

Regional Inspector General for Audit  
Cairo, Egypt

---

Audit of International Executive Service Corp's  
Related to Local Expenditures Incurred on  
Cooperative Agreement No. 263-0102-A-00-9003-00,  
October 1, 1988 to December 31, 1991 (Project No. 263-0102)

---

Report No. 6-263-93-02-N  
November 15, 1992



INSPECTOR  
GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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

November 15, 1992

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

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

**SUBJECT:** Audit of International Executive Service Corp's Related to Local Expenditures Incurred on Cooperative Agreement No. 263-0102-A-00-9003-00, October 1, 1988 to December 31, 1991 (Project No. 263-0102).

The attached report dated July 21, 1992 by Price Waterhouse presents the results of a financial audit of International Executive Service Corps' (IESC) local expenditures incurred on Cooperative Agreements relating to USAID/Egypt projects. IESC is a nonprofit organization which provides short-term, client specific, technical transfer services to a broad range of business areas for the benefit of Egyptian private business.

We engaged Price Waterhouse to perform a financial audit of IESC's locally incurred expenditures in Egyptian Pounds and U. S. Dollars of LE 6,795,844 and \$67,558 respectively for the period October 1, 1988 to December 31, 1991. The purpose of the audit was to evaluate the propriety of costs incurred during this period. In performing the audit, Price Waterhouse evaluated IESC's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Price Waterhouse questioned \$230,304 in costs billed to A.I.D. by IESC. The questioned costs include billing amounts considered as bad debts, entertainment expenses, magazine subscription, permanent status executives living in hotel suites and costs lacking adequate supporting documentation. Price Waterhouse noted material weaknesses in IESC's internal controls such as inadequate accounting system which meets U. S. government accounting standards and requirements. Finally, Price Waterhouse noted no instances of material noncompliance with applicable laws, regulation or agreement terms.

U.S. Mailing Address  
USAID-RIG/A/C Unit 64902  
APO AE 09839-4902

Tel. Country Code (202)  
357-3909

# 106, Kasr El Aini St.  
Cairo Center Building  
Garden City, Egypt

IESC management response on the questioned cost findings was partial, including the discussion of five of the total 25 findings because of time constraints. IESC agreed to investigate further with its home office one questioned cost item and disagreed with the other four findings they commented on. Management provided clarification and additional documentation, but did not furnish additional evidence which persuaded Price Waterhouse to change their findings.

**Recommendation No. 1: We recommend that USAID/Egypt resolve questioned costs of \$230,304 consisting of ineligible costs of \$91,548 and unsupported costs of \$138,756 as detailed on pages 14 through 18 of the audit report.**

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

**Recommendation No. 2: We recommend that USAID/Egypt require IESC to address the inadequate internal control procedures over their accounting system as noted in the audit report on pages 22 through 28.**

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 IESC address its internal control weaknesses. The recommendation can be closed when we have assessed IESC'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 Price Waterhouse and to our office.

**INTERNATIONAL EXECUTIVE SERVICE CORPS**

**FUND ACCOUNTABILITY  
STATEMENT AND ADDITIONAL INFORMATION**

**FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

**FINANCIAL-RELATED AUDIT OF INTERNATIONAL  
EXECUTIVE SERVICE CORPS**

**FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991.**

---

**THIS REPORT IS A FINANCIAL-RELATED AUDIT OF FUNDS REIMBURSED  
BY THE UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT TO  
INTERNATIONAL EXECUTIVE SERVICE CORPS FOR COOPERATIVE  
AGREEMENT NO. 263-0102-A-00-9003-00 UNDER USAID/EGYPT'S  
TECHNICAL COOPERATION AND FEASIBILITY STUDIES PROJECT  
NO. 263-0102.**

---

**INTERNATIONAL EXECUTIVE SERVICE CORPS**

**FUND ACCOUNTABILITY  
STATEMENT AND ADDITIONAL INFORMATION**

**FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

**TABLE OF CONTENTS**

	<b><u>PAGE</u></b>
<b><u>INTRODUCTION</u></b>	
Background	1
Audit objectives and scope	2
Results of audit	5
Management's response to findings	6
<b><u>FUND ACCOUNTABILITY STATEMENT</u></b>	
Report of independent accountants	8
Fund accountability statement and notes	11
Audit findings	14
<b><u>INTERNAL CONTROL STRUCTURE</u></b>	
Report of independent accountants	19
<b><u>COMPLIANCE WITH LAWS AND REGULATIONS</u></b>	
Report of independent accountants	29
<b><u>1989 RECOMMENDATIONS</u></b>	
Summary and status of 1989 recommendations	32

**INTERNATIONAL EXECUTIVE SERVICE CORPS**

**FUND ACCOUNTABILITY  
STATEMENT AND ADDITIONAL INFORMATION**

**FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

**TABLE OF CONTENTS**

**APPENDICES**

Appendix A: Fund accountability statement  
detail of amounts as incurred in  
Egyptian pounds

Appendix B: Questioned costs detail of amounts as  
incurred in Egyptian pounds or U.S. dollars

Appendix C: Management's response to findings

Appendix D: Auditor's response

Appendix E: Grant proposal model

4, Road 261,  
New Maadi,  
Cairo, Egypt

TELEPHONE : 3520 123, 3530 837  
FAX : (02) 3530 915  
TELEX : 20121 PW UN  
23432 PW UN  
TELEGRAPH : PRICEWATER  
CAIRO C.R. 226786

## *Price Waterhouse*



July 21, 1992

Mr. Philippe Darcy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

Dear Mr. Darcy:

This report presents the results of our financial cost-incurred audit of Cooperative Agreement No. 263-0102-A-00-9003-00 under the USAID/Egypt's Technical Cooperation and Feasibility Studies Project No. 263-0102 between the International Executive Service Corps' Egypt Office (IESC/Egypt), and the United States Agency for International Development Mission to Egypt (USAID). The audit encompassed all local expenditures for the period from October 1, 1988 through December 31, 1991.

### Background

IESC is a private nonprofit organization founded in 1964 and headquartered in Stamford, Connecticut. Its primary mission is to facilitate private sector growth throughout the third world by providing consulting services of volunteer retired executives from the United States. These volunteers serve on short-term assignments ranging from two weeks to three months in 90 participating countries.



To accomplish their mission in Egypt, field offices were established in Cairo and Alexandria in 1979. IESC's program in Egypt is one of the largest and most active of all IESC programs worldwide.

IESC/Egypt obtains its funding from USAID and modest client contributions. All funding for the Egypt projects is obtained locally. A portion of that funding is remitted to the Stamford office to cover home-office expenses directly related to Egypt project expenses. All expenses of the Alexandria office are billed to the Cairo office.

IESC/Egypt is managed by a volunteer expatriate Country Director. The two offices employ approximately 16 persons.

#### Audit Objectives and Scope

The objective of this engagement was to perform a financial cost-incurred audit of USAID funds provided to IESC/Egypt pursuant to Cooperative Agreement No. 263-0102-A-00-9003-00 under USAID/Egypt's Technical Cooperation and Feasibility Studies Project No. 263-0102. The audit encompassed all local expenditures for the period from October 1, 1988 through December 31, 1991. Specific objectives were to determine whether:

1. The fund accountability statement for IESC/Egypt presents fairly, in all material respects, project revenues and costs incurred and reimbursed under the



Cooperative Agreement in conformity with the applicable accounting principles;

2. The costs reported as incurred under the Cooperative Agreement are in fact allowable, allocable, and reasonable in accordance with the terms of the Cooperative Agreement, OMB Circular No. A-122 and AIDAR 731.7;
3. The internal controls, accounting systems and management practices of IESC/Egypt are adequate for USAID/Egypt agreements;
4. IESC/Egypt is in compliance, in all material respects, with the Cooperative Agreement terms and applicable laws and regulations; and
5. IESC/Egypt has taken adequate corrective action on recommendations in Audit Report No. 6-263-89-04-N dated April 16, 1989.

Preliminary planning and review procedures began in March, 1992 and consisted of discussions with RIG/A/C personnel, IESC/Egypt officials and a review of the Cooperative Agreement. Fieldwork commenced in April, 1992 and was completed in July, 1992.

The scope of our work was all locally incurred expenditures under Cooperative Agreement No. 263-0102-A-00-9003-00. Within each budget line item, we selected disbursements for testing on a judgmental basis to test a majority of local expenditures. The budget line items that included local expenditures are as follows:



The Volunteer Executive and Trade and Investment Services Programs

The objective of these programs is to provide short-term, client specific, technical transfer services to a broad range of business areas for the benefit of Egyptian private business.

We tested local expenditures of LE 4,179,923 and \$ 58,873 out of total local expenditures of LE 6,795,844 and \$ 67,558, respectively.

Our tests of expenditures included, but were not limited to, the following:

1. Reconciling IESC/Egypt's accounting records to invoices issued to USAID, and testing of costs for allowability, allocability, reasonableness, and appropriate support;
2. Determining that personnel costs were appropriate and conformed with the terms of the Cooperative Agreement and relevant regulations;
3. Determining that per diem and transportation charges were adequately supported and approved; and
4. Establishing the adequacy of IESC/Egypt's control over USAID funded project equipment.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of



Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

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 control 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 Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

As part of our examination we made a study and evaluation of relevant internal controls and reviewed IESC/Egypt's compliance with applicable laws and regulations.

#### Results of Audit

##### Fund accountability statement:

Our audit identified \$ 230,304 in questionable costs including \$ 138,756 of unsupported costs.

##### Internal control structure:



We recommend that IESC/Egypt adopt an accounting system which meets U.S. Government standards and develop better internal control procedures over receivables, cash, and payroll transactions.

Compliance with Agreement terms and applicable laws and regulations:

No material items of noncompliance were noted.

Management's response to findings

IESC/Egypt management comments have been obtained and are included in Appendix C of this report. Their response on the questioned cost findings was partial, including the discussion of only five of the total 25 findings. IESC/Egypt agreed to investigate further with its home office one questioned cost item and disagreed with the other four findings they commented on. One finding relating to Egytrans expenditures has been changed based upon IESC/Egypt providing us with evidence of USAID approval for this expenditure. Of the remaining findings commented on, we do not concur with IESC/Egypt's responses.

IESC/Egypt management was in agreement with the overall thrust of the internal control structure recommendations and they noted where improvements have already been made. A recommendation to insure all significant assets against fire and theft was deleted from our report based upon our receipt of a current office equipment insurance policy, which was not locatable at the time of our fieldwork.



Finally, IESC/Egypt management considered all recommendations relating to the 1989 audit to be closed. We noted that management had satisfactorily resolved many of the prior audit recommendations, but we believe that further improvements are necessary to comply with the remaining prior audit recommendations.

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

*Paul W. Stehman*

4, Road 261,  
New Maadi,  
Cairo, Egypt.

TELEPHONE : 3520 123, 3530 837  
FAX : (02) 3530 915  
TELEX : 20121 PW UN  
23432 PW UN  
TELEGRAPH : PRICWATER  
CAIRO C.R. 226786

*Price Waterhouse*



**REPORT OF INDEPENDENT ACCOUNTANTS**

July 21, 1992

Mr. Philippe Darcy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

We have audited the accompanying fund accountability statement of International Executive Service Corps, Egypt Office, (IESC/Egypt) relating to local expenditures incurred in Egypt for Cooperative Agreement No. 263-0102-A-00-9003-00 for the period from October 1, 1988 through December 31, 1991. This financial statement is the responsibility of IESC/Egypt's management. Our responsibility is to express an opinion on this financial statement based upon our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as



evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 control 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 Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

As described in Note 3, the accompanying fund accountability statement has been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying fund accountability statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.

Included in the fund accountability statement are questioned costs of \$ 230,304. The basis for questioning these costs is more fully described in the "Fund Accountability Statement - Audit Findings" section of this report.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the fund



accountability statement referred to above presents fairly, in all material respects, IESC/Egypt's locally incurred expenditures for Cooperative Agreement No.263-0102-A-00-9003-00 for the period from October 1, 1988 through December 31, 1991 in conformity with the basis of accounting described in Note 3.

Our audit was made for the purpose of forming an opinion on the financial statement included in the first paragraph. The supplemental information included in appendix A and B are presented for purposes of additional analysis and are not required as part of the basic financial statement. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

*Tom W. Johnson*

INTERNATIONAL EXECUTIVE SERVICE CORPS

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD FROM OCTOBER 1, 1988 THROUGH DECEMBER 31, 1991

	Actual Expenditures <u>(Note 2)</u>	<u>Questioned Costs</u> Ineligible    Unsupported <u>(Note 5)</u> <u>(Note 5)</u>		<u>Audit Findings Reference</u>
VE/TIS program	\$ <u>2,452,065</u>	\$ <u>91,548</u>	\$ <u>138,756</u>	Pages 14-18

See accompanying notes to the fund accountability statement

INTERNATIONAL EXECUTIVE SERVICE CORPS  
NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF AUDIT:

The fund accountability statement of IESC/Egypt includes all locally incurred direct cost expenditures for Cooperative Agreement No. 263-0102-A-00-9003-00 with USAID. The Agreement does not allow for reimbursement of indirect costs.

NOTE 2 - SOURCE OF DATA:

The column, labeled "Actual Expenditures" is the responsibility of IESC/Egypt - and represents the cumulative local expenditures incurred for the VE/TIS program for the period from October 1, 1988 through December 31, 1991.

NOTE 3 - BASIS OF PRESENTATION:

The fund accountability statement has been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred.

NOTE 4 - EXCHANGE RATE:

Expenses incurred in Egyptian pounds have been converted to U.S. dollars at an average exchange rate of 2.85 Egyptian pounds to 1 U.S. dollar for the period from October 1, 1988 through December 31, 1991.

NOTE 5 - QUESTIONED COSTS:

Questioned costs are presented in two separate categories - ineligible and unsupported costs - and consist of audit findings proposed on the basis of the terms of the Cooperative Agreement, and the cost principles set forth in AIDAR 731.7 and OMB Circular No. A-122 which prescribe the nature and treatment of reimbursable costs not specifically defined in the Agreement. Costs in the column labeled "Ineligible" are supported by vouchers or other documentation but are ineligible for reimbursement because they are not program related, are unreasonable, or prohibited by the Agreement or applicable laws and regulations. Costs in the column labeled "Unsupported" are also formally included in the classification of "questioned costs" and relate to costs that are not supported with adequate documentation or did not have the required prior approvals or authorizations. All questioned costs are detailed in the "Fund Accountability Statement - Audit Findings" section of this report.

INTERNATIONAL EXECUTIVE SERVICE CORPS.  
FUND ACCOUNTABILITY STATEMENT  
AUDIT FINDINGS

Our audit procedures identified the following invoiced direct costs that are ineligible or unsupported:

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
Over billing due to an incorrect calculation of client contributions for project 1939-Emeco Travel		\$ 789
Amounts were billed in 1990 to AID that are considered bad debts. AID was billed for amounts that the client initially agreed to pay.	\$ 2,405	
Duplicate payment for car rental occurred during July and October 1991.		1,825
Amounts paid to employee in January and June 1990 for which no signed receipt slip was available.		199
Amounts paid for overtime and commissions for August, September, October, November, and December, 1990 for which no support was available.		5,281

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
Entertainment expenses included items that do not comply with OMB Circular No. A-122, Page 11, Section 12 regarding "Entertainment Costs." Amounts occurred throughout the period under examination.	\$ 28,705	
Payment for car insurance while rental agreement states that the car owner is responsible for insurance.		754
Hotel accommodations for Country director that were paid at two locations during January 22-24, 1990.		150
Per diems that were not supported with either a check or signed receipt slip.		\$ 77,870
Purchase of equipment (stabilizer) for which no support was available. Purchase date was April 15, 1990.		1,460
Per diem paid for employee's trip to Stamford that is unsupported.		324
Miscellaneous office expense that is unsupported.		33

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
Numerous charges for travel incurred throughout 1990 in which neither supporting documentation nor expense reports were available.		\$ 1,136
Amounts paid to Egytrans that was not supported with a signed receipt slip.		36,189
Numerous office rental expenses that were not supported with a check or receipt slip.		1,935
Country Director conference expenses of which \$ 329 relates to entertainment expenses in January and February 1990. \$ 439 relates to unsupported gifts. The remainder is unsupported.	\$ 768	3,133
Represents numerous unsupported telephone charges occurring during 1990.		3,465
Per diems for February and March 1990 that are not supported.		3,551

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
Amount represents miscellaneous items that are ineligible and/or unsupported.	\$ 5,608	\$ 1,566
Tips are unallowable per OMB Circular No. A-122	121	
Payments for Time magazine and Yellow Pages which is unallowable per OMB Circular No. A-122 Attachment B, #1.	2,913	
1990 Golf club membership	401	
Purchase of personal household appliances.	232	
The Country Director and two Regional Directors are on permanent status in Egypt. Their housing consists of a suite at a local hotel. The rental rates charged (approximately \$ 50 a day) exceed the maximum amounts allowable of \$ 14,800 per USAID contractors handbook for a two person dwelling. Amount questioned is estimated.	33,000	

Item Description

Questioned Costs  
Ineligible      Unsupported

Amounts relate to per diems paid to volunteer executives on their arrival date in Egypt. Out-of-pocket expenses are also reimbursed in Stamford for travel days. Amount questioned is estimated.

\$ 16,491                      \_\_\_\_\_

Total questioned costs

\$ 91,548                      \$ 138,756  
   \$ 230,304

4, Road 261,  
New Maadi,  
Cairo, Egypt.

TELEPHONE : 3520 123, 3530 837  
FAX : (02) 3530 915  
TELEX : 20121 PW UN  
23432 PW UN  
TELEGRAPH : PRICEWATER  
CAIRO C.R. 226786

*Price Waterhouse*



**REPORT ON INTERNAL CONTROL STRUCTURE**  
**REPORT OF INDEPENDENT ACCOUNTANTS**

July 21, 1992

Mr. Philippe Darcy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

We have audited the fund accountability statement of International Executive Service Corps, Egypt Office, (IESC/Egypt) relating to local expenditures incurred in Egypt for USAID Cooperative Agreement No. 263-0102-A-00-9003-00 for the period from October 1, 1988 through December 31, 1991, and have issued our report thereon dated July 21, 1992.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.



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 control 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 Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

In planning and performing our audit of IESC/Egypt, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement, and not to provide assurance on the internal control structure.

The management of IESC/Egypt 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 reliable financial



reports and to maintain accountability over the entity's assets. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we determined the significant internal control structure policies and procedures to be in the categories of cash receipts and disbursements, general and project accounting, payroll, and fixed asset procurement. For these internal control structure categories cited, 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 coming to our attention relating 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. Our audit disclosed the following reportable conditions:



## REPORTABLE CONDITIONS

**The IESC/Egypt accounting system contains weaknesses related to USAID-funded expenditures.**

IESC/Egypt utilizes an accounting system containing a number of weaknesses related to its ability to track expenditures relating to USAID-financed agreements. In particular, we noted the following:

- Several sources of transactions had to be accumulated to submit billings.
- There is no general ledger system that utilizes double-entry accounting for local expenditures. Accounting records consist of cash-based lists of disbursements and receipts by bank account.
- The present document filing system is in need of improvement. We noted an overall disorganized appearance of the record storage area due to inadequate controls over the storage of records, a fully documented organized filing system and assigning of responsible staff for maintaining complete and organized files.
- Accounting transactions have not been properly approved in all cases.
- The chart of accounts is not properly utilized to assist in identification and classification of expenses.



As a result, we were unable to trace in detail IESC's accounting records to USAID billings. Consequently, auditing and accounting for IESC/Egypt activity required a labor intensive manual process to compile and analyze expenditures to prepare the fund accountability statement.

#### **Recommendation 1**

**IESC/Egypt should adopt an accounting system which meets U.S. government accounting standards and requirements. Specifically the following goals or objectives should be achieved:**

- A general ledger system should be developed to ensure that all transactions are properly accumulated, classified, and summarized in the accounts. A proper system should segregate expenditures between local and U.S.
- A filing system should be utilized which is designed specifically for IESC's operations that is documented, sufficiently controlled, and tracks documents or files throughout the transaction process.
- Proper authorizations should be obtained for all transactions.
- Accounting personnel should receive adequate training in order to complete their assigned tasks efficiently and effectively.



- Accounting transactions should be properly accumulated and classified among account types and budget line items.

\* \* \* \* \*

**IESC accounts receivable system contains several weaknesses related to management's ability to identify, quantity, and control receivables. In particular, we noted:**

- The Alexandria office does not utilize pre-numbered invoices for client billings.
- An accounts receivable ledger is not utilized.
- An advance account for per diems is not maintained and reconciled properly.

#### **Recommendation 2**

**IESC/Egypt should develop a formal double entry system of accounting for receivables to record advances and client receivables.**

- There should be in place control techniques which ensure that billing and advances are recorded. We recommend that IESC use summary totals for all invoices issued. These summary totals can be used as a basis for comparing with or accumulating monthly sales totals for recording in the accounting records. In the absence of controls obtained



through the use of multicopy forms and/or summary totals, the accounting department should review the numerical sequence of invoices prepared to determine whether all billings have been received for entry into the accounting records. Further, sound financial management would dictate that a per diem advance account be developed and reconciled by a responsible official on a timely basis.

\* \* \* \* \*

### Recommendation 3

This recommendation was deleted based on our review of the current insurance policy, which was not locatable at the time of our field work, provided with the management responses.

\* \* \* \* \*

Employees' time and attendance data are not properly processed and documented and the completed payroll registers are not adequately reviewed and approved before disbursements are made.

During the course of our examination we noted that time cards or other source documents are not prepared evidencing that employees have worked the time for which they are being paid. Additionally, we noted that the completed payroll register was not always approved in writing by a responsible official. This breakdown in the internal control structure may allow employees to be paid for time not worked.



#### Recommendation 4

Employees should prepare time cards or other source documents which should be reviewed to determine that such documents are complete and have been approved by the employee's supervisor.

Before payroll disbursements are made, the completed payroll register should be reviewed and approved in writing by a responsible official who has not participated in the payroll preparation. This review may range from a detail check to a review for general reasonableness of the following:

- . Names appearing on the payroll are authorized employees.
- . Time worked is evidenced by appropriate time records.
- . Amounts to be paid have been computed at authorized rates.
- . Computations of gross pay, deductions and net pay are accurate.
- . Paychecks agree with the payroll register.

\* \* \* \* \*

Internal accounting controls surrounding cash should be strengthened. Specifically, we noted:



- Formal written approval of bank reconciliations is not evidenced in all cases.
- The Country Director is an authorized check signer, approves disbursements, reviews bank reconciliations and is involved in cash management.
- Cash remittances received directly at IESC/Egypt are not listed.

#### Recommendation 5

In order to improve internal accounting controls surrounding cash, we recommend that:

- Management strengthen the segregation of duties in this area.
- All cash remittances received directly at IESC/Egypt should be listed and restrictively endorsed by an individual independent of other cash and accounts receivable functions and then sent to accounting. This list should then be subsequently checked against the validated bank deposit to ensure that all receipts were deposited on a timely basis.
- A responsible official, who is also independent of all cash processing and recording activities, review and approve all completed bank reconciliations.

\* \* \* \* \*



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 all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable conditions described above are not material weaknesses.

This report is intended for the information of IESC/Egypt's management and others within the organization and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

*Tom W. Steinhilber*

4. Road 261,  
New Maadi,  
Cairo, Egypt.

TELEPHONE : 3520 123, 3530 837  
FAX : (02) 3530 915  
TELEX : 20121 PW UN  
23432 PW UN  
TELEGRAPH : PRICEWATER  
CAIRO C.R. 226786

*Price Waterhouse*



**REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS**  
**REPORT OF INDEPENDENT ACCOUNTANTS**

July 21, 1992

Mr. Philippe Darcy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

We have audited the fund accountability statement of International Executive Service Corps, Egypt Office, (IESC/Egypt) relating to local expenditures incurred in Egypt for USAID Cooperative Agreement No. 263-0102-A-00-9003-00 for the period from October 1, 1988 through December 31, 1991, and have issued our report thereon dated July 21, 1992.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

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 control 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 Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

Compliance with laws, regulations, agreements, binding policies, and procedures applicable to IESC/Egypt is the responsibility of IESC/Egypt's management. As part of our audit we performed tests of IESC/Egypt's compliance with certain provisions of laws, regulations, agreements, binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement. Our objective was not to provide an opinion on compliance with such provisions.

The results of our tests indicate that with respect to the items tested IESC/Egypt complied, in all material respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that IESC/Egypt had not complied, in all material respects, with those provisions.

This report is intended for the information of IESC/Egypt's management and others within the organization and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

*Tom W. Stehman*

INTERNATIONAL EXECUTIVE SERVICE CORPS  
SUMMARY AND STATUS OF 1989 RECOMMENDATIONS

The following discussion relates to the current status of prior audit recommendations as disclosed in Audit Report No. 6-263-89-04-N dated April 16, 1989.

Recommendation No. 1(a)

"USAID/Egypt, in accordance with Agency policy on project-generated revenues, should negotiate a revenue agreement with the International Executive Service Corps."

July, 1992 Status:

A revenue agreement was negotiated and incorporated into Contract Modification No. 3 dated December 10, 1989. Recommendation is considered closed.

Recommendation No. 1(b)

"USAID/Egypt should settle \$ 155,446 in questioned costs related to excess per diem reimbursements (\$ 6,000), air travel (\$ 44,000) and overhead expenses (\$ 105,446)."

July, 1992 Status:

IESC/Egypt remitted \$ 50,000 in settlement of the \$ 155,446 in questioned costs. The difference of 105,446 was unsustainable by USAID. Recommendation considered closed.

Recommendation No. 1(c)

"USAID/Egypt should obtain from the International Executive Service Corps. its formal agreement to implement the

recommendations by the CPA firm, and to resubmit its grant proposal adjusted for the modifications recommended by the CPA firm."

The following discussion relates to the current status of the above recommendation which is relevant to the scope of our audit. This discussion is segregated by the individual recommendations as reported in the audit report of the CPA firm.

Recommendation No. A:

"IESC Egypt should resubmit its new grant proposal in such a way to allow for full disclosure of detailed cost items. IESC/Egypt may wish to follow the model shown in Appendix I" (Appendix E of this report). "A clear definition should be given to each cost item. USAID/Egypt should discuss and agree the new grant proposal on a line by line basis."

July 1992 Status:

The budget is broken down by program. Line-by-line comparison was not made to allow for full disclosure of detailed cost items.

Recommendation No. B1:

"We recommend that USAID/Egypt establish a formal policy with regard to handling of local clients contributions received by IESC/Egypt."

Recommendation No. B2:

"We recommend that IESC/Egypt recalculate its required grant funds in accordance with the policy requirements to be determined by USAID/Egypt as per recommendation No. 2a

(recommendation No. B1 above) and taking into consideration local clients contributions."

July 1992 Status:

The following discussion relates to Recommendations B1 and B2. IESC reduces each projects cost by the related client contribution prior to billing costs to USAID. Additionally, the required grant funds have been adjusted to reflect client contributions. Recommendation considered closed.

Recommendation No. C:

"We recommend that IESC/Egypt resubmit its new grant proposal to more accurately reflect past experience and projected conditions so that cost items be estimated in a reasonable basis."

July 1992 Status:

Grant proposal accepted by USAID. Recommendation considered closed.

Recommendation No. D:

"IESC/Egypt should establish a formal and clear policy with regard to establishing the amounts of client contributions. This policy should take into consideration the duration of the project so that the contribution per day should be the same for most clients."

July 1992 Status:

IESC/Egypt has continued to base client contributions on negotiated amounts with little or no relation to the clients' gross or net income.

Recommendation No. E:

"IESC/Egypt should establish a formal procedure to govern the transfer of funds to IESC/Stamford. Transfers made should be supported by reasonable documentation to prove that they are legitimate and are in accordance with the detailed grant proposal that was approved by USAID/Egypt and not in excess of amounts owed to IESC/Stamford for services directly attributed to IESC/Egypt's operations."

July 1992 Status:

Transfers to Stamford are based on current cash availability of cash with no regard to billing from the home office.

Recommendation No. F:

"We recommend that the present system of procuring international air flight tickets be changed as follows:

- a. IESC/Egypt should arrange to procure air flight tickets through an international travel agency in order to obtain applicable discounts.
- b. IESC should procure these tickets on a 3 month excursion basis rather than annual return fare."

July 1992 Status:

IESC now purchases all airline tickets in the United States. Recommendation considered closed with respect to locally incurred expenditures.

Recommendation No. G:

"We recommend that per diem calculations do not include the departure day."

July 1992 Status:

IESC does not pay per diem for the departure day. However, IESC/Egypt does pay per diem for the arrival date.

Per diem costs for the arrival date are paid for locally, and according to the Country Director are also paid in Stamford resulting in an estimated over billing to USAID of \$ 16,491. (Amount has been questioned as part of the current audit.)

Recommendation No. H:

"We recommend that the fixed assets register be adjusted to show details" such as the rates used for depreciation, and totals for annual and accumulated depreciation.

July 1992 Status:

IESC/Egypt now maintains a copy of the Stamford prepared fixed asset register in the Cairo office inclusive of all fixed asset details. Recommendation considered closed.

Recommendation No. I:

"We recommend that IESC/Egypt appoint an Alexandria-based sales representative or ask the current sales representative to reside in Alexandria without charging per diem expenses."

July 1992 Status:

IESC has now recruited an Alexandria based sales representative. Recommendation considered closed.

Recommendation No. J:

"To maximize return on funds we recommend that IESC/Egypt should take necessary steps in order to:

- Open more than one type of bank account in order to maximize the interest earned on available funds rather than keeping all of the funds in current accounts that earn no interest.
- Develop a cash planning system in order to forecast future cash inflow and outflow transactions on a monthly basis."

July 1992 Status:

As of December 31, 1991 IESC/Egypt has not opened an interest bearing account for idle funds. If IESC had opened an interest bearing account, interest provided therefrom would have provided substantial support for IESC's activities and a reduction to USAID funding requirements. The balance of cash in banks at December 31, 1991 was approximately \$ 759,494.

Recommendation No. K:

"We recommend that IESC should provide volunteer executives with economy class tickets in compliance with the terms of grant agreement."

July 1992 Status:

The current grant agreement allows IESC to use business class service. Recommendation considered closed.

Recommendation No. L:

"We recommend that the country director's and local office support costs which were double/over charged (\$ 15372 + \$ 5438= \$ 20810) be disallowed under the IESC/Egypt current grant agreement with USAID/Egypt."

July 1992 Status:

IESC submitted a check to USAID to reimburse for over billings. Recommendation considered closed.

INTERNATIONAL EXECUTIVE SERVICE CORPS

FUND ACCOUNTABILITY STATEMENT  
DETAIL OF AMOUNTS AS INCURRED IN  
EGYPTIAN POUNDS OR U.S. DOLLARS

FOR THE PERIOD FROM OCTOBER 1, 1988 THROUGH DECEMBER 31, 1991

	<u>Actual</u> <u>Expenditures</u>	<u>Questioned Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
VE/TIS program \$	<u>67,558</u>	\$ <u>34,180</u>	\$ <u>1,967</u>
LE	<u>6,795,844</u>	LE <u>163,499</u>	LE <u>389,849</u>

INTERNATIONAL EXECUTIVE SERVICE CORPS  
ADDITIONAL INFORMATION  
QUESTIONED COSTS DETAIL OF AMOUNTS AS INCURRED  
IN EGYPTIAN POUNDS OR U.S. DOLLARS

FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991

<u>Item description</u>	Amount incurred in LE	Converted to US \$	Amount incurred in US\$	Total Questioned costs US\$
Over billing due to an incorrect calculation of client contributions for project 1939-Emeco Travel	LE 2,250	\$ 789		\$ 789
Amounts were billed in 1990 to AID that are considered bad debts. AID was billed for amounts that the client initially agreed to pay.	6,854	2,405		2,405
Duplicate payment for car rental occurred during July and October 1991.	5,200	1,825		1,825
Amounts paid to employee in January and June 1990 for which no signed receipt slip was available.	568	199		199

40

<u>Item description</u>	<u>Amount incurred in LE</u>	<u>Converted to US \$</u>	<u>Amount incurred in US\$</u>	<u>Total Questioned Costs US\$</u>
Amounts paid for overtime and commissions for August, September, October, November, and December, 1990 for which no support was available.	LE 15,050	\$ 5,281	\$ 5,281	
Entertainment expenses included items that do not comply with OMB Circular No. A-122, Page 11, Section 12 regarding "Entertainment Costs." Amounts occurred throughout the period under examination.	79,107	27,757	\$ 948	28,705
Payment for car insurance while rental agreement states that the car owner is responsible for insurance.	2,149	754		754
Hotel accommodations for Country Director that were paid at two locations during January 22-24, 1990.	427	150		150
Per diems that were not supported with either a check or signed receipt slip.	221,408	77,687	183	77,870

<u>Item description</u>	Amount incurred in LE	Converted to US \$	Amount incurred in US\$	Total Questioned Costs US\$
Purchase of equipment (stabilizer) for which no support was available. Purchase date was April 15, 1990.			\$ 1,460	\$ 1,460
Per diem paid for employee's trip to Stamford that is unsupported.			324	324
Miscellaneous office expense that is unsupported.	LE 94	\$ 33		33
Numerous charges for travel incurred throughout 1990 in which neither supporting documentation nor expense reports were available.	3,238	1,136		1,136
Amounts paid to Egytrans that was not supported with a signed receipt slip.	103,140	36,189		36,189
Numerous office rental expenses that were not supported with a check or receipt slip.	5,514	1,935		1,935

42

<u>Item description</u>	<u>Amount incurred in LE</u>	<u>Converted to US \$</u>	<u>Amount incurred in US\$</u>	<u>Total Questioned Costs US\$</u>
Country director conference expenses of which LE 938 relates to entertainment expenses in January and February 1990. LE 1250 related to unsupported gifts the remainder is unsupported.	LE 11,118	\$ 3,901	\$ 3,901	
Represents numerous unsupported telephone charges occurring during 1990.	9,875	3,465		3,465
Per diems for February and March 1990 that are not supported.	10,120	3,551		3,551
Amount represents miscellaneous items that are ineligible and/or unsupported.	20,446	7,174		7,174
Tips are unallowable per OMB Circular No. A-122.	345	121		121
Payments for Time magazine and Yellow Pages which is unallowable per OMB Circular No. A-122 Attachment B, # 1.	8,303	2,913		2,913
1990 Golf Club membership	1,142	401		401

42

<u>Item description</u>	<u>Amount incurred in LE</u>	<u>Converted to US \$</u>	<u>Amount incurred in US\$</u>	<u>Total Questioned Costs US\$</u>
Purchase of personal household appliances.			\$ 232	\$ 232
The Country Director and two Regional Directors are on permanent status in Egypt. Their housing consists of a suite at a local hotel. The rental rates charged (approximately \$ 50 a day) exceed the maximum amounts allowable of \$ 14,800 per USAID contractors handbook for a two person dwelling. Amount questioned is estimated.			33,000	33,000
Amounts relate to per diems paid to volunteer executives on their arrival date in Egypt. Out-of-pocket expenses are also reimbursed in Stamford for travel days. Amount questioned is estimated.	<u>47,000</u>	<u>16,491</u>		<u>16,491</u>
Total questioned costs	LE <u>553,348</u>	\$ <u>194,157</u>	\$ <u>36,147</u>	\$ <u>230,304</u>

44

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

1)

**IESC COMMENTS IN RESPONSE TO PRICE WATERHOUSE DRAFT  
REPORT - FUND ACCOUNTABILITY STATEMENT AND ADDITIONAL  
INFORMATION, JULY 21, 1992**

IESC-Egypt management has conducted an initial review of the referenced Price Waterhouse Draft Report presented, in conference, on July 22, 1992. Previously identified personal travel commitments demand that this initial IESC response be made prior to July 30, 1992 and therefore precludes a comprehensive response at this time.

Also, as previously identified to you, the Draft Report presented to IESC on July 22, 1992 is incomplete, lacking the following referenced sections:

**Appendix A:** Fund accountability statement detail of amounts as incurred in Egyptian Pounds.

**Appendix C:** Management letter regarding non-material internal control weaknesses and non-material instances of non-compliance.

**Pages 13 and 14.** - "Fund Accountability Statement - Audit Findings"

As a consequence of the forced schedule for initial IESC response and the incomplete status of the Draft Report at this time, IESC review has been focused to the Price Waterhouse identification of Questioned Costs as presented in Appendix B.

IESC-Egypt management receives the Price Waterhouse-designated Questioned Costs with great concern and provides assurances of our intent to resolve and disposition each incident of PW designated Questioned Costs. Our initial review has required the following steps:

1. Assignment of number identification to each Item presented in Appendix B. Item numbers have been assigned in the sequence originally presented by PW in Appendix B.

2. Separation of all Appendix B. items into two initial categories:  
**Category A.** - Items for which IESC will provide responses in this initial Comments Letter.

**Category B.** - Items for which IESC requires additional, clarifying information from PW and that will require additional research time to enable informed IESC comments in response. In a separate letter, addressed to you on July 26, 1992 I have requested the required conferences by your staff to enable IESC to proceed with this required effort.

3. In each Category, original, Appendix B. items have been re-aligned in descending dollar impact order to provide appropriate prioritization of the work effort.

45

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

2)

This IESC Comments Letter will directly respond to those PW-designated Questioned Costs included in Category A. The PW item descriptions and amounts of Questioned Costs for these five items are summarized in Appendix A. to this letter.

Following are IESC Comments to each of these Category A. Questioned Costs:

**Item 14. - No approval from USAID for amounts paid to Egytrans**  
LE 256,900 USD 90,140

**IESC disagrees with this finding.**

Attached to this letter as Exhibit I-A is the USAID authorization for the entire budget of LE 256,900 contained in the approval of the IESC proposal documented in the R.J. Hargitt (IESC) to R. Kirk (USAID) letter dated February 11, 1990 and approved by R. Kirk (USAID) signature.

Further, although not specifically identified in the PW Draft Report, Appendix B, the claim of unsupported signed receipt slips is refuted by IESC and the Egytrans signed copies of IESC payment checks contained in the response in the R.J. Hargitt's letter to Wael Leheta, Egytrans President dated March 4, 1990 and attached as Exhibit I.-B.

**Item 24. Country Director/Regional Director housing expenditures USD 33,000**

**IESC disagrees with this finding.**

The practice of using hotels as residences for IESC Director of Operations and Regional Director couples is a long-established one. When all of the "avoided costs" of security, domestic staff, drivers, vehicles, two-way transportation of personal household goods, etc. are combined with the dilution of management focus and energy in attempting to privately manage housing in Cairo and Alexandria the costs are not judged by IESC to be unreasonable. Further, these costs have been repeatedly accepted as a portion of the IESC-Egypt budget in a series of IESC proposals and USAID-Egypt acceptances including the IESC proposals that led to:

1. Modification No.05 to Co-operative Agreement No.263-0102-A-00-9003-00 dated February 10, 1991.
2. USAID Project Paper 263-0226 approved by USAID-Egypt - May, 1991
3. Modification No.07 to Co-operative Agreement No. 263-0102-A-00-9903-00 dated January 1, 1992.

In each of these proposals and resulting budgets, residence expenditures for volunteer IESC management staff were identified as a unique line item, "Housing Allowance .

46

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

3)

**Item 6. 'Entertainment' Expenses**

LE 79,107  
USD 27,757  
USD 948

**IESC disagrees with this finding.**

It is IESC's understanding, based upon oral reports by PW staff members, that the PW designation of Questioned Costs applies to those expenditures made by IESC in support of those activities that IESC-Egypt internally has designated as 'VE/VEC Receptions/Dinners'. IESC states that these expenditures are properly classified as "Meetings and conferences" expenses and are, therefore allowable costs as provided in OMB Circular A-122, Attachment B, paragraph 24. "Meetings, conferences." Further, these expenditures for meetings and conferences have been identified as unique line items, entitled "Meetings, conferences, memberships" in IESC proposals leading to:

1. Modification No.05 to Co-operative Agreement 263-0102-A-00-9003-00 dated February 10, 1991.
2. USAID Project Paper 263-0226 approved by USAID-Egypt - May, 1991
3. Modification No.7 to Co-operative Agreement 263-0102-A-00-9003-00 dated January 1, 1992.

---

**Item 25. - Arrival day per diem**

LE 47,000  
USD 16,491

**IESC agrees to investigate further this finding**

IESC-Egypt has requested clarification of IESC Headquarters practices and will resolve this apparent over billing at the time of presentation, to IESC, at the Final Audit Report.

---

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

-1)

**Item 21. - Time Magazine Yellow Pages**  
LE 8,303  
USD 2913

**IESC disagrees with this finding.**

In fact these are two very different types of expenditure inappropriately aggregated as "advertising" expenditures in the PW Draft Report.

The Time magazine expenditure by IESC is not an advertising expenditure but rather is an IESC payment for the mail distribution, in the U.S., of a supplement to a special issue of TIME magazine that featured Egypt as a tourist destination. This expenditure is consistent with the direction established in Co-operative Agreement No. 263-0102-A-00-9003-00 for tourism industry development activities for IESC and the Trade and Investment (TIS) Program. USAID did not, and does not, require individual expenditure approvals for such IESC expenditures but past and current practice would lead current IESC management to conclude that IESC advised USAID TIFI management of this expenditure before the fact.

The Yellow Pages expenditure is also inappropriately categorized in the PW Draft Report. These IESC-Egypt expenditures are properly classified as "Public information service" costs and allowable as provided by OMB Circular A-122, Attachment B, paragraph 36. "Public Information service costs."

Prior USAID-Egypt approval for these IESC expenditures is found in IESC presentations of marketing programs and plans at numerous IESC Program Reviews conducted through the period of October 1, 1988 through December 31, 1991.

**CONCLUSION**

IESC-Egypt management looks forward to receiving the complete Draft Report from Price Waterhouse. We also expect Price Waterhouse to include these IESC initial comments in the Final Price Waterhouse Report to be issued August 25, 1992.

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

<u>"APPENDIX A."</u>	Amount	Converted	Amount	Total	Voucher
<u>Item description</u>	<u>incurred</u>	<u>to</u>	<u>incurred</u>	<u>QC</u>	<u>Number</u>
	<u>in LE</u>	<u>US\$</u>	<u>in \$S</u>	<u>"88\$</u>	<u>_____</u>
<p>14. Amounts paid for Egyptians that no approval from USAID was obtained. Of this amount, _____ was unsupported with signed receipt slip.</p>	256,700	1,110			
<p>24. The Country Director and two Regional Directors are on permanent status in Egypt. Their housing consists of a suite at a local hotel. The rental rates charged (approximately LE 200 a day) exceed the maximum amounts allowable per USAID contractors handbook of \$ 14,300 for a two person dwelling. Amount in question is estimated.</p>				10,200	
<p>6. Entertainment expenses included items that do not comply with CMB Circular No. A-122, Page 11, Section 12 regarding "Entertainment Costs." Amounts occurred throughout the period under examination.</p>					
<p>25. Amounts relate to per diems paid to volunteer executives on their arrival date in Egypt. Out-of-pocket expenses are also reimbursed in Stamford for travel days. Amount is estimated.</p>					
<p>21. Payments for Time magazine and Yellow Pages which is allowable per CMB Circular No. A-122 Attachment 2, #1.</p>					

49

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**



INTERNATIONAL EXECUTIVE SERVICE CORPS  
NILE MILITON CENTER CCRNICHE EL NIL CAIRO EGYPT  
TEL 775771 EXT 22/23 TLX 92222 HILTLN UN FAX 760874

EXHIBIT 1-A.

February 11, 1990

Mr. Robert Kirk  
Project Officer  
Finance & Investment  
US Agency For International Development  
Cairo Center.

SUBJECT: Damietta Furniture

Dear Bob,

I recognize that you had some question about the Egytrans Project Manager's human relations skills on your last trip to Damietta --much as I have had on occasion--however I do not believe that obviates Mr. Leheta's determination to make this project successful.

Both USAID and IESC have capitalized extensively in internal and external media about the concept of rejuvenating the Damietta furniture industry. It would be difficult to accomplish this in our own country, let alone the idea of doing this in Egypt.

The original objectives were to create:

- new jobs for many of the 66,000 craftsmen
- new lines of furniture for export

Thus far we have invested relatively few dollars in making this project work in a culture and work/management environment neither of us really understands well enough to say "Lets drop it."

As you know, I reduced Egytrans original budget request of L.E.460,000 and \$32,000 USD sent to Mr. Huger on July 20, 1989, to L.E.206,000 and \$25,000 USD. Then agreed with Mr. Leheta to raise it to L.E.256,000 for the 15-month (Oct.89-Dec.90) period.

They have established rudimentary time schedules in the sense of what I requested, if not in the format and detail we would have preferred.

If this project dies now, IESC and USAID are as much at fault as Egytrans.

The Gamal Bakry letter of 11.27/89 I shared with you says the Tut and Lotus group will be completed by

50

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

March 1, 1990 and the Mushrabaya by April 15, 1990.

Assuming our two-month delay in funding may have delayed that work, I propose the following:

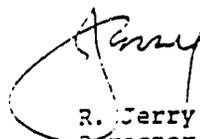
1. Assume Tut and Lotus completion by May 1 and Musrabaya by June 15.
2. Give Egytrans one-third of the revised budget, L.E.35,000, for the Oct.89-Feb.90 period.
3. Revisit and evaluate progress on May 1 and monthly thereafter. If any of the three lines are completed earlier, I further propose presenting them monthly one-fifteenth of the budget.

The above plan offers a good faith opportunity for progressing toward success, yet allows us time for check-points and resolution of the design/modeling contract question.

With Mr. Leheta's concurrence we would also move toward bringing on the IESC VE's previously identified as necessary to assist on this.

May I have your concurrence?

Cordially,



R. Jerry Hargitt  
Director of Operations  
IESC-EGYPT



Robert D. Clark  
Concurred/USAID

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

**DAMIETTA FURNITURE  
- EGYTRANS -**

Page	Category Budget	Proposed Budget	Adjusted	Paid By	
				Egytrans	IESC
1	Volunteers	LE. 83,200	80,000	80,000	
3	Transportation	26,100	18,000		18,000
4	PR for VEs	22,650	15,000		15,000
	Hotel & Travel	25,200	15,000		15,000
	Design Cost	181,200	181,200	131,200	50,000
	Competition	23,000	-		
	Catalogs	10,000	30,000		30,000
5	Communications	7,500	6,000		6,000
	Marketing	(LE 28,500 \$ 32,000)	28,500 25,000		28,500 \$25,000
6	Rent	2,550	2,600		2,600
	Equipment	14,500	14,500		14,500
	Preparation	2,300	2,300		2,300
7	Wages	29,580	25,000		25,000
	Management	48,930	50,000		50,000
TOTALS				LE. 211,200	L.E. 256,900 \$25,000

R. Jerry Hargitt  
(Revised 10-1-89)

52

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**



INTERNATIONAL EXECUTIVE SERVICE CORPS  
1416 MILTON CENTER, CORNICHE EL NIL, CAIRO EGYPT  
TEL 776771 EXT 22/23 TLX 92222 MILT SUN FAX 760874

EXHIBIT 1.-B.

March 4, 1990

Mr. Wa'el Leheta  
President,  
EGYTRANS  
11, Ahmed Orabi Str.,  
Borg el Mahda  
El Mohandessen, Cairo.

Dear Wa'el,

Attached are seven IESC checks totalling L.E.85,000. As discussed in my letter of February 19, 1990, this is for five months (October 1989 through February 1990) of the current budget period ending December 31, 1990.

Please provide me with a line-item explanation of how this is spent. To whom and for what.

Also I'd appreciate any interim information relative to progress--particularly toward completion of the Tut, Lotus and Mashrabaya groups. Mr. Kirk and I would like to visit Damietta and see all 18 pieces in each group as soon as you let us know.

We will transmit March and April checks, as well, but must have a complete review by May 1 as I mentioned.

We also should discuss future VE's in the near future.

Good luck, Wa'el! Lets keep this going and make it work!

Cordially,

A. Jerry Hargitt  
Director of Operations  
IESC-EGYPT

cc: Robert Kirk  
Project Officer, TI/FI  
USAID

*Dear Mr. Leheta*  
*These are the checks*  
*that were issued to you*  
*for the period of October*  
*1989 through February*  
*1990.*

63

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

*Well received  
the original*

*Handwritten notes and signatures on the left side of the page.*

بنك القاهرة التجاري الدولي  
Commercial International Bank (Egypt) S.A.P.  
Mubarakara Street قريه الجيزة

DATE March 4, 1990 التاريخ

No 129169

دفعوا الى Egyptian Transport & Commercial Services Co. Ltd. (EGYTRANS) ا.م.س.  
PAY TO

THE SUM OF Egyptian Pounds Thirteen Thousand Only

المبلغ بالأرقام  
AMOUNT  
LE13000.00

*T. J. Haggitt*

بنك القاهرة التجاري الدولي  
Commercial International Bank (Egypt) S.A.P.  
Mubarakara Street قريه الجيزة

DATE March 4, 1990 التاريخ

No 128170

دفعوا الى Egyptian Transport & Commercial Services Co. Ltd. (EGYTRANS) ا.م.س.  
PAY TO

THE SUM OF Egyptian Pounds Thirteen Thousand Only

المبلغ بالأرقام  
AMOUNT  
LE13000.00

*T. J. Haggitt*

بنك القاهرة التجاري الدولي  
Commercial International Bank (Egypt) S.A.P.  
Mubarakara Street قريه الجيزة

DATE March 4, 1990 التاريخ

No 128171

دفعوا الى Egyptian Transport & Commercial Services Co. Ltd. (EGYTRANS) ا.م.س.  
PAY TO

THE SUM OF Egyptian Pounds Seven Thousand Only

المبلغ بالأرقام  
AMOUNT  
LE7000.00

*T. J. Haggitt*

بنك القاهرة التجاري الدولي  
Commercial International Bank (Egypt) S.A.P.  
Mubarakara Street قريه الجيزة

DATE March 4, 1990 التاريخ

No 128165

دفعوا الى Egyptian Transport & Commercial Services Co. Ltd. (EGYTRANS) ا.م.س.  
PAY TO

THE SUM OF Egyptian Pounds Thirteen Thousand Only

المبلغ بالأرقام  
AMOUNT  
LE13000.00

*T. J. Haggitt*

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

التشكّل التجاري الدولي (مصر) ش.م.د. Commercial International Bank (Egypt) S.A.E. Mohandessat Branch فرع المحند	
التاريخ: <u>March 4, 1990</u>	رقب: No. <u>128168</u>
إلى: <u>Egyptian Transport &amp; Commercial Services Co. Ltd. (EGYTRANS)</u>	الرقب: <u>ORDER</u>
ل: <u>Egyptian Pounds Thirteen Thousand Only</u>	مبلغ وقدره
<i>Bassem Haggait</i>	
AMOUNT	المبلغ بالأرقام
<u>LE13000.00</u>	

---

التشكّل التجاري الدولي (مصر) ش.م.د. Commercial International Bank (Egypt) S.A.E. Mohandessat Branch فرع المحند	
التاريخ: <u>March 4, 1990</u>	رقب: No. <u>128167</u>
إلى: <u>Egyptian Transport &amp; Commercial Services Co. Ltd. (EGYTRANS)</u>	الرقب: <u>ORDER</u>
ل: <u>Egyptian Pounds Thirteen Thousand Only</u>	مبلغ وقدره
<i>Bassem Haggait</i>	
AMOUNT	المبلغ بالأرقام
<u>LE13000.00</u>	

---

التشكّل التجاري الدولي (مصر) ش.م.د. Commercial International Bank (Egypt) S.A.E. Mohandessat Branch فرع المحند	
التاريخ: <u>March 4, 1990</u>	رقب: No. <u>128166</u>
إلى: <u>Egyptian Transport &amp; Commercial Services Co. Ltd. (EGYTRANS)</u>	الرقب: <u>ORDER</u>
ل: <u>Egyptian Pounds Thirteen Thousand Only</u>	مبلغ وقدره
<i>Bassem Haggait</i>	
AMOUNT	المبلغ بالأرقام
<u>LE13000.00</u>	

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

1)

**IESC COMMENTS IN RESPONSE TO PRICE-WATERHOUSE DRAFT  
REPORT ON INTERNAL CONTROL STRUCTURE, JULY 21, 1992**

IESC Egypt management has previously recognized the need to invest in strengthening the tools and procedures in place 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 reliable financial reports and to maintain accountability over the entity's assets." IESC Egypt management is, therefore, in agreement with the overall thrust of the recommendations and has taken action in a number of areas to implement improved controls and increased management visibility. Included in the list of steps taken to strengthen the internal control structure at IESC Egypt are:

1. Selection and hiring of an experienced, professional as Manager, Administration and Accounting.
2. Design, introduction and training of accounting staff in improved, internal IESC Worksheets supporting each USAID Reimbursement Request.
3. Elimination of delinquent backlog of USAID Reimbursement Requests providing more timely collection of supporting documentation, verification, and processing.
4. Reduction of active IESC bank accounts from eight, during the major portion of the audit period, to the current three accounts thereby providing much more visible and ready compilations.
5. Negotiation with USAID and introduction of vastly simplified and more visible (to both IESC Egypt and USAID) direct reimbursement of IESC Egypt office expenses on a monthly basis. This straight-forward practice is contrasted to the complex allocation scheme for these office expenses in place during the major portion of the current audit period.
6. Introduction of the following monthly reports:
  - Month and year to-date Income Statements (USD and LE) - not previously available.
  - Month and year to-date Expense Analysis (USD and LE) - attached as Exhibit A.
  - Month Expense Statement by office (Cairo and Alexandria) - attached as Exhibit B.

56

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

2)

The availability of these, currently manually prepared, reports will greatly facilitate the Fund Accountability Statement preparation that proved to be so time consuming during this Audit.

7. Although not the subject of this audit, during the past six months, a complete re-structuring and updating of all IESC-Egypt employee files was accomplished thereby assuring IESC-Egypt compliance with GOE Labor Law requirements. Updated, and revised Personal Service contracts, consistent with GOE Labor Law, have been prepared, on a pro bono basis by a leading Cairo law office, an IESC client.
8. The requirement to handle cash in the IESC-Cairo office has been reduced through the introduction of VE/VEC per diem payments by checks.
9. The new PC-based pay-roll system has been introduced, the algorithms for tax computations have been certified by the IESC-Egypt internal accounting and audit firm and with appropriate GOE tax authorities. A new, revised overtime payment authorization process has been designed and introduced.
10. Improved security procedures for users, expanded virus detection software and strengthened physical security of hardware and software media have been installed and staff members trained.
11. Improved controls and increased visibility to the Accounts Receivable status have been established through the introduction of an Invoice Register System.

Early in 1992, IESC-Egypt engaged the Cairo office of a major U.S. accounting firm to conduct a biennial internal audit of IESC-Egypt. The findings of that internal audit and IESC-Egypt management comments were presented to USAID. Subsequently, IESC-Egypt requested a proposal from the accounting firm to assist IESC-Egypt in the introduction of an integrated, PC-based transaction driven, accounting and control system. A proposal has been prepared in response to the IESC-Egypt request. IESC-Egypt management has elected to defer on implementation of that proposal pending the completion of the RIGA-Price Waterhouse audit and Final Report publication.

IESC-Egypt management now proposes to recruit an IESC Volunteer Executive to come to Cairo to provide technical, managerial assistance and training to IESC-Egypt staff members in an IESC project designed to significantly strengthen IESC-Egypt internal controls and develop and implement sustainable resolutions to each of the recommendations presented in the Price Waterhouse Draft Report. It is anticipated that this project effort can be conducted during Fourth Quarter, 1992.

IESC-Egypt management comments to the specific Price Waterhouse recommendations follow in the concluding section of these comments.

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

3)

**RECOMMENDATION 1**

IESC/Egypt should adopt an accounting system which meets U.S. government accounting standards and requirements. Specifically the following goals or objectives should be achieved:

- A general ledger system should be developed to ensure that all transactions are properly accumulated, classified, and summarized in the accounts. A proper system should segregate expenditures between local and U.S.
- A filing system should be utilized which is designed specifically for IESC's operations that is documented, sufficiently controlled, and tracks documents or files throughout the transaction process.
- Proper authorizations should be obtained for all transactions.
- Accounting personnel should receive adequate training in order to complete their assigned tasks efficiently and effectively.
- Accounting transactions should be properly accumulated and classified among account types and budget line items.

**IESC/EGYPT COMMENTS**

IESC/Egypt management, of course, concurs with the broadly stated objectives above. The most appropriate design of the IESC/Egypt accounting system will be determined during the proposed IESC technical assistance project described earlier.

**RECOMMENDATION 2**

IESC/Egypt should develop a formal double entry system of accounting for receivables to record advances and client receivables.

- There should be in place control techniques which ensure that every billing is recorded. We recommend that IESC use summary totals for all invoices issued. These summary totals can be used as a basis for comparing with or accumulating monthly sales totals for recording in the accounting records. In the absence of controls obtained through the use of multicopy forms and/or summary totals, the accounting department should review the numerical sequence of invoices prepared to determine whether all billings have been received for entry into the accounting records.

88

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

4)

**IESC/EGYPT COMMENTS**

IESC Egypt has introduced an invoice Register procedure to provide improved control and visibility for client receivables. This procedure, and the introduction of the use of serialized invoices in the Alexandria office are documented in Exhibit C. to this report. A current page from the Alexandria office Invoice Register is included as Exhibit D. Further consideration of this recommendation, including the controls appropriate for tracking per diem advances are incorporated in the technical assistance project scope.

**RECOMMENDATION 3**

IESC Egypt should insure all significant assets against fire and theft. The possibility of substantial loss if fire or other hazards are not covered by insurance includes not only the loss of assets but also the operating losses which may result from disruption of operations.

**IESC/EGYPT COMMENTS**

IESC Egypt management obviously is in complete agreement with this recommendation. Apparently through oversight, the current office equipment insurance policy, valid through August 27, 1992 was not provided to the Price-Waterhouse staff during field work in the IESC-Cairo office. A copy of this policy, issued by Delta Insurance Co. is attached as Exhibit E. Current limits and coverages are under review to insure timely and appropriate renewal/extension of this policy or its replacement. Also, semi-annual reviews of all insurance coverages has been added to the IESC Egypt management action calendar.

**RECOMMENDATION 4**

Employees should prepare time cards or other source documents which should be reviewed to determine that such documents are complete and have been approved by the employee's supervisor.

Before payroll disbursements are made, the completed payroll register should be reviewed and approved in writing by a responsible official who has not participated in the payroll preparation. This review may range from a detail check to a review for general reasonableness of the following:

- Names appearing on the payroll are authorized employees.
- Time worked is evidenced by appropriate time records.

51

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

5)

- Amounts to be paid have been computed at authorized rates.
- Computations of gross pay, deductions and net pay are accurate.
- Paychecks agree with the payroll register.

**IESC/EGYPT COMMENTS**

IESC/Egypt management believes that effective controls and procedures, apparently not reviewed by the Price-Waterhouse staff, are in place in this area. Attached are the following representative documents incorporated in the IESC/Egypt payroll preparation, validating and authorization process:

1. Exhibit F. - Monthly Payroll Report prepared by Manager, Administration and Accounting and approved by Director of Operations.
2. Exhibit G. - Monthly Overtime Log and authorization prepared by employee, computed by Accounting staff and approved/authorized by Director of Operations.
3. Exhibit H. - Periodic vacation (Annual Leave) Request/Approval document prepared by employee and approved by Director of Operations. Balance of Annual Leave is displayed and annual statements of remaining and earned Annual Leave are prepared and provided to each employee.
4. Exhibit I. - Monthly Bonus Approval Report listing all current month transactions earning bonus payments under the terms of the IESC/Egypt Incentive Compensation Program, prepared by employee, validated by accounting staff, and authorized/approved by Director of Operations.

Personal absences for illness or other qualifying reasons are recorded in individual personnel files.

The Draft Report correctly states that a time card system is not used by IESC/Egypt. IESC/Egypt management is satisfied that current practices are appropriate and demonstrate good controls in the area of employee payments. However, the specific recommendation will be considered during the planned technical assistance project.

**RECOMMENDATION 5**

In order to improve internal accounting controls surrounding cash, we recommend that:

- The management strengthen the segregation of duties in this area.

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

b1

- All cash remittances received directly at IESC/Egypt should be listed and restrictively endorsed by an individual independent of other cash and accounts receivable functions and then sent to accounting. This list should then be subsequently checked against the validated bank deposit to ensure that all receipts were deposited on a timely basis.

**IESCEGYPT COMMENTS**

Again, IESC/Egypt management concurs with the objectives of these recommendations. Ability to segregate duties in small organizations like IESC/Egypt is practically limited. A Regional Director and an Administrative Assistant comprise the administrative and accounting staff in the IESC Alexandria office, for example. The recent addition of the professional Manager of Administration and Accounting in the Cairo office provides new, practical opportunities to strengthen the segregation of duties and this will be pursued.

Practices relating to cash management will be included in the scope of the planned technical assistance effort during Fourth Quarter, 1992.

For the record, we are puzzled by the Price-Waterhouse comment that "no formal written approval of bank reconciliations is evidenced" as monthly reports, including bank statement reconciliations, are reviewed and signed by the responsible Regional Director or Director of Operations.

b1





**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

		EXHIBIT B					
JUNE		1992 EXPENSES ANALYSIS					
		LESC-LE RATE=3.32	ALEX-LE RATE=3.33	TOTAL LE SHOWN IN LE	TOTAL LE SHOWN IN \$ @ 3.32	LESC-\$	GROSS TOTAL IN US DLRS
FIXED ASSETS	5						
FIXED ASSETS	1	-2,000.00		42,000.00	12,650.60	7,650.00	20,300.60
		-2,000.00	0.00	-2,000.00	12,650.60	7,650.00	20,300.60
CD / OFFICE	9						
OFFICE RENOVATION	1	0.00	0.00	0.00	0.00	4,000.00	4,000.00
HOUSING ALLOWANCE	3	0.00	4,960.98	4,960.98	1,494.27	10,856.51	12,350.78
SUBSIST. PER DIEM	9	6,600.00	6,300.00	12,900.00	3,885.54		3,885.54
TRANSP./ LOCAL	11	2,259.55	270.00	2,529.55	764.92	0.00	764.92
VISA/AIR-TAX/MISC	14	0.00	0.00	40.00	12.05	0.00	12.05
TRANS. INTRA COUNTRY	17	0.00	0.00	0.00	0.00	0.00	0.00
SALARY LOCL.EMPL.	20	19,158.80	2,661.00	21,819.80	6,572.23	0.00	6,572.23
CD PERSONAL MOV.EXP	22	0.00	0.00	0.00	0.00		0.00
RENT-OFFICE	30	0.00	2,733.00	2,733.00	823.19	17,020.55	17,843.74
TELEPHONE	31	6,374.91	510.93	17,185.84	5,176.46		5,176.46
TELEGRAM/CABLE	32	0.00	454.44	454.44	136.89		136.88
POSTAGE	33	231.50	246.00	477.50	143.83		143.83
MESSENGER SERVICE	34	0.00	150.00	150.00	45.18		45.18
STATIONARY/OFF.SUP	35	785.64	174.00	959.64	289.05	248.00	537.05
PRINTING	36	560.00	30.00	590.00	177.71		177.71
BOOKS & PUBLICATION	37	0.00	5,570.00	5,570.00	1,677.71		1,677.71
BROCHURES	38	0.00	0.00	0.00	0.00		0.00
UTILITIES - OFFICE	39	0.00	0.00	0.00	0.00		0.00
OFFICE MAINTENANCE	40	0.00	20.00	40.00	18.07		18.07
CONSULTS. & ADVISOR	42	1,300.00	0.00	1,800.00	542.17	0.00	542.17
AUDIT / PROF. FEES	43	0.00	0.00	0.00	0.00	0.00	0.00
LEGAL EXP/PROF.FEE	44	0.00	0.00	0.00	0.00	0.00	0.00
TEMPORARY HELP	46	1,050.00	690.00	1,740.00	524.10	0.00	524.10
EQUIP. MAINTENANCE	47	1,120.94	0.00	1,120.94	337.63		337.63
FURN. & OFFICE EQPT	49	0.00	0.00	0.00	0.00	0.00	0.00
INSURANCE-OFF&LIAB	50	0.00	0.00	0.00	0.00	0.00	0.00
INS.OTHER LOCAL	53	0.00	0.00	0.00	0.00		0.00
MEDICAL	54	772.70	0.00	772.70	232.74		232.74
MAINTENANCE CD APT.	55	0.00	0.00	0.00	0.00		0.00
CD EXTRAS	60	0.00	0.00	0.00	0.00		0.00
PHOTOGRAPHS	72	33.00	0.00	33.00	9.94		9.94
MEETINGS & CONFER.	74	321.00	0.00	321.00	96.69	0.00	96.69
MEMBERSHIPS	75	0.00	0.00	0.00	0.00	0.00	0.00
OTHER	80	1,139.25	13.00	1,152.25	347.06	21.00	368.06
CD VISA EXTENSIVS	91	0.00	0.00	0.00	0.00	0.00	0.00
COMPUTER SOFTWARE	85	0.00	75.00	75.00	22.57		22.57
FUND:BUSINESS STUDY	98	0.00	0.00	0.00	0.00	0.00	0.00
SOCIAL SECURITY	211	1,547.50	(152.50)	1,395.00	420.18		420.18
SALARY TAX	212	277.38	(398.12)	(110.74)	(33.36)		(33.36)
		54,122.17	24,617.73	78,739.90	23,716.84	32,146.06	55,862.90
VE EXPENSES							
VE LODGING	8	43,155.99	8,715.84	51,871.83	15,624.05		15,624.05
VE PER DIEM	9	37,840.00	3,150.00	42,990.00	12,948.80		12,948.80
VE VISAS	14	(1,474.00)	0.00	(1,474.00)	(450.00)	450.00	0.00
VE TRANS. (INTRA)	17	0.00	0.00	0.00	0.00		0.00
SUBSIST TRAVEL STAT	18		0.00	0.00	0.00		0.00
		81,501.99	11,865.84	93,367.83	28,122.84	450.00	28,572.84

104

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**



NILE HILTON COMMERCIAL CENTER CORNICHE EL NIL, CAIRO, EGYPT  
TEL: 757-4400, 75-066 EXT. 22/23 TLX. 92222 HILTL UN FAX: 760874

EXHIBIT C.

TO: R. McGurk

*Alan*  
FROM: David K. Mitchell

SUBJECT: INVOICES AND  
INVOICE PRACTICES

DATE: March 4, 1992

During the recently conducted audit by Price-Waterhouse the requirement for improved discipline in our invoicing practices was identified. I earlier (January 26, 1992) wrote to you requesting the immediate introduction in the Alexandria office of a uniform INVOICE REGISTER. I also requested a copy of the Alexandria office INVOICE REGISTER as of January 30, 1992. I have not received your INVOICE REGISTER so again request that you send, via facsimile, your 1992 year-to-date INVOICE REGISTER.  
Thanks.

I'm sending to you a supply of pre-numbered and serialized invoices for your use. The immediate introduction of these serialized invoice sets will add to our invoice discipline and control. These serialized invoices are pre-printed with the present Cairo Nile Hilton letterhead. I wish to initiate use of these serialized invoices immediately in Alexandria so please destroy any non-serialized invoice sets you may have.

Please review your requirements and the ability of your local printer to produce serialized, pre-printed invoice sets with the Alexandria letterhead. We can assist with our printer here in Cairo if you require assistance. Thanks for your help on this matter.

cc: R. Dancy

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**



HILTON COMMERCIAL CENTER, COINCHIE EL NIL, CAIRO, EGYPT  
TEL: 447765-606 EXT. 22/23 TLX: 82222 HILTL UN FAX: 70074

TO: R. McGurk  
SUBJECT: INVOICE REGISTER  
AND PROCEDURES

FROM: David R. Mitchell  
DATE: January 26, 1992

Ragal Dmitry and I have recently conducted a review of our invoicing practices and record keeping here in Cairo and have instituted changes that I now request that you incorporate in your operations in the Alexandria Office.

INVOICE REGISTER

Attached is a copy of the revised Invoice Register for recording all invoices and tracking the disposition of each. We are using this in a manual mode now but would expect to convert this to a PC-based application in the near future. Please begin using this Invoice Register form for all Alexandria-office initiated invoices effective, retro actively, to January 1, 1992. I believe the entries are self-explanatory, however the following will serve as clarification:

- "Invoice Type" - Initial Contribution  
2nd Contribution  
3rd Contribution  
4th Contribution  
Total Contribution (US\$, AED, Bid Quotes)
- "Project Type" - VE Project  
USVE Project  
AME Project  
Bid Quote
- "Form of Payment" - Check  
Cash
- "Other Disposition" - Lost, Displaced  
Cancelled

INVOICING PROCEDURES

The following guidelines must be observed in our invoicing procedures:

1. All invoices must be prepared on pre-printed, serialized IESC invoice forms.
2. Invoices are to be prepared and issued in numerical sequence.

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

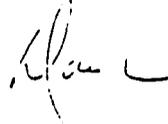
3. All invoices must be accounted for in the Invoice Register in the same way in which all checks must be accounted. There will be no missing invoice numbers in the Invoice Register sequence.
4. Invoices will be amended or revised only by cancelling the initially prepared invoice and issuing a new invoice as amended.

I expect that the planned Invoice Register PC application will provide us with reporting capability to display and print the following data formats:

- A. Invoice Register
- B. Project Invoice History
- C. Open Invoices

If you wish to add further data elements to this application or additional reports, please let me know of your requirements.

Please send me a copy of your January 30, 1992 Invoice Register. Many thanks.



cc: R. Lantry



INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991

To: R. Dimitri (no: 242695 Cairo)

OFFICE: Alexandria

YEAR: 1992

I.E.S.C. - EGYPT INVOICE REGISTER

EXHIBIT D.

PAGE: 3

INVOICE NUMBER	INVOICE DATE	INVOICE AMOUNT	INVOICE TYPE	PROJECT NUMBER	CLIENT NAME	V.E. NAME	PROJECT TYPE	DATE PAID	AMOUNT PAID	FORM OF PAYMENT	OTHER DISPO
00003	5/28/92	3500.00	USUE	22608	Floating Jibs	Barry Slav	USUE	6/18/92	3500	check	
00004	6/22/92	8000.00	1st Cnt.	22117	Faragalla	Brand	Regular				
00005	6/22/92	4000.00	1st Cnt.	22354	Sagic	Rosenbaum	Regular	7/5/92	4000.00	check	
00006	6/22/92	4000.00	2nd Cnt.	22140	Jank Rita	Faragalla	Regular	7/6/92	4000.00	check	
00007	6/22/92	8000.00	1st Cnt.	22118	Faragalla	Oliver	Regular	6/28	8000	check	
00008	7/1/92	450.00	ABLE	21458	Faragalla		ABLE	7/3	450	check	



INTERNATIONAL EXECUTIVE SERVICE CORPS PAYROLL

EXHIBIT F.

MONTH: MARCH / 1992

NAME	BASIC	RLPRES. ALLOW.	TRANSP ALLOW.	BONUS	GROSS	DEDUC'NS	EMPL'EE SSO	INCOME TAX	NET	EMPL'ER SSO
ATEM NABHAN	2383.00	250.00		2040.00	4673.00	0.00	76.25	809.86	3786.89	155.00
AREK NABHAN	2310.00	250.00		500.00	3060.00	80.00	76.25	490.48	2413.27	155.00
ASSAM OSMAN	1025.67	83.33		559.80	1668.80	0.00	76.25	248.03	1344.52	155.00
OSITA LEVY	1071.33	166.67		0.00	1238.00	8.80	0.00	165.72	1063.48	0.00
OHAMED KHALED RADWAN	1359.00	250.00		2675.00	4284.00	65.00	76.25	732.83	3409.92	155.00
ANLM LI SHIHNAWY	1052.33	166.67		0.00	1219.00	0.00	76.25	146.86	995.89	155.00
AHA ABOKLNAGA	684.33	166.67		0.00	851.00	0.00	76.25	74.00	700.75	155.00
AMIRA FAKHRY	707.33	166.67		0.00	874.00	0.00	76.25	78.55	719.20	155.00
ESHAM MAWAR	992.00	250.00		2200.00	3442.00	60.00	76.25	566.12	2739.63	155.00
ADA FRANCIS	498.33	166.67		0.00	665.00	7.20	76.25	37.18	544.37	155.00
AGAI DIMITRY	2250.00	250.00		0.00	2500.00	0.00	76.25	379.60	2044.15	155.00
TOTAL	14333.32	2166.68	0.00	7974.80	24474.80	221.00	762.50	3729.23	19762.07	1550.00

PREPARED BY :

*R. Dimitry 3/26/92*

APPROVED BY :

*David K. Mitchell*

INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991



**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**



INTERNATIONAL EXECUTIVE SERVICE CORPS  
NILE HILTON CENTER CORNICHE EL NIL, CAIRO, EGYPT  
TEL.: 767444 / 765688 EXT. 22, 23 TLX. 92222 MILTUS UN FAX 760874

EXHIBIT H.

Date: May 27, 1991

REQUEST FOR VACATION

Name : Heide Simji Ahluwalia

Date of Employment : March 18, 1988

Vacation From : Aug 1, 1990 Through : Aug 30, 1990

Address during Vacation : 22-6 ALDEA BLANCA, NUEVA  
BARCELONA, BARCELONA, MADRID, SPAIN

Telephone Number : 34-51-915 195

Status of Vacation

Number of Days Eligible : 35

Number of Days this Request : 30

Balance : 5 Days

Employee : Heide Simji Ahluwalia Approved : David H. Moore

Director of Operation

10

- V. Management approved code (1)
- VI. Contribution code (2)
- VII. Contribution code (3)
- VIII. Contribution code (4)
- IX. Project code (5)
- X. Project code (6)

BONUS GRANTED BY I.E.S.C.  
 DURING THE MONTH OF MARCH 92  
 TO: SULEIMAN SABWAN

EXHIBIT 1.

*Suleiman Sabwan*

SCT NO.	CLIENT NAME	AMOUNT DUE	DATE DUE	DATE RECEIVED	CK. NO.	DIB. DTD.	DRAWN ON	B O N U S				CHECKED BY	COI	
								AMT. DUE	FULL AMT.	DAYS LATE	AMT. PAID			
1001	DIAB JORD	150.00	3/1/92	3/1/92	257209	3/1/92	CIB	750	75	-	75		(2)	
1623	PERAMIDS PAPER MILLS	9000	3/21/92	3/18/92	281227	3/13/92	ATISR IRAN DEVELOP. BANK	9000	900	-	900		(2)	
170	PERAMIDS PAPER MILLS	9000	3/21/92	3/18/92	281226	3/18/92	"	9000	900	-	900		(2)	
134	SHARA COINING	3000	3/14/92	3/14/92	300975	3/9/92	EAB	3000	300	-	300		(2)	
245	DIAB JORD	1634	3/6/92	3/9/92	292228	3/9/92	CIB	1634	-	-	-		(3)	
								<b>TOTAL</b>	<b>2675</b>					

INTERNATIONAL EXECUTIVE SERVICE CORPS  
 MANAGEMENT'S RESPONSE TO FINDINGS  
 FOR THE PERIOD FROM OCTOBER 1, 1988  
 THROUGH DECEMBER 31, 1991

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

**IESC COMMENTS IN RESPONSE TO PRICE-WATERHOUSE DRAFT  
REPORT - COMPLIANCE WITH LAWS AND REGULATIONS - SUMMARY  
AND STATUS OF 1989 RECOMMENDATIONS, JULY 21, 1992**

IESC-Egypt management has conducted an initial review of the findings documented in the referenced Price-Waterhouse Draft Report presented, in conference, on July 22, 1992. We note, for the record, that the section entitled "Report on Compliance - Audit Findings" was deleted from the Draft Report during the July 22, 1992 conference as it appeared, to PW management, to be redundant to the subsequent section entitled "Summary and Status of 1989 Recommendations".

This IESC response is, therefore directed to the "Summary and Status of 1989 Recommendations" section found on pages 30 through 35, of the Draft Report.

As an introductory statement IESC-Egypt management has and does consider all recommendations arising from the 1989 Audit to be closed. Closure was established through two referenced communications:

1. Michael J. Nicholas, USAID Grant Officer to R. Jerry Hargitt, IESC dated 26 April, 1989.  
and
2. R. Jerry Hargitt, IESC Director of Operations to Michael J. Nicholas dated June 25, 1989.

Copies of these documents are on file in the IESC Cairo offices and were made available to PW staff. There is no record of subsequent correspondence, discussion, inquiries, etc. available in IESC-Egypt files.

This letter documents current IESC-Egypt management comments to those 1989 Recommendations not considered closed in the PW Draft Report dated July 21, 1992.

**Recommendations No. 1(a), 1(b) and 1(c)**

These three recommendations were contained in the RIG/ACairo letter from F.A. Kalhammer to D/USAID, Egypt, Marshall D. Brown dated April 16, 1989 and were not specifically presented to IESC. Consequently, there has been no IESC response required as these three recommendations are summarized in the subsequent USAID, IESC correspondence referenced above. No further IESC-Egypt comments are offered at this time.

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

**RECOMMENDATION NO. A:**

"IESC/Egypt should resubmit its new grant proposal in such a way to allow for full disclosure of detailed cost items. IESC/Egypt may wish to follow the model shown in Appendix I (page 36 of this report). A clear definition should be given to each cost item. USAID/Egypt should discuss and agree the new grant proposal on a line by line basis."

**July 1992 Status - reported by Price-Waterhouse**

The budget is broken down by program. Line-by-line comparison was not made to allow for full disclosure of detailed cost items.

**IESC COMMENTS**

**IESC considers this recommendation closed.**

Although IESC budget proposals are not presented to USAID Project and Contracts management in the exact format identified in Appendix I to the 1989 Audit Report, the critical data elements for project activity, project expenses and IESC-Egypt Office expenses have been and are presented by IESC in all proposals. A review of the most recent IESC budget proposal, dated November 6, 1991 (within the scope of the current audit effort) indicates the level of disclosure of detailed cost items and planning assumptions. A copy of this IESC-prepared proposal is attached as Exhibit A. This process has evolved over the past several years and has successfully served the requirements of IESC and USAID Project, Contracts and Program management and staff in successfully concluding:

1. Modification No.05 to Co-operative Agreement No.263-0102-A-00-9003-00 dated February 10, 1991.
2. USAID Project Paper 263-0226 approved by USAID-Egypt, May, 1991
3. Modification No.07 to Co-operative Agreement No.263-0102-A-00-9003-00 dated January 1, 1992.

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

31

**RECOMMENDATION NO. D:**

"IESC/Egypt should establish a formal and clear policy with regard to establishing the amounts of client contributions. This policy should take into consideration the duration of the project so that the contribution per day should be the same for most clients."

**July 1992 Status - reported by Price-Waterhouse**

IESC/Egypt has continued to base client contributions on negotiated amounts with little or no relation to the clients' gross or net income.

**IESC COMMENTS**

**IESC considers this recommendation closed.**

IESC world-wide, and IESC/Egypt, specifically, have established and documented clear policies with regard to establishing the amounts of client contributions. The current, IESC/Egypt policy and guideline, dated January 5, 1992 is attached to this report and identified as Exhibit 'B'. These guidelines and policies have been reviewed and accepted by USAID Project Management and incorporated in all IESC budget proposals and resulting Agreement Modifications.

The recommendation presented in the 1989 audit report that 'contributions per day should be the same for most clients' was judged to be inappropriate in the original IESC response in June, 1989 and the IESC rationale presented in the original, 1989 IESC response remains valid in July, 1992.

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

41

**RECOMMENDATION NO. E:**

"IESC/Egypt should establish a formal procedure to govern the transfer of funds to IESC/Stamford. Transfers made should be supported by reasonable documentation to prove that they are legitimate and are in accordance with the detailed grant proposal that was approved by USAID/Egypt and not in excess of amounts owed to IESC/Stamford for services directly attributed to IESC/Egypt's operations."

**July 1992 Status - reported by Price-Waterhouse**

Transfers to Stamford are based on current cash availability of cash with no regard to billing from the home office.

**IESC COMMENTS**

**IESC considers this recommendation closed.**

IESC/Egypt maintains, in its Cairo offices, supporting documentation for each Reimbursement Request submitted to USAID for reimbursement of expenditures by IESC, in the United States, in direct support of the IESC-Egypt program activity. Each IESC budgetary proposal accepted by USAID during the period of the current audit has provided clear identification of the expenditures to be made in the United States and the basis (actual or allocation) on which those expenditures will subsequently be reimbursed by USAID under the terms of the Co-operative Agreement.

To link these questions of legitimacy and supportability to IESC's internal cash management practices is, in IESC/Egypt management's opinion, inappropriate. IESC/Egypt cash transfer practices are consistent with world-wide IESC policy and practice to maintain overseas bank balances at minimum levels required to support local operations and projected, near-term (60 to 90 day) expenditures. A monthly cash management outlook process is employed to satisfy this objective.

10

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

5)

**RECOMMENDATION NO. G:**

"We recommend that per diem calculations do not include the departure day."

**July 1992 Status - reported by Price-Waterhouse**

IESC does not pay per diem for the departure day. However, IESC/Egypt does pay per diem for the arrival date.

Per discussion with the Country Director, it is understood that out-of-pocket costs relating to the arrival date are paid for in Stamford resulting in an estimated over billing to USAID of LE 47,000 (235 completed projects x 200 LE = LE 47,000)

**IESC COMMENTS**

IESC/Egypt has requested clarification of IESC Headquarters practices and will resolve this apparent over billing at the time of presentation, to IESC, of the Final Audit Report.

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

**RECOMMENDATION NO. J:**

"To maximize return on funds we recommend that IESC-Egypt should take necessary steps in order to:

- Open more than one type of bank account in order to maximize the interest earned on available funds rather than keeping all of the funds in current accounts that earn no interest.
- Develop a cash planning system in order to forecast future cash inflow and outflow transactions on a monthly basis."

**July 1992 Status - reported by Price-Waterhouse**

IESC-Egypt as of December 31, 1991 had not opened an interest bearing account for idle funds. Had IESC opened an interest bearing account, interest provided therefrom would provide a substantial support for IESC's activities and a reduction to the USAID funding required. The balance of cash in banks at December 31, 1992 was approximately \$ 456,156.

**IESC COMMENTS**

IESC supports this recommendation.

IESC-Egypt has reviewed this recommendation again and has immediately authorized the establishment of an interest-bearing account for its U.S. Dollar funds held in an account with Commercial International Bank (CIB). A copy of the IESC-Egypt authorization letter, dated July 22, 1992 is attached as EXHIBIT C. Interest-bearing accounts for IESC's Egyptian Pounds (LE) accounts in Cairo and Alexandria are not authorized by the Central Bank of Egypt and therefore are not available to CIB and IESC-Egypt. The alternative of establishing and maintaining time deposits for the LE funds appears not to be justified based upon the administrative costs to IESC-USAID but will be reviewed further by IESC-Egypt. A final resolution of this option will be identified at the presentation, to IESC-Egypt, of the Final Audit Report.

In addition to this recent step, IESC-Egypt has, during the past twelve months, reduced from eight to three the number of active bank accounts, thereby providing increased visibility and management oversight of appropriate balances in these local accounts.

00

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**



INTERNATIONAL EXECUTIVE SERVICE CORPS  
MILE HILTON COMMERCIAL CENTER, CORNICHE EL NIL, CAIRO, EGYPT  
TEL. 787-444/765-666 EXT. 22/23 TLX: 92222 MILTLE UN FAX: 760874

'EXHIBIT A.'

November 6, 1991

Ms. Beth Paige  
Contracting Officer  
U.S. Agency for International Development  
Cairo Center  
Cairo.

**SUBJECT: Extension of Co-operative Agreement  
No.263-0102-A-00-9003-00**

Dear Beth,

As we have been discussing during the past several months and confirmed during our meeting in your offices on November 4, 1991, I have prepared the attached proposal for the extension of Co-operative Agreement No.263-0102-A-00-9003-00 from October 31, 1991 to November 1, 1992.

It is our objective to establish all future Co-operative Agreement terms on a calendar year basis to maintain consistency with all other internal IESC budgeting and planning horizons.

As documented in my letter dated September 11, 1991 addressed to Mr. Orion Yeandel, Grant Officer, and reviewed in our meeting on November 4, 1991, this proposed extension incorporates the following revisions to the Co-operative Agreement Cost Elements:

1. Renaming the cost element Regular (VEP) and Trade and Investment Service (TIS) as VE Projects.
2. Consolidation of Cost Elements for the Trade Enhancement Program (TEP) and Joint Venture Search (JVS) into a USVE Cost Element.
3. Consolidation of Information Research (ABLE) and Quoting Service (QS) into an Information Services Cost Element.
4. Introduction of a new Cost Element, Egypt Office Expenses, to be reimbursed by USAID on a monthly basis reflecting actual expenditures in the prior month rather than the previous practice of allocating these expenses to each project completion.
5. Retention of the Capital Equipment, Consulting Services Cost Element to maintain visibility on this category of IESC spending.

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

The proposed spending for the period November 1, 1991 to November 1, 1992 is attached as Exhibit 1. Also included, to assist in your review of this proposal are the following supporting Exhibits:

- Exhibit 2 - PROJECT ACTIVITY PLAN
- Exhibit 3 - PLANNING FACTORS - VE PROJECTS
- Exhibit 4 - PLANNING FACTORS - USVE PROJECTS
- Exhibit 5 - PLANNING FACTORS - INFORMATION SERVICES
- Exhibit 6 - STAFFING SUMMARY
- Exhibit 7 - EGYPT OFFICE EXPENSES  
and  
CAPITAL EQUIPMENT AND CONSULTING SERVICES

A backlog of unreimbursed IESC expenditures in support of projects completed prior to November 1, 1991 exists. This reimbursement backlog is reflected in the attached Exhibit 8, US Dollar Summary and Exhibit 9, LE Summary. These Exhibits also present the Cost Element and total USAID share for the Co-operative Agreement restated to reflect the extension requested at this time.

As you know, IESC has suspended submission of Reimbursement Requests for Egyptian Pound (LE) expenditures awaiting this extension of the Co-operative Agreement. We will very much appreciate an early review and acceptance of our attached proposal.

Thank you for your assistance.

Cordially,



David K. Mitchell  
Director of Operations  
IESC-EGYPT

cc: Robert Kirk, Project Officer

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

EXHIBIT 1

COOPERATIVE AGREEMENT EXTENSION PROPOSAL  
NOVEMBER 6, 1991

FINANCIAL SUMMARY

	<u>11/1/91 - 11/1/92</u>	
	<u>USD</u>	<u>LE</u>
VE PROJECTS	\$1,032,660	LE1,612,350
USVE PROJECTS	\$ 46,176	-
INFORMATION SERVICES	\$ 32,380	-
EGYPT OFFICE EXPENSES	\$ 243,655	LE1,129,178
CAPITAL EQUIPMENT CONSULTING SERVICES	\$ 75,000	LE 148,900
TOTAL USAID REIMBURSEMENT	<u>\$1,429,871</u>	<u>LE2,590,428</u>
IESC CONTRIBUTION	<u>\$2,459,610</u>	<u>-</u>

NOTE: USD1.00 = LE3.30

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

EXHIBIT 2

COOPERATIVE AGREEMENT EXTENSION PROPOSAL  
NOVEMBER 6, 1991

PROJECT ACTIVITY PLAN

11/1/91 - 11/1/92

PROJECT COMPLETIONS

VE	90
USVE	16
INFORMATION SERVICES	20

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

EXHIBIT 3

COOPERATIVE AGREEMENT EXTENSION PROPOSAL  
NOVEMBER 6, 1991

PLANNING FACTORS

11/1/91 - 11/1/92

VE PROJECTS

AVERAGE DURATION	55 DAYS
VEC RATE	90%

PROJECT EXPENSES

AIR FARE	\$7680
RECRUITING	2200
FIELD SUPPORT	939
EN ROUTE	655
USD TOTAL	\$11474

VEC HOTEL	LE13703
VEC PER DIEM	LE12199
LE TOTAL	LE25902

LESS CLIENT CONTRIBUTION (LE 9187)

USAID REIMBURSEMENT LE17915

\$11474

IESC CONTRIBUTION LE25902

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

EXHIBIT 4

COOPERATIVE AGREEMENT EXTENSION PROPOSAL  
NOVEMBER 6, 1991

PLANNING FACTORS

<u>USVE PROJECTS</u>	<u>11/1/91 - 11/1/92</u>
USVE COORDINATION	\$1000
FIELD SUPPORT	923
RECRUITING	826
USVE EXPENSES	<u>1388</u>
TOTAL PROJECT COSTS	\$4137
LESS CLIENT CONTRIBUTION	<u>(\$1251)</u>
USAID REIMBURSEMENT	<u>\$2886</u>

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

EXHIBIT 5

COOPERATIVE AGREEMENT EXTENSION PROPOSAL  
NOVEMBER 6, 1991

PLANNING FACTORS

INFORMATION SERVICES

11/1/91 - 11/1/92

COMPLETIONS

ABLE	15
BID QUOTES	<u>5</u>
TOTAL	20

PLANNING FACTORS

RESEARCH COSTS	\$2088
AIR COURIER COST	\$ 100
ADMINISTRATIVE CONTRIBUTION	<u>\$ 800</u>
TOTAL REPORT COST	2888
LESS CLIENT CONTRIBUTION	<u>\$1269</u>
USAID REIMBURSEMENT	\$1619

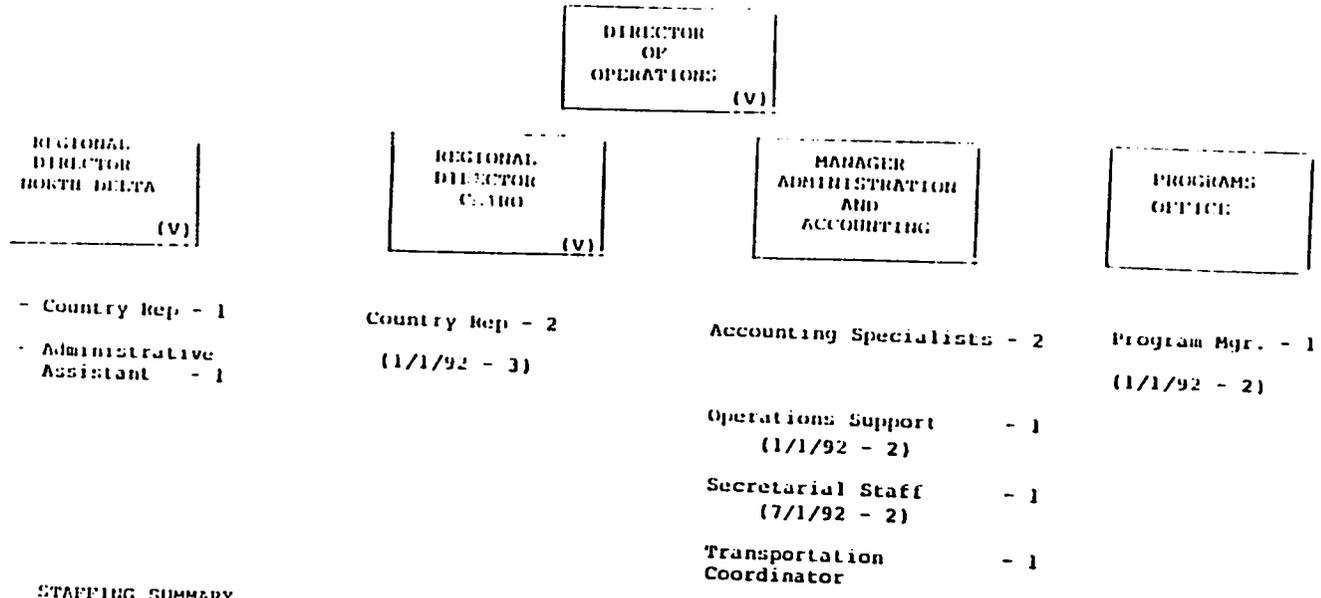
<u>REPORT COST</u>	<u>USD</u>	<u>WT</u>	
ABLE	\$2500	0.75	1875
BID QUOTE	<u>\$ 380</u>	<u>1.00</u>	<u>380</u>
COMPOSITE			\$ 2088

<u>CLIENT CONTRIBUTION</u>	<u>LE</u>	<u>USD</u>	<u>WT</u>	
ABLE	124200	\$1270	0.75	955
BID QUOTE	<u>101500</u>	<u>\$ 455</u>	<u>1.00</u>	<u>455</u>
COMPOSITE				\$1069

87

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

COOPERATIVE AGREEMENT EXTENSION PROPOSAL,  
NOVEMBER 6, 1991



STAFFING SUMMARY

	11/1/91	1/1/92	7/1/92
VOLUNTEERS	3	3	3
LOCAL STAFF:			
PROGRAM MGRS.	1	2	2
COUNTRY REP.	3	4	4
MGR. ADMIN.	1	1	1
ACCOUNTING SPEC.	2	2	2
OPERATIONS SPEC.	1	2	2
SECRETARIAL STAFF	1	1	2
ADMIN. ASSISTANT	1	1	1
TRANSPORTATION COOR.	1	1	1
TOTALS LOCAL STAFF	11	14	16

55

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

EXHIBIT 7

COOPERATIVE AGREEMENT EXTENSION PROPOSAL  
NOVEMBER 6, 1991

EGYPT OFFICE EXPENSES

11/1/91 to 11/1/92

HOUSING ALLOWANCES	\$132,552	LE 69,600
SUBSISTENCE, PER DIEM	-	LE235,125
LOCAL TRANSPORTATION	-	LE 96,800
US TRAVEL	\$ 46,790	LE 6,600
INSURANCE, STORAGE	\$ 25,980	-
LOCAL EMPLOYEE COSTS	-	LE416,470
OFFICE RENT, MAINTENANCE	\$ 35,333	LE 26,650
COMMUNICATIONS	-	LE120,633
OFFICE SUPPLIES	-	LE 39,850
MEETINGS, CONF/MEMBERSHIPS	\$ 3,000	LE 69,000
OTHER	-	LE 48,250
TOTAL EGYPT OFFICE	<u>\$243,655</u>	<u>LE1,129,173</u>
<hr/>		
<u>CAPITAL EQUIPMENT AND CONSULTING SERVICES</u>	<u>\$ 75,000</u>	<u>LE 143,900</u>

89

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**



NILE MILTON COMMERCIAL CENTER, CORNICHE EL NIL, CAIRO, EGYPT  
TEL: 787-444/785-886 EXT. 22/23; TLX: 92222 MILTLB UN FAX: 760874

' EXHIBIT B. '

TO: R. McGurk  
R.B. Tara  
H. Nabhan  
T. Nabhan  
K. Radwan  
H. Nawar

*David K. Mitchell*  
FROM: David K. Mitchell

DATE: January 5, 1992

SUBJECT: CLIENT CONTRIBUTION  
1992 GUIDELINES

I know we're all familiar with IESC policy relating to Client Contributions. That basic policy states:

"The fundamental contribution policy is that Client contributions should be based on:

1. Value of IESC services to the Client
2. Client's ability to pay
3. Contribution that project will make to development of private sector."

In addition to this world-wide IESC policy, we've developed further, Egypt-specific, considerations in establishing appropriate client contributions. Included are the following:

1. Insure to the best of our ability, fair and equitable treatment for each of our clients.
2. Recognize client's contribution to the shared IESC/ USAID development objectives in Egypt.
  - a.) Increase employment opportunities.
  - b.) Increase export of Egyptian goods and services.
  - c.) Improve foreign exchange balances through increased tourism income.
  - d.) Decrease Egyptian dependence upon imported goods.
  - e.) Strengthen rural development efforts through desert reclamation to agricultural use and the resulting export of Egyptian produce.
3. Consistent with USAID Egypt Mission initiatives and priorities.
4. History of IESC/Client relationship in terms of previous projects, same UE requests, etc.

90

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

17

I believe we must continue, during 1992, to maintain a high level of responsiveness to the Egyptian private sector clients we serve. I encourage us to search out umbrella organizations, like the Alexandria Businessmen's Association's Small and Medium Scale Enterprise Project that can reach and serve the micro enterprises that we usually cannot serve on an individual basis.

I'm sensitive to the direct relationship between Client Contribution and Projects Manager compensation and our desire to maintain client contributions at increasing levels to reflect inflationary pressures on IESC costs. However, I believe we all agree that increasing client contributions is not an end objective.....successful projects for deserving Egyptian private sector organizations is our shared objective. Let's continue to work together to search out those deserving clients and then let's insure that the requested client contributions reflect our objectives.

Projects and Programs Managers must continue to present specific client contribution commitments to clients only after agreement is reached with the responsible Regional Director or the Director of Operations.

With this background, the attached Client Contribution Guidelines for 1992 are provided for your implementation. I'd welcome all comments on this subject.

cc: A.C. Knowlton  
R. Kirk, USAID

91

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**

CLIENT CONTRIBUTION GUIDELINES - JANUARY, 1992

REGULAR PROJECTS:

- Initial Month - LE 6000 to LE 15000  
Average LE 8500  
If below LE 6000 discuss with D. K. Mitchell  
prior to presentation to client.
- Subsequent Months - LE 5000 to LE 8000  
Average LE 6000

DIAGNOSTIC PROJECTS:

- Two Weeks - LE 5000 to LE 7000  
Average LE 6000  
Each subsequent week at LE 2000  
NO VE SPOUSE FUNDED

PIGGYBACK PROJECTS:

- Initial Month -
  - If arranged AFTER initial project started in Egypt - no change in either project client contribution, i.e. same as original regular projects.
  - If arranged BEFORE initial project started in Egypt, MODEST (i.e. no more than LE 500) reduction in client contribution for each involved project.
  - If piggyback to/from another country - no change in Egypt client contribution.
- Subsequent months - Same as Regular Projects.

USVE PROJECTS

- One-time total client contribution of at least LE 2500. Payment in full on signing. USVE projects must be bounded in time for completion and may not be open-ended.

ABLE STUDY

- Basic, 40-hr. Study - LE 1000  
Each additional 10-hrs. - LE 500  
Payment, in full, on signing, includes air-courier charge for study delivery.

BID QUOTATION

- Each SET of three quotations - LE 1500  
Payment, in full, on signing.  
Refund entire contribution if IESC is unable to deliver at least three proforma invoice quotations.

Doc: Forms

92

**INTERNATIONAL EXECUTIVE SERVICE CORPS  
MANAGEMENT'S RESPONSE TO FINDINGS  
FOR THE PERIOD FROM OCTOBER 1, 1988  
THROUGH DECEMBER 31, 1991**



**INTERNATIONAL EXECUTIVE SERVICE CORPS**  
NILE HILTON COMMERCIAL CENTER, CORNICHE EL NIL, CAIRO, EGYPT  
TEL: 444/765-546 EXT. 22/23 TLX: 92222 MILTLE UN FAX: 760874

'EXHIBIT C.'

July 22, 1992

Ms. Aida El Scheimy  
Assistant General Manager  
Commercial International Bank  
Nile Tower Building  
21/23 Giza Street  
Giza, Egypt.

Dear Ms. Aida,

This letter confirms our discussions today in which I authorized CIB to convert our U.S. Dollar account (Account No. 04-90-35618-5) to an interest-bearing account.

It is my understanding that the following provisions apply to this newly authorized facility:

1. Interest will be computed daily based upon the average daily balance in the account (minimum balance of \$5000.00 applies).
2. Interest will be earned at the daily CIB "call rate" which can be adjusted daily based upon the London Inter-bank call rate.
3. Interest will be credited to our account each month on the twenty-sixth (26th) of the month. Initial interest payments on the IESC account will therefore be credited on August 26, 1992 for the period July 26, 1992 through August 25, 1992.

I thank you for your assistance in this matter.

Cordially,

David K. Mitchell  
Director of Operations  
IESC-EGYPT

cc: R. Dimitry  
T.A. Brown  
R. Proven  
W. Bieier

27

## Auditor's Response

### General

All the questioned costs/recommendations contained in this report were discussed with the IESC/Egypt management during the course of audit fieldwork. Additionally, a draft report was supplied on July 22, 1992; copies of our workpapers, relating to the questioned costs where IESC/Egypt management requested additional information were delivered on July 23 and all questioned costs and recommendations were discussed with Ragai Dimitry, Financial Manager of IESC, Egypt, on July 30, 1992.

Our responses below address IESC/Egypt management responses only relating to those situations where we believe additional information or clarification is warranted.

### FUND ACCOUNTABILITY STATEMENT

#### Item 14 - Egytrans

Based upon the letter received from IESC/Egypt as part of its management response, which documents USAID approval for amounts paid Egytrans, our position for questioning the total amount of LE 256,900 is changed. However, our finding additionally noted that LE 188,140 was not supported. Management has supplied us with support for LE 85,000 leaving LE 103,140 as unsupported.

94

Item 24 - Housing Expenditures

Management's response is noted but we believe it does not affect the validity of our recommendation. It should be noted that the majority of the so-called "avoided costs" as cited by management are personal in nature (eg domestic staff costs) and, consequently, not allowable.

Item 6 - Entertainment Expenditures

This expenditure represents welcoming and farewell functions for IESC/Egypt volunteers and includes expenditures for such items as alcoholic beverages and other items of an entertainment type nature. Additionally, these costs are in our opinion not allowable since they do not pass the "reasonableness" standard as discussed in OMB Circular No. A-122, Attachment A.

Item 21 - Time Magazine/Yellow Pages

In our opinion, these expenditures are not program-related and are of the type which would require advance USAID approval.

INTERNAL CONTROL STRUCTURE

Recommendation 3

After receipt and review of the current office equipment insurance policy, which was not locatable at the time of our field work, we concur with IESC/Egypt management. Accordingly, this recommendation has been removed from the report.

95

Recommendation 6

The additional procedures implemented by management occurred in 1992 which is subsequent to the period under audit. Further, we continue to believe that time cards are a necessary internal control enhancement and will provide necessary supporting documentation for payroll and payroll related costs.

COMPLIANCE WITH LAWS AND REGULATIONS

Recommendation No. A

The IESC/Egypt budget is broken down into one program account (VE/TIS) and two other budget categories (Egypt Office Expenses and Capital Equipment Consulting Services).

We recommend that the program account be segregated into its detailed cost components similar to how IESC/Egypt reports expenditures to their home office (see Exhibit A of Managements response on the Internal Control System).

Recommendation No. D

IESC/Egypt's policy with regard to establishing the amount of client contributions does not consider any client income factors or ability to pay as recommended in the prior audit report. Further, IESC/Egypt management may approve any client contribution amount without obtaining USAID approval in advance.1

96





UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

APPENDIX F

CAIRO, EGYPT

RECEIVED  
4 NOV 1992

MEMORANDUM

TO: Philippe A. Darcy, RIG/A

FROM: Beth S. Paige, DIR/CS *Beth S. Paige*

DATE: November 3, 1992

SUBJ: Draft Audit of International Executive Service Corps  
Related to Local Expenditures Incurred under Cooperative  
Agreement No. 263-0102-A-00-9003-00.

I have reviewed the subject draft audit report and only have one comment at this time. Page 17 of the draft audit report states

"The rental rates charged (approximately \$50 a day) exceed the maximum amounts allowable of \$14,800 per USAID contractors handbook..."

The contractor's handbook contains information taken from the Standardized Regulations which apply to U.S. Government Contractors. These regulations DO NOT apply to grantees or recipients under Handbook 13. In practice, we use the Standardized Regulations as GUIDANCE in determining costs to be fair and reasonable; however, grantees and recipients are not subject to these limits.

DIR/CS/LTR/92/0075

18

APPENDIX G

REPORT DISTRIBUTION

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