

Regional Inspector General for Audit
Cairo, Egypt

**Audit of Allied Corporation-Egypt Direct and Indirect Costs
Incurred under Davy McKee Corporation Subcontract Related
to National Agricultural Research Project (NARP)
No. 263-0152 and EduSystems Subcontract Related to the
Pilot Maintenance Center (PMC) a Sub-Project of Local Development II Project
(LDII) No. 263-0182**

**Report No. 6-263-94-005-N
November 23, 1993**



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INFORMATION IS RELEASED TO THE PUBLIC.**



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

November 23, 1993

MEMORANDUM FOR D/USAID/Egypt, Henry Bassford
FROM : RIG/A/Cairo, *Philippe L. Darcy*
SUBJECT : Audit of Allied Corporation—Egypt Direct and Indirect Costs Incurred under Davy McKee Corporation Subcontract Related to National Agricultural Research Project (NARP) No. 263-0152 and EduSystems Subcontract Related to the Pilot Maintenance Center (PMC) a Sub-Project of Local Development II Project (LDII) No. 263-0182

The attached report dated June 12, 1993, by Farid S. Mansour & Co. presents the results of a financial audit of Allied Corporation—Egypt (Allied) direct and indirect costs incurred under Davy McKee Corporation subcontract related to NARP No. 263-0152 and EduSystems subcontract related to the Pilot Maintenance Center (PMC) a sub-project of LDII No. 263-0182. Allied's directive under the Davy McKee subcontract is to provide logistics support for the duration of the project and retain administrative and legal responsibilities for local staff. Allied's directive under the EduSystems subcontract is to arrange and maintain project office facilities, equipment, consumable and required local services for the EduSystem team as well as hiring and managing the required personnel.

USAID/Egypt engaged Farid S. Mansour & Co. to perform a financial audit of Allied's locally incurred expenditures of \$258,211 and \$455,263 for the NARP and PMC subcontracts respectively for the period January 1, 1990 to December 31, 1991. The purpose of the audit was to evaluate the propriety of the costs incurred during that period. In performing the audit, Farid S. Mansour & Co. evaluated Allied's internal controls and compliance with applicable laws, regulations and subcontract terms as necessary in forming an opinion regarding the Fund Accountability Statement. The auditors also determined the actual direct and indirect cost rate for the period under audit.

Farid S. Mansour & Co. questioned \$2,724 (\$529 unsupported) and \$8,556 (\$5,733 unsupported) for NARP and PMC respectively in costs reimbursed under these subcontracts. These questioned costs

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included direct labor, consultant fees, travel and transportation, translating and other direct costs. Farid S. Mansour & Co. noted internal control weaknesses over the accounting functions and cash disbursements. Additionally, they noted no instances of material noncompliance with applicable laws, regulations, contract and grants.

Farid S. Mansour & Co. has reviewed Allied's response to the findings. Where applicable they made adjustments in their reports or provided further clarification of their position. For those items not addressed, the response provided by Allied has not changed their understanding of the facts underlying the questioned costs of the Fund Accountability Statement or the weaknesses in the Report of Internal Controls.

The following recommendations are included in the Office of the Inspector General's recommendation follow-up system.

Recommendation No. 1.1: We recommend that USAID/Egypt resolve questioned costs of \$2,724 (\$529 unsupported) for the Davy McKee Corporation contract with NARP as detailed on page 18 of the audit report.

Recommendation No. 1.2: We recommend that USAID/Egypt resolve questioned costs of \$8,556 (\$5,733 unsupported) for the EduSystems contract with PMC as detailed on pages 19 and 20 of the audit report.

Recommendation No. 1.3: We recommend that USAID/Egypt determine Allied's final indirect cost rate for the period under audit based on the resolution of direct and indirect costs questioned in the audit report as detailed on pages 15 through 17 of the audit report.

These recommendations are considered unresolved and can be resolved when we receive the Mission's formal determination as to the amounts sustained or not sustained and the final indirect cost rate for the period under audit. These recommendations can be closed when any amounts determined to be owed to USAID are paid by Davy McKee Corporation and/or EduSystems as appropriate.

Recommendation No. 2: We recommend that USAID/Egypt require Davy McKee Corporation and EduSystems to address the inadequate Allied Corporation internal control procedures as detailed on pages 22 through 25 of the audit report.

This recommendation is considered unresolved and may be resolved when the Mission provides our office with a copy of its request that Davy McKee Corporation and EduSystems address Allied's internal control weaknesses. The recommendation can be closed when RIG/A/C has assessed the response and USAID/Egypt's follow-up for adequacy.

b

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 Farid S. Mansour & Co. and to our office.

**FINANCIAL AUDIT
OF DIRECT AND INDIRECT COSTS
INCURRED BY
ALLIED CORPORATION - EGYPT**

Subcontracts :
No. 263-0152 and 263-0182

**FOR THE PERIOD
FROM JANUARY 1, 1990
TO DECEMBER 31, 1991**

**FINANCIAL AUDIT
OF DIRECT AND INDIRECT COSTS
INCURRED BY**

ALLIED CORPORATION - EGYPT

Subcontracts :

No. 263-0152 and 263-0182

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our reference

September 12, 1993

Mr. Philippe L. Darcy
Regional Inspector General for Audit
UNITED STATES AGENCY FOR
INTERNATIONAL DEVELOPMENT
MISSION TO EGYPT
Cairo - Egypt

Dear Mr. Darcy

This report presents the results of our audit of direct and indirect costs incurred by Allied Corporation - Egypt under flexibly priced Subcontract No. 263-0152 with Davy Mackee related to the National Agriculture Research Project (NARP) and Subcontract No. 263-0182 with EDU system related to the Pilot Maintenance Center (PMC).

BACKGROUND

The main purpose of the subcontract with Davy Mackee is to assist the Davy Mackee team by providing Egyptian engineering staff, provide logistics support for the duration of the project and retain administrative and legal responsibilities for local staff.

The total estimated cost of the subcontract with Davy Mackee, exclusive of fixed fee is LE. 1,201,419 (equivalent to \$402,769); the fixed fee is LE. 120,142 (equivalent to \$40,277).

As for the subcontract with EDU system, the main purpose is to arrange and maintain project office, facilities, equipment, consumables for EDU system team and all required local services as well as hiring and managing the required personnel. The total estimated cost of

the subcontract with EDU system exclusive of fixed fee is LE. 2,921,274 (equivalent to \$979,340); the fixed fee is LE. 248,747 (equivalent to \$83,391).

AUDIT OBJECTIVES AND SCOPE

The objective of this audit was to perform a financial audit of direct and indirect costs incurred by Allied Corporation - Egypt under flexibly priced subcontracts with USAID prime contractors. The audit encompassed all expenditures incurred for the period from January 1, 1990 to December 31, 1991. Accordingly, the audit included an examination of Allied's revenues and expenses, compliance with subcontract terms, review of Allied's internal control and determination of actual indirect cost rates incurred for the above mentioned period.

The specific objectives of this audit were to:

1. Express an opinion on whether the fund accountability statements for ALLIED presents fairly, in all material respects, project costs incurred and reimbursed in conformity with generally accepted accounting principles or other comprehensive basis of accounting;
2. Determine if costs reported as incurred under the subcontract are in fact allowable, allocable, and reasonable in accordance with the terms of the subcontracts;
3. Evaluate and obtain sufficient understanding of the internal control structure of ALLIED's organization, assess control risk, and identify reportable conditions, including material internal control weaknesses;
4. Perform tests to determine whether ALLIED complied, in all material respects, with subcontract terms and applicable laws and regulations and express positive assurance on those items tested and negative assurance on those items not tested. All material instances of noncompliance and all indications of illegal acts should be identified; and
5. Perform an audit of the indirect cost rates and determine the actual indirect cost rates incurred for the fiscal years audited.

Preliminary planning and review procedures were performed during July 1992 and consisted of discussions with RIG/A/C personnel and ALLIED's principal. We reviewed the subcontract and all other relevant agreements as well as the accounting system utilized during

the period under audit. Audit work commenced in September 1992 at the Allied premises in Mohandessin, Cairo. The work was completed in June 1993.

We reviewed 100% of all local expenditures incurred by Allied Corporation - Egypt for the period under audit.

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

1. Reconciling ALLIED's accounting books to invoices issued to the prime contractors and reviewing costs for allowability, allocability and reasonability.
2. Determining that expenditures were appropriate and conformed with the terms of the subcontract and applicable laws and regulations.
3. Reviewing that calculated fringe benefits, overhead and general and administrative expenses as shown in the invoices were calculated accurately, using appropriate base data and percentage and determining the actual indirect cost rates incurred for the period covered by our audit.
4. Reviewing other direct costs for allowability, allocability and reasonability as well as appropriate documentation.

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 statements are free of material misstatement.

We did not meet the continuing education requirements, listed in Paragraph 6 of Chapter 3 of the Government Auditing Standards. Additionally, we did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of *Government Auditing Standards* since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of *Government Auditing Standards* is not material because we participate in Coopers & Lybrand (C&L) worldwide internal quality control program which

requires the C&L Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other C&L offices.

As part of our examination we performed a study and evaluation of relevant controls and reviewed ALLIED's compliance with applicable laws and regulations.

RESULTS OF AUDIT

Fund Accountability Statements

NARP: Our examination identified \$2,724 in questioned costs consisting of \$2,195 of ineligible costs and \$529 of unsupported costs.

PMC: Our examination identified \$8,556 in questioned costs consisting of \$2,823 of ineligible costs and \$5,733 of unsupported costs.

Indirect Costs

Overhead : Our examination identified \$16,490 in questioned costs consisting of \$15,720 of ineligible costs and \$770 of unsupported costs.

G & A : Our examination identified \$6.858 of ineligible costs.

Actual Indirect Cost Rates

As a result of our audit procedures, we determined the actual fringe benefits, overhead and general and administrative actual rates for Allied Corporation for the period under audit to be as follows:

1. Fringe benefits	23.98 %
2. Overhead rate	66.05 %
3. General and administrative rate	19.37 %

We also determined the proper portion of the indirect costs incurred by Allied for the period under audit to be attributed to USAID related projects as 64.46 %, and, accordingly, the applicable indirect cost rates are as follows:

1. Fringe benefits	15.46 %
2. Overhead rate	42.58 %
3. General and administrative rate	12.49 %

Applying the above mentioned applicable rates would result in an over-billing of \$2,002 in respect of NARP and \$1,092 in respect of PMC due to ALLIED.

Internal Control Structure

Our examination of the internal control structure of ALLIED disclosed the following material weaknesses and reportable conditions:

1. Material weaknesses: Inadequate internal controls over the accounting functions and cash disbursements
2. Reportable conditions: No cancellation of invoice or other disbursement documentation upon payment

Compliance with Contract Terms and Applicable Laws and Regulations

ALLIED complied in all material respects with subcontract terms and applicable laws and regulations.

MANAGEMENT COMMENTS

We have reviewed ALLIED's responses to the findings which are included in Appendix A. Where applicable, we have made adjustments in our position in relation to these findings. For those items that remain as questionable in the fund accountability statement and other outstanding reportable conditions in the report on the internal control structure, the responses provided by ALLIED have not caused us to change our position as presented and discussed in Appendices B and C respectively.

Mr. Philippe L. Darcy
Regional Inspector General for Audit
UNITED STATES AGENCY FOR
INTERNATIONAL DEVELOPMENT
MISSION TO EGYPT
Cairo - Egypt

FUND ACCOUNTABILITY STATEMENTS
Report of Independent Accountants

We have audited the Fund Accountability Statements of Allied Corporation - Egypt for the period from January 1, 1990 to December 31, 1991 relating to expenditures incurred in Egypt under Subcontracts No. 263-0152 pertinent to the National Agriculture Research Project (NARP) and No. 263-0182 pertinent to the Pilot Maintenance Center (PMC). The Fund Accountability Statements are the responsibility of Allied's management. Our responsibility is to express an opinion on the Fund Accountability Statements based on 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 Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the Fund Accountability Statements. We believe that our audit provides a reasonable basis for our opinion.

We did not meet the continuing education requirements, listed in Paragraph 6 of Chapter 3 of the *Government Auditing Standards*. Additionally, we did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of *Government Auditing Standards* since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of *Government Auditing Standards* is not material because we participate in Coopers & Lybrand (C&L) worldwide internal quality control program which requires the C&L Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other C&L offices.

As described in Note 3, the accompanying Fund Accountability Statements have been prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Included in the fund accountability statements are questioned costs of US \$2,724 and \$8,556 for NARP and PMC respectively. The basis for questioning these costs is more fully described in the 'Fund Accountability Statements - 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 Statements referred to above present fairly in all material respects ALLIED's expenditures pertinent to NARP and PMC for the period from January 1, 1990 to December 31, 1991, in conformity with the cash basis of accounting.

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

Cairo, Egypt
June 12, 1993



Farid S. Mansour

FINANCIAL AUDIT
OF DIRECT AND INDIRECT COSTS
INCURRED BY
ALLIED CORPORATION - EGYPT
SUBCONTRACTS
No. 263 - 0152 AND 263 - 0182

PART I : INVOICED COSTS FOR "N A R P"

CATEGORY	PROVISIONAL RATE WERE APPLICABLE	TOTAL COSTS REIMBURSED	QUESTIONED COSTS		PROPOSED RATE	ADJUST- MENTS AMOUNT	FINAL ADJUSTED COSTS	AUDIT FINDINGS REF/PAGE
			INELIGIBLE	UNSUPPORTED				
DIRECT LABOR		\$ 33,120					\$ 33,120	
FRINGE BENEFITS(%)	20.25 %	6,707			15.46%	\$ (1,587)	5,120	
OVERHEAD (%)	45 %	14,904			42.58%	(802)	14,102	
CONSULTANTS		0					0	
TRAVEL & TRANSPORT.		20,171		\$ (155)			20,016	1 - A/18
TRANSLATION		0					0	
OTHER DIRECT COSTS		134,685	\$ (2,195)	(374)			132,116	1 - B/18
SUBTOTAL		209,587	(2,195)	(529)		(2,389)	204,474	
G & A (%)	12 %	25,151			12.49%	387	25,538	
TOTAL COSTS		234,738	(2,195)	(529)		(2,002)	230,012	
FIXED FEE	10%	23,473					23,473	
TOTAL		\$ 258,211	\$ (2,195)	\$ (529)		\$ (2,002)	\$ 253,485	

See accompanying notes to the Fund Accountability Statements .

**FINANCIAL AUDIT
OF DIRECT AND INDIRECT COSTS
INCURRED BY
ALLIED CORPORATION – EGYPT
SUBCONTRACTS
No. 263 – 0152 AND 263 – 0182**

PART II: INVOICED COSTS FOR 'P M C'

CATEGORY	PROVISIONAL RATE WERE APPLICABLE	TOTAL COSTS REIMBURSED	QUESTIONED COSTS		PROPOSED RATE	ADJUST- MENT AMOUNT	FINAL ADJUSTED COSTS	AUDIT FINDINGS REF/PAGE
			INELIGIBLE	UNSUPPORTED				
DIRECT LABOR		\$ 93,378	\$ (164)	\$ (409)			\$ 92,805	2 – A /19
FRINGE BENEFITS(%)	7.74 %	7,228			15.46%	\$ 7,120	14,348	
OVERHEAD (%)	41 %	38,285			42.58%	1,231	39,516	
CONSULTANTS		36,617					36,617	
TRAVEL & TRANSPORT.		42,101	(305)	(2,883)			38,913	2 – B/ 19
TRANSLATION		1,800					1,800	
OTHER DIRECT COSTS		147,636	(2,354)	(2,441)			142,841	2 – C/ 20
SUBTOTAL		367,045	(2,823)	(5,733)		8,351	366,840	
G & A (%)	14.46 %	53,077			12.49%	(7,259)	45,818	
TOTAL COSTS		420,122	(2,823)	(5,733)		1,092	412,658	
FIXED FEE	6%	25,207					25,207	
AWARD FEE		12,455					12,455	
TOTAL COSTS + FEE		457,784	(2,823)	(5,733)		1,092	450,320	
RETAINING (10% OF F. FEE)		(2,521)					(2,521)	
TOTAL		\$455,263	\$ (2,823)	\$ (5,733)		\$ 1,092	\$447,799	

See accompanying notes to the Fund Accountability Statements .

**FINANCIAL AUDIT
OF DIRECT AND INDIRECT COSTS
INCURRED BY
ALLIED CORPORATION – EGYPT
SUBCONTRACTS
No. 263 – 0152 AND 263 – 0182**

PART III : ALLIED FRINGE BENEFITS

CATEGORY	COSTS PER ALLIED	RECLASSIFIED FROM		QUESTIONED COSTS		FINAL ADJUSTED COSTS	AUDIT FINDINGS REF/PAGE
		OVERHEADS	G&A	INELIGIBLE	UNSUPPORTED		
LEAVE & VACATIONS		\$ 145	\$ 164			\$ 309	
SOCIAL INSURANCE	\$ 13,935	1,307				15,242	
BONUS		14,654				14,654	
TOTAL	\$ 13,935	\$ 16,106	\$ 164			\$ 30,205	

See accompanying notes to the Fund Accountability Statements .

**FINANCIAL AUDIT
OF DIRECT AND INDIRECT COSTS
INCURRED BY
ALLIED CORPORATION – EGYPT
SUBCONTRACTS
No. 263 – 0152 AND 263 – 0182**

PART IV : ALLIED OVERHEAD COSTS

CATEGORY	COSTS PER ALLIED	ADDITI- ONAL ITEMS	RECLASS- FIED COSTS	QUESTIONED COSTS		FINAL ADJUSTED COSTS	AUDIT FINDINGS REF/PAGE
				INEUGABLE	UNSUPPORTED		
<u>SALARIES :</u>							
TOTAL SALARIES	\$ 13,789		\$ (3,282)			\$ 10,507	
BONUS	12,824		(12,824)				
OVERTIME	459					459	
SUB TOTAL	27,072		(16,106)			10,966	
<u>OPERATING EXPENSES:</u>							
OFFICE RENT	1,674	\$ 29,625			\$ (712)	30,587	3/21
STATIONARIES – OFF.SUPPLIES	2,288					2,288	
XEROXING & TRANSLATION	1,873					1,873	
TELEX . COURIER . FAX	22,280			\$ (18)		22,262	3/21
POWER (ELEC. & WATER)	1,411	393				1,804	
BANK CHARGES	289					289	
DUES & SUBSCRIPTIONS	1,995			(670)		1,325	3/21
REPAIR & MAINTENANCE	2,159				(58)	2,101	3/21
CONTRIBUTION & DONATIONS	21,879			(15,032)		6,847	3/21
CONSULTING FEES	2,011					2,011	
BID FEES	817					817	
TOTAL	\$ 85,748	\$ 30,018	\$ (16,106)	\$ (15,720)	\$ (770)	\$ 83,170	

See accompanying notes to the Fund Accountability Statements .

FINANCIAL AUDIT
 OF DIRECT AND INDIRECT COSTS
 INCURRED BY
 ALLIED CORPORATION – EGYPT
 SUBCONTRACTS
No. 263 – 0152 AND 263 – 0182

PART V : GENERAL AND ADMINISTRATIVE COSTS

CATEGORY	COSTS PER ALLIED	ADDITI- ONAL ITEMS	RECLASS- IFIED COSTS	QUESTIONED COSTS		FINAL ADJUSTED COSTS	AUDIT FINDINGS REF/PAGE
				INELIGABLE	UNSUPPORTED		
<u>SALARIES</u>							
ALLIED PRINCIPALS	\$ 20,685	\$ 16,281				\$ 36,966	
PROFESSIONALS	12,388		(\$164)			12,224	
ACCOUNTANT	0,724					6,724	
CASUAL LABOR	2,562					2,562	
SUB TOTAL	42,359	\$ 16,281	(164)			58,476	
<u>OPERATING EXPENSES</u>							
DUES & SUBSCRIPTIONS	1,106					1,106	
TRAVEL & TRANSPORT.	51,108					51,108	
VEHICLES OPERAT. & MAINT.	2,353					2,353	
DEPRECIATION EXPENSES	2,733					2,733	
INSURANCE \ GENERAL	426					426	
TRAINING	672					672	
MEALS & ENTERTAINMENT	4,140			(3,496)		644	4/21
PRESENTATION & SEMINARS	3,801			(3,362)		439	4/21
AUDIT FEES	503					503	
TOTAL	\$109,201	\$ 16,281	\$ (164)	\$ (6,858)		\$ 118,460	

See accompanying notes to the Fund Accountability Statements .

**FINANCIAL AUDIT
OF DIRECT AND INDIRECT COSTS
INCURRED BY**

ALLIED CORPORATION - EGYPT

Subcontracts
No. 263-0152 and 263-0182

NOTES TO THE FUND ACCOUNTABILITY STATEMENTS

NOTE 1 - Scope of Audit

The Fund Accountability Statements of ALLIED includes all locally incurred expenditures under Subcontracts 263-0152 pertinent to NARP and No. 263-0182 pertinent to PMC for the period from January 1, 1990 through December 31, 1991.

NOTE 2 - Source of Data

The column labeled Total Cost Reimbursed is the responsibility of ALLIED's management and represents the cumulative local expenditures incurred and subsequently reimbursed for the period from January 1, 1990 to December 31, 1991.

NOTE 3 - Basis of Presentation

The Fund Accountability Statements have 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 US dollars at an average exchange rate of 2.9829 Egyptian pounds to 1 US dollar for the period from January 1, 1990 to 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 grant. Costs in the column labeled **Ineligible** are supported by vouchers or other documentation but are ineligible for reimbursement because they are not program related, or 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 related 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 - Reclassified Costs

Certain costs were misallocated in the different indirect cost pools identified by our audit and were placed in the column labeled **Reclassified Costs** in order to determine the accurate costs incurred in each pool and, accordingly, the actual indirect cost rates.

NOTE 7 - Additional Items

The column labeled **Additional Items**, under Part IV - Overhead Costs, lists cost of rent for the office owned by ALLIED. The monthly rent was determined on the basis of prevailing prices for similar space in the Mohandessin area. Under Part V - General and Administrative Costs, this column lists salaries for ALLIED principals calculated for the audited period in accordance with FSN 12.

NOTE 8 - Bases of Calculations

A. Revised Rates

We determined the revised fringe benefits, overhead and general and administrative rates for the period from January 1, 1990 to December 31, 1991 on the same basis as that adopted by ALLIED in the light of our audit results as follows:

1. Revised fringe benefits rate

$$\frac{\text{total fringe benefits pool}}{\text{total direct salary costs}} = \frac{\$ 30,205}{\$ 125,925} = 23.98\%$$

(see below)

2. Revised overhead rate

$$\frac{\text{total overhead pool}}{\text{total direct salary costs}} = \frac{\$ 83,170}{\$ 125,925} = 66.05\%$$

(see below)

3. Revised general and administrative rate

$$\frac{\text{total G\&A pool}}{\text{total direct + indirect costs}} = \frac{\$ 118,460}{\$ 611,603} = 19.37\%$$

(see below)

Total direct salary costs for both NARP and PMC:

NARP	\$ 33,120
PMC	<u>92,805</u>
	\$ <u>125,925</u>

	NARP	PMC	SUBTOTAL	TOTAL
Total Direct Costs				
Direct labor	\$ 33,120	\$ 92,805	\$ 125,925	
Consultants	-	36,617	36,617	
Travel/Transport.	20,016	38,913	58,929	
Translation	-	1,800	1,800	
Other direct costs	<u>132,116</u>	<u>142,841</u>	<u>274,957</u>	
	\$ <u>185,252</u>	\$ <u>312,976</u>		\$ 498,228
Total Indirect Costs				
Fringe benefits			30,205	
Overhead costs			<u>83,170</u>	
				<u>113,375</u>
Total Direct and Indirect Costs				\$ <u>611,603</u>

B. Allocation Base Calculation

ALLIED's activities are consulting and sale of equipment and, accordingly, the portion of indirect costs allocated to USAID related projects was determined on the basis of the relative time spent by ALLIED's principals on activities relating only to consulting projects, according to their time reports. These reports reflect that the portion to be allocated to USAID related consulting projects amounts to 77% of ALLIED's total indirect costs.

However, in our opinion, ALLIED principals' time spent on the above mentioned projects does not reflect the actual time spent by all ALLIED employees and, accordingly, we have applied the following methodology in order to determine the proper portion of indirect costs:

Allocation base

$$\frac{\text{direct NARP and PMC labor}}{\text{Allied total salaries + direct NARP and PMC labor}} =$$

$$\frac{\$ 125,925}{\$ 69,442 + 125,925} = 64.46 \%$$

C. Applicable Rates for NARP and PMC

Based on methodology applied and the revised rates determined by us, the following rates are applicable to USAID related projects (NARP and PMC):

Fringe benefit rate

$$\frac{\text{ALLIED fringe benefit rate}}{23.98\%} \times \frac{\text{allocation rate}}{64.46} = 15.46 \%$$

Overhead rate

$$\frac{\text{ALLIED overhead rate}}{66.05\%} \times \frac{\text{allocation rate}}{64.46} = 42.58 \%$$

G & A rate

$$\frac{\text{ALLIED G \& A rate}}{19.37\%} \times \frac{\text{allocation rate}}{64.46} = 12.49 \%$$

FINANCIAL AUDIT
OF DIRECT AND INDIRECT COSTS
INCURRED BY

ALLIED CORPORATION - EGYPT

Subcontracts
No. 263-0152 and 263-0182

AUDIT FINDINGS - NARP PROJECT

<u>ITEM DESCRIPTION</u>	QUESTIONED COSTS			
	<u>INELIGIBLE</u>		<u>UNSUPPORTED</u>	
	LE.	\$ equiv.	LE.	\$ equiv.
1-A Travel and Transportation				
Taxi fare			322	108
Car fuel			<u>139</u>	<u>47</u>
TOTAL			<u>461</u>	<u>155</u>
1-B Other Direct Costs				
Items purchased without prior USAID approval:				
Office furniture	390	131		
Telephone system	240	81		
Office equipment	4,048	1,357		
Entertainment	1,352	454		
Contribution	475	159		
Flowers	40	13		
Office supplies			606	203
Electricity payments			100	34
Printing materials			<u>409</u>	<u>137</u>
TOTAL	<u>6,545</u>	<u>2,195</u>	<u>1,115</u>	<u>374</u>
TOTAL FOR NARP	<u>6,545</u>	<u>2,195</u>	<u>1,576</u>	<u>529</u>

FINANCIAL AUDIT
OF DIRECT AND INDIRECT COSTS
INCURRED BY

ALLIED CORPORATION - EGYPT

Subcontracts
No. 263-0152 and 263-0182

AUDIT FINDINGS - PMC PROJECT

<u>ITEM DESCRIPTION</u>	QUESTIONED COSTS			
	<u>INELIGIBLE</u>		<u>UNSUPPORTED</u>	
	LE.	\$ equiv.	LE.	\$ equiv.
2-A Direct Labor				
March 1990 salaries			220	74
Salaries charged in excess for:				
April 1991	209	70		
July 1991	50	17		
November 1991	153	51		
December 1991	76	26		
Consulting fees for Governorate staff	—	—	<u>1,000</u>	<u>335</u>
TOTAL	<u>488</u>	<u>164</u>	<u>1,220</u>	<u>409</u>
 2-B Travel and Transportation				
Taxi fare			1,219	409
Fuel expense			1,304	437
Car maintenance			3,711	1,244
Spare parts purchases			1,968	660
Per diem for business trip			380	127
Cleaning expenses			18	6
Tips	76	26		
Traffic fines	389	130		
Car fuel billed in excess	414	139		
Per diem in excess	<u>32</u>	<u>10</u>	—	—
TOTAL	<u>911</u>	<u>305</u>	<u>8,600</u>	<u>2,883</u>

AUDIT FINDINGS - PMC PROJECT (continued)

<u>ITEM DESCRIPTION</u>	QUESTIONED COSTS			
	<u>INELIGIBLE</u>		<u>UNSUPPORTED</u>	
	LE.	\$ equiv	LE.	\$ equiv
2-C Other Direct Costs				
Photocopying			396	132
Office supplies			6,658	2,232
Maintenance			229	77
Entertainment	4,833	1,620		
Tips	120	40		
Postal cards	558	187		
Flowers	65	22		
Sales tax	30	10		
Telephone bills paid in excess	195	65		
Photocopying expenses paid in excess	50	17		
Unallocable electricity expenses	<u>1,173</u>	<u>393</u>		
TOTAL	<u>7,024</u>	<u>2,354</u>	<u>7,283</u>	<u>2,441</u>
TOTAL FOR PMC	<u>8,423</u>	<u>2,823</u>	<u>17,103</u>	<u>5,733</u>

FINANCIAL AUDIT
 OF DIRECT AND INDIRECT COSTS
 INCURRED BY
 ALLIED CORPORATION - EGYPT

Subcontracts
 No. 263-0152 and 263-0182

AUDIT FINDINGS

<u>ITEM DESCRIPTION</u>	QUESTIONED COSTS			
	<u>INELIGIBLE</u>		<u>UNSUPPORTED</u>	
	LE.	\$ equiv.	LE.	\$ equiv.
3 Overhead Costs				
Office rent			2,124	712
Tips	55	18		
TV dish subscription	2,000	670		
Repair and maintenance			172	58
Contributions and donations	<u>44,838</u>	<u>15,032</u>	<u> </u>	<u> </u>
TOTAL	<u>46,893</u>	<u>15,720</u>	<u>2,296</u>	<u>770</u>
4 G & A Costs				
Meals and entertainment	10,427	3,496		
Meals during presentations and seminars	<u>10,028</u>	<u>3,362</u>		
TOTAL	<u>20,455</u>	<u>6,858</u>		

our reference

Mr. Philippe L. Darcy
Regional Inspector General for Audit
UNITED STATES AGENCY FOR
INTERNATIONAL DEVELOPMENT
MISSION TO EGYPT
Cairo - Egypt

INTERNAL CONTROL STRUCTURE
Report of Independent Accountants

We have audited the Fund Accountability Statements of Allied Corporation - Egypt for the period from January 1, 1990 to December 31, 1991 relating to expenditures incurred in Egypt under subcontracts No. 263-0152 pertinent to NARP and No. 263-0182 pertinent to PMC and we have issued our report thereon dated June 12, 1993.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in *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 meet the continuing education requirements listed in Paragraph 6 of Chapter 3 of the *Government Auditing Standards*. Additionally, we did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of *Government Auditing Standards* since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the

financial audit requirements of *Government Auditing Standards* is not material because we participate in the Coopers & Lybrand (C&L) worldwide internal quality control program which requires the C&L Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other C&L offices.

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

The management of Allied 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 assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the Fund Accountability Statements in accordance with the cash basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: cash disbursements, payroll and general ledger. For all the control categories cited above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the special 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:

Allied has inadequate control over the accounting functions and cash disbursements as follows:

- o Improper segregation of duties as the accountant prepares both the cash disbursement vouchers and the entries recording those expenditures. He is also responsible for the bank and petty cash reconciliation.
- o We indentified instances of misclassification of expenditure items which, in such circumstances, lead to incorrect indirect cost rates liable to significantly affect Allied's fund accountability statements.

Recommendation:

In order to improve internal control over accounting functions and cash disbursements, we have the following recommendations:

- o Allied should strengthen the segregation of duties by either hiring additional staff to satisfy the proper segregation of duties or adopting other compensating procedures to insure that the work of each individual is reviewed and authorized properly.
- o Allied should implement controls to ensure that all costs are properly classified, recorded and reported under the proper expenditure line item. We recommend that all accounting entries be reviewed and authorized by the management before being processed into the accounting books.

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 statements. Our audits disclosed the following reportable condition:

- o During the disbursement process invoices and other supporting documentation are not cancelled upon payment (via 'paid' stamp or other cancellation mechanism).

Recommendation:

We recommend that cancellation of such documentation be made immediately upon payment to avoid the possible duplication of payments.

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

Cairo, Egypt
June 12, 1993



Farid S. Mansour

our reference

Mr. Philippe L. Darcy
Regional Inspector General for Audit
UNITED STATES AGENCY FOR
INTERNATIONAL DEVELOPMENT
MISSION TO EGYPT
Cairo - Egypt

**COMPLIANCE WITH CONTRACT TERMS
AND APPLICABLE LAWS AND REGULATIONS
Report of Independent Accountants**

We have audited the Fund Accountability Statements of Allied Corporation - Egypt for the period from January 1, 1990 to December 31, 1991 relating to expenditures incurred in Egypt under subcontracts No. 263-0152 pertinent to NARP and No. 263-0182 pertinent to PMC and have issued our report thereon dated June 12, 1993.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in *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 meet the continuing education requirements listed in Paragraph 6 of Chapter 3 of the *Government Auditing Standards*. Additionally, we did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of *Government Auditing Standards* since no such quality review program is offered by

professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of *Government Auditing Standards* is not material because we participate in the Coopers & Lybrand (C&L) worldwide internal quality control program which requires the C&L Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other C&L offices.

Compliance with applicable laws, regulations, contract, grants and binding policies and procedures applicable to Allied is the responsibility of Allied's management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of Allied's compliance with certain provisions of laws, regulations and contract, grants and binding policies and procedures. However, our objective was not to provide an opinion on compliance with such provisions.

The results of our tests of compliance indicated that with respect to the items tested Allied 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 Allied had not complied, in all material respects, with those provisions.

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

Cairo, Egypt
June 12, 1993



Farid S. Mansour

APPENDIX A

MANAGEMENT RESPONSE TO AUDIT FINDINGS

(UNEDITED)

19 August, 1993

Mr. Farid S. Mansour
 Farid Mansour & Co.
 113 El-Sawra St.
 Heliopolis

Subject: Financial Audit of Direct and Indirect Costs
 Incurred by Allied Corporation-Egypt
 Jan.1, 1990 - Dec.31, 1991

Dear Mr. Mansour,

This is to confirm that we have studied the a/m Draft Report that was delivered to us at the exit meeting convened at the offices of USAID-Cairo/RIG on 22 July 1993 .

Firstly, we would like to commend you on the courteous and professional manner in which your staff addressed their assignment, throughout the ten-month period they were at our offices. Secondly, we are quite pleased with the audit process per-se, and perceive it as a most beneficial review exercise that will advance the financial management systems of our firm, as well as having provided us with a fuller understanding of the U.S. Government's auditing standards and requirements.

In the section of your report entitled: " Results of Audit", the audit findings have been summarized and grouped into four main parts :

- a) Fund Accountability Statements ;
- b) Actual Indirect Cost Rates ;
- c) Internal Control Structure ;
- d) Applicable Laws and Regulations .

In what follows we shall present our comments and response to the audit findings in the same sequence they were presented in the report.

A) Fund Accountability Statements :

As you are aware the draft audit report, identified "Questioned Costs" in the NARP and PMC projects, as well as in Allied Corp.'s indirect cost pool.

After reviewing these items we subsequently held a meeting, on 11 August 93, with your staff in which the "Questioned Costs" were discussed in detail, and additional supporting documentation for many items was provided. As a result of this meeting, and based on the additional supporting documentation, the status of the "Questioned Costs" can be shown as follows:

Item	Column I Questioned Cost	Column II Costs Accepted by F. Mansour	Column III Costs Accepted by Allied	Column IV Costs Under Clarification
<u>NARP</u>				
Ineligible	7,057	1,412	1,323	5,222
Unsupported	1,576			1,576
Total NARP	8,633	1,412	1,323	6,798
<u>PMC</u>				
Ineligible	3,783	5,360	2,912	5,511
Unsupported	21,671	4,788	398	16,485
Total PMC	25,454	10,148	3,310	21,996
<u>OVERHEAD</u>				
Ineligible	6,893		46,893	0
Unsupported	2,296		2,296	0
Total OVERHEAD	9,189	0	49,189	0
<u>G & A</u>				
Ineligible	28,608	20,000		28,608
Unsupported				0
Total G & A	28,608	20,000	0	28,608
Total Questioned Costs L. L.	42,784	31,560	53,822	57,402

The above table summarizes the results following our meeting of 11 August. Column I contains the figures that were in the draft report. In Column II we have deducted the "questioned costs" that have been resolved and accepted by your staff during our meeting. Column III contains the "questioned costs" that we have accepted as being either ineligible or unsupported. Column IV includes the balance remaining "questioned costs" which we maintain are legitimate allowable costs and should be accepted as such.

For this latter group we provide a detailed account in Annex I, and include therewith an explanation of our position regarding each item.

B) Actual Indirect Cost Rates :

As per the Audit Report you have conducted a complete review (100%) of all our expenditures during the audit period. Furthermore, applying the audit procedures, you have made a determination of the actual indirect cost rates. In the Draft Report these rates were stated to be as follows :

- Fringe Benefits	23.92 %
- Overhead Rate	60.6 %
- G & A	19.5 %

Since starting work on USAID-funded projects, in 1988, we have used provisional indirect cost rates based on reviews of our accounts conducted by external auditors at the request of various U.S. prime contractors. Moreover, spot checks of our accounts as well as allocation methods, have been conducted in our offices by representatives of USAID FM to verify the reasonableness of the provisional rates.

It is important to emphasize that this is the first instance where an auditor has determined our Actual Indirect Cost Rates based on a complete financial audit encompassing all our expenditures over a full two year period (1990, 1991).

The significance of this exercise for our firm is two-fold:

- a) We now know what our actual indirect cost rates were for fiscal years 1990 and 1991;
- b) We have acquired a better understanding of:
 - i) the method and basis of calculation of indirect cost rates and;
 - ii) the definition of terms such as allowable, allocable, and reasonable costs.

However, with respect to your reference to applicable indirect cost rates, we understand the applicable rates to be the actual indirect cost rates that have been determined based on the complete financial audit. These actual rates are based on the most accurate analysis of our accounts and therefore, should be applicable and billable for 1990 and 1991.

Therefore, we maintain that there should be no distinction made between actual and applicable indirect cost rates. Moreover, these rates should be applied as provisional rates for our activities in 1992, and future years, till they are superseded by a similar complete audit exercise.

C) Internal Control Structure:

The comment and recommendations made have been duly noted.

D) Applicable Laws and Regulations :

The statement made has been duly noted.

Finally, we would like to express our readiness to meet with you or USAID to discuss or clarify any aspect of our response, should this be necessary.

Your Sincerely


Hamed Fahmy
Managing Partner

EXPLANATION OF QUESTIONED COSTS

GENERAL:

1. In Annex I-A we present a schedule which contains, in detail, the Questioned Costs that remain unresolved and for which further clarification is required. The total amount of these costs is LE 57,402, and corresponds to the total of Column IV in the cover letter of our response.
2. The purpose of this note - which is an integral part of our response to the Audit Report - is to clarify and elaborate on the Questioned Costs, in order that they may be recognized as the acceptable costs that we maintain they are.
3. For easy reference, we have listed the subject costs by project (PMC, NARP, and Allied), and then item-by-item within each project. In some cases, as we explain our position, we shall address project specific items. In other cases where the factors are common, we shall group line items together irrespective of the project.

I) PROJECT SPECIFIC COMMENTS:A) PMC :1) Line Item (A 2.1) : Consulting Costs - LE 1,000:

- * This pertains to a fee that was paid to the Secretary General of Assuit Governorate (Mr. Metwalli), for his services in the data collection exercise under the PMC project.
- * As per the EduSystems contract there is an approved budget line for this activity entitled Governorate staff. However, it is under direct labor.

- * This entry was erroneously classified under consultants, whereas it should have been recorded under direct labor.
- * However, in addition the payment voucher was not duly signed by Mr. Metwalli. Nonetheless, the payment was made and a number of PMC staff can confirm the fact. Moreover, we believe the USAID technical officer is aware of this case, and can support our position.
- * In short this is an expense that was made for a legitimate and approved project task. The action should be to reclassify the entry to the correct approved line item (direct labor - Governorate staff).

2) Line Item (A 3.3) Car Maintenance LE 3,711
Line Item (A 3.4) Spare parts LE 1,968

- * The above costs pertain to vehicle repair, services, and spare parts from small workshops and vendors.
- * In a number of cases prompt repair in the field or minor adjustments in Cairo were called for. These were not made at the large dealer workshops. Major repairs however were performed at the dealers.
- * Many of the small workshops do not have complete invoices, with all components of an invoice. Therefore the expense receipts have been deemed unsupported.
- * These expenses were incurred in legitimate project related tasks. The majority of the receipts were signed and approved by the main contractor's administrative officer. A fact that reflects that controls on such expenditures were performed not only by our accounts department - but also by the main contractor (sample attached).

3) Line Item (A.5.3) : Maintenance LE 229
Line Item (A.5.5) : Tips LE 120

- * These costs are small payments to plumbers, electricians and various service men who performed minor repairs in the PMC office.
- * The receipts, duly signed for the services rendered, have been deemed incomplete and therefore the transactions have been marked as unsupported.
- * During the course of the two years (1990/1991) the PMC office has had to revert to utility technicians for minor repairs. The payments have been made, the services performed, details are described in the entry, and the receipt duly signed. We therefore maintain that the receipt should be accepted, since it is characteristic of the market and a reasonable normal expense.

B) NARP

1) Line Item B 2.1) : Office Furniture LE 390
Line Item B 2.3) : Office Equipment LE 3,480

- * These items were inadvertently overbilled during 1991.
- * Once we identified this error we took remedial action in 1992, and reimbursed the project as per invoice # 15 Of Feb. 92 (copy attached).
- * Accordingly, the amount of LE 3870 should be reduced from any amounts that are due under the NARP contract, since they have already been reimbursed.

- * Based upon the above calrification, we request that the subject costs be accepted.

2) Car Fuel PMC Line Item (A 3.2) LE 1,304
 NARP Line Item (B 1.2) LE 139

- * The above expenses relate to oils ,car polish.. etc. for the up-keep of the project vehicles. They are not for petrol and therefore need to be reclassified.
- * They have been identified as unsupported because the payment receipts from the stations were deemed to be incomplete.
- * We maintain that many small vendors and stations do not have complete invoices and we sometimes must accept the type of receipt they provide. This is an element that is characteristic of the market. Although we should try to minimize using the service of such vendors, however, they cannot be entirely avoided.
- * For the PMC project the average of such expense is LE 27 per vehicle/ per month. For the NARP average is LE 24 per vehicle/per month. (NARP vehicles were only in-country 6 months in 1991).

3) Photocopy : PMC Line Item (A 5.1) - LE 396
 PMC Line Item (A 5.7) - LE 558
 NARP Line Item (B 2.9) - LE 409

- i) The PMC photocopy entry of LE 396 was deemed unsupported.

- * The status of this transaction, as noted in our records, was that the office boy lost the invoice. This is an unfortunate occurrence, but was registered in detail and duly signed in our records.

* We tried with Xerox to get a second invoice copy , however due to the time elapsed (June 91) they advised that it was too troublesome for them to go back to retrieve a copy from their records.

ii) This entry postal cards (A 5.7) LE 558 is an erroneous description by the printer. The correct description is business cards for the PMC project.

iii) Photocopy : NARP Line Item (B 2.9) LE 409 :

We enclose herewith the invoice for the relevant copying expenses.

Office Supplies: PMC Line Item (A 5.2) LE 6,658
NARP Line Item (B 2.7) LE 606

The breakdown of the a/m amount is as follows :

i) (A 5.2) PMC LE 2,362 : This is the cost of preparing wall plans and charts that contain maintenance instructions. These wall charts have been delivered to the maintenance centers and are presently there. The a/m cost includes cost of materials, wood, cardboard, paints... etc., that were used in the production of the charts. Also included are the cost of craftsmen who prepared the charts. This team worked under the supervision of the main contractor's project engineer (Mussadek Ibrahim) who signed all receipts and requested us to effect payment. In short the expenses are project related; the product is available at the maintenance centers; and the payment was effected under the control and authorization of the main contractor.

ii) (A5.2) PMC LE 334 : These expenses were for manufacturing of special shelves for project manuals. Costs are the wood and carpenter. Since they are special shelves they could not be bought ready-made from an office furniture

supplier. The receipts presented by the carpenter are considered to be an incomplete invoice.

These are small vendor type purchase, under the supervision of the project engineer, and the receipt is authorized by the main contractor.

iii) (A 5.2) PMC LE 3462 and (B. 2.7) NARP LE 606 :

The a/m amounts - for the purchase of office stationary - have been deemed unsupported, due to incomplete invoices. However, project activities in various sites required that some office related expenses were incurred during seminars or meetings at the sites. Purchases from small bookshops or vendors usually provided receipts that were determined to be incomplete invoices.

5) Entertainment PMC Line Item : (A 5.4) LE 4,833
 NARP Line Item (B 2,4) LE 2,764

- * These items represent supported costs for coffee and tea of the project staff (PMC and NARP). They have been determined as ineligible. However we would like to emphasize that the serving of coffee and tea during business hours is a recognized cultural practice in Egypt.
- * Accordingly, the main contractor felt staff pressure to follow the common cultural practice and included such costs as direct costs.
- * As both projects have been terminated and the staff released, we request that the expenses be recognized.
- * It should be noted that once it was brought to our attention, we have ceased, since June 92, to charge such payments on any USAID-related business.
- * Nonetheless we have continued to cover such payments, in our own company, in recognition of the common practice.

III) Comments Concerning Allied Corp.

1) Depreciation : Line Item (C.1) LE 8,153

- * We have been advised that depreciation of capital costs is an ineligible cost.
- * However we have identified, and showed the auditors, office equipment procured during 1990 and 1991 in the amount of LE 3,463. These items were procured to specifically upgrade our office in order to better serve the projects PMC/NARP.
- * It is not clear to us why both depreciation, as well as full capital costs, are entirely ineligible. Is there no manner that this definite office expenditure be recognized - albeit partially - for the actual business expense it is.

2) Meals/Entertainment : Line Item (C.2) LE 10,427

- * This item pertains to meals that have been provided in the office, to the staff working for extended hours.
- * They are recognized as supported costs, but were deemed to be ineligible on the basis that the expenses were for meals.
- * In this connexion, we maintain that cost of meals are not an ineligible cost in the USAID definition. USAID policy allows payment of a meal allowance for employees. This allowance, however, is included as part of USAID staff salary breakdown, and not as part of the G&A pool (Allied Corp.)
- * The USAID meal allowance for Egyptian nationals is LE 845 per annum (refer attachment). Utilizing the same figure for Allied staff would mean a meal allowance of LE 14,365 for 1990/1991.

- ✓ In conclusion, we maintain that meals are an eligible cost. Whereas USAID recognizes this and includes it as part of the staff salary, however in Allied Corp. our policy was not to include it as part of salary, but to provide office meals for the staff.

3) Line Item (C 3) Presentations LE 10,028:

- * This line item encompasses cost of business luncheons outside the office. They have been deemed ineligible in their entirety, despite being supported.
- ✓ We have noted the rationale explained to us. However, these expenses are documented with information as to their business relevance. Moreover, in many cases due to the short duration of visits by business associates, on international travel, the only way to meet was at a hotel or outside the office.
- ✓ We maintain that these expenses are legitimate business costs and that they should not be ruled ineligible in their entirety. Either a further review should be made to identify which expenses are deemed non-business related, or a subjective decision should be made to accept at least half of these costs as eligible.

Summary Table Of Questioned Costs

	Column I	Column II	Column III	Column IV
Item	Questioned Cost	Costs Accepted By F. Mansour	Costs Accepted By Allied	Costs Under Clarification
<u>NARP</u>				
ineligible	7,957	7,412	1,323	5,222
Unsupported	1,576			1,576
Total NARP	9,533	7,412	1,323	6,798
<u>PMC</u>				
ineligible	13,783	5,360	2,912	5,511
Unsupported	21,671	4,788	398	16,485
Total PMC	35,454	10,148	3,310	21,996
<u>OVERHEAD</u>				
ineligible	56,893		56,893	0
Unsupported	2,296		2,296	0
Total OVERHEAD	59,189	0	59,189	0
<u>G & A</u>				
ineligible	28,608	20,000		28,608
Unsupported				0
Total G & A	28,608	20,000	0	28,608
Total Questioned Costs L. F.	42,784	31,560	53,822	57,402

Detailed Schedule Of Questioned Costs

P.M.C

#	Item	Questioned cost		Costs Accepted By F. Mansour	Costs Accepted By Alliea	Costs Under Clarification
		Reimbursable	Unsupported			
A1	Direct Labor:					
A1.1	March 1990 salaries		220	220		
A1.2	Apr-91	209			209	
A1.3	Jul-91	50			50	
A1.4	Nov-91	53			53	
A1.5	Dec-91	75			75	
	Total	488	220	220	488	0
A2	Consultants:					
A2.1	Mar-90		300			1,000
A2.2	Apr-90		200	200		0
	Total	0	300	200		1,000
A3	Travel & Transportation:					
A3.1	Taxi Fare		2,207	968		1,219
A3.2	Fuel Expenses		304			304
A3.3	Cars maintenance		3,711			3,711
A3.4	Spare parts		968			1,968
A3.5	Per diem for business trip		350		350	
A3.6	Cleaning expenses		5		5	
A3.7	Tips	75			75	
A3.8	Traffic fines	339			339	
A3.9	Car fuel paid in excess	233			233	
A3.10	Per diem in excess	213			213	
	Total	1,177	4,565	1,381	1,015	3,202
A4	Translation:					
A4.1	During 1990		2,045	2,045		
A4.2	During 1991		990	990		
	Total		3,035	3,035		0
A5	Other Direct Costs:					
A5.1	Photocopying		341	345		396
A5.2	Office supplies		6,658			6,658
A5.3	Maintenance		229			229
A5.4	Entertainment	4,201		2,207		4,833
A5.5	Tips	125		125		120
A5.6	Desert soft drinks during seminars	642		642		
A5.7	Postal cards	590		596		558
A5.8	Flowers	55			55	
A5.9	Sales taxes	17			17	
A5.10	Telephone bill paid in excess	25			25	
A5.11	Photocopying paid in excess	5			5	
A5.12	Allocated electricity expenses	113			112	
	Total	6,041	6,281	5,705	513	12,794
	Total PMC (L.E.)	1,749	4,536	4,811	1,528	21,996

NARP

#	Item	Questioned cost		Costs Accepted By F. Mansour	Costs Accepted By Allied	Costs Under Clarification
		Reliable	Unsupported			
B1	Travel & Transportation					
B1.1	Taxi Fare		322			322
B1.2	Fuel Expenses		139			139
	Total		461			461
B2	Other Direct Costs					
B2.1	Office Furniture	390				390
B2.2	Telephone system	240			240	
B2.3	Office equipment	3,048			568	3,480
B2.4	Entertainment	2,764		1,412		1,352
B2.5	Contribution	475			475	
B2.6	Flowers	40			40	
B2.7	Office supplies		506			506
B2.8	Electricity payments		100			100
B2.9	Printing materials		409			409
	Total	7,957	1,115	1,412	323	6,337
	Total NARP (L.E)	7,957	1,576	1,412	323	6,798

Allied Corporation

G & A

#	Item	Questioned cost		Costs Accepted By Mansour	Costs Accepted By Allied	Costs Under Clarification
		eligible	Unsupported			
C1	Depreciation Expenses	3,153				3,153
C2	Meals & Entertainment	10,427				10,427
C3	Presentation & Seminars	10,028				10,028
C4	Consulting Fee			20,000		
	Total L E	23,608		20,000		23,608

Overhead Costs

#	Item	Questioned cost		Costs Accepted By Mansour	Costs Accepted By Allied	Costs Under Clarification
		eligible	Unsupported			
D1	Salaries					
D2	Office Rent	2,124			2,124	
D3	Telex, Fax	55			55	
D4	Dues & Subscriptions	2,000			2,000	
D5	Repair & Maintenance		172		172	
D6	Contributions & Donations	14,838			14,838	
	Total L E	19,017	172		19,189	

کتابخانه مرکزی اسلام آباد

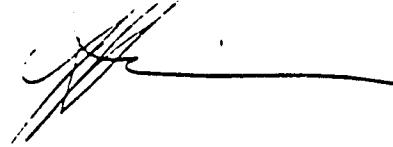
شماره الاصلہ ۱۰۱/۱۰۱۹۰

بارک

کتابت حیات عالیہ بنوریہ

(بدون عنوان)

۶۵۱-



Attached sample of line item A3.3.

Allied Corporation - Egypt

Invoice # 15 For the Month of Feb '92
 Contract : USAID / WARP Cotton Gins

Category	Budget	P.T.D	Current Month	PTD/BUD %
Salaries	370,610	115,615	8,138	-3%
Fringe Benefits (15%)	40,592	27,617	5,763	-8%
Overheads (45%)	121,775	52,027	3,662	-43%
Consultants	242,050	0	0	0%
Other Direct Cost	367,670	397,636	-4,116	108%
Travel & Transport	50,000	50,168	0	101%
Sub - Total	1,072,696	653,063	13,447	61%
G.P.A (12%)	128,724	78,368	1,614	61%
Total Estimated Cost	1,201,420	731,430	15,060	61%
Fixed Fee (10%)	120,142	73,143	1,506	61%
T. Estimated Cost + F.Fee	1,321,561	804,573	16,566	61%

Note :The cue amount of L.E 16,566

* Attached sample of line item B2.1 & B2.3 .

47

Other Direct Cost :-

Category	Year "11"	Year "12"	Year "13"	Budget	Current Month	PTD
Office Rental (80 Sq.M @ L.E 25/M)	13,335	0	0	4,000	0	13,335
Presentations / Seminars	5,544	0	0		0	5,544
Office Equipment / Furniture :-						
- Office Furniture	45,699	-390	0	49,770	-390	-5,307 *
- Office Equipment	135,026	-3,726	0	123,550	-3,726	131,300 *
- Telephone System	4,858	0	0	13,000	0	4,858
- Three Telephone Lines	11,927	0	0	5,000	0	11,927
Office Refurbishing	79,441	0	0	15,000	0	79,441
Operating Cost :-						
- Office Maintenance & Insurance	854	0	0		0	854
- Courier Service	1,646	0	0		0	1,646
- Outside Xeroxing	4,347	0	0		0	4,347
- Office Supplies	11,073	0	0		0	11,073
- Telecommunication	9,621	0	0		0	9,621
- Auto Cad	2,813	0	0		0	2,813
Site Office :-						
- Accommodation Site Crew (L.E 800*20 Months*2 Sites)	0	0	0	33,600	0	0
- Office Supplies	0	0	0	21,000	0	0
- Soil Investigation 50 Bore Holes / Site Soil Report , Water table Contour & Boundary Line (L.E 45,000 * 2 Sites)	54,158	0	0	90,000	0	54,158
- Refurbish Staff Flats (L.E 4,250 * 3 Flats)	505	0	0	12,750	0	505
Total L.E	401,752	-4,116	0	367,670	-4,116	397,636

* Attached sample of line item B2.1

* * Attached sample of line item B2.3

3) As we were reviewing our fiscal year-end accounts and the inventory of equipments, we have noted some variances in other direct costs due to the fact that our billing system for purchasing of office furniture and equipments followed clause G.2 "Ordinary Course of Business" These variances occurred as a result of having invoiced for approved items in advance of payment whereas at the time of payment some differences occurred (refer Inv # 4) . we are crediting this invoice with the following amounts .-

a) Office Furniture

Some ordered units were substituted due to production cancellation and resulted in a reduction of cost by the amount of (L.E 390) .

b) Office Equipment : the total amount credited is (L.E 3,726)

b1) Xerox typewriter : additional discount of (L.E 91) at the time of payment .

b2) Computer System : The amount of (L.E 3,380) relevant to items , originally ordererd and cancelled at the time of purchase

Article	cost
-----	-----
Modem	700
Digitizer	2.680

We charged the amount of (L.E 250) relevant to the cost of

Data Switcher twice (refer Inv # 10) . therefore we are crediting

the invoice with the same amount

Best Regards .

Hamed Fahmy .

شركة العرب - مهسسين - جيزه - ت : ٢١٩٦١١١ - ٢١٩٦٢٢٢ - فاكس : ٢١٩٦٢٢٢ - ٢٠٢ - ص.ب : ٧١٩٤٨
 10 GEZIRET EL ARAB · MOHANESSIN · GIZA · TEL 3496144 · 3494322 · TLX 21142 ALCOR UN · FAX 202 3496312 · C.P. NO. 7194H

Attached sample of line item B2.1 & B2.3 .



Invoice No 000026

To ديبيج ماكينز للعلامة التجارية
 Address العنوان
 Date ٢٦ / ٨ / ٩٦ التواريخ

السعر Rate	العدد	موضوع الاتفاقية Description	المبلغ Amount
١٤٠	٢٠٠٠	ورق جوبول لونه ابيض	٢٨
١٢٨	١٠٠٠	المزق لونه احمر ١/٤	١٢٨
			٤٠٨
Total			٤٠٨

سداد الفواتير بالأمر (وتفضل الشركات - مقابل ابصال)

All Invoices are Payable to preferably by a Cheque, against our official Receipt Voucher

عداد

ووافق على ما جاء فيها، وتعهد بتسديد القيمة خلال أسبوعين من تاريخه.
 Invoice is approved as above and we pledge full settlement

Signature

التوقيع

Name

الاسم

المعجزة ٢٦ ش عبد الحميد سليمان

Attached sample of line item B2.9

SALARY

HR	59,116	61,314	64,402	67,490	70,458	73,486	76,514	79,542	82,570	85,598	88,626	91,654	94,682	97,710	100,738	103,766	106,794	109,822	112,850	115,878	118,906	121,934	124,962	127,990	131,018	134,046	137,074	140,102	143,130	146,158	149,186	152,214	155,242	158,270	161,298	164,326	167,354	170,382	173,410	176,438	179,466	182,494	185,522	188,550	191,578	194,606	197,634	200,662	203,690	206,718	209,746	212,774	215,802	218,830	221,858	224,886	227,914	230,942	233,970	237,000	240,030	243,060	246,090	249,120	252,150	255,180	258,210	261,240	264,270	267,300	270,330	273,360	276,390	279,420	282,450	285,480	288,510	291,540	294,570	297,600	300,630	303,660	306,690	309,720	312,750	315,780	318,810	321,840	324,870	327,900	330,930	333,960	336,990	340,020	343,050	346,080	349,110	352,140	355,170	358,200	361,230	364,260	367,290	370,320	373,350	376,380	379,410	382,440	385,470	388,500	391,530	394,560	397,590	400,620	403,650	406,680	409,710	412,740	415,770	418,800	421,830	424,860	427,890	430,920	433,950	436,980	440,010	443,040	446,070	449,100	452,130	455,160	458,190	461,220	464,250	467,280	470,310	473,340	476,370	479,400	482,430	485,460	488,490	491,520	494,550	497,580	500,610	503,640	506,670	509,700	512,730	515,760	518,790	521,820	524,850	527,880	530,910	533,940	536,970	539,000	542,030	545,060	548,090	551,120	554,150	557,180	560,210	563,240	566,270	569,300	572,330	575,360	578,390	581,420	584,450	587,480	590,510	593,540	596,570	599,600	602,630	605,660	608,690	611,720	614,750	617,780	620,810	623,840	626,870	629,900	632,930	635,960	638,990	642,020	645,050	648,080	651,110	654,140	657,170	660,200	663,230	666,260	669,290	672,320	675,350	678,380	681,410	684,440	687,470	690,500	693,530	696,560	699,590	702,620	705,650	708,680	711,710	714,740	717,770	720,800	723,830	726,860	729,890	732,920	735,950	738,980	741,010	744,040	747,070	750,100	753,130	756,160	759,190	762,220	765,250	768,280	771,310	774,340	777,370	780,400	783,430	786,460	789,490	792,520	795,550	798,580	801,610	804,640	807,670	810,700	813,730	816,760	819,790	822,820	825,850	828,880	831,910	834,940	837,970	840,000	843,030	846,060	849,090	852,120	855,150	858,180	861,210	864,240	867,270	870,300	873,330	876,360	879,390	882,420	885,450	888,480	891,510	894,540	897,570	900,600	903,630	906,660	909,690	912,720	915,750	918,780	921,810	924,840	927,870	930,900	933,930	936,960	939,990	942,020	945,050	948,080	951,110	954,140	957,170	960,200	963,230	966,260	969,290	972,320	975,350	978,380	981,410	984,440	987,470	990,500	993,530	996,560	999,590	1002,620	1005,650	1008,680	1011,710	1014,740	1017,770	1020,800	1023,830	1026,860	1029,890	1032,920	1035,950	1038,980	1041,010	1044,040	1047,070	1050,100	1053,130	1056,160	1059,190	1062,220	1065,250	1068,280	1071,310	1074,340	1077,370	1080,400	1083,430	1086,460	1089,490	1092,520	1095,550	1098,580	1101,610	1104,640	1107,670	1110,700	1113,730	1116,760	1119,790	1122,820	1125,850	1128,880	1131,910	1134,940	1137,970	1140,000	1143,030	1146,060	1149,090	1152,120	1155,150	1158,180	1161,210	1164,240	1167,270	1170,300	1173,330	1176,360	1179,390	1182,420	1185,450	1188,480	1191,510	1194,540	1197,570	1200,600	1203,630	1206,660	1209,690	1212,720	1215,750	1218,780	1221,810	1224,840	1227,870	1230,900	1233,930	1236,960	1239,990	1242,020	1245,050	1248,080	1251,110	1254,140	1257,170	1260,200	1263,230	1266,260	1269,290	1272,320	1275,350	1278,380	1281,410	1284,440	1287,470	1290,500	1293,530	1296,560	1299,590	1302,620	1305,650	1308,680	1311,710	1314,740	1317,770	1320,800	1323,830	1326,860	1329,890	1332,920	1335,950	1338,980	1341,010	1344,040	1347,070	1350,100	1353,130	1356,160	1359,190	1362,220	1365,250	1368,280	1371,310	1374,340	1377,370	1380,400	1383,430	1386,460	1389,490	1392,520	1395,550	1398,580	1401,610	1404,640	1407,670	1410,700	1413,730	1416,760	1419,790	1422,820	1425,850	1428,880	1431,910	1434,940	1437,970	1440,000	1443,030	1446,060	1449,090	1452,120	1455,150	1458,180	1461,210	1464,240	1467,270	1470,300	1473,330	1476,360	1479,390	1482,420	1485,450	1488,480	1491,510	1494,540	1497,570	1500,600	1503,630	1506,660	1509,690	1512,720	1515,750	1518,780	1521,810	1524,840	1527,870	1530,900	1533,930	1536,960	1539,990	1542,020	1545,050	1548,080	1551,110	1554,140	1557,170	1560,200	1563,230	1566,260	1569,290	1572,320	1575,350	1578,380	1581,410	1584,440	1587,470	1590,500	1593,530	1596,560	1599,590	1602,620	1605,650	1608,680	1611,710	1614,740	1617,770	1620,800	1623,830	1626,860	1629,890	1632,920	1635,950	1638,980	1641,010	1644,040	1647,070	1650,100	1653,130	1656,160	1659,190	1662,220	1665,250	1668,280	1671,310	1674,340	1677,370	1680,400	1683,430	1686,460	1689,490	1692,520	1695,550	1698,580	1701,610	1704,640	1707,670	1710,700	1713,730	1716,760	1719,790	1722,820	1725,850	1728,880	1731,910	1734,940	1737,970	1740,000	1743,030	1746,060	1749,090	1752,120	1755,150	1758,180	1761,210	1764,240	1767,270	1770,300	1773,330	1776,360	1779,390	1782,420	1785,450	1788,480	1791,510	1794,540	1797,570	1800,600	1803,630	1806,660	1809,690	1812,720	1815,750	1818,780	1821,810	1824,840	1827,870	1830,900	1833,930	1836,960	1839,990	1842,020	1845,050	1848,080	1851,110	1854,140	1857,170	1860,200	1863,230	1866,260	1869,290	1872,320	1875,350	1878,380	1881,410	1884,440	1887,470	1890,500	1893,530	1896,560	1899,590	1902,620	1905,650	1908,680	1911,710	1914,740	1917,770	1920,800	1923,830	1926,860	1929,890	1932,920	1935,950	1938,980	1941,010	1944,040	1947,070	1950,100	1953,130	1956,160	1959,190	1962,220	1965,250	1968,280	1971,310	1974,340	1977,370	1980,400	1983,430	1986,460	1989,490	1992,520	1995,550	1998,580	2001,610	2004,640	2007,670	2010,700	2013,730	2016,760	2019,790	2022,820	2025,850	2028,880	2031,910	2034,940	2037,970	2040,000	2043,030	2046,060	2049,090	2052,120	2055,150	2058,180	2061,210	2064,240	2067,270	2070,300	2073,330	2076,360	2079,390	2082,420	2085,450	2088,480	2091,510	2094,540	2097,570	2100,600	2103,630	2106,660	2109,690	2112,720	2115,750	2118,780	2121,810	2124,840	2127,870	2130,900	2133,930	2136,960	2139,990	2142,020	2145,050	2148,080	2151,110	2154,140	2157,170	2160,200	2163,230	2166,260	2169,290	2172,320	2175,350	2178,380	2181,410	2184,440	2187,470	2190,500	2193,530	2196,560	2199,590	2202,620	2205,650	2208,680	2211,710	2214,740	2217,770	2220,800	2223,830	2226,860	2229,890	2232,920	2235,950	2238,980	2241,010	2244,040	2247,070	2250,100	2253,130	2256,160	2259,190	2262,220	2265,250	2268,280	2271,310	2274,340	2277,370	2280,400	2283,430	2286,460	2289,490	2292,520	2295,550	2298,580	2301,610	2304,640	2307,670	2310,700	2313,730	2316,760	2319,790	2322,820	2325,850	2328,880	2331,910	2334,940	2337,970	2340,000	2343,030	2346,060	2349,090	2352,120	2355,150	2358,180	2361,210	2364,240	2367,270	2370,300	2373,330	2376,360	2379,390	2382,420	2385,450	2388,480	2391,510	2394,540	2397,570	2400,600	2403,630	2406,660	2409,690	2412,720	2415,750	2418,780	2421,810	2424,840	2427,870	2430,900	2433,930	2436,960	2439,990	2442,020	2445,050	2448,080	2451,110	2454,140	2457,170	2460,200	2463,230	2466,260	2469,290	2472,320	2475,350	2478,380	2481,410	2484,440	2487,470	2490,500	2493,530	2496,560	2499,590	2502,620	2505,650	2508,680	2511,710	2514,740	2517,770	2520,800	2523,830	2526,860	2529,890	2532,920	2535,950	2538,980	2541,010	2544,040	2547,070	2550,100	2553,130	2556,160	2559,190	2562,220	2565,250	2568,280	2571,310	2574,340	2577,370	2580,400	2583,430	2586,460	2589,490	2592,520	2595,550	2598,580	2601,610	2604,640	2607,670	2610,700	2613,730	2616,760	2619,790	2622,820	2625,850	2628,880	2631,910	2634,940	2637,970	2640,000	2643,030	2646,060	2649,090	2652,120	2655,150	2658,180	2661,210	2664,240	2667,270	2670,300	2673,330	2676,360	2679,390	2682,420	2685,450	2688,480	2691,510	2694,540	2697,570	2700,600	2703,630	2706,660	2709,690	2712,720	2715,750	2718,780	2721,810	2724,840	2727,870	2730,900	2733,930	2736,960	2739,990	2742,020	2745,050	2748,080	2751,110	2754,140	2757,170	2760,200	2763,230	2766,
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APPENDIX B

**AUDITORS' COMMENTS ON MANAGEMENT RESPONSE
TO AUDIT FINDINGS**

**FINANCIAL AUDIT
OF DIRECT AND INDIRECT COSTS
INCURRED BY
ALLIED CORPORATION - EGYPT**

Subcontracts :

No. 263-0152 and 263-0182

**AUDITORS' COMMENTS ON MANAGEMENT RESPONSE
TO AUDIT FINDINGS.**

- 1-A LE 322**
Management response stated that the two projects were provided with two cars each. Accordingly, we feel that taxi fare spent was unnecessary.
- LE 139**
The Auditee did not provide any documentation to support this amount.
- 1-B LE 390**
Although the Auditee adjusted this amount during February 1992 as per Invoice No. 15, the amount was questionable at the time of the audit.
- LE 240**
The Auditee concurred with our finding.

1-B (cont) LE 4,048

Although the Auditee adjusted the amount of LE 3,726 during February 1992 as per Invoice No. 15, this amount was questionable at the time of the audit. The Auditee concurs with the balance amounting to LE 322.

LE 1,352, LE 475 and LE 40

These amounts are unallowable under USAID regulations.

LE 606, LE 100 and LE 409

The Auditee failed to provide any supporting documentation.

2-A LE 220 and LE 1,000

The Auditee failed to provide any supporting documentation.

LE 209, LE 50, LE 153 and LE 76

The Auditee concurs with our findings.

2-B LE 1,219

See our comment under 1-A LE 322 above.

LE 1,304, LE 3,711 and LE 1,968

The Auditee failed to provide any supporting documentation.

LE 389

This amount is unallowable under USAID regulations.

2-B (cont) LE 380, LE 18, LE 76, LE 389, LE 414 and LE 32

The Auditee concurs with our findings.

2-C LE 396, LE 6,658 and LE 229

The Auditee failed to provide any supporting documentation.

LE 4,833, LE 120 and LE 558

These amounts are unallowable under USAID regulations.

LE 65, LE 30, LE 195, LE 50 and LE 1,173

The Auditee concurs with our findings.

3 LE 2,124, LE 55, LE 2,000, LE 172 and LE 44,838

The Auditee concurs with our findings.

4 LE 10,427

This amount represents cost of meals for the office staff provided by the Auditee. These expenses which were charged to G & A Pool were not included in the employees' salaries nor did the Auditee structure their salary scale to include food allowances.

LE 10,028

This amount represents cost of luncheons outside office premises and such costs are unallowable under USAID regulations.

APPENDIX C

**AUDITORS' COMMENTS ON MANAGEMENT RESPONSE
TO MATERIAL WEAKNESSES AND REPORTABLE CONDITIONS**

**FINANCIAL AUDIT
OF DIRECT AND INDIRECT COSTS
INCURRED BY
ALLIED CORPORATION - EGYPT**

Subcontracts :
No. 263-0152 and 263-0182

**AUDITORS' COMMENTS ON MANAGEMENT RESPONSE
TO MATERIAL WEAKNESSES AND REPORTABLE CONDITIONS**

The Auditee concurs with the comments and recommendations contained in our report on the internal control structure.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

November 16, 1993

NOV 17 10 17 1993

MEMORANDUM

TO: Philippe L. Darcy, RIG/A/Cairo

FROM: Amanda K. Levenson, OD/FM/FA *A. Levenson*

SUBJECT: NFA Report on Allied Corporation-Egypt Direct and Indirect Cost Incurred Under Davy McKee Corporation Subcontract Related to National Agriculture Research Project (NARP) No. 263-0152 and Edusystems Subcontract Related to the Pilot Maintenance Center (PMC) a Subproject of Local Development II Project (LD II) No. 263-0182

The Mission has reviewed the subject draft audit report. Resolution of Recommendation No. 1, including all sub-items, will be initially through the Prime Contractors, EduSystems and Davy McKee. As these are AID direct contracts the cognizant Contracts Officer (CO) will review the decisions made by the Prime Contractors in making a final determination on the questioned costs. In order to reasonably resolve the recommendation additional information will be required from the audit firm, Farid S. Mansour & Co. For example, Page 16 of the report describes an alternate method of allocating indirect costs between Allied's two businesses. The CO would like clarification on the auditor's basis for judging their allocation method to be more reasonable, fair or practice than the one used by Allied. As another example, the CO had felt FAR 31.205-36 (Rental Costs) suggests that reasonable costs of ownership, not market rates for similar space should be charged for owned office space. The CO would like clarification from the auditor on basis for their use of prevailing price for similar space. A letter detailing all the CO's questions will be sent under separate cover.

The Mission will be forwarding the final audit report to Davy McKee Corporation and EduSystems with a request that they have Allied address the internal control weaknesses identified in the audit. The Mission will ask for resolution of Recommendation No. 2 at that time.

REPORT DISTRIBUTION

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