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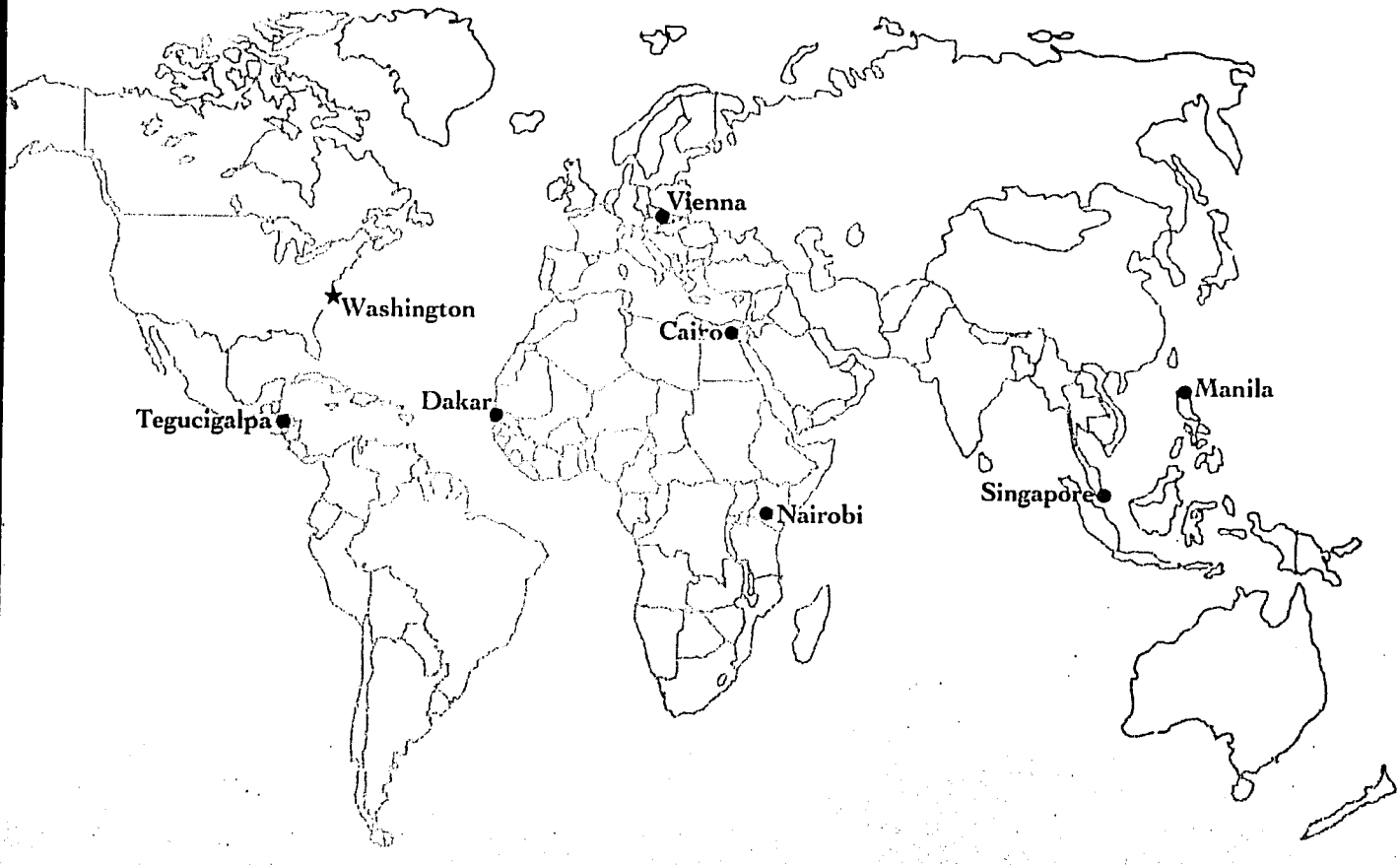
Regional Inspector General for Audit
Cairo, Egypt

Audit of USAID/Egypt Contractor Staffing and Salaries

Report No. 6-263-95-005
February 27, 1995



INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

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

CAIRO, EGYPT

February 27, 1995

MEMORANDUM FOR USAID/Egypt Director, John R. Westley

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

SUBJECT: Audit of Contractor Staffing and Salaries—USAID/Egypt

This memorandum transmits our report on the subject audit. We have considered USAID/Egypt's comments on the draft report and have included them as an appendix to the final report.

The report contains four recommendations for your action. Recommendations Nos. 1, 2.1, and 2.2 are closed and require no further action. Recommendation No. 2.3, which concerns $193,702 in questioned costs, is classified as unresolved pending final determinations by the contracting officers.

Please advise my office within 30 days of the actions planned or taken to resolve and close Recommendation No. 2.3. I appreciate the cooperation and assistance provided to the auditors on this assignment.

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EXECUTIVE SUMMARY

USAID relies on technical services contractors to help implement USAID projects. These contractors provide expert personnel (e.g., engineers, economists, systems analysts, and trainers) to advise and assist host country officials who are implementing USAID projects. USAID tries to ensure that contractors assign qualified personnel at the minimum salary levels necessary in a competitive market.

Our audit covered USAID/Egypt-financed technical services contracts awarded between October 1, 1990 and September 30, 1993 and concentrated on "key personnel." Individuals named as "key personnel" are deemed essential to the performance of a contract and may not be reassigned, terminated, or replaced without USAID's approval. Commitments and disbursements under these contracts totaled $91.6 million and $48.6 million respectively, as of August 31, 1994. A total of 274 key personnel were to be hired under these contracts, including the personnel originally named in the contracts and individuals named later to replace key personnel who left.

The purpose of the audit was to answer the following audit objectives:

- Did USAID/Egypt ensure that technical services contractors provided the same key personnel included in their proposals or provided replacements of comparable quality?

- Did USAID/Egypt ensure that the salaries of key personnel were justified by the employees' position, salary history, education, and experience?

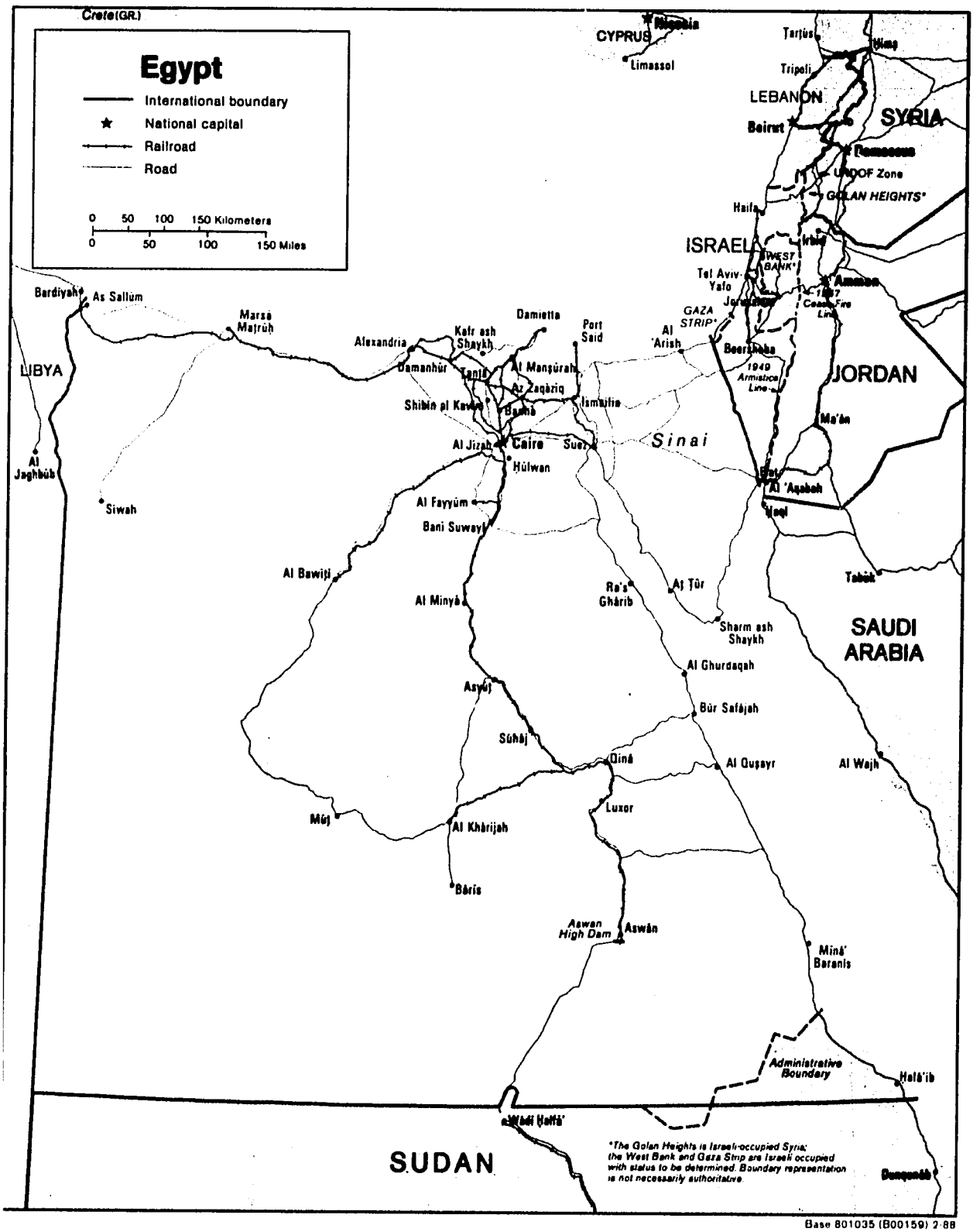
With respect to the first audit objective, for 81 of the 89 cases we reviewed, technical services contractors provided the same personnel included in their proposals or provided substitutes of comparable quality. However, USAID/Egypt's management controls could be improved to reduce the risk that contractors could substitute less qualified personnel without the Mission's knowledge.

With respect to the second audit objective, USAID/Egypt did not have salary histories for 45 of the 89 key personnel in our sample and therefore did not have information needed to assess whether the salaries paid to these individuals under USAID-financed contracts were justified. But, when the Mission did obtain salary histories, it usually ensured that approved salaries were reasonable. A complicating factor was that some individuals apparently misstated their education and salary histories in biographical data sheets and resumes provided to the Mission.

The report recommends that USAID/Egypt (1) implement a system to provide reasonable assurance that contractors obtain USAID/Egypt's consent for substitutions of key personnel, (2) remind contracting officers to obtain complete biographical data sheets before awarding contracts, (3) instruct Government of Egypt contracting agencies to obtain biographical data sheets or an equivalent form before awarding contracts, and (4) resolve $193,702 in questioned costs representing estimated salaries and indirect costs for key personnel who apparently misstated their education or salary histories. USAID/Egypt agreed with the recommendations in the report.

Office of the Inspector General

Office of the Inspector General
February 27, 1995



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INTRODUCTION

Background

USAID relies on technical services contractors to help implement USAID projects. These contractors provide expert personnel (e.g., engineers, economists, systems analysts, and trainers) to advise and assist host country officials who are implementing USAID projects. The quality of the personnel assigned by these contractors can significantly influence the success or failure of USAID's projects. To control its costs, USAID tries to ensure that contractors provide qualified personnel at the minimum salary levels necessary in a competitive market.

However, the Congress, USAID management officials, and the Office of the Inspector General have expressed concerns that contractors might win contract awards based, in part, on the quality of the personnel they propose to employ and later substitute other personnel of lesser quality. They have also expressed concerns that contractor personnel might be paid salaries in excess of what their position, salary history, education, and experience would justify.

Our audit covered USAID/Egypt-financed technical services contracts awarded between October 1, 1990 and September 30, 1993 and concentrated on "key personnel." Individuals named as "key personnel" are deemed essential to the performance of a contract and may not be reassigned, terminated, or replaced without USAID's approval. The audit covered contracts awarded by USAID (direct contracts) as well as contracts awarded by the Government of Egypt (GOE) but financed by USAID (host country contracts).

For direct contracts, USAID/Egypt's Procurement Directorate is responsible for reviewing proposed salaries to ensure that they are justified by each individual's position, education, experience, and salary history. Project officers in USAID/Egypt's various technical offices are responsible for reviewing the qualifications of proposed contractor personnel.

For host country contracts, USAID/Egypt's technical offices, in consultation with the Procurement Directorate, are responsible for approving requests for proposals, the rank ordering of offerors, draft contracts, and final contracts. USAID/Egypt's approval of host country

contracts should be based, among other things, on the biographical information submitted for contractor key personnel and the GOE contracting agency's analysis of the proposed contract cost or price.

Once contracts are awarded (either direct or host country contracts), USAID/Egypt's project officers are expected to be familiar with the contractor's team and to monitor the contractor's performance. The project officers also review each contractor invoice to verify that the payment requested is reasonable based on their knowledge of the contractor's activities. Voucher examiners in the Financial Management Directorate conduct a more detailed review of each contractor invoice to verify that requested payments are in accordance with contract terms.

Our audit covered 33 technical services contracts (26 direct contracts and 7 host country contracts) which named key personnel. According to USAID/Egypt's accounting system, commitments and disbursements under these contracts totaled $91.6 million and $48.6 million respectively, as of August 31, 1994. A total of 274 key personnel were named under the contracts, including the key personnel originally named in the contracts and individuals named later to replace key personnel who left. A list of the contracts covered by the audit is provided in Appendix III.

Audit Objectives

Pursuant to our fiscal year 1994 audit plan, the Office of the Regional Inspector General for Audit/Cairo performed an audit to answer the following audit objectives:

- Did USAID/Egypt ensure that technical services contractors provided the same key personnel included in their proposals or provided replacements of comparable quality?

- Did USAID/Egypt ensure that the salaries of key personnel were justified by he employees' position, salary history, education, and experience?

Appendix I contains a discussion of the scope and methodology for this audit, including certain significant limitations on the audit.

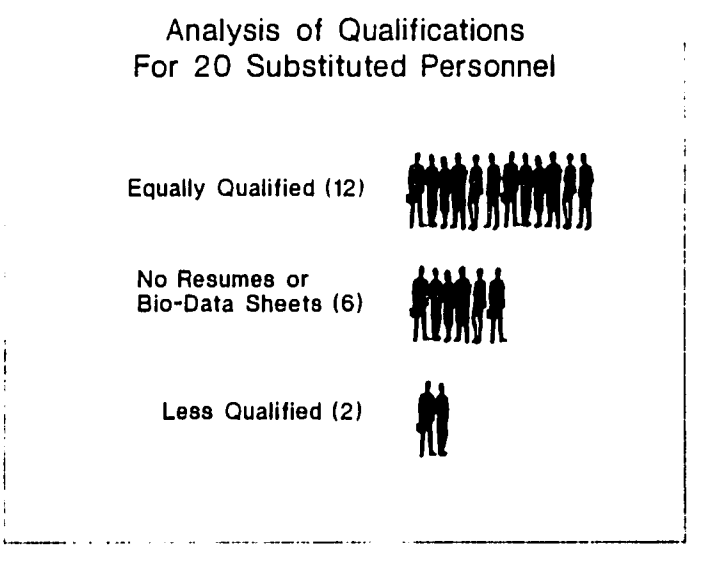
REPORT OF AUDIT FINDINGS

Did USAID/Egypt ensure that technical services contractors provided the same key personnel included in their proposals or provided substitutes of comparable quality?

Technical services contractors usually provided the same personnel included in their proposals or provided substitutes of comparable quality. However, USAID/Egypt's management controls could be improved to reduce the risk that contractors could substitute less qualified personnel without the Mission's knowledge.

We reviewed records relating to 89 key personnel. Twenty of these key personnel were substituted by the contractors for other individuals who were named in the contractors' proposals.

Of the 20 substitutes, we determined that 12 had qualifications comparable to those of their predecessors. For six other substitutes, USAID/Egypt did not have biographical data sheets or resumes and therefore did not know if the substitutes had qualifications comparable to those of their predecessors. The remaining two substitutes were less qualified than the individuals they replaced, although USAID consented to their substitution.



USAID tries to provide reasonable assurance that substituted key personnel have qualifications comparable to those of the personnel they replace. USAID's primary control for providing this assurance is the requirement that contractors obtain USAID's consent before substituting key personnel. However, the contractors did not obtain USAID/Egypt's consent for 6 of the 20 substitute key personnel we reviewed. This problem is discussed in the following section.

USAID/Egypt Needs to Strengthen Internal Controls Over Substitution of Key Personnel

USAID/Egypt's internal controls over substitution of key personnel are established by the USAID Acquisition Regulations, USAID Handbooks, and contract provisions. From our sample of 89 key personnel, we identified 20 individuals who were substituted by the contractors between the time they submitted their best and final offers and the time of our audit. Of the 20 substitutions, 6 were made without USAID/Egypt's consent. This occurred because the Mission did not consistently check to make sure that contractors obtained the Mission's consent before substituting key personnel. As a result, USAID/Egypt paid expenses for contractor personnel without knowing whether the expenditures were warranted.

> **Recommendation No. 1 We recommend that USAID/Egypt implement a system that will provide reasonable assurance that contractors obtain USAID/Egypt's consent for substitutions of key personnel.**

As required by USAID policy, both direct contracts and host country contracts normally include a provision on key personnel. The provision requires USAID's consent (and, for host country contracts, the consent of the Government of Egypt contracting agency) before key personnel are reassigned, terminated, or replaced.

Several different parties should be involved when key personnel are substituted. Their respective roles are summarized below and on the following page.

Contractor

The contractor should request USAID's consent before reassigning, terminating, or replacing individuals named in the contract as key personnel. For host country contracts, the consent of the GOE contracting agency is also required.

USAID Project Officer

The project officer should be familiar with at least the key members of the contractor's team. By being familiar with the personnel assigned by the contractor, the project officer can help ensure that changes in key personnel are made only with USAID's consent.

USAID Voucher Examiner

Voucher examiners perform a detailed review of invoices submitted by contractors for payment. If their review shows that key personnel have been substituted without USAID's consent, they should temporarily disallow the costs associated with these personnel and notify the cognizant project officer and contracting officer.

USAID Contracting Officer

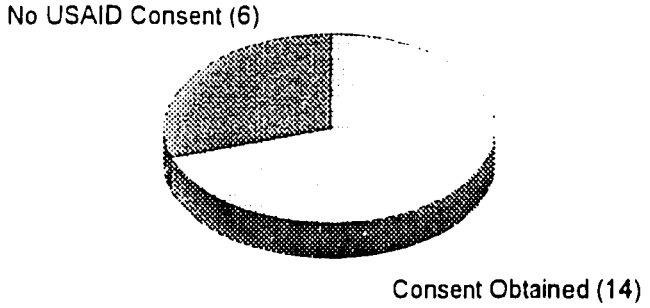
The contracting officer is authorized to consent to changes in key personnel on behalf of USAID. The contracting officer should provide copies of letters providing such consent to the cognizant project officer and voucher examiner.

GOE Contracting Agency

For host country contracts, the consent of the GOE contracting agency is also required before the contractor reassigns, terminates, or replaces key personnel.

Twenty of the 89 key personnel in our sample were substituted by the contractors between the time they submitted their best and final offers and the time of our audit. The contractors did not obtain USAID/Egypt's consent for 6 of these 20 substitutions.

Compliance With Consent Requirements For 20 Substitute Key Personnel



The contractors substituted these key personnel without USAID/Egypt's consent because the contractors were not complying with the contract provision on key personnel and because the Mission did not consistently check to see that the contractors complied with the provision. For example, some project officers were not aware of key personnel changes on contracts they were

responsible for, and some project officers who were aware of changes did not ask the contractor to seek the USAID contracting officer's consent for the changes. As another example, Mission contracting officers told us that they relied on USAID/Egypt's voucher examiners to alert them to changes in key personnel. But we found that, for 23 of the 89 key personnel reviewed, the voucher examiners could not have detected unauthorized substitutions of key personnel because the vouchers submitted by the contractors did not disclose the names of the key personnel working on the contracts. Even when the vouchers included the names of key personnel who had not been approved by USAID/Egypt, neither the project officers (who administratively approved the vouchers) nor the voucher examiners identified the unauthorized substitutions.

We estimate that USAID paid a total of $48,984,[1] including salaries and indirect costs, for the six key personnel in our sample who were substituted without the consent of USAID/Egypt or the GOE contracting agency. We are not questioning these costs because Mission project officers were aware that these individuals were working on USAID/Egypt-financed contracts and, according to Mission officials, their awareness constituted *de facto* consent which would prevent recovery of any related salaries or indirect costs from the contractors.

Management Comments and Our Evaluation

USAID/Egypt agreed with Recommendation No. 1 and has taken steps to better ensure that substitutions of key personnel are approved when required by contracts. In an August 10, 1994 memorandum, the Financial Management Directorate instructed voucher examiners to disallow costs if contractors submit invoices showing different key personnel which have not been approved by USAID/Egypt. In addition, in a staff notice dated February 13, 1995, the Mission directed its project officers to periodically verify that assigned key personnel were approved by USAID/Egypt in writing. The actions described above implement the recommendation, which is closed upon issuance of this report.

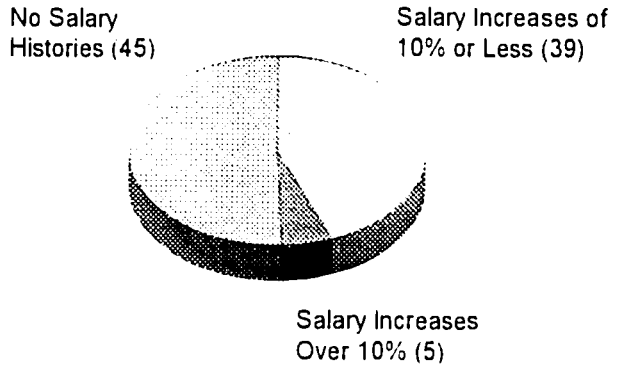
[1] Throughout this report, amounts paid in Egyptian pounds are converted to dollars using the average monthly exchange rate for the year in which the payments were made.

Did USAID/Egypt ensure that the salaries of key personnel were justified by the employees' position, salary history, education, and experience?

USAID/Egypt did not consistently ensure that salaries of key personnel were justified by the employees' position, salary history, education, and experience in accordance with the Federal Acquisition Regulations and USAID Handbooks 11 and 14.

USAID/Egypt did not have salary histories for 45 of the 89 key personnel in our sample and therefore did not have information needed to assess whether the salaries paid to these individuals under USAID-financed contracts were justified. But, when the Mission did obtain salary histories, it usually ensured that approved salaries were reasonable. Of the 44 key personnel in our sample for which salary histories were available, 39 received salary increases of 10 percent or less or no increase at all. The five remaining key personnel received more substantial salary increases but we did not consider this a significant problem because the dollar impact on USAID/Egypt was very limited: only about $6,000 for all five employees.

Comparison of Previous Salaries and Approved Salaries for 89 Key Personnel



In addition to lacking salary histories for many key personnel, the Mission's job was made more difficult by the fact that some individuals apparently misstated their education and salary histories in biographical data sheets and resumes provided to the Mission. These problems are discussed in the section beginning on the following page.

USAID/Egypt Needs More Complete
Information to Ensure That Salaries Are Justified

For USAID direct contracts, the Federal Acquisition Regulations and USAID Handbook 14 require contracting officers to evaluate the reasonableness of proposed costs, including proposed salary costs. For host country contracts, USAID Handbook 11 requires that USAID approve the contracts based on the biographical information submitted for key personnel, the analysis of the contract cost or price prepared by the contracting agency, and other factors. For 45 of the 89 key personnel in our sample, neither USAID/Egypt nor the GOE could compare approved salaries with previous salaries because the individuals did not provide their salary histories. USAID policies and procedures do not specifically require salary histories for personnel working on host country contracts, and Mission officials did not insist on obtaining salary histories for personnel working on direct contracts. The Mission's review of proposed salaries was made more difficult by the fact that five individuals in our sample (and several others who were not part of our sample) apparently misrepresented their education or salary histories in biographical data sheets or resumes provided to USAID/Egypt. We identified $193,702 in questioned costs related to three of these individuals.

Recommendation No. 2 We recommend that USAID/Egypt:

2.1 remind its contracting officers to obtain complete biographical data sheets before awarding direct contracts,

2.2 instruct Government of Egypt contracting agencies to obtain complete biographical data sheets or equivalent information including complete salary histories before awarding contracts,

2.3 resolve questioned costs of $193,702 related to three contractor employees who apparently misstated their education or salary histories.

For most direct contracts over $500,000, Sections 15.805-1(b), 2, and 3 of the Federal Acquisition Regulations require contracting officers to perform a cost analysis to evaluate the reasonableness of proposed individual cost elements, such as salaries.

USAID Handbook 14, Appendix G states that it is the contracting officer's responsibility to scrutinize salary increases as a matter of business acumen whenever USAID negotiations deal with any salaries payable under contracts. All salaries should be fully justified, even when specific approval procedures are not involved. Salaries payable under USAID contracts should be at the minimum levels necessary to attract needed technical services in a competitive market.

For host country contracts, USAID Handbook 11, Chapter 1, Sections 2.1, 3.5.4, and 3.5.5 state that USAID is required to approve the draft contracts and final signed contracts expected to exceed $250,000 in value. USAID's approval will be based, among other things, on the

biographical information submitted for key personnel and the analysis of the contract cost or price prepared by the contracting agency.

For 45 of the 89 key personnel in our sample, neither USAID/Egypt nor the GOE could compare approved salaries with previous salaries because the individuals did not provide their salary histories. This included 28 key personnel hired under host country contracts and 17 key personnel hired under direct contracts.

For personnel hired under host country contracts, USAID/Egypt and the GOE contracting agencies did not request salary histories because salary histories are not specifically required by USAID's policies and procedures. Officials we interviewed in one of the contracting agencies stated that they did not know they could request this information from contractors.

For personnel hired under direct contracts, salary histories are required by Section 752.7001 of USAID Handbook 14. Salary histories were not obtained because contractors were not complying with the requirement to provide salary histories for key personnel. An official in the Procurement Directorate also suggested that some contracting officers may not want to delay the award of a large contract because a few biographical data sheets are missing or incomplete.

Without salary histories, USAID/Egypt could not adequately ensure compliance with USAID's policy that salaries payable under USAID contracts should be at the minimum levels necessary to attract needed technical services in a competitive market.

A complicating factor was that some individuals may have included incorrect information about their education and salary histories in biographical data sheets and resumes provided to USAID/Egypt. Among the 89 key personnel in our sample, we found 5 cases where incorrect information may have been submitted by the employees. These cases are described below:

Employee	*Expatriate/ Egyptian*	*Discrepancy*	*Comments*
Employee A	Expatriate	Claimed a master's degree in business administration. The school had no record of the individual on file.	No identifiable adverse effect since the position did not require a master's degree.
Employee B	Expatriate	Claimed a master's degree but the school stated that he was only awarded a bachelor's degree.	No identifiable adverse effect since the position did not require a master's degree.
Employee C	Egyptian	Claimed a Ph.D. but the school had no record of the individual.	No identifiable adverse effect since the position did not require a Ph.D.

Employee	*Expatriate/ Egyptian*	*Discrepancy*	*Comments*
Employee D	Egyptian	Claimed to have performed consulting services at a rate of $97 a day, but her previous employer stated that she was only paid $45 a day.	Questioned costs total $1,747.
Employee E	Egyptian	Claimed a previous salary of $2,624 a year, but his previous employer stated that he earned only $1,031 a year.	Questioned costs total $2,480.

It should be noted that we were unable to contact these individuals to obtain an explanation for these apparent discrepancies, because they were no longer working for the same contractors and we could not reach them by telephone. It is possible that, if we had been able to reach them, the individuals could have provided a satisfactory explanation for the apparent discrepancies. Nonetheless, based on the available information, we are questioning costs of $4,227 related to two of these individuals. The questioned amount represents the difference between the individuals' previous salary (as confirmed by their previous employer) and the salary they were paid under the USAID-financed contracts we reviewed, plus associated indirect costs. We are not questioning costs related to the other individuals because the degrees they claimed to have received were not required by the contracts or the related requests for proposals.

In addition to the key personnel included in our random sample, we attempted to verify education and salary information for most of the other key personnel covered by the audit because of the inherent vulnerability of this information to misstatement. We identified apparent discrepancies in the education or salary information submitted by six individuals who were not included in our random sample. We are questioning $189,475 related to one of these individuals, who apparently did not meet the minimum education requirements for the position he filled. The questioned amount represents the individual's salary and associated indirect costs. The individuals and the apparent discrepancies in the information they provided are listed in Appendix IV.

USAID/Egypt contracting officers stated that they spot checked the education and salary histories claimed by key personnel, and we found evidence that this was done in some cases. We recognize that confirming information with schools and previous employers is time consuming and so we are not making a recommendation that confirmations be made routinely.

In conclusion, salary payments to contractor employees can be vulnerable to errors if they are not based on complete information. To reduce its vulnerability, USAID/Egypt needs to instruct its contracting officers and Government of Egypt contracting agencies to obtain biographical data sheets before awarding contracts. USAID/Egypt also needs to resolve questioned costs

representing salaries and indirect costs for three key personnel who misstated their education or salary histories.

Management Comments and Our Evaluation

USAID/Egypt implemented Recommendation 2.1 through a memorandum to its contracting officers dated January 26, 1995. Accordingly, this recommendation is closed upon issuance of this report. In response to Recommendation 2.2, USAID/Egypt established a policy that all future requests for proposals for host country technical assistance contracts will include a requirement for biographical data sheets or equivalent information. Therefore, this recommendation is also closed upon report issuance. With respect to Recommendation No. 3, the Mission was negotiating with the contractors regarding the questioned costs identified during the audit. This recommendation is classified as unresolved pending final determinations by Mission contracting officers regarding these questioned costs.

SCOPE AND METHODOLOGY

Scope

We conducted our audit in accordance with generally accepted government auditing standards. The fieldwork was performed from March through October 1994. The audit covered USAID direct and host country technical services contracts which named key personnel and were awarded from October 1, 1990 through September 30, 1993. (The audit did not cover contracts with individuals, participating agency service agreements, resources support services agreements, construction contracts, or contracts for commodities.) This included 26 direct contracts and 7 host country contracts which named 274 key personnel, including key personnel originally named in the contracts and individuals who were named later to replace key personnel who left. According to USAID/Egypt's Mission Accounting and Control System, commitments and disbursements under these contracts totaled $91,644,794 and $48,629,500, respectively, as of August 31, 1994.

The audit was subject to three significant limitations:

- During the audit, we used information from USAID's Contract Information Management System and USAID/Egypt's Mission Accounting and Control System. We did not verify the information obtained because the information was used mainly as background information and, in our judgment, any inaccuracies would not likely have a significant effect on the results of the audit.

- To identify the key personnel under each contract, we reviewed available documentation and interviewed USAID/Egypt staff, GOE officials, and contractor employees. However, because contractor invoices did not always disclose the names and positions of key personnel billed to USAID/Egypt, there was no practical way to verify that we in fact identified all of the key personnel.

- As part of the audit, we verified the education and salary histories provided for contractor key personnel by contacting schools and previous employers. When apparent discrepancies arose, we attempted to contact the employees to obtain an explanation. However, in most cases, we were not successful because the employees no longer worked for the same employer and we could not obtain a current telephone number to reach them. Had we been able to reach all of the employees, it is possible that they could have provided satisfactory explanations for the discrepancies described in this report.

The audit included an assessment of the internal controls related to the audit objectives. We assessed the specific internal controls discussed on pages 3 through 11 of this report. To perform this assessment, we obtained an understanding of the internal control system, determined whether the significant controls had been placed in operation, and assessed control risk.

Methodology

The methodology we used to answer each audit objective is discussed below.

Audit Objective No. 1

This objective was to determine whether USAID/Egypt ensured that technical services contractors provided the same personnel included in their proposals or provided substitutes of comparable quality.

To answer the objective, we reviewed contracts, contractor invoices, and related correspondence and interviewed USAID/Egypt personnel, Government of Egypt officials, and contractor staff to identify, insofar as possible, all key personnel named under the contracts awarded during the period covered by the audit. We drew a random sample of 89 key personnel from the 274 key personnel identified. For these key personnel, we determined whether any substitutions were made by the contractors from the time they submitted their best and final offers until the time of our audit. Where substitutions were made, we compared the substitutes to the key personnel originally named to see if they had comparable education, experience, and salary histories. We also reviewed correspondence and interviewed officials to see if USAID/Egypt (and the Government of Egypt contracting agency, when required) consented to the changes.

Audit Objective No. 2

This objective was to determine whether the salaries of key personnel were justified by the employees' position, salary history, education, and experience.

To answer this objective, we used the same random sample of 89 key personnel described above. We first compared the salaries approved by USAID/Egypt with the employees' position, salary history, education, and experience to see if the salaries were justified. We reviewed the negotiation memoranda prepared by USAID/Egypt contracting officers to determine the reasons for any large increases over the employees' previous salaries. We also reviewed the biographical data sheets submitted by the employees to see if they were complete. Finally, we contacted schools and previous employers to verify information provided by key personnel on their biographical data sheets or resumes. In completing this last step, we verified information provided by many individuals who were not part of our random sample. We verified the information submitted by these individuals because of the high inherent vulnerability of education and salary information to errors and irregularities.

Education or Salary Discrepancies for Key Personnel Not Included in Random Sample			
Employee	***Expatriate/ Egyptian***	***Discrepancy***	***Comments***
Employee F	Expatriate	Claimed a master's degree but the school stated that he only received a bachelor's degree.	No identifiable adverse effect since the position did not require a master's degree.
Employee G	Egyptian	Claimed a bachelor's degree but the school had no record that he attended.	No identifiable adverse effect since the position did not require a bachelor's degree.
Employee H	Egyptian	Claimed a bachelor's degree but the school had no record that she attended.	No identifiable adverse effect since the position did not require a bachelor's degree.
Employee I	Egyptian	Claimed a bachelor's degree but the school had no record that he attended.	No identifiable adverse effect since the position did not require a bachelor's degree.
Employee J	Expatriate	Claimed a bachelor's degree but the school stated that no degree was conferred. Also claimed a previous salary of $69,000, but his previous employer stated that his salary was only $61,000.	This individual apparently did not meet the minimum education requirements for the position he filled. Questioned costs, including salary and indirect costs, total $189,475.
Employee K	Egyptian	Claimed a previous salary of LE 12,000 but his previous employer stated that she was only paid LE 9,600 a year.	No identifiable adverse effect since the contract salary was based on a daily rate paid by another previous employer.