

PD-ABF-228

Regional Inspector General for Audit
Cairo, Egypt

**Audit of Geonex Corporation Local Expenditures
Under L/COM No. 263-0132-56 for The Surveying
and Mapping Component of The Irrigation Management
Systems Project No. 263-0132**

Report No. 6-263-93-04-N
January 3, 1993





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

January 3, 1993

MEMORANDUM FOR A/D/USAID/Egypt, Cristopher Crowley

FROM : D/RIG/A/C, Reuben Hubbard

**SUBJECT : Audit of Geonex Corporation Local Expenditures
Under L/COM No. 263-0132-56 for
The Surveying and Mapping Component of
The Irrigation Management Systems Project
No. 263-0132**

The attached final report dated August 17, 1992 by Price Waterhouse presents the results of a financial audit of Geonex Corporation local expenditures incurred under a Letter of Commitment relating to USAID/Egypt agribusiness projects. Geonex is one of the largest mapping, surveying and charting companies in the world. It provides services associated with commercial geographic information. Currently, Geonex is performing surveying and mapping services for the Government of Egypt.

We engaged Price Waterhouse to perform a financial audit of Geonex's locally incurred expenditures of \$3,597,557 for the period December 15, 1989 through February 29, 1992. The purpose of the audit was to evaluate the propriety of costs incurred during this period. In performing the audit, Price Waterhouse evaluated Geonex's internal controls and compliance with applicable laws, regulations and contract terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Price Waterhouse questioned \$356,624 in costs billed to A.I.D. by Geonex. The questioned costs include, but are not limited to, local hire salaries, subcontracts, travel, per diem and training. Price Waterhouse noted material weaknesses in Geonex's internal controls such as (1) an accounting system that does not meet U.S Government standards, (2) inadequate controls to ensure that all vouchers are properly reviewed, approved and supporting documents canceled, (3) insufficient assets safeguarding and (4) inadequate control over cash. Finally, Price Waterhouse reported two instances of noncompliance; Geonex invoiced USAID prior to

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

-a'

incurring the costs in certain instances and they did not adhere to the contract's General Provision regarding air travel and transportation.

Price Waterhouse has reviewed Geonex's response to the findings. Where applicable they have made adjustments in their reports or provided further clarification of their position. For those items not addressed, the response provided by Geonex did not change their understanding of the facts underlying the questioned costs of the consolidated Fund Accountability Statement, reportable conditions in the Report on Internal Control or finding in the Report on Compliance with Laws and Regulations.

Recommendation No. 1: We recommend that USAID/Egypt resolve questioned costs of \$356,624 consisting of ineligible costs of \$78,021 and unsupported costs of \$278,603 as detailed on pages 14 through 19 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 owed to A.I.D. are paid by Geonex.

Recommendation No. 2: We recommend that USAID/Egypt require Geonex to address the inadequate internal control procedures over their accounting system and assets as detailed on pages 23 through 31 of the audit report.

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

Recommendation No. 3: We recommend that USAID/Egypt require Geonex to address the inadequate procedures in place to insure compliance with the contract terms and provisions, as detailed on pages 35 and 36 of the report.

This recommendation will be included in the Inspector General's audit recommendation follow-up system. This recommendation can be resolved when the Mission provides our office with a copy of its request that Geonex is to comply with the contract terms and provisions. It can be closed when we have assessed Geonex'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.

GEONEX CORPORATION/EGYPT OFFICE

FUND ACCOUNTABILITY STATEMENT

**FOR THE PERIOD FROM DECEMBER 15, 1989
THROUGH FEBRUARY 29, 1992**

J.

FINANCIAL-RELATED AUDIT OF GEONEX CORPORATION/EGYPT OFFICE

**FOR THE PERIOD FROM DECEMBER 15, 1989
THROUGH FEBRUARY 29, 1992.**

**THIS REPORT IS A FINANCIAL-RELATED AUDIT OF GEONEX
CORPORATION/EGYPT OFFICE LOCAL DISBURSEMENTS UNDER A HOST
COUNTRY CONTRACT FUNDED BY THE UNITED STATES AGENCY FOR
INTERNATIONAL DEVELOPMENT MISSION TO EGYPT L/COM NO. 263-0132-
56 FOR THE SURVEYING AND MAPPING COMPONENT OF THE IRRIGATION
MANAGEMENT SYSTEMS PROJECT NO. 263-0132.**

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GEONEX CORPORATION/EGYPT OFFICE

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD FROM DECEMBER 15, 1989
THROUGH FEBRUARY 29, 1992

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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



November 30, 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 local disbursements of Geonex Corporation (Geonex/Egypt) under host country contract L/Com No. 263-0132-56 for the Surveying and Mapping Component of the Irrigation Management Systems Project (263-0132) funded by the United States Agency for International Development (USAID/Egypt). The audit encompassed all disbursements in Egypt for the period from December 15, 1989 through February 29, 1992.

Background

Geonex Corporation (Geonex) was founded in 1976 and is based in St. Petersburg, Florida. Geonex is one of the largest mapping, surveying and charting companies in the world. It provides services associated with commercial geographic information.

Geonex operates in 29 major cities around the world. Currently Geonex/Egypt is performing survey and mapping services for the Egyptian government. Geonex/Egypt obtains its funding from USAID and modest subcontractor



bid fees. Funding for the Egypt project is obtained locally and is remitted to Geonex headquarters which then funds Geonex/Egypt on an imprest basis.

Geonex/Egypt is managed by two expatriates, a Team Leader and an Administrative Manager. The Team Leader is responsible for all technical operations and the Administrative Manager is responsible for accounting and office administration.

Audit Objectives and Scope

The objective of this engagement was to perform a financial cost-incurred audit of USAID funds provided to Geonex/Egypt pursuant to host country contract L/Com No. 263-0132-56 for the Surveying and Mapping Component of the Irrigation Management Systems Project (263-0132). The audit encompassed all local expenditures for the period from December 15, 1989 through February 29, 1992. Specific objectives were to determine whether:

1. The fund accountability statement for Geonex/Egypt presents fairly, in all material respects, project revenues and costs incurred and reimbursed under the host country contract in conformity with generally accepted accounting principles or another comprehensive basis of accounting;
2. The costs reported as incurred under the contract are in fact allowable, allocable, and reasonable in accordance with the terms of the contract and A.I.D. Handbook 11, Chapter 4;



3. The internal controls, accounting systems and management practices of Geonex/Egypt are adequate for USAID/Egypt agreements; and
4. Geonex/Egypt is in compliance, in all material respects, with the contract terms and applicable laws and regulations.

Preliminary planning and review procedures began in May, 1992 and consisted of discussions with RIG/A/C personnel, Geonex/Egypt officials and a review of the host country contract and related Project Implementation Letters. Fieldwork commenced in June and was completed in August.

The scope of our work was all locally incurred expenditures under the host country contract L/Com No. 263-0132-56. Within each budget line item, we selected disbursements for testing on a judgmental basis to test a majority of local expenditures. We tested local expenditures of \$ 2,179,455 out of total local expenditures of \$ 3,597,557.

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

1. Reconciling Geonex/Egypt's accounting records to invoices submitted to USAID, and testing of costs for allowability, allocability, reasonableness, and appropriate support;
2. Determining that local personnel costs were appropriate and conformed with the terms of the contract and relevant regulations;



3. Determining that per diem and travel charges were adequately supported and approved; and
4. Establishing the adequacy of Geonex/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 Geonex/Egypt's compliance with applicable laws and regulations.

Results of Audit



Fund accountability statement:

Our audit identified \$ 356,624 in questionable costs including \$ 278,603 of unsupported costs.

Internal control structure:

We recommend that Geonex/Egypt adopt an accounting system which meets U.S. Government standards and adheres to the principles of cost-reimbursement contracts, develop control procedures to ensure all vouchers are properly reviewed and approved and supporting documentation canceled, maintain and reconcile employee advance accounts, insure assets against fire and theft and improve controls over cash.

Compliance with Agreement terms and applicable laws and regulations:

Our audit disclosed two instances of noncompliance: Geonex/Egypt invoices USAID prior to incurring the costs in certain instances and does not adhere to General Provision Clause No. 15, Air Travel and Transportation.



Management's Comments

Geonex/Egypt management comments have been obtained and are included in Appendix A of this report. Where applicable our final report has been changed to reflect the additional information or clarification provided by Geonex/Egypt as part of their management comments.

For the numerous travel items questioned, we disagreed with Geonex/Egypt as to what constitutes proper supporting documentation in order to allow the incurred travel costs. For example, a copy of the employees expense report was cited by management in numerous instances to be proper support; however, we require underlying third party documentation (e.g. invoices; ticket receipts, etc.) as valid support.

Geonex/Egypt asserts that the ESA per diem account is auditable; however, we were not able to audit this account because of the lack of a proper system to track per diem activity.

Geonex/Egypt management was in agreement with the overall thrust of the internal control recommendations and noted where improvements have already been made and those under consideration. Also, they are preparing an official request for a ruling from USAID regarding the recommendation that they maintain a comprehensive property insurance policy for project assets. Additionally, Geonex/Egypt management is requesting clarification from USAID regarding General Provision Clause no. 15, Air Travel and Transportation.



Finally, Geonex/Egypt management does not agree with our claim that, in certain instances, they advance bill USAID prior to incurring the cost. Geonex/Egypt asserts that their billing of "recognized costs" is proper. However, our position is that reimbursable costs include those recorded costs that, at the time of reimbursement, Geonex/Egypt has paid by cash, check or other form of actual payment for items or services purchased directly for the contract. We noted several instances where future payments were estimated and billed to USAID.

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

Pricewaterhouse

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 OF INDEPENDENT ACCOUNTANTS

August 17, 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 Geonex Corporation, Egypt Office, (Geonex/Egypt) relating to local disbursements in Egypt under Host Country Contract L/Com No. 263-0132-56 for the period from December 15, 1989 through February 29, 1992. This financial statement is the responsibility of Geonex/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 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 \$ 356,624 for the period from December 15, 1989 through February 29, 1992. 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, Geonex/Egypt's local disbursements in Egypt under Host Country Contract L/Com No. 263-0132-56 for the period from December 15, 1989 through February 29, 1992 in conformity with the basis of accounting described in Note 3.

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GEONEX CORPORATION/EGYPT OFFICE
FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM DECEMBER 15, 1989
THROUGH FEBRUARY 29, 1992

	<u>Actual</u> <u>Expenditures</u> <u>(Note 2)</u>	<u>Adjustments</u> <u>(Note 7)</u>	<u>Questioned Costs</u>		<u>Audit</u> <u>Findings</u> <u>Reference</u>
			<u>Ineligible</u> <u>(Note 5)</u>	<u>Unsupported</u> <u>(Note 5)</u>	
Local hire salaries	\$ 87,406		\$ 2,263	\$ 20,135	Pages 14 through 19
Subcontracts	1,027,831	(\$49,300)	53	71,776	
Travel	241,897	(54,775)	21,990	13,460	
Per diem	198,667		2,146	87,829	
Training	65,818		21,447		
Other direct costs	1,975,938		8,800	85,403	
Unreported income			2,573		
Fixed fee adjustment			173		
Fixed fee associated with questioned costs (Note 6)	_____	_____	<u>18,576</u>	_____	
Total expenditures	\$ <u>3,597,557</u>	(<u>\$104,075</u>)	\$ <u>78,021</u>	\$ <u>278,603</u>	

See accompanying notes to the fund accountability statement.

GEONEX CORPORATION/EGYPT OFFICE
NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF AUDIT:

The fund accountability statement of Geonex/Egypt includes all locally incurred direct cost expenditures for Host Country Contract L/Com. 263-0132-56.

NOTE 2 - SOURCE OF DATA:

The column, labeled "Actual," is the responsibility of Geonex/Egypt - and represents the cumulative local charges billed to and reimbursed by USAID for the period from December 15, 1989 through February 29, 1992.

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 by Geonex/Egypt to U.S. dollars at the average monthly exchange rate in effect at the time the payment was made. The rate approximates 3.00 Egyptian pounds to 1 U.S. dollar for the period from December 15, 1989 through February 29, 1992.

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 Host

Country Contract and the Project Implementation Letters, as well as the cost principles set forth in A.I.D. Handbook 11, Chapter 4 which prescribes the nature and treatment of reimbursable costs not specifically defined in the Host Country Contract and Project Implementation Letters. Costs in the column labeled "Ineligible" are ineligible for reimbursement because they are not program related, are unreasonable, or prohibited by the Contract 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.

Note 6 - Fixed Fee Associated with Questioned Costs:

Fixed fee of 5.54 percent has been applied to all questioned cost items except for \$ 2,573 relating to personal use of A.I.D. vehicles and \$ 173 fixed fee adjustment resulting from A.I.D. disallowances.

Note 7 - Adjustments:

Represent home office expenditures that should be excluded from the fund accountability statement which includes only locally incurred expenditures.

GEONEX CORPORATION/EGYPT OFFICE
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>
<u>Income</u>		
Personal use of A.I.D. funded vehicles that was not refunded or credited to A.I.D.	\$ 2,573	
<u>Subcontracts:</u>		
Exchange rate gains that occurred due to unauthorized advance billings of subcontract payments.	53	
Unauthorized subcontractor advance billings not paid by Geonex/Egypt during our audit period.		\$ 62,303
Commercial taxes not paid by Geonex/Egypt within the audit period.		9,473
<u>Training</u>		
Airfare payments billed to A.I.D. for Egyptian trainees that should have been billed under the FT-800 account that was established for this purpose.	21,447	
<u>Fixed Fee</u>		
November 1991 fixed fee that was not adjusted for A.I.D. disallowances.	173	

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<u>Local hire salaries:</u>		
Payroll tax not paid by Geonex/Egypt to the tax authorities.		\$ 6,207
Payroll amounts that were not supported with time sheets and signed employee receipts.		
(Based on a review of documentation provided by Geonex/Egypt as part of its management response this finding has been reduced from \$ 32,749.)		13,928
Social security taxes that are not allowable pursuant to the seventh amendment to the Host Country Contract.	\$ 2,263	
<u>Travel:</u>		
Unsupported travel items for Geonex/Egypt employees		
(Based upon clarification provided from Geonex/Egypt as part of its management response this finding has been eliminated.)		
Numerous charges for travel related expenses for which inadequate supporting documents were obtained:		
(Based upon documentation provided by Geonex/Egypt as part of its management response and our increased audit scope as mentioned in Appendix B this finding has been reduced by \$ 20,812. The remaining unsupported amounts are detailed below.)		

Item Description

Questioned Costs
Ineligible Unsupported

Travel: (Continued)

<u>Description</u>	<u>Date</u>	<u>\$ Amount</u>	
Unidentified	May 90	1,180	
Per diem	May 90	336	
Unidentified	June 90	22	
Unidentified	Aug. 90	624	
Unidentified	Aug. 90	23	
Unidentified	Aug. 90	1,145	
Unidentified	Nov. 90	160	
Unidentified	Mar. 90	1,445	
Unidentified	Mar. 90	475	
Unidentified	Mar. 91	1,489	
Unidentified	June 91	3,010	
Unidentified	June 91	2,219	
Unidentified	Aug. 91	1,332	\$ 13,460

Purchase of non U.S. Flag air carrier tickets without A.I.D. approval:

(Based upon documentation provided by Geonex/Egypt as part of its management response and our increased audit scope as mentioned in Appendix B this finding has been increased by \$ 11,939. The remaining ineligible amounts are detailed below.)

<u>Date</u>	<u>\$ Amount</u>	
Unidentified Apr. 90	1,686	
Unidentified Apr. 90	1,386	
Unidentified May 91	3,010	
Unidentified June 91	1,821	
Unidentified July 91	2,922	
Unidentified Oct. 91	1,271	
Unidentified Dec. 91	4,054	
Unidentified Dec. 91	3,821	
Unidentified Dec. 91	2,019	\$ 21,990

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>

Per diem:

Unsupported per diem payments
made to Geonex/Egypt employees:

<u>Date</u>	<u>\$ Amount</u>	
November 90	422	
June 91	24	
December 91	53	\$ 499

Unsupported lodging expenses for
Geonex/Egypt employees:

<u>Date</u>	<u>\$ Amount</u>	
December 90	5	
December 91	83	88

Unsupported per diems paid to Egyptian
Survey Authority employees throughout
the audit period. 87,242

Cost for procurement activity not
allocable to this contract. \$ 2,146

Other Direct Costs

Exchange rate gains that occurred due
to unauthorized advance billing of
payables. 1,233

Child's education costs 7,600

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>

Other Direct Costs (Continued)

Expatriate flat rentals
without signed receipts or evidence
of clearing the Geonex/Egypt
bank account.

(Based upon supporting documentation
received from Geonex/Egypt management
as part of its management response the
August 90 flat rental questioned amount
has been reduced from \$ 4,788 to \$ 1,200.)

<u>Date</u>	<u>\$ Amount</u>		
Aug. 90	8,100		
Aug. 90	1,200		
March 90	2,580		
May 90	3,000		
May 90	3,371	\$ 1,200	\$ 17,051

Duplicate payment for vehicle rental in July 1991.	8,041
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Equipment rental costs for which no vendor invoices were available. (February-June 1991)	57,278
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Education allowance for which no
evidence of funds clearing Geonex/Egypt
bank account was found (December 1991).

(Based upon supporting documentation
provided by Geonex/Egypt as part of its
management response this finding has
been eliminated.)

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<u>Other Direct Costs (Continued)</u>		
Survey compound rent in excess of the amount agreed upon per the rental contract (\$ 10,800 - 1800 = 9000 per contract) in January- February 1992.		\$ 1,800
Subtotal questioned costs before fixed fee adjustment	\$ <u>59,445</u>	\$ <u>278,603</u>
<u>Fixed fee associated with questioned costs</u>		
Fixed fee of 5.54% applied to all questioned cost items except for \$ 2,573 relating to personal use of A.I.D. vehicles and \$ 173 fixed fee adjustment resulting from A.I.D. disallowances.	18,576	
	\$ <u>78,021</u>	\$ <u>278,603</u>
Total questioned costs		\$ <u>356,624</u>

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

August 17, 1992

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

We have audited the fund accountability statement of Geonex Corporation, Egypt Office, (Geonex/Egypt) relating to local disbursements in Egypt under Host Country Contract L/Com No. 263-0132-56 for the period from December 15, 1989 through February 29, 1992, and have issued our report thereon dated August 17, 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 Geonex/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 Geonex/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, 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit disclosed the following conditions which we believe constitute material weaknesses:



MATERIAL WEAKNESSES

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

Geonex/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. Accounting records consist of cash-based lists of disbursements and revenues which are the primary source documentation for billings to USAID. However, we were not able to agree this listing to USAID billings because Geonex/Egypt does not reconcile USAID billing disallowances against the monthly cash disbursement listing and, in certain situations, invoices USAID prior to incurring the expenditure.
- . Reconciliations are not performed of costs submitted to the home office to home office accounting records returned to Geonex/Egypt on a regular basis.
- . Accounting transactions have not been properly reviewed and approved in all cases.

As a result, accounting and auditing for Geonex/Egypt activity required a labor intensive manual process to analyze expenditures reported on the fund accountability statement.



Recommendation 1

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

- . Implementation of a local accounting system utilizing double-entry accounting for all Geonex/Egypt transactions properly segregating local and U.S. transactions. Alternatively, if the monthly cash disbursement system is retained, we recommend that an attachment be included which accounts for the various adjusting entries to agree with the USAID billing.
- . Performance of reconciliations of costs submitted to the home office against reports received from the home office.
- . Proper documented authorizations should be obtained for all transactions.
- . Be certain that only allowable cost items that have actually been paid by cash, check, or other form of payment are billed to USAID.

* * * * *

Lack of controls including proper segregation of incompatible duties for processing invoices allowed data to enter the accounting system without proper authorizations.

During our examination we noted several instances in which invoices were not approved in writing by an authorized



employee prior to payment. In addition, at the conclusion of the payment process, documentation supporting disbursement transactions are filed without evidence of being paid. We also noted several invoices that were prepared, reviewed and approved by the same individual.

An internal control system should reasonably ensure that all assets are safeguarded against waste, loss, unauthorized use, and misappropriation. If proper invoice approval procedures are not developed and unless supporting documentation is marked or punched as paid, the probability exists that an invoice may be resubmitted for additional payment creating a breakdown of Geonex/Egypt's internal control structure.

Recommendation 2

Geonex/Egypt should develop control procedures whereby all invoices are prepared by project personnel, reviewed by the accountant and approved by the field director. In addition, we recommend that all invoice supporting documentation be canceled at the conclusion of the payment process.

* * * * *

During our examination we noted that advance accounts for employees are not maintained and reconciled properly. Specifically we noted:

- . Individual and summary totals are not able to be produced.
- . The advance accounts are not reconciled on a timely basis and do not reconcile to home office records.



- . Outstanding advances are not liquidated prior to issuance of additional advances.
- . Support documents are filed in multiple locations without the benefit of an adequate referencing system and several payment methods are used.
- . The accountant in-charge does not document his review and approval of expense reports.
- . Per diems paid by GOE are not clearly documented.
- . Employees are not required to sign for receipt of advances.
- . Expense reports are often not approved by the employees immediate supervisor.

As a result, we were not able to verify per diems paid to the Egyptian Survey Authority employees.

Recommendation 3

Employee advance account subsidiary records should be maintained and reconciled to the cash disbursement records and expense reports each month and the reconciliations should be reviewed and approved by the Administrative Manager.

To facilitate proper reconciliation, the following procedures and controls should be implemented:

- . Monthly advance totals from the cash disbursement record should be compared to the advance subsidiary records and



differences investigated by the Administrative Manager.

- . Employee expense reports should be summarized monthly and compared to the advance subsidiary records. Differences should be investigated by the Administrative Manager.
- . Advances that have not been reconciled within a reasonable time period should be refunded to Geonex/Egypt. Further, additional advances should not be granted without performing a reconciliation of prior advances.
- . Advance totals should be produced on a monthly basis per employee and compared to the home office booking. Differences should be investigated by the Administrative Manager.
- . The accountant in-charge should not accept unapproved expense reports and should not issue advances without the signature of the employee receiving the advance.
- . The accountant in-charge should initial all advance request forms and expense reports as evidence of performing all of the foregoing procedures.

* * * * *

We also 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 judgement, could adversely affect the organization's ability to record, process, or 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

Procedures do not assure that productive assets are adequately insured.

During the course of our examination we noted that equipment, furniture and other assets are not adequately insured. As documented in the General Provisions to the host country contract (Section 12B, Logistic support and/or Property Acquired under Cost reimbursable Provisions), Geonex/Egypt shall "establish a program ... for the receipt, use, maintenance, protection, custody and care of such equipment, materials, and supplies for which it has custodial responsibility" The possibility of loss to Geonex/Egypt 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.

Recommendation 4

We recommend that a comprehensive insurance policy be purchased for all significant assets in which Geonex/Egypt assumes the responsibility for the receipt, use, maintenance, protection, custody, and care of such assets.

* * * * *



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

- . Bank accounts are not being properly reconciled. For example, the accountant satisfactorily reconciles the check book to the bank statement. However, the check book does not reconcile to cash disbursement records.
- . Petty cash levels are in excess of Geonex/Egypt's current operating needs. Our audit indicated that monthly disbursements out of the LE 10,000 imprest fund balance typically represent only approximately LE 6,000.
- . Only one signature is required on all checks. This results in a single check signer having unlimited disbursing authority.
- . Expenditures are made payable to "cash". Checks made payable to "cash" are bearer instruments and can be cashed easily by unauthorized persons. The practice of making cash payments is also undesirable since it is more difficult to determine that the cash was utilized for the purpose for which it was intended.
- . Bank accounts and check signers are not properly authorized. Geonex/Egypt was not able to provide us with an official bank authorization card which acknowledges those individuals who have authority to establish bank accounts and sign and endorse checks.



- . Improper segregation of duties exists in this area. For example, one individual is responsible for custody and recording of petty cash activity and three individuals may unilaterally approve their own petty cash transactions.

Recommendation 5

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

- . Proper bank reconciliations be documented and include the following procedures:

Comparison of deposit amounts and dates with cash receipt entries.

Comparison of payee name, date and amount on canceled checks with cash disbursement records.

Comparison of endorsements on canceled checks to payees as shown on the face of the check.
(This may be done on a test basis.)

Comparison of book balances used in reconciliations with the cash disbursement listing.

Footing the cash book.

- . Consideration be given to evaluating the petty cash fund balance to determine if it may be reduced to a level which better matches anticipated use and



results in better utilization of funds.

- . Authority for those individuals eligible to sign and endorse checks and establish bank accounts should be formalized.
- . A reasonable dollar limit be placed on single signature checks, and dual signatures be required for checks exceeding this limit. The limit should be communicated to the bank to prevent payment on unauthorized checks.
- . Geonex/Egypt prohibit the writing of checks made payable to "cash".
- . Management strengthen the segregation of duties in this area so that not one individual is responsible for preparing, reviewing, and approving petty cash expenditures.

* * * * *

We also noted other matters involving the internal control structure and its operation that we have reported to the management of Geonex/Egypt in a separate letter dated August 17, 1992.

This report is intended for the information of Geonex/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.

Pricewaterhouse

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

TELEPHONE : 3520 123, 3530 337
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

August 17, 1992

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

We have audited the fund accountability statement of Geonex Corporation, Egypt Office, (Geonex/Egypt) relating to local disbursements in Egypt under Host Country Contract L/Com No. 263-0132-56 for the period from December 15, 1989 through February 29, 1992, and have issued our report thereon dated August 17, 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 Geonex/Egypt is the responsibility of Geonex/Egypt's management. As part of our audit we performed tests of Geonex/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.

Our testing of transactions and records disclosed two instances of noncompliance with those laws and regulations, which are identified in the accompanying "Report On Compliance-Audit Findings" section of this report.

The result of our tests indicate that with respect to the items tested, Geonex/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 Geonex/Egypt had not complied, in all material respects, with those provisions.

This report is intended for the information of Geonex/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.

Price Waterhouse

GEONEX CORPORATION/EGYPT OFFICE

REPORT ON COMPLIANCE

AUDIT FINDINGS

The following instances of noncompliance with laws, regulations, agreements, binding policies and procedures applicable to Geonex/Egypt came to our attention during the audit:

Geonex/Egypt did not utilize U.S. Flag carriers for international air transportation in accordance with General Provision Clause No. 15, Air Travel and Transportation.

The Air Travel and Transportation provision requires that Geonex/Egypt utilize U.S. Flag air carriers for international air transportation of personnel or property to the extent service by such carriers is available. In the event that a non U.S. flag air carrier is used, a certification is required to be attached to vouchers submitted to USAID as follows:

"Certification of Unavailability of U.S. Flag Air Carriers"

I hereby certify that transportation service for personnel (and their personal effects) or property by U.S. flag air carrier was unavailable for the following reasons:

(STATE REASONS)

Recommendation 1

We recommend that Geonex/Egypt comply with General Provision Clause No. 15 and include the authorizing certification on all vouchers for which a non U.S. flag carrier is used.

*** * * * ***

Geonex/Egypt invoiced USAID prior to the disbursement of funds.

Geonex/Egypt host country contract is a cost-reimbursable contract which by definition requires that Geonex/Egypt incur and expend funds prior to requesting reimbursement from USAID. That is, for the purpose of reimbursing allowable costs the term "costs" includes only those recorded costs that, at the time of the request for reimbursement, Geonex/Egypt has paid by cash, check, or other form of actual payment. We noted that Geonex/Egypt invoices USAID prior to the outlay of funds. For example, certain subcontractor costs, payroll and other direct costs are billed to USAID prior to Geonex/Egypt disbursement.

Recommendation 2

We recommend that Geonex/Egypt adhere to the principle of the cost-reimbursable contract and invoice USAID only after they have incurred an outlay of funds for allowable cost items.

*** * * * ***

**GEONEX CORPORATION/EGYPT OFFICE
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GEONEX CORPORATION

MANAGEMENT'S RESPONSE TO AUDIT FINDINGS

QUESTIONED COSTS

Reference is to pages in auditor's draft report of 8/17/92

<u>Ref.</u>	<u>Item Description</u>	<u>Ineligible</u>	<u>Unsupported</u>
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13	Personal use of vehicle	\$ 2,573	
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This is not a specific item of payment for which the contractor improperly claims reimbursement but a calculated credit due AID. We agree that the credit had not been liquidated as of the end of the audit period 2/29/92. This credit has since been liquidated by a Geonex check issued to USDO/FUC, Cairo, dated 8/15/92. See Attachment A.

13	Exchange rate gain on advance billings	\$ 53	
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See comments elsewhere on question of "advance billing". If this amount is truly a gain to Geonex due to favorable exchange rate increase between billing and payment we have no objection to crediting the contract.

13	Subcontractor advanced billing not paid during audit period		\$ 62,303
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The auditor took the sum of all voucher amounts for renovation from the Fund Accountability Statement and subtracted the sum of all payment through Feb '92 from a schedule the auditor made from cash disbursement. We believe the auditor's schedule of actual payments to be in error in connection with the following (See Attachment B).

Galal Hosny	\$	2,906.34
Keminco	\$	56.88
CEPCO	\$	300.93
Hassan Tarraf	\$	4,520.66
	\$	7,784.81

Specifically the auditor has apparently not recognized payment to Galal Hosny and Hassan Tarraf made in Feb 92 in their accounting of cash disbursements. We cannot account for the other minor discrepancies.

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This exercise did turn up minor errors in billing for Galal Hosny and Keminco totaling \$284,35 (underbilled). This will be corrected on the next voucher.

Voucher #36 dated 4/12/92, forwarded to AID for payment 4/19/92 and paid by AID on 5/7/92 covered work of subcontractor Keminco for Feb 1992 in amount of \$54,803. Keminco was paid on 3/31/92. See Attachment B-2. Payment was made after the voucher period but before the voucher was submitted to AID for reimbursement. We do not consider this to be an "advance billing".

- 13 Commercial taxes not paid during audit period \$ 9,473

Payment of Commercial taxes were delayed due to difficulty in summarizing tax by vendor district. Taxes were paid on 5/15/92. See Attachment C, Cash Disbursements for May 92, Page 2. Receipts can be furnished on request.

- 14 Trainee air fare billed in error \$ 21,477

We cannot reconcile this amount. We show that we have received FT-800 Funds for \$12,899 of the amount billed under the contract to date. Credit for this air fare was shown on voucher #42 (August, 1992). An additional request for FT-800 funds in the amount of \$20,797 is in process. When these funds are received we will show this credit on a future voucher. See Attachment D, Training travel.

- 14 Fixed Fee not adjusted \$ 173

This is not an error in Geonex billing but an error on the part of AID in figuring the fee retained.

- 14 Payroll tax not paid to tax authorities \$ 6,207

This is tax withheld from employees' gross pay. Gross pay was billed to AID. There was a delay in establishing tax accounts for each employee due to their former employment records. Accounts have been established and all taxes for the audit period were paid on 5/11/92. See Attachment C, p.1, and Attachment C-1.

- 14 Payroll items not supported by times sheets and/or employee receipts \$ 32,749

When our project started, we saw no reason to use time sheets for either U.S. or Egyptian personnel since everyone was on a flat monthly salary and not chargeable to any other project or activity. However, the Geonex home office required that we submit time sheets for U.S. employee. In May 1990 we began to use time sheets for all personnel.

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At first, it did not occur to get receipts for employee pay checks since this is not the practice in the U.S.A. when our local staff took over payroll preparation beginning with October, 1990, we did institute the practice of obtaining receipts.

We are not submitting herewith any documentation prior to October, 1990, since it is clearly impossible to meet the auditor's criteria for this period. We request, however, that consideration be given to deleting the questioned cost for this period since there were relatively few employees, they were paid a flat monthly salary, and their employment continued after October, 1990 where both time sheets and receipts are generally available. Geonex managers are prepared to sign statements that these employees were properly paid during this earlier period and copies of canceled checks can be obtained from the bank if necessary.

For the period October, 1990, through February, 1992, both time sheets and receipts are generally available. Although the Audit findings do not so state, an additional criteria was apparently missing signatures on time sheets. We have reviewed all time sheets for accuracy and supervisors and continuing employees have now supplied all missing signatures. Continuing employees have reviewed their records and have supplied missing receipts.

Attachment E constitutes all time sheets and receipts from 10/90 through 2/92 where costs were questioned. Naturally there are a few items still missing with respect to former employees not readily available for review. Again we ask that consideration be given to deleting all questioned payroll amounts.

It should be noted that there is an element of double counting on the part of the auditor since social insurance is included in this item and also questioned separately below.

14 Social Security taxes not
allowable \$ 2,263

At the contract negotiation in April 1989 at which an AID representative was present, ESA specifically stated that social insurance should be paid and an amount was included in the negotiated total (26% of estimated local hire salaries) with AID's concurrence. Line item 3 in our contract specifically reads "Local hire & Social Benefits". Furthermore, USAID Contractor's Handbook, Editions 3 and 4, specifically state on p. 28 (4th edition May 1991), "No contract, AID funded or otherwise, can exempt a contractor from its legal responsibility under Egyptian law to pay social insurance. USAID/Cairo determined that social insurance... is not considered as a tax as defined in the Bilateral Agreement". Contractor Notices in effect since the inception of our contract nowhere contradict the above nor notify

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contractors of any change.

The auditors cite the Seventh Amendment to the IMS Grant Agreement which states in section 5.18 that, "To the extent that...any transaction... is not exempt from identifiable taxes, tariffs, duties or other levies (including social insurance assessments)... MPWR shall ... pay or reimburse the same with funds other than those provided under the Grant". This appears to contradict or supersede the former instructions to contractors.

Contractors are not normally recipients of amendments to the Grant Agreement, and we knew nothing about this amendment until it was produced by the auditors. It would seem to be incumbent on AID to notify contractors of any change in policy of this nature.

(We feel, as the Contractor's Handbook states, that social insurance is not a tax. It goes eventually to the employee in the form of a pension, disability or unemployment payment and not to the Government of Egypt.)

In any case, the contractor should not be penalized for following the instructions given to him by AID and never rescinded or changed.

14 Unsupported travel items

Sehnalek Aug 91	\$ 3,008
Hanson Dec 91	\$ 2,103

The auditor has included these items twice. See details of the next item (\$34,272). Comments contained below.

15 Travel-inadequate support

Crabtree-per diem-Jan 90	\$ 2,890
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This is the move to Egypt of J. Crabtree and K. Crabtree. The trip cost consists of air fare, and local transportation and per diem in London. Details in Attachment F-1

15 Unidentified-Jan 90	\$ 29
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15 Hanigan-May 90	\$ 1,180
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Hanigan traveled on the ticket reproduced as Attachment F-3. This is a Business Class ticket but the billing is for Economy class from Cairo to Houston.

15 Lydiard Perdiem-May 90	\$ 336
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15 Unidentified - June 90	\$ 22
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15 Hinely air ticket-June 90 \$ 1,866

Attachment F-6 is an expense report showing air fare of \$6,322.78 for move of Hinely's wife and three children to Cairo as follows:

-	Wife, Rebecca	\$ 1,866.00
-	Child, Bradford	1,866.00
-	Child, Kearsley	1,866.00
-	Child, Tristam	724.78
		\$ 6,322.78

Copies of tickets for the three children are attached. The copy of the wife's ticket was lost or misplaced. This statement certifies that Mrs. Hinely did, indeed, accompany her children to Cairo on June 4, 1990.

15 Unidentified-Aug 90 \$ 624

15 Unidentified-Aug 90 \$ 23

15 Powell-Aug 90 \$ 1,145

15 Crawford-Nov 90 \$ 160

This item was billed in error. An adjustment will be made on the next voucher.

15 Crawford-Storage-Mar 91 \$ 560

Research has indicated the storage billed in Mar 91 correctly included 3 months (Jan, Feb, and Mar) at the rate of \$ 280.00 per month, thus covering the questioned amount (2 months). Summaries for Jan, Feb, Mar and Apr are shown as Attachment F-11. However, the March expense report was billed in both Mar 91 and Apr 91. An adjustment will be made on the next voucher to credit this amount (total \$ 415.73).

15 Mack-R&R ticket-May 91 \$ 3,010

C. Mack received a payment of \$3,010 on 6/4/91 constituting round trip economy excursion fare Cairo-New York-Cairo for himself, his wife and child. The ticket for his actual flight to the US and other documents are shown in Attachment F-12.

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- 15 Arneson-R&R ticket-July 91 \$ 2,922
- T. Arneson received a payment of \$ 2,922.00 on 7/28/91 constituting round trip economy excursion fare Cairo-New York-Cairo for himself and his wife. This situation is complicated by the fact that his original tickets were stolen and a claim was filed with his credit card company; his tickets were issued; he had to submit ticket copies to his credit card company; he returned on a different date from his wife; etc. Details can be provided if necessary. As evidence of the fact that the Arneson's actually made the trip, see Attachment F-13.
- 15 Hinely-ticket Jul 91 \$ 4,494
- This item was paid by Geonex Office in the U.S.A and should not have been included in the Fund Accountability Statement. For the record, details are shown on Attachment F-14.
- 15 Lydiard-R&R ticket-June 91 \$ 3,010
- S. Lydiard received a payment of \$ 3,010 on 6/10/91 constituting round trip economy excursion fare Cairo-New York-Cairo for himself, his wife and child. The actual ticket copies have been lost or misplaced. We are submitting Attachment F-15, a charge card form for the ticket purchase for the 3 persons Cairo- London-New York-London-Cairo. Other evidence of their stay in the U.S. from 6/24/91 through 8/3/91 can be furnished if necessary.
- 15 Crawford-unidentified-June 91 \$ 471
- This item was billed in error. An adjustment will be made on the next voucher.
- 15 Stonkus-unidentified-June 91 \$ 2,219
- This item was shown on the June 91 voucher as "T. Stonkus-move to Egypt-Feb 91". This was mislabeled. The move was for T. Kunneke. The expense report for Kunneke is attached as Attachment F-17.
- 15 Sehnalek-travel-Aug 91 \$ 3,008
- This item was paid by Geonex office in the U.S.A and should not have been included in the Fund Accountability Statement. For the record, details are shown on Attachment F-18.
- 15 Hanson-R&R-Dec 91 \$ 2,103
- R. Hanson received a payment of \$2,103.00 constituting round trip excursion fare Cairo-New York-Cairo for himself, his wife, and child. This was paid by Geonex office in the USA and this item should not have been on the Fund Accountability

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Statement. For the record, details are shown on Attachment F-19.

15 Freight-Memphis \$ 4,200

See Attachment F-20. These documents may have been misfiled at the time of the Audit.

15 Non US Flag Carrier

When this project started in January 1990, we were assured by the USAID Project Support Office in Cairo that the requirements of the "Fly America Act" would be fulfilled if official travel from the USA to Egypt was primarily on US carriers, i.e. that the US to Europe leg was on a US carrier. At that time, there were only two flight per week into Cairo by a US carrier. The USAID Finance office has always required the contractor to submit copies of airline tickets with our monthly vouchers for review by the voucher examiner. At no time have any of these tickets been questioned by the examiner.

Not until a meeting of contractors called by USAID in April 1992 was it revealed that contractors were expected to fly exclusively on TWA all the way from the USA to Cairo and return, and that all trips must begin and end on a day that TWA is available (2, 3, or 4 days a week depending on the calendar period in question).

Geonex mobilized 22 families to Egypt in 1990 using in good faith the guidelines supplied by USAID (substantial but not necessarily exclusive use of U.S. carrier). The contractor should not now be penalized for following these guidelines. Those trips shown below meet this standard. We fail to see why the auditor singled out these particular trips as ineligible for reimbursement for use of non-US carrier.

15 Crawford-June 90 \$ 2,520

R. Crawford and wife moving to Egypt flew from ^{Frankfurt} ~~Paris~~ to Frankfurt on Delta Airlines and from Frankfurt to Cairo on Lufthansa. Like all other moves, this was booked in good faith primarily on U.S. carrier at a time when U.S. carrier service from Europe to Cairo was limited. See Attachment G-1.

15 Hinely-June 90 \$ 4,457

This is the same trip discussed in the previous item (Attachment F-6), the move to Egypt of the family of J. Hinely. The tickets presented in Attachment F-6 show the routing St. Louis - Paris via trans World airways (TWA) a US carrier, and Paris - Cairo via Air France. Like all other moves, this was booked in good faith primarily on US carriers a time when US

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carrier service from Europe to Cairo was limited.

Scherf-Aug 90 \$ 3,074

J. Scherf and wife moving to Egypt flew from Denver to London on American Airline and from London to Cairo on British Air. Like all other moves, this was booked in good faith primarily on US carriers a time when US carrier service from Europe to Cairo was limited. See Attachment G-2

16 Unsupported Per Diem Exp.

Bomblies-Dec 91 \$ 53

Richter-June 91 \$ 24

Scherf-Nov 90 \$ 422

16 Unsupported Lodging Exp.

Snider-Dec 91 \$ 5

Mohamed Nagy-Dec 91 \$ 83

16 Consultant Dresnnak not allocable \$ 2,146

Mr. Dreschnack was not a consultant; he was the home office project coordinator for Geonex. In any case, this item of per diem was paid by the Geonex office in the U.S.A. and should not have been included in the Fund Accountability Statement.

16 Unsupported ESA Per Diem \$ 87,242

We feel that the auditor did not allow sufficient time to properly check this item and in haste at the end of the audit simply listed the entire expenditure for this budget item as "unsupported". We made available to the auditors the expenditure records which, for most months, easily tie back to the amount claimed on the USAID vouchers. These amounts clearly should not have been labeled unsupported. We are attaching as many of these monthly documents as time permits. For certain early months of ESA field operations the documentation is not as clear since per diem payments were

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being handled by each Geonex field engineer for ESA employees under his supervision. Some of this documentation may have been misplaced when sought by the auditor. The auditor might rightly claim that portions of these months were unsupported at the time. It is unjustifiable, however to so classify all other months.

This matter was not brought to the attention of Geonex management until two days before the scheduled exit meeting, and then not in a meeting, but in a "Note of Informal Discussion" delivered to Geonex Office. Clearly there was no time to research this item before the draft report was issued. In the 30 days since receipt of the draft report we have still not had time to research all questioned items since our limited staff has been involved during much of this period in two other audits by USAID.

Any documentation of ESA per diem not submitted with this response will be submitted separately in the near future.

16 Exchange Rate Gain on advanced billing \$ 1,233

Details of this calculation have not been supplied by the auditor as requested. Subject to verification by Geonex, we are willing to credit the contract with any proven gains.

16 Child education cost in excess
of the amount allowable per the
Contractor's Handbook \$ 7,600

This concerns payment 8/29/91 of a request for educational allowance off-post for Kearsley Hinely, daughter of J. Hinely. This payment is less than the \$7,750 listed as the off-post maximum in Contractor's Notice No. 17-91 dated 5/5/91, and is clearly "within the amount allowable". There has been much discussion on this point with the auditor, whose position has changed several times. Clearly, the inclusion of an off-post rate for Cairo in the Contractor's Notice implies that there is an option of education in Cairo or off-post. This employee chose the off-post option (and was so paid for the prior year). The payment made was within the annual limit specified in CN 17-91. The employee furnished evidence that he actually paid out the reimbursed amount.

Much has been made of the fact that the employee resigned some four months after payment of this tuition, and that the employee actually paid for only one half year (the actual tuition was about twice the maximum allowed by CN 17-91.

However, the fact remains that Geonex in good faith did not exceed the maximum allowance, did not pay the employee more than his actual cost, and had no way of knowing at that time that the employee would later resign.

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Under the circumstances, the contractor complied with regulations and should not be penalized.

17 Flat rentals without signed receipts

El Badry El Saeed-Aug 90 \$ 8,100

See comments elsewhere concerning signed receipts. Receipts for payments made under rental contracts are not normal in the U.S. and in the beginning of our contract it never occurred to us to get them. This was the second payment to the Landlord of J. Hughes. We have a receipt for his first payment. His lease can be furnished on request.

Mohamed Yehia-Aug 90 \$ 4,788

See receipt included as Attachment I-1

Nora Gamal-Mar 90 \$ 2,580

Our research indicates that we cannot prove we made this payment although required by the Lease Agreement. A credit will appear on the next voucher.

Irene Badoura-May 90 \$ 3,000

Reynolds is a real estate agent.

Myessa Anwar-May 90 \$ 3,371

Same comment as above.

17 Duplicate payment of vehicle rent Jul 91 \$ 8,041

Duplicate payment to Concord. A credit will appear on the next voucher.

17 Equipment rental without vendor
Invoice-Feb-Jun 91 \$ 57,278

We cannot reconcile the amount shown by the auditor. On Jul 29, 1990 Geonex and Techno Scient signed a rental agreement (prepared by Geonex) for rental of one total station and one HP computer at LE 12,260 per month. Effective 12/14/90 Techno Scient offered and Geonex accepted 2 additional total station at \$4,660/month (converted to L.E. at the current rate). Effective 2/15/91 Techno Scient offered and Geonex accepted 3 additional total stations at LE 23,290/month. See Attachment J. During the period Feb-June 1991 cited by the auditor, all of the above agreements were in effect resulting in a monthly billing of approximately \$15,500 or \$ 77,500 for the 5 month period. At no time did Techno Scient present monthly invoices for rental payments. Geonex prepared monthly internal payment requests based on the signed or accepted agreements which were approved by the Survey Supervisor. A check of our files shows

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that in each of these five months the payment requests were accurate and properly approved and the payment receipted for by Techno Scient. Complete details can be furnished on request.

- 17 Education allowance without
evidence-Dec 91 \$ 47,245

This payment was to Cairo American College. Invoice and receipt are shown as Attachment K. This material was in the vendor file at the time of the audit and we are at a loss to understand why this was included in unsupported cost.

- 17 Survey compound rent in excess of
contract-Feb 92 \$ 1,800

Geonex signed contracts with Ismail Mohamed Ismail, beginning 3/1/91, for rental of 3 flats in Ismailiya for Cadastral Survey team members when in that area in lieu of per diem. This was approved by ESA and USAID by Action Memo 91-05-001. A new contract were signed in Feb 92 increasing the rent by 100% per month per flat due to installation of air conditioners and other considerations. These contracts were given to the landlord for signing and copying but he did not copy them for Geonex. Furthermore he turned them over to his district tax authority at their request. Therefore there were no contract documents to show the auditor verifying the increase. We have recently obtained a newly executed leases for the current period. See Attachment "L".

- 18 Fixed Fee on questioned costs \$ 23,209

Naturally Geonex will agree to a reduction of partial payment of fixed fee pro rata for any questioned costs that are ultimately sustained as non-allowable. Note that fixed fee has automatically been adjusted for those items where Geonex has subsequently shown credits on its later vouchers (or will in the future show credits). Fixed fee is just what its name implies - fixed. It will ultimately be no more nor less than the fixed amount shown in the contract.

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**GEONEX CORPORATION
RESPONSE TO AUDIT OPINION CONCERNING
INTERNAL CONTROL STRUCTURE**

A. General

Geonex books of account are maintained at its corporate headquarters in St. Petersburg, Florida, and it is there that we would have expected any comprehensive Government audit of overall direct and indirect costs to take place. Costs are incurred in both the US and in Egypt. Some cost categories such as travel, communications, computer supplies, etc. are a mixture of expenditures in both locations.

We are not aware of any requirement to segregate costs on our vouchers to USAID as to the source of payment, nor to accumulate costs of a given budget line item in such a segregated fashion. We gave our best efforts within the time frame available to go back over two years to perform this separation for the benefit of the auditors who were concerned only with costs paid in Egypt. We believe that when our response to the questioned costs are read, it will be apparent that our internal control procedures have been adequate.

B. Recommendation 1. Geonex should adopt a more formal accounting system for Egypt.

We are considering implementing in Cairo an integrated general ledger and cost accounting system for budget review purposes should our contract be extended past 12/31/92. If this is done, it should satisfy the auditors recommendation for a more formal financial accounting system, although we do not consider our present system to be inadequate.

We will institute monthly reconciliations of costs reported by home office and costs incurred in Egypt with the USAID voucher.

We will better formalize instructions, train employees, and review by management the procedures for authorization of transactions.

C. Recommendation 2. Invoices be approved by the field director and invoice support documentation be canceled.

As noted above, we will formalize in writing invoice approval procedures, identifying approval authority. In addition, we will adopt a standardized method for marking paid invoices.

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D. Recommendation 3. Employee advance accounts be maintained and reconciled monthly.

We will institute individual advance accounts for Egypt personnel and will reconcile these with cash disbursements and with home office records monthly.

We take note of the recommendation that additional advances should not be made until reconciliation of prior advances. We agree in principle, but this is not always possible with 6-10 field personnel returning to Cairo for only a few days each month to both account for their prior month's advance and receive an advance for the following month.

It may be true that on a few occasions in the early days of the contract that employees did not sign receipts for their advances, but this is certainly not true currently.

We deny that expense reports "are often not approved" by supervisors. We are not perfect, and there may be a few isolated instances in the files of expense reports not approved by a supervisor, but our current procedure prevents payment or billing of an expense report without proper approval.

We deny that Geonex' accounting for advances prevented the auditors from verifying per diem paid to ESA employees. Amounts shown on USAID vouchers are backed up by evidence of actual cash disbursements with receipts from recipients. See our comments under questioned costs.

E. Recommendation 4. A comprehensive property insurance policy be purchased protecting Geonex.

This question revolves around (1). Who has responsibility for assets acquired with project funds?, and (2). Is the cost of comprehensive property insurance a reimbursable cost under the contract. Geonex, in the procurement of assets, acts as a consultant to ESA, and purchase contracts are between ESA and the vendor. The vendor insures the property until its delivery in Egypt. ESA clearly controls the property, not Geonex. It has been our understanding that USAID would not reimburse Geonex for insuring ESA property.

However, we are preparing an official request for a ruling from USAID on both of these questions.

F. Recommendation 5. Various recommendations on reconciling bank accounts and handling cash.

We deny that bank accounts are not reconciled to cash disbursements. We do this and also reconcile to the Geonex general ledger at least quarterly, preparing and transmitting

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journal entries as necessary to correct any errors.

We will review the level of petty cash for possible reduction.

While one signature was required on checks during the audit period, Geonex has required two signatures since June 10, 1992.

We will consciously limit checks payable to cash. We have written checks to cash primarily because Egypt is essentially a cash society and cash in large amounts is often needed for the payment of advances, per diem, supplies, etc. Also the shortage of vehicles available has made it inconvenient for many people needing cash to go to the bank frequently to obtain cash upon checks made out to individuals. This is especially true of field personnel who cannot cash checks in remote areas. We deny that it is difficult to determine that the cash was used for its intended purpose. We require strict accounting for cash amounts.

We deny that Geonex was not able to provide the auditors with a listing of those individuals who have authority to establish bank accounts and sign checks. Management was never asked to provide such a list. This information for the period of the audit is shown in Attachment X.

We have taken steps to prevent personnel from withdrawing petty cash unilaterally.

We do not receive canceled checks from our bank, and it has always been our understanding that this was not customary or even possible in Egypt.

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GEONEX CORPORATION

**RESPONSE TO AUDIT FINDINGS CONCERNING
COMPLIANCE WITH LAWS AND REGULATIONS**

Allegation that Geonex/Egypt did not utilize U. S. Flag Carriers for international air transportation in accordance with General Provisions Clause No. 15

Geonex denies that it ever knowingly violated Clause No. 15 as to its interpretation by Geonex or as to its interpretation to Geonex by USAID personnel. The auditor cited only three alleged incidents of such violation which have been addressed elsewhere. The clause is lengthy and complicated. It is our understanding that it has been for years the subject of possible uncertainty, misunderstanding, and various interpretations, even by U. S. Government employees for their own travel, which is subject to the same or similar regulations.

Never-the-less, Geonex in the future will certainly comply with Clause No. 15 and will attach to its vouchers to USAID the required Certification of Unavailability of U. S. Flag Air Carriers as appropriate.

Allegation that Geonex/Egypt invoiced USAID prior to the disbursement of funds.

The Geonex team Managers are neither lawyers nor Certified Public Accountants, although some have had extensive past experience with U.S. Government cost-plus-fixed-fee contracts and are familiar with Federal Acquisition Regulations and with similar published cost principles of various agencies such as the USAID cost principles of Handbook 11.

Our experience has been that the billing under a cpff contract of recognized costs is proper. A recognized cost is one evidenced by a valid claim submitted and accepted during an accounting period, thereby creating a legal obligation to pay on the part of the contractor. This is consistent with accrual accounting which Geonex uses in its corporate accounting system.

Geonex has never knowingly invoiced USAID for any cost not so supported by a legal obligation to pay dated during the accounting period for which reimbursement is sought. As a practical matter, in most instances, including the payment of salaries to employees, funds have been disbursed by the time an actual voucher has been prepared, much less approved by ESA

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and forwarded to USAID for payment.

It is true that we have certain subcontract agreements requiring payment to the subcontractor within a reasonable time period after Geonex receives payment from USAID. We believe these subcontracts are reasonable and proper. The existence of these contracts are known to USAID, and those over \$100,000 have been specifically approved by the USAID, Cairo, legal section.

Auditor's Response

GENERAL

Our responses below address Geonex/Egypt management responses only relating to those situations where we believe additional information or clarification is warranted. For those items not addressed below we did not change our position as a result of Geonex/Egypt management responses.

FUND ACCOUNTABILITY STATEMENT

Subcontractor advanced billing not paid during audit period

Geonex/Egypt management asserts that subcontractor payments were made prior to the audit period end for amounts billed prior thereto; however, the supporting documentation included with management's response did not validate their claim. Our audit period end was through February 29, 1992 and Geonex/Egypt management provided support for subcontractor Keminco that occurred subsequent to our audit period. Accordingly, this activity would not have been part of the data that we were auditing. Based on the current information available, our position remains unchanged.

Trainee air fare billed in error

Geonex/Egypt utilizes an FT-800 account which was established for the purpose of obtaining reimbursement from USAID for Egyptian nationals' air fare expenses on Egyptian air lines. Accordingly, Egyptian nationals air fare expenses should not be charged to the host country contract. Our testing indicated that duplicate reimbursements were made by USAID under the host country contract and FT-800 account. We have questioned all amounts billed under the host country contract for Egyptian air fare expenses.

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Fixed Fee not adjusted

An error was made by a USAID voucher examiner who overlooked adjusting the fixed fee calculation relating to amounts they disallowed from a Geonex/Egypt billing. Geonex/Egypt was aware of the error and we believe it is the fiduciary duty of Geonex/Egypt to reduce billings for errors in which they are aware.

Payroll items not supported by time sheets and/or employee receipts

Upon receipt of documentation that was provided as part of the management responses, we have reduced the amount of unsupported payroll (no time sheet or signed receipts) to \$13,928 which relates mainly to the period prior to October, 1990.

In regard to management's comment that the disallowed social security amounts involved an element of double counting, it should be noted that we did not question the social insurance element relating to the disallowed payroll amounts as part of this finding.

Social Security taxes not allowable

Notwithstanding management's response, we quote the seventh amendment to the host country contract which is an integral part of the regulations in which Geonex/Egypt is bound. Further, the amounts questioned are limited to the amounts billed after the effective date of this amendment.

Travel

As a result of the Geonex/Egypt's management response indicating that their use of non-U.S. Airline carriers for international travel is prevalent, we increased our testing of international travel to 100%. The results of our tests indicate that there were amounts in the travel line item that should not have been included in the fund accountability statement. Of the remaining \$ 187,122, \$ 21,990 relate to tickets purchased on non-U.S. Flag Air Carriers; therefore, we have increased our total ineligible travel costs to \$ 21,990.

Based upon supporting documentation provided by Geonex/Egypt as part of its management response and the increased audit scope as discussed above, total unsupported travel costs has been changed to \$ 13,460. This amount remains questioned because we did not accept copies of expense reports as sufficient documentation.

Consultant not allocable

A Geonex/Egypt employee was providing procurement consultation in which the associated costs are more appropriately charged to the procurement contract. Additionally, we were not able to verify Geonex/Egypt's representation that this cost was paid in the U.S. and, therefore, not includible in the fund accountability statement.

Unsupported ESA Per Diem

An experienced audit staff was assigned for three weeks to trace the support for the per diem amounts charged to USAID for the Egyptian Survey Authority (ESA) employees. With the assistance of the Geonex/Egypt accountant in-charge, we were

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not able to obtain audit satisfaction as an inappropriate accounting system for per diems was utilized; consequently, all amounts charged for ESA per diems were questioned.

Geonex/Egypt's accounting personnel as well as the Administrative Manager were informed of the problem surrounding per diems. Complicating this area was the fact that several accounts and payment methods were utilized to account for ESA per diems.

Exchange rate gain on advanced billings

Our workpapers and detailed explanations have been provided to Geonex/Egypt for this questioned cost. This finding represented numerous amounts which resulted when Geonex/Egypt billed USAID in advance of its payment of the expenditure. For example, if Geonex/Egypt was invoiced by a supplier in the amount of LE 500, when the exchange rate is 2.80 LE to \$1 this amount is converted to \$ 178.57 and billed USAID. Subsequently, Geonex/Egypt would pay the invoice when, for example, the exchange rate is 3.3 LE to \$ 1 for a total cost to Geonex/Egypt of \$ 151.52 for a net exchange rate gain of \$ 27.05.

Further, it should be noted that we did not impute interest on any Geonex/Egypt advanced billings.

Child education costs in excess of the amount allowable per
the Contractors Handbook

As background for this questioned cost, the following information is provided:

The Geonex/Egypt employee's dependent child did not accompany his/her family to Egypt, but instead the dependent child enrolled at a private educational facility in the U.S. The annual tuition cost was \$ 15,200 (7,600 per semester); one semester's tuition was paid by Geonex/Egypt and reimbursed by USAID. Additionally, the employee resigned some four months after payment of the tuition.

The educational cost of \$ 7,600 was questioned after consideration of the following issues:

- 1) Training or education costs for other than bona-fide employees are unallowable, except that costs incurred for educating employee dependents (primary and secondary level studies) when the employee is working in a foreign country where public education is not available and where suitable private education is inordinately expensive may be included in overseas differential. Suitable education is available in Cairo;
- 2) It is not reasonable to allow a dependent child a private education in the U.S. merely because his/her parents were the beneficiary of a USAID contract. To enroll a child in a private institution in the U.S. and invoice USAID is viewed as neither a reasonable nor necessary expenditure;

- 3) It is not reasonable to allow the full year's educational allowance of 7,750 (3,875 per semesters) when the dependent child received only one semester's education and the Geonex/Egypt employee resigned shortly after the tuition was paid. In effect, USAID is paying a cost for which USAID received little, if any, benefit; and
- 4) The tuition cost included costs that are considered unreasonable, extravagant or luxurious. For example, private flying lessons, among others, was included as part of the tuition cost.

Flat Rentals without signed receipts

An amount of \$4,788 previously questioned as unsupported has been reduced to \$1,200. Upon review of the supporting documentation provided as part of the management responses, it was discovered that \$1,200 of the previously unsupported item represented a refundable deposit which is unallowable.

During May, 1990 \$3,000 and \$3,371 were paid as real estate brokers fees and commissions, which are unallowable costs.

Equipment rental without vendor Invoice - Feb. - June 91

The additional supporting documentation provided does not include vendor invoices; therefore, this amount remains questioned.

Survey compound rent in excess of contract-Feb 92

We have reviewed the support provided for the Survey compound rent. The support provided does not match the information that was provided by Geonex/Egypt during the audit field work. Because of the conflicting information we are not able to make

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a final judgement about this item. Thus our position that this item is a questioned cost remains unchanged.

INTERNAL CONTROL STRUCTURE

Recommendation 5

The management response states that Geonex/Egypt was not asked to provide a list of individuals who are authorized to establish bank accounts and sign checks. What Geonex/Egypt was asked for and did not provide was an official authorization card issued by the bank showing the officials authorized to open bank accounts and sign checks.



CAIRO, EGYPT

APPENDIX C
UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

December 29, 1992

MEMORANDUM

30 DEC 1992

TO: Philippe Darcy, RIG/A/C

FROM: Douglas Franklin, AD/FM *DF*

SUBJECT: NFA Report on Geonex Corporation Relating to Local Expenditures Under L/Comm No. 263-0132-56 for the Survey and Mapping Component of the Irrigation Management Systems Project No. 263-0132 - Draft Report.

Mission is discussing Recommendation Nos. 1,2, and 3 of the subject audit with Geonex. Upon receipt of Geonex's final response to the three recommendations, Mission will determine if the questioned costs are sustained, and ensure that Geonex has addressed the weaknesses identified in Recommendation Nos. 2 and 3.

Please issue the final audit report on the subject.

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APPENDIX D**REPORT DISTRIBUTION**

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