs</u>			3,040
			=====

51

Environmental Quality International (EQI)
LD II PVO - DAC Labor Costs Questioned
April 1, 1988 to December 31, 1990

<u>Description</u>	<u>Level of Effort Days</u>	<u>1988 \$</u>	<u>1989 \$</u>	<u>1990 \$</u>	<u>Total \$</u>
Total labor costs billed	3,917	15,853	37,276	58,901	
Total cost of time charged at the rate of billing	3,643	15,041	35,217	53,872	
	-----	-----	-----	-----	
1. <u>Total questioned cost of time overbilled</u>	274	812	2,059	5,029	7,900
	-----	-----	-----	-----	
Total labor costs billed	3,917	15,853	37,276	58,901	
Actual costs paid according to the time billed	3,917	15,062	36,522	58,901	
	-----	-----	-----	-----	
2. <u>Total salaries overbilled</u>	-	791	754	-	1,545
	-----	-----	-----	-----	-----
<u>Total labor costs overbilled</u>	274	1,603	2,813	5,029	9,445
	-----	-----	-----	-----	
3. <u>Questioned salary increases affecting costs charged to the project billing:</u>		592	538	22	1,152
		-----	-----	-----	-----
		2,195	3,351	5,051	10,597
		-----	-----	-----	-----

Environmental Quality International (EQI)
LD II PVO - DAC
Questioned other direct costs - Transportation
April 1, 1988 to December 31, 1990

<u>Description</u>	<u>1989</u> <u>\$</u>	<u>1990</u> <u>\$</u>	<u>Total</u> <u>\$</u>
<u>Total costs billed & reimbursed</u>	4,032	3,550	7,582
<u>Less: Actual costs charged:</u>			
- Peugeot car depreciation	1,208	1,117	2,325
- Driver's salary allocated	593	547	1,140
- Operational running costs	187	521	708
- Driver's overtime	17	156	173
	-----	-----	-----
	2,005	2,341	4,346
	-----	-----	-----
Total questioned costs	2,027	1,209	3,236
	*****	*****	*****

54

Schedule No. II.4

Environmental Quality International (EQI)
Small business credit - "CLUSA - NCBA"
Questioned direct labor costs
March 1, 1988 to May 31, 1988

<u>Description</u>	<u>\$</u>	<u>1 9 8 8</u>	<u>\$</u>
Total consultants billed	16,380.00		
Total field surveyors billed	3,200.00		
	-----		19,580.00
Actual direct labor costs verified			18,004.00

<u>Questioned direct costs (consultants and surveyors)</u>			1,576.00
Total supporting staff costs billed	5,512.50		
Actual supporting staff costs verified	3,553.50		
<u>Questioned supporting staff costs</u>	-----		1,959.00

<u>Questioned salary increases</u>			3,535.00
			148.00

<u>Total questioned direct labor costs</u>			3,683.00
<u>Other direct office expenses</u>			
Total costs billed	11,680.00		
Actual costs verified	0		
Questioned other direct office expenses	-----		11,680.00

Total questioned costs for CLUSA-NCBA			15,363.00

60

Environmental Quality International (EQI)
Small & Micro Enterprises (SME)
Questioned labor costs
April 1, 1989 to December 31, 1990

<u>Description</u>	<u>\$</u>	<u>\$</u>
I. <u>Salary increases affecting USAID billing:</u>		
<u>L.E</u>	<u>Exchange rate</u> (note 2)	
1989	627.9	0.4115
1990	146.0	0.4115
		258.40
		60.10

- Questioned salary increases charged to SME		318.50
 II. <u>Salary-scale exceeding USAID standard compensation plan:</u>		
Salary affecting SME billing:		
1990 L.E 205 @	0.3805	(note 3)
		78.00

Total questioned costs		78.00

		396.50
		=====

Notes:

- (1) The above questioned costs should be added to PW audit findings of questioned costs (RIG/A/C Audit Report No. 6-263-92-06-W).
- (2) This questioned salary increase relates to one employee. The exchange rate used is the official rate for USAID / Cairo for July 1989 since this was the date of the award.
- (3) This questioned salary relates to an employee who worked for 2 days for SME. The actual exchange rate in force at the time of the award has been applied.

61'

Appendix III

**Schedules of Costs Excluded from the Overhead and
Fringe Benefit Computations 1988-1990**

Environmental Quality International (EQI)
Schedule of 1988 Salaries

<u>Description</u>	<u>Direct</u> <u>\$</u>	<u>Indirect</u> <u>\$</u>	<u>Total</u> <u>\$</u>
<u>Audited salaries:</u>			
- Salaries charged to projects	93,316	-	93,316
- Indirect salaries	-	54,115	54,115
- Payroll tax adjustment	13,415	7,879	21,294
- Managing director's salary	-	38,929	38,929
	-----	-----	-----
Total before adjustments:	106,731	100,923	207,654
<u>Questioned indirect salaries:</u>			
Effect of questioned salary increases proportioned to unbilled time of certain employees' salaries		(748)	(748)
	-----	-----	-----
	106,731	100,175	206,906
	-----	-----	-----

63

Environmental Quality International (EQI)
Schedule of 1989 Salaries

<u>Description</u>	<u>Direct</u> <u>\$</u>	<u>Indirect</u> <u>\$</u>	<u>Total</u> <u>\$</u>	<u>Reference</u>
<u>Audited salaries:</u>				
- Salaries charged to projects	129,758	-	129,758	
- Indirect salaries	-	64,143	64,143	
	-----	-----	-----	
	129,758	64,143	193,901	
- <u>Managing director's salary 1989</u>	-	43,255	43,255	Sched. III.2
	-----	-----	-----	
Total before adjustments:	129,758	107,398	237,156	

Questioned indirect salaries:

Effect of questioned salary increases proportioned to unbilled time of certain employees' salaries		(5,074)	(5,074)	
	-----	-----	-----	
	129,758	102,324	232,082	
	-----	-----	-----	

64

Schedule No. III.1.2

Environmental Quality International (EQI)
Schedule of 1990 Salaries

<u>Description</u>	<u>Direct</u> <u>\$</u>	<u>Indirect</u> <u>\$</u>	<u>Total</u> <u>\$</u>	<u>Note</u>
<u>Audited salaries:</u>				
- Salaries charged to projects	194,802	-	194,802	
- Indirect salaries	-	89,168	89,168	
	-----	-----	-----	
	194,802	89,168	283,970	
- <u>Managing Director's salary 1990</u>	-	48,061	48,061	(1)
	-----	-----	-----	
Total before adjustments:	194,802	137,229	332,031	
<u>Questioned indirect salaries:</u>				
- Effect of questioned salary increases proportioned to unbilled time of certain employees' salaries		(1,255)	(1,255)	
- Effect of questioned costs exceeding permitted salary-scale proportioned to unbilled time of certain employees		(3,975)	(3,975)	
	-----	-----	-----	
	194,802	131,999	326,801	
	-----	-----	-----	

Note:

(1) The Managing Director's salary for 1990 was LE 158,600. This was translated for presentation purposes at an exchange rate of \$ 1 = LE 3.30.

65

Environmental Quality International (EQI)
Schedule of Managing Director Salary
January 1, 1988 to December 31, 1990

<u>Description</u>	<u>US \$</u>	<u>US \$</u>	<u>Exchange rate (1)</u>	<u>L.E</u>
* 1980 Salary as GOE advisor in World Bank project, Urban Development	30,000			
<u>Add: 10% Salary increase x 10 years</u>	30,000			
<u>1990 Salary</u>	-----	60,000	2.64333	158,600
<u>1989 = 90% of LE 158,600</u>				142,740
<u>1988 = 90% of LE 142,740</u>				128,466

				429,806

(1) US\$ Exchange rate as of 03.11.1990.

USAID/Egypt Foreign National Compensation Plan salary-scale.

* According to management assertion dated October 8, 1991.

Environmental Quality International (EQI)
Schedule of 1988 - Exclusions / Unallowable expenses analysis
For the year ended December 31, 1988

<u>Description</u>	<u>Total</u> \$	<u>Ineligible</u> \$	<u>Unsupported</u> \$	<u>* Notes to Ineligibility</u>
1. Rent	318	318	-	Advance payment
2. Translation fees	160	160	-	Projects
3. Stationery	1,975	1,847	128	Projects + Paid prior 1.1.1988
4. Electric supplies	225	139	86	Non-expendable property
5. Legal fees	591	591	-	Projects
6. Computer supplies	1,246	1,246	-	Projects
7. Light, Water, and Electricity	75	-	75	--
8. Teleph., Telex, and Courier	4,680	3,276 (2)	1,404 (1)	See accompanying notes
9. Transportation	11,274	10,586 (3)	688	" " "
10. Travel & Accommodation	20,947	4,934	16,013 (4)	Projects
11. Maintenance & Repairs	229	-	229	--
12. Consumables	1 317	1,223	94	Projects + the food is personal
13. Miscellaneous	1,269	814	455	Project
14. Depreciation	1,208	1,208	-	Assets appropriated to projects
15. Professional fees	-	-	-	
TOTAL	45,514	26,342	19,172	

* See notes attached

67

Notes to schedule No. III.3

- (1) Telephone bills in the name of staff members and not addressed to EQI.
The cheques were paid without supporting bills or receipts.
- (2) \$ 484 (LE 1,597.69) chargeable to projects,
\$ 1,169 (LE 3,856.44) 15% of the international long distance calls
was considered personal.
\$ 1,305 (LE 4,305.95) non-expendable property, purchase of new
telephone line.
\$ 318 (LE 1,050.00) advances, monetary securities for the
telephone line.

\$ 3,276

- (3) \$ 9,741 (LE 32,144.88) car rental, operational expenses and
repairs chargeable to projects.
\$ 491 (LE 1,621.00) motor vehicle overall repairs - capitalized
to Peugeot car acquisition cost.
\$ 354 (LE 1,166.87) 1/3 of managing director's own car running
expenses was considered personal.

\$10,586

- (4) Booked as US dollar travelling costs, but no supporting documents were
presented for verification.
- (5) Notes to ineligibility are attached, see page Nos. 64, 65 & 66.

(5) Notes to ineligibility:

5.1 Rent:

\$ 318 (LE 1,050) Advance payment for January 1989 was paid during December 1988.

5.2 Translation fees:

\$ 160 (LE 527) was the translation fee for the Wash project reports.

5.3 Stationery:

\$ 1,847 (LE 6,093.85) was project expenses. This amount included \$ 50 (LE 165.50) that was paid during December 1987.

5.4 Electric supplies:

\$ 139 (LE 460.20) was for purchasing non-expendable items which we added to office equipment:

	<u>\$</u>	<u>LE</u>
Stabilizer	34.00	112.50
Oil heater	<u>105.00</u>	<u>347.70</u>
	<u>139.00</u>	<u>460.20</u>

5.5 Legal fees:

\$ 591 (LE 1,950) was paid to the lawyers of Dahab Project to prepare the contract for a new company in which EQI's Managing Director is a partner.

5.6 Computer supplies:

\$ 1,246 (LE 4,111.10) was excluded because it was chargeable to: Dental project \$ 1,237 (LE 4,082.40) and Wash project \$ 9.00 (LE 28.70).

5.7 Light, Water and Electricity:

Unsupported.

5.8 Telephone, Telex and Courier:

See note No. 2 page 63.

5.9 Transportation:

See note No. 3 page 63.

5.10 Travel & Accommodation:

\$ 4,934 (LE 16,279.23) travel and accommodation expenses that were chargeable to projects.

5.11 Maintenance & Repairs:

Unsupported.

5.12 Consumables:

\$ 1,223 (LE 4,037.47) was excluded because it consists of:

	<u>US \$</u>	<u>LE</u>
direct project expenses	174.00	573.22
personal expenses: flowers, lunch & entertainment	<u>1,049.00</u>	<u>3,464.25</u>
	<u>1,223.00</u>	<u>4,037.47</u>

5.13 Miscellaneous:

\$ 814 (LE 2,686.51) was excluded because it consists of:

	<u>US \$</u>	<u>LE</u>
direct project expenses	775.00	2,557.51
personal expenses: flowers, lunch & entertainment	<u>39.00</u>	<u>129.00</u>
	<u>814.00</u>	<u>2,686.51</u>

5.14 Depreciation:

\$ 1,208 (LE 3,986) was the depreciation of a Peugeot car which was assigned to the LD II PVO DAC Project.

5.15 Professional fees:

Nothing was excluded.

Environmental Quality International (EQI)
Schedule of 1989 - Exclusions / Unallowable expenses analysis
For the year ended December 31, 1989

<u>Item</u>	<u>Total</u>	<u>* Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
1. Rent	881	881	-
2. Stationery	554	-	554
3. Consumables	1,169	1,169	-
4. Teleph. & Telex	1,433	1,433	-
5. Transportation	487	442	45
6. Computer & Photocopy	-		
7. Electricity	-		
8. Cleaning Materials	-		
9. Miscellaneous	166	-	166
10. Travel & Per diem	3,714	3,714	
11. Electric supplies	-		
12. Maintenance	3,137	3,137	-
13. Auditing fees	606	-	606
14. Depreciation	3,783	3,783	-
	-----	-----	-----
TOTAL	15,930	14,559	1,371
	*****	*****	*****

* See notes attached.

72

Notes to excluded ineligible costs:

1. Rent:

Payment in advance for January 1990 rent \$ 881

3. Consumables:

Lunch, Flowers and Entertainment expenses \$ 1,169

4. Transportation:

Costs were allocable to projects \$ 442

10. Travel & Per diem:

Costs were allocable to projects \$ 3,714

12. Maintenance:

\$ 3,137 was carried forward as non-expendable renovation costs.

14. Depreciation:

\$ 3,783 was the depreciation cost of fixed assets which were assigned to projects.

Schedule No. III.3.2

Environmental Quality International (EQI)
Schedule of 1990 - Exclusions / Unallowable expenses analysis
For the year ended December 31, 1990

<u>Item</u>	<u>Total</u>	<u>* Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>
1. Rent	2,667	2,607	60
2. Office supplies	96	96	-
3. Miscellaneous	4,375	2,351	2,024
4. Maintenance	156	-	156
5. Consumables	1,551	1,551	-
6. Consulting fees	6,212	4,545	1,667
7. Auditing fees	-	-	-
8. Project expenses	2,157	2,157	-
9. Photocopiers	1,965	813	1,152
10. Depreciation	5,036	5,036	-
11. Transportation	802	692	110
12. Travel & Accommodation	14,581	12,685	1,896
13. Telephone & Telex	3,555	3,555	-
	-----	-----	-----
TOTAL	43,153	36,088	7,065
	*****	*****	*****

* See notes attached.

74

Notes to ineligible costs:

1. **Rent:**

\$ 2,607 (LE 8,601.95) was rent charges of office C allocable to projects for the space which was verified by PWH's audit.

2. **Office supplies:**

\$ 96 (LE 316.85) was purchases of stationery and other office supplies and photocopying cost that was allocable to projects.

3. **Miscellaneous:**

\$ 2,351 (LE 7,762) was personal, flowers and project expenses.

5. **Consumables:**

\$ 1,551 (LE 5,118) was excludable as follows:

	<u>\$</u>	<u>LE</u>
Project expenses	312	1,029
Food, Beverage and Entertainment	<u>1,239</u>	<u>4,089</u>
	<u>1,551</u>	<u>5,118</u>

6. **Consulting fees:**

\$ 4,545 (LE 15,000) was the incorporation study of an associate firm which owns one of EQI's contracted projects (Dahab Project).

8. **Project expenses:**

EQI included \$ 2,157 (LE 7,118.54) as planning expenses of certain projects or project expenses which were not expected to be reimbursed.

9. Photocopiers & Computers:

\$ 813 (LE 2,684) was the purchase of a printer and a new cable during November and December 1990. The amount was excluded as fixed assets to be capitalized and depreciated.

10. Depreciation:

\$ 5,036 (LE 16,618) is the depreciation cost of fixed assets (cars & one computer) which are dedicated to projects.

11. Transportation:

\$ 692 (LE 2,283) was excluded as follows:

	<u>\$</u>	<u>LE</u>
Project expenses	262	864.40
Food, Beverage and Entertainment	<u>430</u>	<u>1,418.90</u>
	<u>692</u>	<u>2,283.30</u>

12. Travel and Accommodation:

US \$ 12,685 (LE 41,860.37) was excluded as follows:

	<u>\$</u>	<u>LE</u>
Project expenses	5,640	18,613.20
Personal Travel	<u>7,045</u>	<u>23,247.17</u>
	<u>12,685</u>	<u>41,860.37</u>

13. Telephone, Telex & Courier:

\$ 3,555 (LE 11,731.55) was excluded as follows:

	<u>\$</u>	<u>LE</u>
New telephone line Sept. 1990	1,078	3,556.00
15% International calls (personal)	2,046	6,753.85
Project expenses	<u>431</u>	<u>1,421.70</u>
	<u>3,555</u>	<u>11,731.55</u>

Schedule No. III.4

Environmental Quality International (EQI)
Schedule of "DCG" Project Refunded Costs
January 1, 1988 to December 31, 1990

<u>Name</u>	<u>\$</u>
Employer's portion of Social Security, refunded to EQI to cover staff seconded to "DCG" project:	
- 1988	2,574
- 1989	4,440
- 1990	8,447

Total	15,461

77

Appendix IV

MANAGEMENT COMMENTS

**Response to
Audit of Direct and Indirect costs
billed to USAID/Egypt by
Environmental Quality International
(EQI)**

I. RESPONSE TO AUDIT OF DIRECT COST INCURRED AND BILLED BY EQI:

1. IOC No. 263-0000-I-00-9012-00

1.3 EQI billed USAID on actual basis excluding the word processor cost. This questioned amount has already been excluded from our bill.

1.4 The project manager has been substituted by a higher caliber candidate whose billing rate was much higher than the one in the contract.

1.5 EQI salary scales are not necessarily identical to those of USAID. Our salary structure is based on supply & demand. The amount questioned is therefore unreasonable.

2. IOC No. 263-0000-I-00-0027-00

2.3 Please find attached the supporting documentation concerning transportation expenses. The car used for the project was an office car supported by another rented car (Attachment 1)

3. 22 II FVO-DAC: Response to Audit Findings for April, 1988 to December 31, 1990

3.142.2 Please find enclosed Attachment 2 for offsetting underbilled and overbilled labor time and salaries on the DAC contract for the years 1988, 1989, 1990 (See Finding 3.1 & 3.2 on page 21). The salaries have been recalculated on the basis of the 260 day/year instead of the 252 day/year that resulted in overbilling. In addition, costs of salaries overbilled have been adjusted and offsetted, taking into consideration that these adjustments have been made on the basis that the same persons worked under the same contract i.e., adjusting amounts that have been either overcharged or undercharged to DAC International. The amounts should be adjusted to LE 24,511.63, instead of LE 29,076.52 + 5,097.94 = LE 34,174.47.

Please find attached the analysis for the time allocated during Ramadan days. A 6 hr/day is the official work day during the month of Ramadan (Attachment 4).

3.3 In Reference to Finding 3.3 (page 21):

Project management approval was not stipulated under the DAC contract as a requirement for the assignment of new consultants to the project.

The standard USAID provision stipulates that the contractor can promote his staff according to their internal personnel policy. Therefore, it is clear that as long as there is an obligation on the part of the EQI management to grant promotions in compliance with the project performance, promotions cannot be questioned and should be considered agreeable. If these amounts were listed under DAC findings, then they should be included in the indirect cost pool on the basis that it was actually incurred cost (the employee received the increase). Therefore, it should be considered an operating cost of the firm as EQI employees are not hired to work only on USAID projects. EQI should not lose this cost twice. Kindly reconsider your finding.

3.4 In Reference to Finding 3.4 page 22

We agree that the costs billed were estimates; calculated according to actual costs, they are as follows:

	1988 LE	1989 LE	Total LE
Total cost billed and reimbursed:	13,306	11,715	25,021
Less			
Actual costs charged:			
- Peugeot car depreciation	3,987	3,686	7,673
- Driver's allocated salary	4,914	4,680	9,594
- Operational running costs	617	1,721	2,338
- Driver's overtime	<u>56</u>	<u>515</u>	<u>571</u>
	<u>9,574</u>	<u>10,502</u>	<u>20,176</u>
- Total questioned costs	<u>3,732</u>	<u>1,113</u>	<u>4,845</u>

The amount LE 11,314 should be adjusted to LE 4,845.

4. Small Business Credit Fund Accountability Statement 1988:

4.3 US \$ 10,180 the equivalent of LE 23,239.40 was excluded from the overhead costs to cover the questioned cost of US \$ 11,680 excluding Field Survey expenses under the NCSA Fund Accountability Statement Schedule No. 1.4. Therefore, the amount US \$ 11,680 should be altered to \$ 10,180 under the project's Fund Accountability Statement, and subsequently added to the 1988 Overhead costs so that EQI is not penalized twice.

5. Small Micro Enterprises - NCSA:

5.1&5.2 Refer to response concerning direct salary increases II No.1-1.1 & 1.2

II. RESPONSE TO AUDIT OF EQI INDIRECT COSTS IN ORDER TO DETERMINE ACTUAL OVERHEAD RATE AND FRINGE BENEFITS RATE:

1. Reasonability of certain indirect salaries is questioned:

1.1&1.2 The standard USAID provision stipulates that the contractor can promote his staff according to their internal personnel policy. Therefore, as long as there is an obligation on the part of the EQI management to grant promotions in compliance with personnel performance, it cannot be questioned and should be considered agreeable. EQI operates locally and internationally. Therefore, EQI has to employ a high caliber staff. Consequently, EQI staff are not appropriated or hired specifically on USAID projects and their salaries should be considered operational costs of the firm.

These amounts should be included in the indirect salary pool. Therefore, we believe that the indirect salaries have to be increased by this amount.

4. Documentation Supporting Office Expenses is Inadequate:

Schedule of 1988- Exclusions/ Unallowable expense analysis for the year ended December 31, 1988: Schedule No. III. 3)

a) EQI Office Expenses refunded by NCSA:
LE 23,239.40 has been deducted from the indirect cost pool in the calculation of the Overhead rate and at the

same time \$ 11,680 was considered questioned costs. Therefore the indirect expenses should be increased by LE 23,239.40; this means that EQI will be charged the burden of cost twice. Kindly reconsider your decision either to question the costs in NCBA's Fund Accountability Statement or to exclude them from the indirect cost pool.

b) Unsupported Expenses:

- Telephone, Telex & Courier: Attached please find the document that clarifies the fact that Dr. Mounir Neamatalla had asked Mr. Cherif Abdel Megeed as an employee at EQI to incur this cost for business development. (Attachment 6)

- Travel and Accommodation: Please find attached supporting documentation.

c) Ineligible Column:

- Telephone, Telex and Courier:

Total Amount	LE 27,324.65
<u>less</u> chargeable to projects	LE 1,597.65
<u>less</u> purchase of new tel.	LE 4,305.95
<u>less</u> Monetary securities	LE 1,050,00
<u>less</u> Unsupported	LE 4,632.95
	<hr/>
<u>less</u> 15% personal calls	LE 15,738.06
	LE 2,360.70
	<hr/>
Indirect Cost.	LE 13,377.36

- Transportation: These amounts were not reimbursed from projects. Accordingly they should be included in the Overhead pool since EQI has the ownership of these vehicles.

92

Schedule of 1989- Exclusions/Unallowable expenses analysis for the year ended December 31, 1989.

(Schedule No III-3.1)

a) Ineligible column:

- Depreciation: the amount of LE 10,352 has been excluded from the indirect cost pool. Therefore the % of depreciation on office renovation should be added to the depreciation cost. The Depreciation cost for year 1989 should be as follows:

Cars	LE	12,636.00
Photocopiers	LE	9,282.00
Computers	LE	2,698.00
Office Equipment	LE	1,833.50
Furniture	LE	2,834.00
% of Dep. for office renovation	LE	3,450.32
		<hr/>
<u>less</u> NCBA-SME car	LE	32,733.82
<u>less</u> Computer used by SME project	LE	4,851.00
		634.00
		<hr/>
	LE	27,248.82

Schedule of 1990-Exclusions/Unallowable expenses analysis for the year ended December 31, 1990.

- Consumable: LE 1,363.19 are business meetings made by Dr. Mounir Neamatalla over Lunch, dinner...etc.
- Photocopier & Telephone: The amount of LE 2,684 and LE 3,556 should be added to depreciation.
- Depreciation: Total Depreciation LE 50,710.50 and the % of depreciation under photocopier & telephone should be included. The calculation for 1990 depreciation is as follows:

Furniture	LE	3,475.00	
Office Equipment	LE	2,412.50	
Computer	LE	9,019.00	
Photocopier	LE	10,668.00	
Cars	LE	25,136.00	

	LE	50,710.50	
<u>less</u> Computers	LE	4,772.00	
<u>less</u> Photocopier	LE	8,316.00	
<u>less</u> Car	LE	12,500.00	

	LE	25,122.50	(Receipts available)

PWH have rejected the direct cost of the SME project (computers - Photocopier - Cars) Therefore, these amounts should be included in the indirect pool to avoid the double counting effect of the questioned cost.

- Auditing fees please find supporting documentation (Attachment 7)
- Travel and Accommodation: Attached please find supporting documentation.

6) Allowability of Certain Charges is Questioned:

- The advance paid for January 1989 & 1990 rent was due to the fact that EQI works on cash bases and not accrued.
- The fixed assets purchased should be adjusted and % of the amounts should be included under depreciation expenses.

Schedules of Ineligible & Exclusions of
Overhead and Fringe Benefits Computation.

Schedule No. III - 1:

- 1) Total Costs of labor time billed & Salaries charged to projects = LE 239,205.01
- 2) Total Costs of labor time unbilled and G & A Indirect Salaries = LE 198,010.87
- 3) Managing Director Salary 1988 should be LE 132,241 instead of LE 128,466 as the average rate of exchange used for 1990 is 2.791 instead of 2.643.33. The company wide fringe benefits rate should be applied to the salary of the Managing Director (Dr. Mounir Neamatalla)
- 4) Effect of questioned salary:
Refer to response II No.1 finding 1.1 & 1.2. The amount of LE 2,470 has been excluded from the indirect salary pool. Therefore, we believe that the indirect salaries have to be increased by this amount.
- 5) Dahab project: LE 15,000 were paid by the Dahab project to reimburse EQI for actual costs which were never included in the Overhead pool. Therefore, this amount needs to be adjusted.

Schedule No. III.1.1.

- 1) Total Costs of labor time billed & salaries charged to projects is LE 363,204.43
- 2) Total Costs of labor time unbilled and G & A Indirect Salaries is LE 180,186.36
- 3) Managing director salary 1989 should be LE 146,934 instead of LE 142,740 for the difference in the exchange rate.
- 4) Questioned indirect salaries:
Refer to response II No.1 finding 1.1 & 1.2

Schedule No. III.1.2.

- 1) Total Costs of labor time billed & salaries charged to projects is LE 330,017.90
- 2) Total Costs of labor time unbilled and G & A Indirect salaries is LE 268,315.49
- 3) Managing director salary 1990 should be LE 163,260 instead of LE 158,600 for the difference in exchange rate.
- 4) Questioned indirect salary: These should be considered indirect operational costs as EQI does not hire its staff to work on USAID projects.

USAID/Egypt Funded Projects Assigned to
EQI during the period from 1988-1990

Response to Findings:

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

1. Small business credit project, CLUSA - NCBA:
 - a. The biographical data sheets are available in EQI's Central files.
 - c. EQI billed NCBA on the basis of a lump sum amount.

2. Small & Micro Enterprises, NCBA:

Refer to response concerning 1 No. 1.1 & 1.2

3. AMERIC:

The project is a fixed price technical contract and not cost plus fee.

4. IOC 9011:

Refer to response 1 No. 1.1 & 1.2.
Also, EQI has substituted the project manager with another higher caliber candidate working fewer hours.

6. LD II SVO - DAC:

Refer to response 1 No. 1.1 & 1.2.

II. Instances of inconsistent practice with FAR clauses:

Auditors excluded some amounts from the indirect costs pool and considered them as direct project costs while in fact they are expenses incurred for business development to generate new projects for the firm. These projects turned to be contracts while others did not and remained as business development.

III. Instances of inconsistencies with USAID standard provisions:

EQI is an operating institution with 85 full-time employees on its payroll. EQI does not hire its employees to work on USAID projects but as permanent EQI staff. Therefore, their increases depend upon their performance, and the difference should be considered as operating costs of the firm.

(1 & 5) Billing & Book keeping procedures:

EQI implemented a new accounting system and new internal control structure that will lead to overcoming any internal control audit findings and will comply with USAID regulation.

All actual direct costs incurred through a certain month and allocated to a certain project are posted in the project subsidiary ledger. The supporting documents are kept in the project file.

At the end of each month, all direct expenses are billed to clients according to the budget in the contract.

If expenses incurred on a certain project are in LE, and the contract is in \$ then all expenses are changed in \$ for billing. Then the invoice amount is debited to the clients account in both currencies.

When bills are reimbursed, the received amount is credited to the clients' accounts in the accounts receivable, and debited to the cash or bank account in both LE and foreign currency and reconciliation between bills and reimbursements is made.

2) Travel and Perdiem:

To eliminate double counting and overbooking, EQI is handing over an advance payment to every project manager. These amounts are considered project petty cash. After settlement, the supporting documents are posted in the subsidiary ledger and the billing takes place accordingly.

3) Supporting documents:

EQI is following new cheque issuing procedures to be summarized as follows:

- Payable invoices are kept by an accountant in an outstanding payable file.
- Every two weeks an expense report is prepared by the accountant and submitted to the Financial Director for approval and cheque issuance.
- After the cheques are issued, a photocopy of each cheque is attached to the supporting documents and filed in the checks to be handed file.

- Upon delivering the cheques the accountant receives a stamped receipt covering the cheque amount from the creditor and attaches it to the documents and files them in the proper file.
- Creditors statements of accounts are checked and reconciled with each creditor periodically.

In addition to the above, the Accounting system also covers the audit recommendations.

- 1) a. As per the above mentioned billing procedures the billing is based on actual costs recorded in the project subsidiary ledgers.
- b. EQI uses a 260 w.days/year to establish the staff billing rates.

2) Recommendation

EQI has already implemented a filing system that ensures accurate and correct monthly billing process.

- 3,4&5) EQI has already implemented an accounting system that fulfills all the audit recommendations.

Appendix V

AUDITORS' COMMENTS

AUDITORS' COMMENTS

I. EQI response to audit of direct costs incurred & billed:

1. IOC No. 263-0000-I-00-9013-00

1.3 The management response is accepted.

1.4 The management response is based on inflating the daily rate of the project manager to offset part of the questioned cost of \$ 1,632 (LE 5,385.54). Project manager billing rates were audited and verified according to actual salaries.

The questioned cost is however, based on time overbilled by 15 days for both managers and hence our finding remains valid.

1.5 The management response to the finding that certain salary charges exceeded applicable USAID salary-scales due to the use of the EQI compensation plan is accepted.

When billing USAID and when computing an overhead rate however, the excess of the actual salary charged over the USAID salary-scale charge must be eliminated. (Refer to the indirect salaries computation for a quantification of the effect of non-compliance). Hence, the finding is still valid - the questioned cost of Work Order No. 5 is \$ 95 (LE 315).

This finding should also be considered in relation to other questioned costs (direct and indirect) and their impact on overhead rates.

I. EQI response to audit of direct costs incurred & billed:

2. IOC No. 263-0000-I-00-0027-00

The questioned cost is the difference between the amount billed to USAID of \$ 667 (LE 2,200) and the expenses actually verified at the time of the audit of \$ 66 (LE 217.70). In response to our finding management provided copies of documents in support of the questioned cost of \$ 601 (LE 1,982.30).

We consider these documents to be unreliable and insufficient evidence of the authenticity of this amount.

Our questioned cost of \$ 28 (LE 92.60) arising from a difference on one employee's salary, has been removed following the verification of this amount by management.

I. EQI response to audit of direct costs incurred & billed:

3. LD II PVO - DAC:

1.1 EQI management have agreed with the questioned cost issue in our findings 3.1 and 3.2

Nevertheless, management claim to offset part of the questioned amount of \$ 10,356 (LE 34,174.74) with unbilled, allocable costs of certain employees. This is based on the fact that one employee was charged to the project for 3 months without being billed or officially enrolled in the project budget.

Our response to this is that no evidence has been provided demonstrating project management's acceptance of the employee's unbilled time.

Furthermore, no evidence is provided either in EQI books or its billing to the project that successive years billing is interrelated. As per FAR clause 31.201-2c costs resulting from inconsistent practices shall not be allowed in excess of the amount that would have resulted from using consistent practices.

3.2 Accepted. Based on a 6 hour day as the official working day during Ramadan, the questioned costs which arose due to hours overbilled, have been reduced by \$ 911 (LE 3,008.19) to \$ 4,067 (LE 13,420.03).

3.3 In accordance with FAR 31.201-3 the salary increases awarded to certain employees on promotion are not considered reasonable.

4.4 Management have provided an analysis of the actual costs charged during the period relating to the Peugeot car dedicated to the project and a comparison with the total cost billed and reimbursed. We accept the revised depreciation charge of \$ 2,325 (LE 7,673).

The EQI calculation of the driver's allocated salary is based on a draft overhead and fringe benefits calculation. Since we cannot rely on this calculation, this charge will be recomputed using the actual rates of overhead and fringe benefits and then re-compared to indirect costs billed to DAC.

4. Small Business Credit Fund Accountability Statement 1988:

The questioned cost of US \$ 11,680 will be considered for inclusion in the 1988 overhead costs computation under the NCBA Fund Accountability Statement, Schedule No. 1.4 .

5. Small Micro Enterprises - NCBA

As previously stated, when billing USAID and when computing an overhead rate, the excess of the actual salary charged over the USAID salary-scale charge must be eliminated. (see I.1.5)

II. Response to Audit of EQI Indirect Cost

1.1 Reasonability of certain indirect salaries, 1988 schedules.

& 1.2 Please refer to our comments concerning this issue. (I.1.5)

- a. Refer to I.4 above. Accordingly, \$ 10,180 (LE 23,239.40) will be removed from the indirect cost pool.
- b. The authority given by the managing director to an employee to use his international telephone line for the purposes of business development is not sufficient evidence that the line was used solely for this purpose.

Since a log book monitoring international calls was not maintained and given that the telephone bills were addressed to the individual member of staff, we cannot accept this expense as reasonable and necessarily incurred for business development purposes.

c.1 Management's computation of the indirect telephone, telex and courier costs agrees with that resulting from our audit in all respects, except for the deduction of 15% of this value as personal calls.

The deduction made by us is based on all of the telephone, telex and courier bills whereas that made by EQI fails to take all of these into account. The larger deduction is more accurate.

c.2 In accordance with Federal Acquisition Regulations and Generally Accepted Accounting Principles, all costs chargeable to projects are direct costs (whether or not reimbursed). Hence, they cannot be included in the overhead cost pool.

2. Schedule of 1989 overhead computation

We disagree with the inclusion of a % of depreciation on the office renovation costs. This total cost of LE 20,704 is already fully depreciated (straight line method - 2 years over 1989 and 1990, charged to 'Office maintenance and Repairs').

3. Schedules of 1990 overhead computation

Audit fees of \$ 3,939 (LE 13,000) have been satisfactorily supported. This amount therefore, is included in the 1990 indirect cost pool.

Office running expenses and depreciation on all units participating in the SME Project have already been included in the

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1990 indirect cost pool, as per our agreement with PWH. Hence, inclusion of these costs here would be double counting.

Since the telephone line purchased in September 1990 and the printer cable purchased in December 1990 were not in service before the year end, it is not appropriate to charge any depreciation on these items.

Refer to c.2 above.

CPB



CAIRO, EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

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1992

MEMORANDUM

TO: Philippe Darcy, RIG/A

FROM: Beth S. Paige, DIR/CS

Beth S. Paige

DATE: September 16, 1992

SUBJ: Draft Report on Audit of Environmental Quality International's Direct, Indirect, and Fringe Benefit Rates for the Years Ending December 31, 1988, 1989, and 1990.

I have no comments on the subject audit at this time.

APPENDIX VII**REPORT DISTRIBUTION**

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