Report of Audit

Financial Audit of the Binational Fulbright Commission (USAID/Egypt Grant Agreements Nos.263-0125-G-00-1010-00 and 263-0125-G-00-4024-00 and Cooperative Agreement No. 263-0125-A-00-0096-00)

Regional Inspector General for Audit
Cairo, Egypt

Report No. 6-263-96-24-N
July 1, 1996

FINANCIAL INFORMATION CONTAINED IN THIS REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC.

OFFICE OF 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

July 1, 1996

MEMORANDUM

TO : DIRECTOR USAID/Egypt, Toni Christiansen-Wagner (Acting)

FROM: RIG/A/C, John Ottke (Acting) John J. Ottke

SUBJECT: Financial Audit of the Binational Fulbright Commission (USAID/Egypt Grant Agreements Nos. 263-0125-G-00-1010-00 and 263-0125-G-00-4024-00 and Cooperative Agreement No. 263-0125-A-00-0096-00)

The attached report, transmitted April 17, 1996, by Price Waterhouse, presents the results of a financial audit of the Binational Fulbright Commission (Fulbright) as it pertains to USAID/Egypt Grant Agreements No. 263-0125-G-00-1010-00 and No. 263-0125-G-00-4024-00 and Cooperative Agreement No. 263-0125-A-00-0096-00. Fulbright, which uses USAID funds to administer the English Teaching Program and the Integrated English Language Program, provides funding assistance for the training of teachers of English as a foreign language in Egypt and for a teacher exchange program between the U.S. and Egypt.

We engaged Price Waterhouse to perform a financial audit of Fulbright's incurred direct expenditures of $11,448,101 (equivalent to LE37,549,772) and overhead project costs of $1,171,918 (equivalent to LE3,843,891) for the periods October 1, 1990 through September 30, 1993; February 8, 1994 through September 30, 1994; and October 1, 1990 through September 30, 1994; for each respective agreement. The purpose of the audit was to evaluate the propriety of costs incurred during the periods and to determine Fulbright's indirect cost rate for the Grant Agreement No. 263-0125-G-00-4024-00 and the Cooperative Agreement No. 263-0125-A-00-0096-00 through September 30, 1994. Price Waterhouse also evaluated Fulbright's internal controls and its compliance with applicable laws, regulations and agreement terms as necessary, in forming their opinion regarding the Fund Accountability Statement.

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The audit report questions $4,084 (equivalent to LE13,393) in direct costs billed to USAID/Egypt by Fulbright and determined Fulbright's indirect cost rate to be 13.52 percent for Grant Agreement No. 263-0125-G-00-4024-00 and 8.71 percent for Cooperative Agreement No. 263-0125-A-00-0098-00. Additionally, the auditors noted two material weaknesses in Fulbright's internal control structure and no material instances of noncompliance with applicable laws, regulations and agreement terms.

In response to the draft report, responsible Fulbright officials provided additional explanation to the report findings. Price Waterhouse officials reviewed Fulbright's response and where applicable made adjustments to the report or provided further clarification of their position. (see Appendices A and B).

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 the ineligible costs of $4,084 detailed on pages 11 through 14 of the Price Waterhouse audit report, and recover from the Binational Fulbright Commission the amount determined to be unallowable.**
>
> **Recommendation No. 1.2: We recommend that USAID/Egypt determine the Binational Fulbright Commission's final indirect cost rates for Grant Agreement No. 263-0125-G-00-4024-00 and Cooperative Agreement No. 263-0125-A-00-0098-00 for the period ending September 30, 1994 based on the resolution of questioned indirect costs and direct base cost adjustments detailed on pages 14 through 20 of the Price Waterhouse audit report.**
>
> **Recommendation No. 2: We recommend that USAID/Egypt obtain evidence that the Binational Fulbright Commission has addressed the material internal control weaknesses (inadequate controls on the accumulation of indirect cost pool charges and inadequate controls over monitoring subrecepient activities) detailed on pages 25 through 27 of the Price Waterhouse audit report.**

Recommendation No. 1.1 is unresolved and will be considered resolved upon the Mission's determination of the amount of recovery; it will be considered closed upon the recovery of funds or offset of funds. Recommendation 1.2 is considered unresolved and can be resolved upon the Mission's determination of the final indirect cost rates; it will be considered closed when any amounts determined to be owed to USAID/Egypt are recovered. Recommendation No. 2 is unresolved and will be considered resolved upon the Mission's presentation of an acceptable plan of action which addresses the reported material deficiencies; it will be considered closed when the Mission presents acceptable evidence that the required actions have been taken.

The reportable conditions identified by the auditor's review of Fulbright's internal control structure should be handled directly between Mission and Fulbright officials.

Please advise this office within 30 days of any action planned or taken to resolve the recommendations. Thank you for the cooperation and assistance extended to the audit staff on this engagement and your continued support of the financial audit program in Egypt.

Attachment: a/s

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BINATIONAL FULBRIGHT COMMISSION

USAID/EGYPT GRANT AGREEMENT
NO. 263-0125-G-00-1010-00 (ETP NO.1),
NO. 263-0125-G-00-4024-00 (ETP NO. 2), AND
COOPERATIVE AGREEMENT
NO. 263-0125-A-00-0096-00 (IELP)

FUND ACCOUNTABILITY STATEMENT AND
ADDITIONAL INFORMATION

FOR THE PERIODS
OCTOBER 1, 1990 THROUGH SEPTEMBER 30, 1993 (ETP NO. 1),
FEBRUARY 8, 1994 THROUGH SEPTEMBER 30, 1994 (ETP NO. 2),
AND OCTOBER 1, 1990 THROUGH SEPTEMBER 30, 1994 (IELP)

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BINATIONAL FULBRIGHT COMMISSION

USAID/EGYPT GRANT AGREEMENT
NO. 263-0125-G-00-1010-00 (ETP NO.1),
NO. 263-0125-G-00-4024-00 (ETP NO. 2), AND
COOPERATIVE AGREEMENT
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FUND ACCOUNTABILITY STATEMENT AND
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OCTOBER 1, 1990 THROUGH SEPTEMBER 30, 1993 (ETP NO. 1),
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Price Waterhouse

April 17, 1996

Mr. Lou Mundy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

Dear Mr. Mundy:

This report presents the results of our financial related audit of project revenues received and costs incurred and the schedules of computations of indirect cost rates of the Binational Fulbright Commission ("BFC") under United States Agency for International Development Mission to Egypt ("USAID/Egypt") Grant Agreement No. 263-0125-G-00-1010-00, Grant Agreement No. 263-0125-G-00-4024-00, and Cooperative Agreement No. 263-0125-A-00-0096-00 (collectively, the "Agreements"), for the periods October 1, 1990 through September 30, 1993; February 8, 1994 through September 30, 1994; and October 1, 1990 through September 30, 1994 (collectively, the "audit periods"); respectively.

Background:

BFC was established in Egypt in November 1949 to facilitate the administration of an educational and cultural exchange program between the United States and Egypt. Activities conducted by BFC include research in the field of education and training of citizens from both countries. These activities are financed primarily through grants received from the United States Information Agency ("USIA") and USAID/Egypt.

BFC uses USAID/Egypt funds to administer the Integrated English Language Program ("IELP") and the English Teaching Program ("ETP"). IELP provides funding assistance for the training of teachers of English as a foreign language in Egypt. This is done by designing specific programs within the IELP umbrella to address the needs of educators at various levels of experience. The program also provides for a teacher exchange program between the United States and Egypt that is geared towards the sharing of teaching methodologies in the two countries. Additionally, the Center for Development of English Language Teaching ("CDELT") at Ain Shams University was provided financial and technical support to enhance the teaching of English in Egypt.

BFC has entered into a subcontract agreement with the Academy for Educational Development ("AED") based in Washington, D.C. AED supports IELP programs by coordinating and administering training activities conducted in the United States.

ETP has been established to provide English language instruction to participants in accordance with criteria established by USAID/Egypt. Intensive, semi-intensive and special training programs are provided through ETP to achieve USAID/Egypt objectives. Grant funds are also used to administer the Test of English as a Foreign Language ("TOEFL").

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Audit Objectives and Scope:

The purpose of this engagement was to perform a financial related audit of project costs incurred by BFC and to audit BFC's provisional indirect cost rates approved under the Agreements for the audit periods. Specific objectives were to perform and determine the following:

1. Express an opinion on whether the fund accountability statement for USAID/Egypt funds managed by BFC presents fairly, in all material respects, project revenues received and costs incurred for the periods under our audit in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including the cash receipts and disbursements basis;

2. Determine if the costs reported as incurred under the Agreements are in fact allowable, allocable and reasonable in accordance with the terms of the Agreements;

3. Obtain a sufficient understanding of the internal control structure of BFC as it relates to the Agreements, assess control risk, and identify reportable conditions, including material internal control weaknesses;

4. Perform tests to determine whether BFC complied, in all material respects, with Agreement terms and applicable laws and regulations; and

5. Perform an audit of the provisional indirect cost rates used by BFC under the Agreements.

Preliminary planning and review procedures began in May 1995. These procedures consisted of discussions with personnel from the office of the Regional Inspector General for Audit in Cairo and BFC management. Audit fieldwork commenced in August 1995 and was completed in April 1996.

The audit population included $11,448,101 or LE 37,549,772 of direct project costs and $1,171,918 or LE 3,843,891 of overhead project costs billed during the audit periods. Overhead costs were calculated and billed using provisional indirect cost rates. On a judgmental basis, we selected and tested $2,476,523 or LE 8,122,995 (22%) of direct project costs. We also judgementally selected and tested $848,310 or LE 2,782,457 (68%) of $1,243,020 or LE 4,077,106 of costs included in the indirect cost pools.

The scope of our audit was limited. We were unable to audit $2,397,563 or LE 7,864,007 of subcontractor direct costs as supporting documentation for such costs were not available in Egypt. Accordingly, we were unable to determine the effect, if any, of questioned costs on the fund accountability statement and the schedules of computations of indirect cost rates that may have resulted had we been able to audit the subcontractor direct costs. We did not assess BFC's internal control structure and compliance with applicable laws and regulations relating to these costs.

Our tests of direct and overhead costs incurred by BFC, included, but were not limited to, the following:

1. Reconciling BFC accounting records to billings issued to USAID/Egypt to ensure that project costs were appropriately supported.

2. Testing a representative sample of project costs funded by USAID/Egypt for allowability and allocability.

3. Determining if costs related to training, travel, allowances, operational costs, procurement, and renovation were appropriate and conformed with the terms of the Agreements and applicable laws and regulations.

4. Determining if salary costs were properly supported and approved.

5. Examining support for a sample of items included in the indirect cost pools, and calculating the actual indirect cost rates.

6. Determining if project revenues received are presented fairly, in all material respects, in the fund accountability statement.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 of Chapter 3 of GAS since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of GAS is not material because we participate in the Price Waterhouse worldwide internal quality control program that requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

As part of our examination of BFC, we assessed relevant internal controls as they relate to the Agreements. We also reviewed BFC's compliance with Laws, Regulations, Contracts, and Agreements.

Results of Audit:

Fund Accountability Statement and Schedules of Computations of Indirect Cost Rates

Our audit procedures identified $4,084 or LE 13,393 of ineligible direct project costs. No unsupported direct project costs were identified. We identified $72,567 or LE 238,017 of ineligible charges and $186,722 or LE 612,448 of unsupported charges included in the indirect cost pools. The fund accountability statement, the schedules of computations of indirect cost rates, and the detail of questionable direct and indirect project costs, as incurred in Egyptian pounds, are included in supplemental schedules to this report.

Internal Control Structure

Our audit procedures identified the following reportable conditions in the internal control structure of BFC, as it relates to the Agreements under audit.

REPORTABLE CONDITIONS - NON-MATERIAL WEAKNESSES

1. BFC does not have formal, written procurement policies and procedures established.

2. BFC does not have sufficient controls in place to ensure fixed asset accountability.

3. BFC's Financial Management System does not accumulate, record and track program expenditures, both direct and indirect, in an easy, cost effective manner.

REPORTABLE CONDITIONS - MATERIAL WEAKNESSES

1. Controls related to the proper accumulation of indirect cost pool charges in accordance with applicable cost principles are inadequate.

2. BFC does not have adequate controls in place to monitor the activities of sub-recipients of grant funds.

Compliance with Laws, Regulations, Contracts, and Agreements

Our audit procedures identified no instances of non-compliance.

Other

We believe that many of the aforementioned audit findings, in particular, the ineligible and unsupported costs identified in the indirect cost pools, were the result of BFC management's lack of resources and training to become familiar with the Agreements, applicable cost principles, and the information necessary to facilitate an efficient USAID/Egypt audit. Prior to the inception of future agreements, we recommend that BFC management, in conjunction with USAID/Egypt, strive to ensure that management is properly versed and trained in the application of applicable cost principles and knowledgeable of the information necessary to facilitate an efficient USAID/Egypt audit.

Management Comments

BFC management comments have been obtained and are included in Appendix A to this report. In response to management's comments, we either provided further clarification of our position in Appendix B or have adjusted our findings.

Mission Response

The mission response is included in Appendix C to this report.

This report is intended for the information of BFC management and others within the organization and USAID/Egypt. However, this report is a matter of public record and its distribution is not limited.

Price Waterhouse

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Price Waterhouse

REPORT OF INDEPENDENT ACCOUNTANTS
ON THE FUND ACCOUNTABILITY STATEMENT

April 17, 1996

Mr. Lou Mundy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We have audited the fund accountability statement of project revenues received and costs incurred and schedules of computations of indirect cost rates of the Binational Fulbright Commission ("BFC") under United States Agency for International Development Mission to Egypt ("USAID/Egypt") Grant Agreement No. 263-0125-G-00-1010-00, Grant Agreement No. 263-0125-G-00-4024-00, and Cooperative Agreement No. 263-0125-A-00-0096-00 (collectively, the "Agreements"), for the periods October 1, 1990 through September 30, 1993; February 8, 1994 through September 30, 1994; and October 1, 1990 through September 30, 1994 (collectively, the "audit periods"); respectively. The fund accountability statement and schedules of computations of indirect cost rates are the responsibility of BFC management. Our responsibility is to express an opinion on this statement and schedules based on our audit.

Except as discussed in paragraphs three and four, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards ("GAS") 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 and schedules of computations of indirect cost rates are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement and schedules of computations of indirect cost rates. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the fund accountability statement and schedules of computations of indirect cost rates. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 of Chapter 3 of GAS since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of GAS is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

We were unable to audit $2,397,563 or LE 7,864,007 of subcontractor direct costs as supporting documentation for such costs were not available in Egypt. Accordingly, we were unable to determine the effect, if any, of questioned costs on the fund accountability statement and the schedules of computations of indirect cost rates that may have resulted had we been able to audit the subcontractor direct costs.

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The fund accountability statement and schedules of computations of indirect cost rates have been prepared on the basis of cash receipts and disbursements, modified as described in Note 2, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America.

As detailed in the fund accountability statement and more fully described in Note 5 thereto, the results of our tests disclosed $4,084 or LE 13,393 of ineligible direct costs. No unsupported direct project costs were identified. We also identified $72,567 or LE 238,017 of ineligible charges and $186,722 or LE 612,448 of unsupported charges included in the schedules of computations of indirect cost rates. Project costs that are ineligible for USAID/Egypt reimbursements are those that are not program related or are prohibited by the Agreements, or applicable laws and regulations. Unsupported project costs are those lacking proper documentation.

In our opinion, except for the effects of the questioned costs, if any, as might have been identified had we been able to audit the subcontractor direct costs as discussed in paragraph four of this report, and the effects of the questioned costs discussed in the sixth paragraph, the fund accountability statement and schedules of computations of indirect cost rates referred to in the first paragraph present fairly, in all material respects, project revenues received and costs incurred, and the indirect cost rates of BFC under the Agreements during the audit periods, in conformity with the basis of accounting described in Note 2.

In accordance with GAS, we have also issued a report dated April 17, 1996, on our consideration of BFC's internal control structure and a report dated April 17, 1996 on its compliance with laws, regulations, contracts, and grants.

This report is intended for the information of BFC management and others within the organization and USAID/Egypt. However, this report is a matter of public record and its distribution is not limited.

Price Waterhouse

BINATIONAL FULBRIGHT COMMISSION

USAID/EGYPT GRANT AGREEMENT NO. 263-0125-G-00-1010-00 (ETP NO.1),
GRANT AGREEMENT NO. 263-0125-G-00-4024-00 (ETP NO. 2), AND
COOPERATIVE AGREEMENT NO. 263-0125-A-00-0096-00 (IELP)

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIODS
OCTOBER 1, 1990 THROUGH SEPTEMBER 30, 1993 (ETP NO.1),
FEBRUARY 8, 1994 THROUGH SEPTEMBER 30, 1994 (ETP NO. 2), AND
OCTOBER 1, 1990 THROUGH SEPTEMBER 30, 1994 (IELP)

	Budget (Note 1)	Actual (Note 1)	Project Cost Reclassifications (Note 4)	Revised Actual (Note 1)	Questionable Project Costs		Audit Finding Reference
					Ineligible (Note 5)	Unsupported (Note 5)	
REVENUES - USAID EGYPT							
ETP No. 1		$225,010	-	$225,010	-	-	-
ETP No 2		133,645	-	133,645	-	-	-
IELP		12,690,756	-	12,690,756	$820	-	Page 11, (I)
Total Revenues		13,049,411	-	13,049,411	820	-	
EXPENDITURES							
ETP No. 1							
Intensive English Training	$167,000	193,000	-	193,000	-	-	-
Special English Training	36,000	17,600	-	17,600	-	-	-
Regular English Training	22,000	14,410	-	14,410	-	-	-
	225,000	225,010	-	225,010	-	-	-
ETP No. 2							-
Intensive English Training	121,136	72,788	-	72,788	-	-	-
Semi-Intensive English Training	21,780	21,780	-	21,780	-	-	-
TOEFL Testing	8,734	6,232	-	6,232	-	-	-
Pre-Agreement Costs	37,906	37,906	-	37,906	-	-	-
Overhead Costs	18,956	13,871	-	13,871	-	-	-
	208,512	152,577	-	152,577	-	-	
IELP							
Pre-Service	3,654,973	3,554,773	($9,450)	3,545,323	290	-	Page 11, (II)
In-Service	1,913,798	1,908,835	7,340	1,916,175	-	-	Page 11, (III)
English for Specific Purposes	385,158	414,939	14,734	429,673	94	-	Page 12, (IV)
Participant Training	1,887,253	1,666,915	(12,624)	1,654,291	2,727	-	Page 12, (V)
Other Direct Costs	809,725	812,929	-	812,929	153	-	Page 13, (VI)
CDELT	335,211	328,431	-	328,431	-	-	-
Overhead Costs other than Subcontractor	918,820	884,425	-	884,425	-	-	-
Subcontractor Direct Costs (Unaudited)	2,722,820	2,397,563	-	2,397,563	-	-	-
Subcontractor Overhead Costs	276,074	273,622	-	273,622	-	-	-
	12,903,832	12,242,432	-	12,242,432	3,264	-	
Total Expenditures	$13,337,344	$12,620,019	-	$12,620,019	$4,084	-	
OUTSTANDING BALANCE (Note 1)		$429,392		$429,392			

The accompanying notes are an integral part of this Fund Accountability Statement.

BINATIONAL FULBRIGHT COMMISSION
SCHEDULE OF COMPUTATION OF INDIRECT COST RATE
GRANT AGREEMENT NO. 263-0125-G-00-4024-00 (ETP NO. 2)
FOR THE PERIOD FEBRUARY 8, 1994 THROUGH SEPTEMBER 30, 1994

	TOTAL EXPENDITURES	RECLASSIFICATIONS (Note 4)	QUESTIONABLE PROJECT COSTS INELIGIBLE (Note 5)	QUESTIONABLE PROJECT COSTS UNSUPPORTED (Note 5)	CORRECT POOL	AUDIT FINDING REFERENCE
INDIRECT COST POOL (Note 6)						
NATIONAL PERSONNEL SALARIES	$9,013	-	-	-	$9,013	-
NATIONAL PERSONNEL BENEFITS	1,090	$1,481	$415	-	2,156	Page 20, (O)
INTERNATIONAL PERSONNEL SALARIES	1,996	-	-	-	1,996	-
INTERNATIONAL PERSONNEL BENEFITS	668	-	-	-	668	-
BANK CHARGES	458	-	-	-	458	-
BFC OPERATIONAL COSTS	4,283	-	-	-	4,283	-
BONDING INSURANCE	-	176	-	-	176	-
TOTAL INDIRECT COST POOL	**$17,508**	**$1,657**	**$415**	-	**$18,750**	
DIRECT COST POOL						
PRE-AGREEMENT	$37,906	-	-	-	$37,906	-
INTENSIVE ENGLISH TRAINING	72,788	-	-	-	72,788	-
SEMI-INTENSIVE ENGLISH TRAINING	21,780	-	-	-	21,780	-
TOEFL TESTING	6,232	-	-	-	6,232	-
TOTAL DIRECT COST POOL	**$138,706**	-	-	-	**$138,706**	

ETP NO. 2 INDIRECT COST RATE CALCULATION :

TOTAL INDIRECT COSTS IN CORRECT POOL	=	$18,750
TOTAL DIRECT COSTS IN CORRECT POOL	=	$138,706
ETP NO. 2 INDIRECT COST RATE (ROUNDED)	=	**13.52%**

The accompanying notes are an integral part of this Schedule of Computation of Indirect Cost Rate.

	TOTAL EXPENDITURES	RECLASSIFICATIONS (Note 4)	QUESTIONABLE PROJECT COSTS INELIGIBLE (Note 5)	QUESTIONABLE PROJECT COSTS UNSUPPORTED (Note 5)	CORRECT POOL	AUDIT FINDING REFERENCE
INDIRECT COST POOL (Note 6)						
PERSONNEL COMPENSATION	$351,060	-	$31,910	-	$319,150	Page 14, (A)
PERSONNEL BENEFITS	286,823	$1,481	25,104	$63,394	196,844	Page 14, (B)
STAFF DEVELOPMENT	18,405	-	3,700	-	14,705	Page 16, (C)
TRAVEL EXPENSES	15,658	-	-	-	15,658	Page 16, (D)
BFC MEETINGS AND REPRESENTATION	33,920	-	180	-	33,740	Page 17, (E)
PROPERTY MANAGEMENT	156,461	-	-	121,000	35,461	Page 17, (F)
REDECORATION AND RENOVATION	10,317	-	375	-	9,942	Page 17, (G)
EQUIPMENT MAINTENANCE	30,009	-	1,927	-	28,082	Page 17, (H)
COMMUNICATION SERVICES	19,567	-	-	-	19,567	-
PRINTING AND COPYING	2,195	-	40	-	2,155	Page 18, (I)
OFFICE AUTOMATION	112,890	-	4,714	-	108,176	Page 18, (J)
CONSULTING FEES	7,080	-	-	-	7,080	-
VEHICLE COSTS	47,182	-	1,396	-	45,786	Page 19, (K)
LEGAL AND AUDITING FEES	27,938	176	-	936	26,826	Page 19, (L)
CONTRACTUAL SERVICES	16,783	-	-	1,392	15,391	Page 19, (M)
BFC OPERATIONAL COSTS	89,224	-	2,806	-	86,418	Page 20, (N)
TOTAL INDIRECT COST POOL	**$1,225,512**	**$1,657**	**$72,152**	**$186,722**	**$964,981**	
DIRECT COST POOL						
PRE-SERVICE	$3,545,323	-	$290	-	$3,545,033	Page 11, (II)
IN-SERVICE	1,916,175	-	-	-	1,916,175	Page 11, (III)
ENGLISH FOR SPECIFIC PURPOSES	429,673	-	94	-	429,579	Page 12, (IV)
PARTICIPANT TRAINING	1,654,291	-	2,727	-	1,651,564	Page 12, (V)
OTHER DIRECT COSTS	812,929	-	153	-	812,776	Page 13, (VI)
CDELT	328,431	-	-	-	328,431	-
SUBCONTRACTORS (UNAUDITED)	2,397,563	-	-	-	2,397,563	-
OTHERS (CASH)	-	-	820	-	(820)	Page 11, (I)
TOTAL DIRECT COST POOL	**$11,084,385**	-	**$4,084**	-	**$11,080,301**	

IELP INDIRECT COST RATE CALCULATION :

TOTAL INDIRECT COSTS IN CORRECT POOL = $964,981
TOTAL DIRECT COSTS IN CORRECT POOL = $11,080,301

IELP INDIRECT COST RATE (ROUNDED) = 8.71%

The accompanying notes are an integral part of this Schedule of Computation of Indirect Cost Rate.

BINATIONAL FULBRIGHT COMMISSION

NOTES TO THE FUND ACCOUNTABILITY STATEMENT AND SCHEDULES OF COMPUTATIONS OF INDIRECT COST RATES

NOTE 1 - SCOPE OF STATEMENT:

The fund accountability statement includes project revenues received and costs incurred by BFC under Grant Agreement No. 263-0125-G-00-1010-00 ("ETP No. 1"), Grant Agreement No. 263-0125-G-00-4024-00 ("ETP No. 2"), and Cooperative Agreement No. 263-0125-A-00-0098-00 ("IELP Agreement") (collectively, the "Agreements"), for the periods October 1, 1990 through September 30, 1993: February 8. 1994 through September 30, 1994; and October 1, 1990 through September 30, 1994 (collectively, the "audit periods"); respectively.

"Budget" includes USAID/Egypt approved costs in accordance with the most recent budget modification or amendment of the Agreements within the audit periods. and is presented for informational purposes only. Modification No. 1 to ETP No. 1, dated May 30. 1992. approved project costs of $225,000 during the period October 1, 1990 through September 30, 1993. ETP No. 2, dated February 8, 1994, approved costs of $208,512 for the period February 8, 1994 through September 15, 1995. Amendment No. 6 to the IELP Agreement, dated May 1, 1994, approved project costs of $12,520,335 and LE 1,257,871 during the period October 1, 1990 through September 30, 1994. Budget amounts in Egyptian Pounds ("LE") have been converted to US dollars as explained in Note 3 below.

"Actual" represents cumulative project revenues received and costs incurred under the Agreements during the audit periods. "Revised Actual" represents actual project costs adjusted for project cost reclassifications as explained in Note 4 below. Expenditures in LE have been converted to US dollars as explained in Note 3 below.

NOTE 2 - BASIS OF PRESENTATION:

The fund accountability statement and schedules of computations of indirect cost rates of BFC have been prepared on the basis of cash receipts and disbursements. modified for certain items. Project revenues are recognized when received. Project costs are recognized when paid rather than when the obligation is incurred. However. the indirect cost pools also contain depreciation charges and certain accrued costs.

NOTE 3 - FOREIGN EXCHANGE:

Actual and budgeted project revenues and costs in LE have been converted to US dollars at an exchange rate of 3.28 LE to one U.S. Dollar. The exchange rate has been calculated by averaging the ending monthly exchange rates during the audit periods.

NOTE 4 - PROJECT COST RECLASSIFICATIONS:

Certain project costs associated with various budget line items and the indirect cost pools were recorded in the project's accounting records in the incorrect budget line or incorrect indirect cost pool. These project costs have been reclassified to facilitate a more appropriate comparison between actual and budgeted project costs. Individual line item expenditures in excess of budget are allowable expenses in accordance with the terms of the Agreements.

NOTE 5 - QUESTIONABLE COSTS:

Questionable costs are presented in two separate categories, ineligible and unsupported. Costs in the columns labeled "Ineligible" are those not program-related or prohibited by the Agreements or applicable laws and regulations. Costs in the columns labeled "Unsupported" are not supported with adequate documentation. Questionable project costs have been segregated between direct and indirect costs of each Agreement. Direct questionable costs have been further segregated by individual budget line item: indirect questionable costs have been segregated by cost pool line item. No direct questionable costs were noted for ETP No. 1 and ETP No. 2.

NOTE 5 - QUESTIONABLE COSTS (CONT'D):

	Questionable Costs	
	Ineligible	**Unsupported**
DIRECT COSTS - IELP		
I. CASH		
1. Mandatory Standard Provision No. 3, governing the IELP Agreement, requires interest earned in excess of $100 on funds provided by USAID/Egypt, to be returned to USAID/Egypt quarterly. BFC did not return interest earned of $820 (actual interest of $920 less $100). This interest was used to credit BFC's endowment account to offset penalty charges incurred for the early termination of a time deposit. The funds from this time deposit were used as an advance to the IELP program to cover shortfalls in USAID/Egypt funding during the 1993/1994 fiscal year. Nevertheless, the amount is considered ineligible.	$ 820	$ -
Total Cash Questioned Costs	**$ 820**	**$ -**
II. PRE-SERVICE		
1. BFC billed USAID/Egypt for Nursery School fees incurred for an IELP employee's child. USAID/Egypt Standard Regulation No. 0270, Education Allowance, permits the billing of schooling costs from Kindergarten to High School only. Therefore, $290 in Nursery School fees paid have been questioned as ineligible.	$ 290	$ -
2. Optional Standard Provision No. 4 governing the IELP Agreement, in effect from October 1, 1990 through April 30, 1994, states that written approval from the project officer must be obtained for any international trips financed by the grant. Such approval was not obtained for various international trips taken by IELP personnel. Therefore, $208,127 incurred for international travel has been questioned as ineligible. ***Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been removed from the final report.***	-	-
Total Pre-Service Questioned Costs	**$ 290**	**$ -**
III. IN-SERVICE		
1. BFC charged USAID/Egypt for the loss of a security deposit on an apartment occupied by an IELP appointee. According to USAID/Egypt Contractor Notice 3-92, Security Deposits on Rental Properties, USAID/Egypt will not reimburse the grant recipient for such charges. $305 has therefore been questioned as ineligible. ***Based on further review of the applicable regulations, this finding has been adjusted to exclude the amounts previously questioned.***	$ -	$ -

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NOTE 5 - QUESTIONABLE COSTS (CONT'D):

	Questionable Costs	
	Ineligible	**Unsupported**
2. Optional Standard Provision No. 4 governing the IELP Agreement, in effect from October 1, 1990 through April 30, 1994, states that written approval from the project officer must be obtained for any international trips financed by the grant. Such approval was not obtained for various international trips taken by IELP personnel. Therefore, $119,620 incurred for international travel has been questioned as ineligible. Additionally, included in the above amount are $19,452 of charges for air travel using non-US flag carriers. Section (k) of Provision No. 4 requires a Certification of Unavailability of US Flag Carriers be submitted when travel on a US flag carrier is not possible. No such certificates were obtained for these charges. ***Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been removed from the final report.***	$ -	$ -
Total In-Service Questioned Costs	$ -	$ -
IV. English for Specific Purposes		
1. According to OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B, Section 46(a), taxes from which the organization has exemptions available are not allowable as charges to the grant. BFC is a tax exempt organization; therefore, $94 of sales taxes paid in connection with the purchase of office supplies are considered ineligible costs.	$ 94	$ -
2. Optional Standard Provision No. 4 governing the IELP Agreement, in effect from October 1, 1990 through April 30, 1994, states that written approval from the project officer must be obtained for any international trips financed by the grant. Such approval was not obtained for various international trips taken by IELP personnel. Therefore, $17,013 incurred for international travel has been questioned as ineligible. ***Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been removed from the final report.***	-	-
Total English for Specific Purposes Questioned Costs	$ 94	$ -
V. PARTICIPANT TRAINING		
1. BFC allocated charges related to a reception held for TSI program participants and their families. The activities conducted during the reception were not in accordance with allowable orientation costs according to USAID/Egypt Handbook 10, Participant Training, Chapter 17. Also, OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B, Section 12, prohibits the charging of entertainment related costs. As such, $2,727 of such costs are considered ineligible.	$ 2,727	$ -

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NOTE 5 - QUESTIONABLE COSTS (CONT'D):

		Questionable Costs	
		Ineligible	**Unsupported**
2.	Meals provided to participants during a predeparture orientation meeting were charged to USAID/Egypt. These same participants received a per diem for attending the orientation. Per diem amounts provided to participants are generally used to cover costs of meals and incidental expenses incurred by the participant. As such, it is inappropriate to charge USAID/Egypt for meals in addition to per diem. Therefore, $242 in amounts paid for meals have been questioned as ineligible. ***Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been removed from the final report.***	$ -	$ -
3.	USAID/Egypt Handbook 10, Participant Training, Chapter 17, states that pre-orientation travel costs paid by BFC are not allowed as charges to the grant. As such, $586 in payments of this nature are considered ineligible. ***Based on further review of the applicable regulations, this finding has been adjusted to exclude the amounts previously questioned.***	-	-
4.	Optional Standard Provision No. 4 governing the IELP Agreement, in effect from October 1, 1990 through April 30, 1994, states that written approval from the project officer must be obtained for any international trip financed by the grant. Such approval was not obtained for certain international trips taken by IELP personnel. Therefore, $32 incurred for international travel has been questioned as ineligible. ***Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been removed from the final report.***	-	-
Total Participant Training Questioned Costs		$ 2,727	$ -
VI.	OTHER DIRECT COSTS		
1.	According to OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B, Section 46(a), taxes from which the organization has exemptions available are not allowable as charges to the grant. BFC is a tax exempt organization; therefore, $153 of sales taxes paid in connection with the purchase of supplies and materials are considered ineligible costs.	$ 153	$ -

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NOTE 5 - QUESTIONABLE COSTS (CONT'D):

	Questionable Costs	
	Ineligible	Unsupported
2. Optional Standard Provision No. 4 governing the IELP Agreement, in effect from October 1, 1990 through April 30, 1994, states that written approval from the project officer must be obtained for any international trips financed by the grant. Such approval was not obtained for various international trips taken by IELP personnel. Therefore, $33,842 incurred for international travel has been questioned as ineligible. ***Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been removed from the final report.***	$ -	$ -
Total Other Direct Questioned Costs	**$ 153**	**$ -**
Total IELP Direct Questioned Costs	**$ 4,084**	**$ -**
IELP INDIRECT QUESTIONED COSTS		
A. PERSONNEL COMPENSATION		
1. OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment A, Section D, Allocation of Indirect Costs and Determination of Indirect Cost Rates, part 2b, states "both indirect and direct costs shall exclude .... unallowable costs." The TES program currently has two program directors. USAID/Egypt approved only one program director. As such, salary amounts paid to the TES program director, disallowed by USAID/Egypt as a direct cost, are considered unallowable as an indirect cost. Therefore, $31,879 of such salary payments have been considered ineligible.	$ 31,879	$ -
2. BFC erroneously calculated the amount of overtime allowance to be allocated to the IELP indirect cost pool for an administrative staff person. As a result of this miscalculation, $31 allocated to the cost pool has been questioned as ineligible.	31	-
Total Indirect Personnel Compensation Questioned Costs	**$ 31,910**	**$ -**
B. PERSONNEL BENEFITS		
1. OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment A, Section D, Allocation of Indirect Costs and Determination of Indirect Cost Rates, part 2b, states "both indirect and direct costs shall exclude .... unallowable costs." The TES program currently has two program directors. USAID/Egypt approved only one program director. As such, medical insurance benefits paid to the TES program director, whose salary had been disallowed by USAID/Egypt as a direct cost, are considered unallowable. Therefore, $1,880 in such payments have been questioned as ineligible.	$ 1,880	$ -

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NOTE 5 - QUESTIONABLE COSTS (CONT'D):

	Questionable Costs	
	Ineligible	**Unsupported**
2. BFC allocated the Executive Director's housing allowance to the indirect cost pool based on informal market surveys conducted of area market rents. The apartment provided to the Executive Director has been leased by BFC for an indefinite period under Egyptian rental laws which favor the lessee. Under these laws, the rental amount traditionally charged is nominal and occupancy only reverts back to the owner under extreme circumstances. This creates effective ownership in the property by the lessee. According to OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B, Section 42(d), "rental costs under leases which create a material equity in the leased property are allowable only up to the amount that would be allowed had the organization purchased the property on the date the lease agreement was executed; e.g., use allowance, maintenance, ..." Section 9(d) of Attachment B of the circular limits the use allowance amount on buildings and improvements to two percent of acquisition cost annually. As the rental benefits provided to the Executive Director were not determined in this manner, the full amount of rental benefits of $63,334 has been questioned as unsupported.	$ -	$ 63,334
3. Mandatory Standard Provision No. 2.0, governing the IELP Agreement, states that the "grantee shall maintain books, records, documents, and other evidence in accordance with the grantee's usual accounting practices to substantiate charges to the grant." We were unable to obtain such support for travel expenses and allowances paid to IELP employees totaling $60. This amount is being questioned as unsupported. ***Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been adjusted to the final questioned cost amounts shown.***	-	60
4. Bonus amounts paid to a janitor were erroneously calculated based on 100 percent of total hours worked at BFC. Actual hours expended on IELP related activities amounted to only 40 percent. As such, bonus amounts paid in excess of actual time worked on IELP related activities have been questioned as ineligible.	257	-
5. Level of Responsibility Allowance ("LORA") paid to the Executive Director has been allocated to the indirect cost pool based on 0.2 percent of total funding received by BFC. LORA should only be computed based on 0.2 percent of funding received under the IELP Agreement. As such, excess amounts allocated to the indirect cost pool have been questioned as ineligible as shown below: (see table below)	2,245	-
6. Charges relating to obtaining work permits for IELP personnel were not computed based on actual time expended on IELP related activities for certain individuals. BFC allocated 100 percent of such charges incurred to the indirect cost pool. Therefore, $42, representing amounts allocated to the indirect cost pool in excess of actual time expended on IELP activities, has been questioned as ineligible.	42	-

Table for item 5:

Year	IELP Funds Received	0.2% LORA
90-91	$ 2,133,038	$ 4,266
91-92	2,080,053	4,160
92-93	3,561,226	7,122
93-94	4,631,472	9,263
FT800	284,968	570
Correct LORA Calculation		**$25,381**
Amount Allocated		27,626
Excess Amount Allocated		**$ 2,245**

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NOTE 5 - QUESTIONABLE COSTS (CONT'D):

	Questionable Costs	
	Ineligible	Unsupported
7. Severance benefits payable to personnel working on IELP related activities have been allocated to the indirect cost pool based on the total number of years worked at BFC by the employee. BFC pays severance benefits to employees at a rate equivalent to 1 month salary for each year worked for the first five years of service. Severance benefits equivalent to two months salary are paid for each year worked in excess of five years of service. The indirect cost pool should only be charged with those benefits that have been incurred during the grant period, 10/1/90 - 9/30/94. Further, the severance benefits allocated should be based only on the actual time expended on IELP related activities. As such, $20,680 in excess severance benefits allocated has been questioned as ineligible. It should be noted that BFC's relationship with USAID/Egypt has been ongoing since 1983 under various agreements including the IELP Agreement under audit. Severance benefits have been historically allocated to the most recent grant agreement in effect. As such, severance costs incurred during the periods covered under other grant agreements in effect were not allocated to those grants. As these grants are no longer in effect, BFC cannot recoup the cost of severance benefits payable from these grants under the current IELP Agreement.	$ 20,680	$ -
Total Indirect Personnel Benefits Questioned Costs	**$ 25,104**	**$ 63,394**
C. Staff Development		
1. Optional Standard Provision No. 4 governing the IELP Agreement, in effect from October 1, 1990 through April 30, 1994, states that written approval from the project officer must be obtained for any international trips financed by the grant. Such approval was not obtained for various trips totaling $1,884 taken by the Senior Program Officer for attending TESOL conferences. Accordingly, this amount is considered ineligible. ***Based on further review of the applicable regulations, this finding has been adjusted to exclude the amounts previously questioned.***	-	-
2. OMB Circular A-110, Uniform Requirements for Grants and Agreements with Institutions of Higher Education, Hospitals and Other Non-Profit Organizations, Attachment E, Section D, states that "only when authorized by federal legislation may property purchased with federal funds be considered as part of the recipient's in-kind contributions." BFC allocated the imputed value of training services donated by a vendor as part of the purchase of a computer system using USIA funds. As such, $3,700 in donated services are considered ineligible.	3,700	-
Total Indirect Staff Development Questioned Costs	**$ 3,700**	**$ -**
D. TRAVEL EXPENSES		
1. Optional Standard Provision No. 4 governing the IELP Agreement, in effect from October 1, 1990 through April 30, 1994, states that written approval from the project officer must be obtained for any international trips financed by the grant. Such approval was not obtained for various trips taken by BFC's Executive Director and other staff. As such, $15,658 of such costs are questioned as ineligible. ***Based on further review of the applicable regulations, this finding has been adjusted to exclude the amounts previously questioned.***	$ -	$ -
Total Indirect Travel Questioned Costs	**$ -**	**$ -**

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NOTE 5 - QUESTIONABLE COSTS (CONT'D):

	Questionable Costs	
	Ineligible	Unsupported
E. BFC MEETINGS AND REPRESENTATIONS		
1. According to OMB Circular A-122, Cost Principles for Non-Profit Organizations, "a cost is allocable to a particular cost objective such as a grant, project service or other activity in accordance with the relative benefits received." BFC has allocated per diem benefits paid to a US embassy cultural attache for attending an educational conference in Turkey. The attache does not perform activities that benefit the IELP program. As such, $180 in per diem benefits paid has been questioned as ineligible.	$ 180	$ -
Total Indirect Meeting and Representation Questioned Costs	**$ 180**	**$ -**
F. PROPERTY MANAGEMENT		
1. BFC allocated the rental cost of an apartment used solely for IELP program activities for the period October 1990 through September 1993 to the indirect cost pool based on informal market surveys conducted of area market rents. The apartment provided to the IELP program has been leased by BFC for an indefinite period under Egyptian rental laws which favor the lessee. Under these laws, the rental amount traditionally charged is nominal and occupancy reverts back to the owner only under extreme circumstances. This creates a situation of effective ownership in the property by the lessee. According to OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B, Section 42(d), "rental costs under leases which create a material equity in the leased property are allowable only up to the amount that would be allowed had the organization purchased the property on the date the lease agreement was executed; e.g., use allowance, maintenance, ..." Section 9(d) of Attachment B of the circular limits the use allowance on buildings and improvements to two percent of acquisition cost annually. As the rental charges for the apartment occupied by the IELP program were not determined in this manner, the full amount of rental costs allocated for the above mentioned period totaling $121,000 has been questioned as unsupported.	$ -	$ 121,000
Total Indirect Property Management Questioned Costs	**$ -**	**$ 121,000**
G. REDECORATION AND RENOVATION		
1. BFC allocated charges relating to the renovation of its office space to the indirect cost pool. These offices are not occupied by the IELP program. As such, costs of $375 have been questioned as ineligible.	$ 375	$ -
Total Indirect Redecoration and Renovation Questioned Costs	**$ 375**	**$ -**
H. EQUIPMENT MAINTENANCE		
1. $1,122 in sales taxes paid for the purchase of a photocopier machine used for IELP program activities have been improperly allocated to the indirect cost pool. According to OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B, Section 46(a), taxes from which the organization has exemptions available will not be allocated to the indirect cost pool. As BFC is a tax exempt organization not subject to sales taxes, any such taxes paid are considered ineligible. BFC is depreciating the cost of the photocopier machine over a period of five years. Therefore, $1,122 of sales taxes depreciated over the grant period under audit have been questioned as ineligible.	$ 1,122	$ -

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NOTE 5 - QUESTIONABLE COSTS (CONT'D):

		Questionable Costs	
		Ineligible	**Unsupported**
2.	BFC allocated charges relating to the maintenance of air-conditioning units used at offices not used for IELP activities to the indirect cost pool. As such, costs amounting to $505 have been questioned as ineligible.	$ 505	$ -
3.	BFC included duplicate charges relating to the payment of maintenance fees for air-conditioning units used by the IELP program under this category. These amounts have also been included in the indirect cost pool as part of property management charges. As such, $270 is considered ineligible and has been questioned.	270	-
4.	BFC allocated $30 in sales taxes paid for the maintenance of equipment at its facilities to the indirect cost pool. According to OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B, Section 46(a), taxes from which the organization has exemptions available will not be allocated to its indirect cost pool. As BFC is a tax exempt organization, not subject to sales taxes, $30 of such taxes paid are considered ineligible.	30	-
Total Indirect Equipment Maintenance Questioned Costs		$ 1,927	$ -
I.	**PRINTING AND COPYING**		
1.	BFC allocated $40 in sales taxes paid for printing and copying charges to the indirect cost pool. According to OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B, Section 46(a), taxes from which the organization has exemptions available will not be allocated to its indirect cost pool. As BFC is a tax exempt organization, not subject to sales taxes, $40 of such taxes paid are considered ineligible	$ 40	$ -
Total Indirect Printing and Copying Questioned Costs		$ 40	$ -
J.	**OFFICE AUTOMATION**		
1.	According to OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B, Section 9, BFC is entitled to receive compensation for the use of equipment already owned by BFC and used for the IELP program. This compensation is limited to depreciation based on the cost and estimated useful life of the equipment. As such, charging the indirect cost pool for estimated rental costs had BFC rented computers from an outside organization is improper. $3,878 in such charges have been questioned as ineligible.		
	Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been adjusted to the final questioned cost amounts shown.	$ 3,878	$ -
2.	BFC allocated costs related to the purchase of certain computer equipment, used by the IELP program, based on depreciation calculated using an estimated useful life of three years, to the indirect cost pool. The useful life of the computers is 5 years; the equipment has already been used in excess of 3 years. As such, $13,863 of excess amounts allocated to the indirect cost pool using a useful life of 3 years versus 5 years has been questioned as ineligible.		
	Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been removed from the final report.	-	-

NOTE 5 - QUESTIONABLE COSTS (CONT'D):

	Questionable Costs	
	Ineligible	**Unsupported**
3. BFC allocated the full cost related to the purchase of a fax machine in 1994 to the indirect cost pool. OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B, Section 9, allows the grant recipient to receive compensation for the use of equipment for program activities. The compensation received may be in the form of a use allowance or depreciation of the acquisition cost of the equipment. The useful life of the fax machine has been determined to be 5 years. As such, BFC should depreciate the cost of the fax machine over this period. Therefore, the $836 excess of the cost of the fax machine over the allowable depreciation for one year has been questioned as ineligible.		
Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been adjusted to the final questioned cost amounts shown.	$ 836	$ -
Total Indirect Office Automation Questioned Costs	**$ 4,714**	**$ -**
K. VEHICLE COSTS		
1. BFC has improperly allocated the cost of insurance on vehicles used by BFC to the indirect cost pool. The insurance amount allocated does not relate to vehicles used for IELP activities. As such, the amount of $1,396 has been questioned as ineligible.	$ 1,396	$ -
Total Indirect Vehicle Questioned Costs	**$ 1,396**	**$ -**
L. LEGAL AND AUDITING FEES		
1. Mandatory Standard Provision No. 2.0, governing the IELP Agreement, states that the "grantee shall maintain books, records, documents, and other evidence in accordance with the grantee's usual accounting practices to substantiate charges to the grant." Such support was not available for $936 of legal and auditing charges allocated to the indirect cost pool. The amount has therefore been questioned as unsupported.	$ -	$ 936
Total Legal and Auditing Fees Questioned Costs	**$ -**	**$ 936**
M. CONTRACTUAL SERVICES		
1. Mandatory Standard Provision No. 2.0, governing the IELP Agreement, states that the "grantee shall maintain books, records, documents, and other evidence in accordance with the grantee's usual accounting practices to substantiate charges to the grant." Such support was not available for $362 of contractual service charges allocated to the IELP indirect cost pool. The amount has therefore been questioned as unsupported.	$ -	$ 362
2. Mandatory Standard Provision No. 2.0, governing the IELP Agreement, states that the "grantee shall maintain books, records, documents, and other evidence in accordance with the grantee's usual accounting practices to substantiate charges to the grant." Such support was not available for $1,030 of bank charges allocated to the IELP indirect cost pool. The amount has therefore been questioned as unsupported.	-	1,030
Total Indirect Contractual Services Questioned Costs	**$ -**	**$ 1,392**

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NOTE 5 - QUESTIONABLE COSTS (CONT'D):

	Questionable Costs	
	Ineligible	**Unsupported**
N. BFC OPERATIONAL COSTS		
1. BFC allocated the full cost of office equipment purchased in 1994 to the indirect cost pool. OMB Circular A-122, Cost Principles for Non-Profit Organizations, Attachment B, Section 9, allows the grant recipient to receive compensation for the use of equipment. The compensation received may be in the form of a use allowance or depreciation of the acquisition cost of the equipment. The useful life of the office equipment has been determined to be 5 years. As such, BFC should amortize the cost of the use of the equipment over this period. Therefore, the $2,806 excess of the cost of the equipment over the allowable depreciation for one year has been questioned as ineligible.	$ 2,806	$ -
Total Indirect BFC Operational Questioned Costs	$ 2,806	$ -
Total IELP Questioned Indirect Costs	$ 72,152	$ 186,722
ETP NO. 2 INDIRECT QUESTIONED COSTS		
O. NATIONAL PERSONNEL BENEFITS		
1. Level of Responsibility Allowance ("LORA") paid to the Executive Director has been allocated to the indirect cost pool based on 0.2 percent of total funding received by BFC. LORA should only be computed on 0.2 percent of funding received for the ETP No. 2 grant for which the Executive Director exercises some control. As such, excess amounts allocated to the indirect cost pool have been questioned as ineligible.		

Year	ETP Fund Base	0.2% LORA
93-94	$ 13,871	$ 28
Correct LORA Calculation		$ 28
Amount Allocated		443
Excess Amount Allocated		$ 415

	Ineligible	Unsupported
(Excess Amount Allocated)	$ 415	$ -
Total Indirect National Personnel Benefits Questioned Costs	$ 415	$ -
Total ETP No. 2 Questioned Indirect Costs	$ 415	$ -
Total IELP and ETP No. 2 Questioned Indirect Costs	$ 72,567	$ 186,722
Total Direct and Indirect Questioned Costs	$ 76,651	$ 186,722

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NOTE 6 - BFC Indirect Cost Pools

BFC does not maintain one entity-wide indirect cost pool. Rather, separate indirect cost pools are maintained for significant agreements entered into with third parties. Accordingly, separate indirect cost pools are maintained under the ETP No. 2 and IELP Agreements. Included within these separate indirect cost pools, are the allocated portions of costs incurred by BFC for activities indirectly associated with and benefiting the objectives of the respective Agreements. These costs include those that have been paid for by BFC due to the absence of the costs in the USAID/Egypt approved budgets of the Agreements.

NOTE 7 - Contingencies

The agreements contain provisions whereby USAID/Egypt does not assume liability for any third party claims for damages arising out of the agreements. Nevertheless, BFC is currently party to litigation involving a former IELP employee claiming wrongful termination by BFC. The former employee is seeking lost wages, benefits, and additional damages. BFC intends to fight the case vigorously. Both BFC management and legal counsel feel BFC's position is good. The amount of settlement, if any, is currently not estimable. Management believes that final disposition of this action will not have a materially adverse effect on BFC's financial position or results of operations.

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REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROL STRUCTURE

April 17, 1996

Mr. Lou Mundy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We have audited the fund accountability statement of project revenues received and costs incurred and schedules of computations of indirect cost rates of the Binational Fulbright Commission ("BFC") under United States Agency for International Development Mission to Egypt ("USAID/Egypt") Grant Agreement No. 263-0125-G-00-1010-00, Grant Agreement No. 263-0125-G-00-4024-00, and Cooperative Agreement No. 263-0125-A-0096-00 (collectively, the "Agreements"), for the periods October 1, 1990 through September 30, 1993; February 8, 1994 through September 30, 1994; and October 1, 1990 through September 30, 1994 (collectively, the "audit periods"); respectively, and have issued our qualified report thereon dated April 17, 1996.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 of Chapter 3 of GAS since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of GAS is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

We were unable to audit $2,397,563 or LE 7,864,007 of subcontractor direct costs as supporting documentation for such costs were not available in Egypt. Accordingly, we were unable to determine the effect, if any, of questioned costs on the fund accountability statement and the schedules of computations of indirect cost rates that may have resulted had we been able to audit the subcontractor direct costs. As such, we did not assess the internal control structure of BFC as it relates to these costs.

The management of BFC is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with Management's authorization and recorded properly to permit the preparation of the fund accountability statement and schedules of computations of indirect cost rates in accordance with the terms of the related Agreements and the basis of accounting described in Note 2 of the report on the fund accountability statement. 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.

In planning and performing our audit of the fund accountability statement and schedules of computations of indirect cost rates of BFC for the audit periods, we obtained an understanding of the internal control structure as it relates to the Agreements under audit. With respect to the internal control structure, 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 to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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 in a manner that is consistent with the assertions of management in the fund accountability statement and schedules of computations of indirect cost rates.

REPORTABLE CONDITIONS - NON-MATERIAL WEAKNESSES

1. BFC does not have formal, written procurement policies and procedures established.

We noted that BFC did not have formal, written procurement policies and procedures in place during the audit periods. This resulted in many items being procured without sufficiently documented bid results and cost analysis. Optional Standard Provision No. 7, Procurement of Goods and Services, subpart (a), No. 2 and No. 3, requires the grantee to establish procurement procedures to ensure that, among other procedures, only items necessary for the performance of the intended activities under the grant are purchased; procurement transactions promote free and open competition to the extent possible; and that a cost analysis for each purchase is made. As stated above, BFC does not currently have written procurement policies and procedures in place that conform to these requirements. This increases the possibility of items being procured in violation of USAID/Egypt regulations. Management considered controls that include strong review and approval procedures over procurement as being sufficient to prevent any misuse of program funds and ensure conformance with USAID regulations. We noted no procurement related improprieties.

Recommendation No. 1

BFC is currently in the process of developing a formal procurement policies and procedures manual. We recommend that the development of this manual be completed and implemented expeditiously. Also, BFC should ensure that the policies and procedures manual developed adheres to USAID/Egypt requirements and is used in any future procurement transactions. In the future, cost analysis and bid results should be properly documented.

Subsequent to the issuance of our draft report, management has implemented the formal procurement policies and procedures manual. However, we have not tested subsequent procurement transactions to determine whether these policies are being adhered to.

* * * * *

2. **BFC does not have sufficient controls in place to ensure fixed asset accountability.**

During our audit, we noted that BFC does not routinely perform a physical inventory of its fixed assets and adjust its records to reflect changes due to additional procurement, disposals, loss and damage. Optional Standard Provision No. 21, Title To and Use of Property, subpart (f), No. 2, requires that the grantee perform a physical inventory of fixed assets at least every two years and reconcile the results with property records maintained by the grantee. The provision further requires the grantee to verify the existence, current utilization, and continued need for the assets. In addition, Statement of Auditing Standards ("SAS") No. 55, Consideration of the Internal Control Structure in a Financial Statement Audit, also indicates that an element of a good internal control system is a periodic count of fixed assets with comparisons made to the records. BFC management was unaware of their responsibilities under optional standard provision No. 21 and SAS 55. Because assets are movable, subject to loss, and deteriorate over time, physical counts should be performed to properly safeguard these assets.

Recommendation No. 2

We recommend that BFC implement procedures to perform periodic physical counts of fixed assets. This will enhance controls in place to strengthen the accountability of and ensure assets are adequately safeguarded against loss, damage, and theft.

Subsequent to issuance of our draft report, management informed us that a USAID/Egypt hired consultant performs an annual physical count of BFC's fixed assets. We recommend that BFC management be provided a copy of the consultant's reports to allow for the verification of assets on hand.

* * * * *

3. **BFC's Financial Management System ("FMS") does not accumulate, record and track program expenditures, both direct and indirect, in an easy, cost effective manner.**

In performing our audit work related to expenditures incurred under the IELP and ETP programs, we noted that BFC does not have an automated system to track program expenditures. BFC uses a spreadsheet based program to record program receipts and expenditures. This system is cumbersome and inefficient. The Standard Mandatory Provisions governing the Agreements require the grantee to maintain a FMS that provides accounting records that are supported by documentation that, at a minimum, will identify, segregate, accumulate, and record costs incurred under a grant and which fully disclose 1) the amounts and disposition of funds by the grantee, 2) the total cost of the project, 3) the portion of the costs of the project supplied or undertaken by other sources, and 4) other such records that facilitate an effective audit. Management's lack of in-depth knowledge of the applicable cost principles for indirect and direct costs has resulted in the FMS not meeting these requirements adequately. Further, to facilitate our testing, several separate detail ledgers had to be reviewed to obtain the necessary transaction level of information. In conversations with management, we also noted that an inordinate amount of time is expended in recording and monitoring program activity using the current system. The nature of the system is labor intensive and susceptible to error.

Recommendation No. 3

We recommend that BFC improve its FMS to:

1) Accumulate and record transactions in a more efficient manner eliminating unnecessary and superfluous detail ledgers.

2) Include a module to properly accumulate, segregate and record allocations to the indirect cost pools used to compute overhead rates charged to USAID.

3) If the current system cannot be improved for the above mentioned items, BFC should consider implementing a FMS that will accumulate, track and record program expenditures easily and effectively.

* * * * *

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement and schedules of computations of indirect cost rates being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the fund accountability statement and schedules of computations of indirect cost rates of BFC for the audit periods.

REPORTABLE CONDITIONS - MATERIAL WEAKNESSES

1. Controls relating to the proper accumulation of indirect cost pool charges in accordance with applicable cost principles are inadequate.

During our audit of the indirect costs rates applicable to the Agreements, we noted the following:

1) Management was unaware of the cost principles and guidelines for the computation of indirect cost rates stipulated in OMB Circular A-122, Cost Principles for Non-Profit Organizations. BFC had included many items in their indirect cost pools that were either not allowable or had been allocated using inappropriate methodologies.

2) As a result of this lack of knowledge of applicable cost principles, BFC does not have an adequate information system that allows for the accurate tracking of charges included in the indirect cost pool. BFC records supporting these allocated charges were disorganized resulting in a cumbersome, labor intensive audit of the indirect cost pool. Further, records relating to the initial establishment of provisional rates were not maintained, requiring cost pool data to be recreated.

Recommendation No. 1

We recommend that BFC management:

1. Attain an understanding of allowable cost principles as prescribed by OMB Circular A-122. In addition, BFC management should conduct an in-depth analysis of the indirect cost allocations and establish activity based cost pools in determining overhead costs to be charged to USAID and other funding organizations.

2. Improve the financial system to accurately accumulate and record items included in the indirect cost pools on a timely basis. The records should be organized to facilitate an efficient audit.

* * * * *

2. BFC does not have adequate controls in place to monitor the activities of subrecepients of grant funds.

In discussions held with BFC management and based on audit work performed on grant funds expended by a subrecipient of IELP funds, CDELT, we noted that a formal contract stipulating the terms of performance and applicable laws and regulations had not been executed between the two organizations. CDELT Management was unaware of the terms and conditions of the IELP Agreement. BFC, as the primary recipient of IELP funds, did not monitor the activities of CDELT and had limited knowledge as to whether program funds awarded to CDELT were used for the intended purpose of the IELP Agreement. The attachment to OMB Circular A-133, Audits of Institutions of Higher Learning and other Non-Profit Institutions, Section 5, states that the primary recipient of a grant is responsible for ensuring that the subrecipient has complied with the requirements of the circular. Specifically, the primary recipient is responsible for determining whether the subrecipient spent federal funds provided in accordance with applicable laws and regulations. Therefore, the primary recipient, BFC, should have established procedures to determine whether controls exist within the subrecipient's organization to ensure compliance with applicable federal laws and regulations. BFC management was unaware of these responsibilities.

During our audit of expenditures incurred by CDELT we noted that several internal controls were deficient.

- Accounting records maintained by the organization were at the minimum acceptable level to enable an effective audit of expenditures. CDELT did not use formal ledgers to properly track program expenditures.
- CDELT management was unaware of pertinent laws and regulations governing program funds awarded.
- Controls to ensure proper authorization of program expenditures were not consistently followed.
- CDELT did not perform monthly reconciliations of cash balances held. In addition, CDELT did not retain monthly bank statements to perform these reconciliations and effectively manage cash balances.
- Bank accounts were in the name of individuals responsible for managing program funds, instead of in the name of CDELT.
- The organization used cash as the principal means of transacting activities instead of establishing limits requiring the issuance of checks.
- The organization did not have formal, written procurement policies and procedures in place.

The deficient controls of the nature described above increases the susceptibility of federal funds not being used for the intended purpose. In the case of CDELT, due to the relative small size of grant funds awarded and based on the audit procedures we performed, we were able to gain satisfaction that grant funds were used for the intended purpose.

Recommendation No. 2

For future subrecipients of grant funds, a formal contract between subrecipients and BFC should be prepared outlining the responsibilities of both subrecipients and BFC, the terms of performance, and applicable rules and regulations to be followed along with other prudent clauses.

Prior to entering into subrecipient contracts, BFC should ensure that the prospective subrecipient has established proper internal controls to comply with Agreement terms and regulations and those needed to prudently manage their business. In addition, BFC needs to establish proper controls and procedures to ensure that subrecipients of funds awarded to BFC are properly monitored. In establishing such controls, we recommend that the following monitoring procedures be implemented:

- Review technical and financial reports submitted by the subrecipient for compliance with applicable laws and regulations.
- Establish control policies and procedures to provide reasonable assurance that the funds expended by the subrecipient have been expended for the intended purpose.

* * * * *

This report is intended for the information of BFC management and others within the organization and USAID/Egypt. However, this report is a matter of public record and its distribution is not limited.

Price Waterhouse

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Price Waterhouse

REPORT OF INDEPENDENT ACCOUNTANTS
ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS, AND GRANTS

April 17, 1996

Mr. Lou Mundy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We have audited the fund accountability statement of project revenues received and costs incurred and schedules of computations of indirect cost rates of the Binational Fulbright Commission ("BFC") under United States Agency for International Development Mission to Egypt ("USAID/Egypt") Grant Agreement No. 263-0125-G-00-1010-00, Grant Agreement No. 263-0125-G-00-4024-00, and Cooperative Agreement No. 263-0125-A-00-0096-00 (collectively, the "Agreements"), for the periods October 1, 1990 through September 30, 1993; February 8, 1994 through September 30, 1994; and October 1, 1990 through September 30, 1994 (collectively, the "audit periods"); respectively, and have issued our qualified report thereon dated April 17, 1996.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 of Chapter 3 of GAS since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of GAS is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

We were unable to audit $2,397,563 or LE 7,864,007 of subcontractor direct costs as supporting documentation for such costs were not available in Egypt. Accordingly, we were unable to determine the effect, if any, of questioned costs on the fund accountability statement and the schedules of computations of indirect cost rates that may have resulted had we been able to audit the subcontractor direct costs. As such, we did not perform tests of BFC's compliance with laws, regulations, contracts and grants as they relate to these costs.

Compliance with laws, regulations, contracts and grants applicable to BFC is the responsibility of BFC management. As part of obtaining reasonable assurance about whether the fund accountability statement and schedules of computations of indirect cost rates are free of material misstatement, we performed tests of BFC's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the fund accountability statement and schedules of computations of indirect cost rates was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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For purposes of this report, we have categorized the provisions of laws, regulations, contracts, and grants we tested as part of obtaining such reasonable assurance into the following categories:

- Procurement policies and procedures
- Restrictions on billing taxes
- Deposit and investment restrictions
- Budgetary expenditure limitations
- Maintenance of accounting books, records and documents
- Compensation limitations

The results of our tests disclosed no instances of non-compliance that are required to be reported herein under GAS.

This report is intended for the information of BFC management and others within the organization and USAID/Egypt. However, this report is a matter of public record and its distribution is not limited.

Price Waterhouse

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The Commission for Educational &
Cultural Exchange between the U.S.A. and the A.R.E.
(The Binational Fulbright Commission)

لجنة التبادل التعليمي والثقافي
بين الولايات المتحدة وجمهورية مصر العربية
(هيئة فولبرايت)

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FUND ACCOUNTABILITY STATEMENT AND ADDITIONAL INFORMATION

MANAGEMENT COMMENTS TO THE DRAFT AUDIT REPORT

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لجنة التبادل التعليمي والثقافي
بين الولايات المتحدة وجمهورية مصر العربية
(هيئة فولبرايت)

April 17, 1996

Price Waterhouse
4 Road 261
New Maadi, Cairo

Dear Sirs:

This letter is in response to the three draft reports prepared by your firm of the direct and indirect costs of the USAID-funded grants and cooperative agreement administered by the Binational Fulbright Commission (BFC) and presented at the exit conference on March 6, 1996.

Introduction

Given the genesis and the nature of the ETP grant agreements (No. 263-0125-G-00-1010-00 and No. 263-0125-G-00-4024-00) and the IELP cooperative agreement (No. 263-0125-A-00-0096-00), the BFC maintains that the audit findings do not take into consideration the historical facts which contributed to the questionable direct and indirect costs identified in the reports entitled "Fund Accountability Statement," "Internal Control Structure," and "Compliance With Laws, Regulations, Contracts, and Grants" which were prepared by the Price Waterhouse (PW) independent accountants. As a consequence of the manner in which the USAID-relationship evolved, the BFC was not fully cognizant of its fiscal responsibilities under the terms and conditions of the agreements which were audited.

It is the BFC's position that most of the audit findings reflect the way in which the working relationship between the United States Agency for International Development Mission to Egypt (USAID/Egypt) and the BFC has evolved over the years since the first grant agreement in 1983. At that time, because of the BFC's extensive administrative experience in educational and cultural exchanges of scholars and grantees through its regular programs in Egypt and the United States, USAID/Egypt awarded the BFC a nineteen-month grant to oversee a teacher training program at regional Egyptian universities and to send Egyptian educators to the U.S. for short-term, professional training. From a technical and administrative perspective, the BFC's unique status as a binational entity and its experience in education in Egypt gave it an advantage in setting up this university-based program.

USAID/Egypt Oversight

The BFC had no experience administering USAID/Egypt projects prior to receiving the original grant agreement in 1983. Yet, the BFC received no guidance in how to set up and to implement an internal control structure which ensured adequate compliance with USAID/Egypt regulations for administering a USAID-funded technical assistance program. While the original 1983 grant document and attachments include a reference to Office of Management and Budget (OMB) Circular No. A-122, the BFC acknowledges that, institutionally, it was not aware of the applicability of these cost principles.

The BFC point of entry in terms of interactions with responsible USAID/Egypt officials from the onset of this 1983 agreement until recently was through the Office of Education and Training (OET). With the exception of formal contract modifications, the OET was the entity designated to provide all technical and financial approvals to the BFC. OET personnel required that, throughout the grants and cooperative agreement periods, all matters related

[illegible]
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to the projects were to be channelled through OET. As a point of clarification, it should be noted that it was only in 1995 that the current OET Director urged the BFC to work directly with its USAID/Egypt Agreement Officer, instead of through the OET, on all matters related to its contractual obligations and budget approvals. Thereafter, the Agreement Officer confirmed that the BFC should be dealing directly with the Procurement Office on such matters.

Prior to 1990, the BFC received a series of grant extensions for its USAID-funded projects. These extensions were negotiated and processed through USAID/Egypt's OET. Although it is not the specific responsibility of the recipient, the BFC was closely involved with the OET in obtaining project approval for these extensions from the Government of the Arab Republic of Egypt's Ministry of International Cooperation. During this grant period, there were only two USAID-directed, independent audits of the BFC management of grant funds – the first on January 30, 1986 (Audit Report No. 6-263-86-2: Review of Exchange Rate Practices) and the second on February 28, 1988 (Audit Report No. 6-263-88-05-N: Pre-award Evaluation of Proposed Grant to the BFC). Neither of these audits revealed any improprieties in the BFC's fiscal accountability procedures. A final audit covering direct costs for one of the grant extension periods, i.e., from April 1, 1987, to September 30, 1989, was completed on December 3, 1991. Once again, no major improprieties were noted in the findings. It is important to note that USAID did not request documents to substantiate compliance with OMB Circular A-88 prior to awarding the various extensions.

In October 1990, USAID/Egypt awarded the BFC a four-year cooperative agreement which greatly expanded the BFC's teacher training activities under the umbrella of the Integrated English Language Program (IELP). USAID/Egypt also continued to issue extensions to the English Teaching Program (ETP) grants. In most respects, the modus operandi of dealing exclusively through the OET which existed prior to 1990 continued despite the different assistance instruments for the IELP. As had been the case during the grant agreement period, all discussions and negotiations for the cooperative agreement took place directly through the OET. At no time did the BFC deal only with the Agreement Officer. For instance, during the proposal preparation and budget negotiation phases, the BFC management worked extensively with the OET staff. All correspondence and face-to-face meetings with the Procurement Office staff always took place in the presence of the OET Director and Project-Officer. A clear delineation of the roles of the grant officer and the project officer was never provided, although such an explanation was required according to USAID Handbook 13, Chapter 1.B.1.a.b. and c. Thereafter, throughout the four years covered in the audit reports, the BFC sought and received clarifications and approvals concerning a multitude of matters, including those with financial implications through the OET. No USAID-directed financial audits were conducted during the original four-year period of the Cooperative agreement from 1990 to 1994. Once again, there was no request to ensure compliance with OMB Circular No. A-88 or A-122.

The assistance instrument for the IELP was in the form of a cooperative agreement, which in the BFC's interpretation, places the agreement between a grant and a contract in terms of USAID/Egypt's oversight role. In practice, the implementation of this agreement involved close cooperation between USAID/Egypt and the BFC concerning the execution of the project's technical and fiscal requirements of the project. Since the OET was closely involved in the implementation of training, the BFC believed that there existed a shared responsibility when decisions were reached and approvals were granted. Notwithstanding the contractual obligations stated in the terms and conditions of the cooperative agreement and the accountability inherent therein, the BFC believed that it was in compliance with its

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fiscal/contractual obligations. The audits referred to above did nothing to change the perception that the BFC was in compliance with its fiscal/contractual obligations. In fact, the audits may have strengthened this perception. Hence, until the current audit, there were no indications by any of the agreement stakeholders that questionable costs were being incurred, that there were potential reportable conditions, or that there were material instances of non-compliance. The 1995 audit was the first instance, since 1983, of a review of the BFC's indirect costs by independent accountants, even though the original provisional rate of 6.87% was increased in 1985 to 10.00% and in 1993 to 10.50%.

In compliance with a cooperative agreement requirement (Section 2.0.8. of the "Mandatory Standard Provisions"), a BFC-funded independent audit of IELP takes place annually. This annual audit is undertaken as part of the BFC-wide statutory audit. These annual statutory audits have been conducted by PW independent accountants. None of these statutory audits included any management recommendations concerning the BFC's management of IELP finances. Moreover, with respect to indirect costs, these audits did not differentiate between restrictive and non-restrictive use of indirect costs, even though the independent accountants had copies of the relevant grants and cooperative agreement. Hence, without any indication to the contrary, the BFC continued to administer these USAID-funded projects based on precedent and established practice.

Summary

In summary, neither the normative relationship with the donor nor the series of audits beginning in 1984 and continuing to date, allowed the BFC to identify any needed changes in the administration of the USAID-funded projects. If the patterns of shared responsibility, albeit inaccurate, in the prudent management of these projects had been established on a more timely basis, possibly during pre-award audits, then any concerns about the BFC's internal control structure could have been identified and, consequently, appropriate action would have been taken to ensure proper compliance with USAID/Egypt regulations. It should be noted that the BFC complied with all programmatic requests which USAID/Egypt made concerning the implementation of the agreements.

Audit of Grant Agreements 263-0125-G-00-1010-00 and 263-0125-G-00-4024-00 and Cooperative agreement 263-0125-A-00-0096-00 Conducted by PW

Audit Methodology

Simplified Allocation Base Method

Upon understanding the applicability of the OMB regulations, the BFC believes that a much simpler and more direct approach for the calculation of the indirect cost rate was warranted and which is compatible with the BFC accounting system. Accordingly, the BFC believes that the auditors should have been aware and advised the BFC that the simplified allocation base method was better suited to the BFC's accounting system and policies.

According to OMB Circular No. A-122, Attachment A, Section D, Subsection 1, Paragraph A and C, the simplified allocation method is preferable when " ... a nonprofit organization has only one major function or where all of its major functions benefit from its indirect costs to approximately the same degree. The determination of what constitutes an organization's major functions will depend on its purpose in being; the types of services it renders to the

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public, its clients, and its members; and the amount of effort it devotes to such activities as fund raising, public information and membership activities."

The BFC believes that it has only one major function and the institutions which fund its activities benefit from its indirect costs to approximately the same degree. As a result of a great expansion in the BFC activities and in order to strengthen the institutional capacity, the BFC, in 1990-1991, underwent a major restructuring which created several new job positions including Administrative Manager, Deputy Executive Director and Senior Program Officer. This restructuring supports the BFC's contention that it is a single organization which incurs certain costs (indirect costs) for the benefit of the entire organization.

The allocation of indirect costs and the computation of the indirect cost rate under the simplified allocation base method may simply be accomplished by (i) separating the BFC's total costs as either direct or indirect, and (ii) dividing the total allowable indirect costs by an equitable distribution base (i.e. total direct costs).

The allocation of indirect costs using the simplified allocation base method would have yielded an organization-wide indirect cost rate, complied with the requirements of OMB Circular No. A-122, and been compatible with the BFC's accounting system and the letter and spirit of the USAID/Egypt grants and cooperative agreement.

Indirect Cost Rate Using the Simplified Allocation Base Method

The BFC has calculated the organization-wide indirect cost rate for the fiscal year ending September 30, 1994, and has excluded from the indirect cost pool those items that are explicitly ineligible for USAID/Egypt reimbursement. The BFC calculated rate is 14.37%. The support for BFC's calculation is available for review.

The BFC is in the process of calculating the indirect cost rates for the fiscal years ending September 30, 1993, 1992 and 1991.

PW Audit Methodology

The audit methodology used by PW to calculate the indirect cost rate for the BFC, as discussed in OMB Circular No. A-122, was the multiple allocation base method. In the BFC's opinion, this methodology was unnecessarily laborious, incorrectly applied, and inappropriate given the nature of the BFC's operations and accounting system. The BFC maintains that a much simpler and more direct approach to calculate the indirect cost rate is available.

According to OMB Circular No. A-122, Attachment A, Section D, Subsection 3, the multiple allocation base method is appropriate "Where an organization's indirect costs benefit its major functions in varying degrees, such costs shall be accumulated into separate cost groupings. Each grouping should then be allocated individually to benefiting functions by means of a base which best measures the relative benefits." OMB Circular No. A-122 also states that, "the number of separate groupings should be held within practical limits, taking into consideration the amounts and the degree of precision required. The groupings shall be established so as to permit the allocation of each grouping on the basis of benefits provided to the major functions." The OMB Circular No. A-122 further states that "in general any cost element or cost-related factor associated with the organization's work is potentially adaptable for use as an allocation base provided (i) it can *readily be expressed* (emphasis

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added) in terms of dollars or other quantitative measures (total direct costs, direct salaries and wages, staff hours applied, square feet used...and the like) and (ii) it is common to the benefitting functions during the base period."

Due to the methodology used by PW, the BFC was required to individually analyze each of its indirect cost accounts and determine how to allocate the indirect cost account to the grants and cooperative agreement. However, each function (i.e. USAID grants, cooperative agreement, the BFC endowment, USIA, and FFC) should receive an allocation in order to ensure that the indirect cost account had been fairly allocated to the various functions. The BFC believes that the indirect cost accounts were analyzed only to determine the percentage (or amount) to be allocated to the grants and cooperative agreement. This approach may have resulted in a improper allocation to the grant and cooperative agreement. For example, if PW determined that 40% of an indirect account related to the cooperative agreement, they would have to also determine how much of the remaining 60% benefits the other functions. If this was not done, then one could not be sure that the 40% allocated to the cooperative agreement was a fair allocation.

Please note that the BFC accountants were required to separately analyze approximately sixty-two indirect cost accounts which is contrary to OMB Circular No. A-122 that, as stated above, says the number of separate groupings should be held within practical limits. In addition, in the majority of situations the base selected for allocation was arbitrary. For example, the majority of indirect cost accounts were allocated using a base which could not *readily be expressed* (i.e. verifiable) by the BFC accounting system. The BFC accounting system simply does not account for its indirect costs in a manner that is conducive to the multiple allocation base method. As an example, draft report finding, B4, Personnel Benefits: bonus amounts paid to a janitor were not allowed based on a representation from the janitor that he spent approximately 40% of his time on IELP activities. No time sheets or other supporting documentation was maintained by the janitor to support the 40% time representation. Numerous similar arbitrary allocations were noted which is not in compliance with OMB Circular No. A-122 which states that the allocation base used should *readily be expressed* in either dollar terms or other quantitative measures. Finally, it is worth mentioning that certain BFC indirect cost accounts for fiscal year ending September 30, 1994 totalling \$ 391,707 (\$ 839,542 in actual indirect costs less \$ 447,835 in the indirect cost pool population used by PW) were omitted from PW's "Indirect Costs in Correct Pool" in their schedule of Computation of Indirect Cost Pool on page 10 of their draft report. In addition, indirect cost amounts were also omitted from the fiscal years ending 1991, 1992, and 1993.

The BFC believes that, at a minimum, the indirect cost audit should have been completed for each BFC fiscal year ending September 30, as stated in OMB Circular No. A-122, Attachment A, Section D, Subsection 1, Paragraph E which states that, "the base period normally should coincide with the organization's fiscal year." Finally, PW, as the BFC's statutory auditors, should have used the annual statutory accounts as a starting point for the USAID indirect cost rate audit. This would have led to a substantial reduction in audit effort; instead, the audit process lasted nearly eight months.

Questioned Costs

The BFC has analyzed each of the questioned costs amounts noted in the PW report.

OMB Circular No. A-122, Attachment A, Section C, Subsection 1 defines indirect costs as those costs "that have been incurred for common or joint objectives and cannot be readily

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identified with a particular final cost objective." In addition the cost principles defined in OMB Circular No. A-122 form the base for which costs may be claimed for USAID/Egypt reimbursement. Accordingly, indirect costs should be charged to the indirect cost pool if the cost meets all of the following three criteria: 1) the cost is reasonable; 2) the cost is not explicitly unallowable for USAID/Egypt reimbursement; and 3) the cost is not *readily* identified with a particular grant.

Direct costs may be claimed for USAID/Egypt reimbursement if the cost meets all of the following three criteria: 1) the cost is reasonable; 2) the cost is not explicitly unallowable for USAID/Egypt reimbursement; and 3) the cost is *readily* identified with a particular grant.

In responding to the questioned costs, the BFC applied the above criteria to determine if the costs, whether direct or indirect, in the BFC's opinion, were properly questioned by PW. Described on the following pages is the BFC's detailed response to each questioned cost. Please note that the following references correspond to those used in PW's draft report. Additional supporting documents are available at the BFC's office for your review. Please note that, where applicable, the BFC has used the exchange rate of LE 3.28 equals 1 U.S. dollar which is the same exchange rate PW has applied in the draft report.

Please note that as of April 17, 1996 at 3:00 p.m., BFC received written approval from our USAID/Egypt project officer related to all international travel included as questioned costs or indirect cost pool exclusions in the PW draft report.

If you have any questions or require clarification of any matter included in this letter, please do not hesitate to contact me or any senior member of my staff.

Sincerely,

Ann B. Radwan, Ph.D.
Executive Director

Attachment

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DIRECT COSTS - IELP

I. CASH

1. **Questioned Cost (LE 2,690)** The BFC does not agree that this cost should be questioned.

   Interest earned on USAID/Egypt funds advanced to recipients should be refunded to USAID/Egypt based on Mandatory Standard Provision No. 3 attached to the BFC's Cooperative agreement. The BFC recognizes and adheres to this provision.

   The BFC believes this cost is justified based on a unique situation: interest earned was netted with interest lost because of early termination of a time deposit. The BFC incurred this charge because the USAID/Egypt funding for fiscal year ending September 30, 1994, was late arriving. In order to continue the BFC's project activities, the BFC was required first to exhaust the remaining fiscal year budget ending September 30, 1993. When funds were not received by January 1, 1994, the BFC was then required to retire one of the BFC's endowment certificates of deposit. Had the funds arrived in the proper time, the BFC would not have incurred this cost. The BFC took this action in good faith in order to continue the project's activities without interruption.

   Internal memos and written communication with the USAID/Egypt project officer related to the above action taken are available for review.

II. PRE-SERVICE

1. Questioned Cost (LE 950) The BFC does not agree that this cost should be questioned.

   The BFC included Nursery School fees paid as a benefit to the appointee. The benefit is described in the appointee's employment contract as, "school tuition and transportation fees shall be paid for all authorized accompanying dependents of the appointee from nursery school through high school...." Additionally, the USAID/Egypt agreement officer reviewed the BFC's appointee's employment contract in 1990, prior to the awarding of the cooperative agreement, and did not indicate that this was a non-allowable benefit.

   The appointee's employment contract is available for review.

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II. PRE-SERVICE (CONTINUED)

2. **Questioned Cost (LE 682,656)** The BFC does not agree that this cost should be questioned.

   The BFC acknowledges that all international travel should have been approved by the project officer. Although the USAID/Egypt project officer was aware that this travel was occurring, the BFC did not obtain prior written approval for each trip. The BFC has submitted all the details related to international travel for the project officer's written approval and have obtained his written approval dated April 17, 1996.

   Written communication with the USAID/Egypt project officer is available for review.

   The PW draft report stated that transaction details for this questioned cost could be provided upon request. In reviewing the support for this questioned cost; however, the BFC realized that PW could not provide the detailed information for this questioned cost because they had simply questioned amounts recorded in the BFC's general ledger as "international travel." PW did not review the supporting documents related to these questioned costs. Consequently, the BFC discovered that many items within the questioned amounts are not related to international travel.

   The total amount not attributable to international travel is LE 119,366. The BFC has submitted the details and supporting documents for the remaining LE 563,291 for the project officer's approval. Those costs, not related to international travel, have been excluded from this response and the BFC has removed these costs from the questioned cost total.

   Documentation to support the BFC's calculation is available for review.

III. IN-SERVICE

1. **Questioned Cost (LE 1,000)** The BFC does not agree that this cost should be questioned.

   It is the BFC's policy to pay the rental costs for IELP appointees. The BFC acknowledges that security deposits initially paid to the landlord are not eligible for USAID/Egypt reimbursement. Security deposits lost to the landlord are, however, eligible for USAID/Egypt reimbursement.

   Contractor Notice No. 3-92 states that, "...since it [the security deposit] is refundable unless the lessee damages the property or violates the lease, the contractor should seek recovery of the deposit. If the contractor chooses not to do so, this does not obligate USAID/Egypt to reimburse the contractor for a voluntary loss." As the BFC chose to seek recovery of the security deposit, but was unsuccessful in retrieving the entire amount, the partial loss of the security deposit is eligible for USAID/Egypt reimbursement.

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III. IN-SERVICE (CONTINUED)

1. continued

Further, it is a common practice in Egypt that landlords withhold security deposits through no fault of the tenant. As such, the BFC normally considers lost security deposits to be part of the rent that should be reimbursed by USAID/Egypt.

Correspondence related to the attempt to recover the lost security deposit is available for review.

2. **Questioned Cost (LE 392,654)** The BFC does not agree that this cost should be questioned.

See the BFC's response above under Pre-service II. 2. related to obtaining USAID/Egypt approval for international travel and the inclusion of non-international travel costs within this questioned cost.

The total amount not attributable to international travel is LE 116,489. The BFC has submitted the details and supporting documents for the remaining LE 275,864 for the project officer's approval.

Documentation to support the BFC's calculation is available for review.

In addition, PW has included within the questioned cost amount, LE 63,803 for charges for air travel using non-US flag carriers for which a Certification of Unavailability of U.S. Flag Carriers was not submitted to USAID/Egypt prior to the commencement of the travel. The correct amount should be less than LE 31,937 had the BFC pro-rated the round trips which included segments on American carriers. The following chart depicts the break down of the LE 63,802:

Date	Amount	Description	The BFC Response
June, 1992	LE 6,888	Air flight: Cairo-Amsterdam-Cairo	In 1992, there was no American carrier service available for flights from Cairo to Amsterdam. Consequently, the BFC used a non-American carrier. A Certification of Unavailability of U.S. Flag Carriers has been submitted for this travel.
June, 1992	LE 16,072	Air flight: Amsterdam-United States-Amsterdam	The BFC used an American carrier for this travel.

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III. IN-SERVICE (CONTINUED)

2. continued

Date	Amount	Description	The BFC Response
June, 1992	LE 15,793	Not related to international travel	Not applicable.
August, 1991	LE 16,239	Air flight: Cairo-Bangkok-Cairo	In 1991, there was no American carrier service available for flights from Cairo to Bangkok. A Certification of Unavailability of U.S. Flag Carriers has been submitted for the Cairo-Bangkok segments.
August, 1991	LE 8,810	Air flight: Cairo-Copenhagen-Brussels-Cairo	In 1991, there was no American carrier service available for flights from Cairo to Brussels via Copenhagen. A Certification of Unavailability of U.S. Flag Carriers has been submitted for the Cairo-Copenhagen-Brussels segments.

Documentation to support the BFC's calculation is available for review.

The BFC has submitted a "Certification of Unavailability of U.S. Flag Carriers" for each of the segments described above to the USAID/Egypt project officer for his written approval and has obtained his written approval dated April 17, 1996.

IV. ENGLISH FOR SPECIFIC PURPOSES

1. Questioned Cost (LE 308) The BFC does not agree that this cost should be questioned.

The BFC acknowledges that taxes assessed by the host government are not allowable for USAID/Egypt reimbursement according to the Standard Provisions B4 of the BFC's umbrella grant agreement.

This questioned cost relates to computer software purchased from the BFC's principal vendor who had purchased the software from another vendor. The sales tax charged by the first vendor was passed on to the BFC's principal vendor who had no recourse but to pass on the tax as a cost of the software. Under the circumstances, the BFC was not able to obtain an exemption from

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IV. **ENGLISH FOR SPECIFIC PURPOSES (CONTINUED)**

1. continued

the principal vendor. The BFC maintains that the taxes passed on to the principal vendor are a cost of the software, not taxes.

To illustrate USAID/Egypt's position on unavoidable taxes or duties paid by recipients, refer to USAID Handbook 13 - CIB 96-02 which states, "In supporting a grants or cooperative agreement, USAID/Egypt is obligated to reimburse the recipient for all costs in accordance with the applicable cost principles. If the recipient has no recourse but to pay duties to bring in equipment and vehicles, those costs should be reimbursable under the award."

The BFC was clearly unable to avoid such sales taxes that were passed on by the first vendor; accordingly, the BFC asserts that the sales taxes paid should be allowed for USAID/Egypt reimbursement.

Written communication with the principal vendor regarding the above matter is available for review.

2. **Questioned Cost (LE 55,803)** The BFC does not agree that this cost should be questioned.

See the BFC's response above under Pre-service II. 2. related to obtaining USAID/Egypt approval for international travel and the inclusion of non-international travel costs within this questioned cost.

The total amount not attributable to international travel is LE 34,807. The BFC has submitted the details and supporting documents for the remaining LE 20,995 for the project officer's approval.

Documentation to support the BFC's calculation is available for review.

V. **PARTICIPANT TRAINING**

1. **Questioned Cost (LE 8,943)** The BFC does not agree that this cost should be questioned.

The BFC contends that the official wrap-up gatherings are not to be classified as "entertainment costs." OMB Circular No. A-122, Attachment B, Section 12, defines "entertainment cost" as the "cost of amusement, diversion, social activities...." Activities such as those described below contribute immeasurably to the success of the BFC's exchange programs and can hardly be categorized as entertainment.

The official, wrap-up gathering is an integral part of the overall pre-departure orientation, which is a technical activity in nature and content. The three-day event is composed of workshops, discussions, and academic sessions which are designed to prepare the participants for the actual training program in the U.S. Another feature of this orientation is that the

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V. PARTICIPANT TRAINING (CONTINUED)

1. continued

participants have the opportunity to interact with each other and the senior-level field program manager. As a result, personal and professional networks are formed within the group.

These networks are important to a group of 35 educators, the majority of whom work and live in regional areas and have never traveled outside Egypt. Through these networks, the participants provide each other support and encouragement throughout the entire program. Many, if not all, of the participants have varying levels of anxiety concerning the academic demands and cross-cultural aspects of the program.

It is important to note that, over the years, this particular program has had a female participant percentage of over 50%, and that the majority of this gender group are single females. The networks are particularly important to these participants and to their families.

On the third evening of the orientation, IELP organizes an official, wrap-up gathering for the participants. Program alumni, Ministry of Education officials, U.S.G. officials, and the BFC staff are invited to this gathering. The gathering is an integral part of the orientation because new participants have the opportunity to discuss technical and cross-cultural aspects of their upcoming technical training program with program alumni and Americans.

Since each participant is allowed to bring two family members as guests to the gathering, the parents, husbands, and wives of the participants have the opportunity to meet the other participants, the field program manager, and IELP appointees. This feature of the gathering is of critical importance to the overall program because of the cultural implications, especially with having single female educators travelling to the United States without family members.

It is of importance to note that this activity was approved in the 1995-1996 budget by USAID/Egypt as "a wrap-up, official gathering for participants and program alumni on the last day of the pre-departure orientation." Wrap-up gatherings were also approved for the other 1996 participant training programs: the Summer Program for Trainers, the Teacher Training Initiative, the Spring Teacher Exchange, and the Summer Enrichment Program.

Since this activity was approved this year when the BFC used the phrase "an official, wrap-up gathering," and is being questioned when the BFC employed the word "reception" to describe the activity, perhaps the issue here is a semantic one rather than a functional one.

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V. PARTICIPANT TRAINING (CONTINUED)

2. **Questioned Cost (LE 795)** The BFC does not agree that this cost should be questioned.

   PW questioned this cost stating that "meals provided to participants during a predeparture orientation meeting were charged to USAID/Egypt. These same participants received a per diem for attending the orientation."

   BFC did not pay per diem to the participants. PW confused the amount paid to the training participants as per diem; however, the amount paid was for transportation.

   See the BFC's response below under Participant Training V. 3. related to participant transportation.

   Documentation to support the BFC's position is available for review.

3. **Questioned Cost (LE 1,921)** The BFC does not agree that this cost should be questioned.

   The BFC applies the provisions of USAID Handbook 10, Participant Training in accordance with the Cooperative agreement, Amendment No. 6, Standard Provision 17, paragraph b.

   This questioned cost relates to the transportation allowance which was given to regionally-based participants to help them to defray expenses incurred when they travel from their home regions to Cairo to attend official pre-departure and post-training activities. For example, the TSI program is composed of three main in-country technical activities: 1) the Study Skills Workshop (3 days); 2) the Pre-Departure Orientation (3 days); and 3) the Post-Training Debriefing (1 day). All three activities are integral components to the overall program.

   The Study Skills Workshop focuses exclusively on technical issues which prepare the participants for a four-month, self-directed Study Skills Improvement Course which must be completed prior to their departure to the United States. Even though this workshop is an integral portion of the overall TSI participant training program, the three-day event should be considered as an in-country technical training activity. The BFC is not *required* to organize this activity as part of the program. The BFC believes, also, that one could argue the position that the workshop, in upgrading the academic skills of the participants, makes the US-based training program more cost effective because the participants are better prepared technically and, therefore, better able to benefit from the training they receive in the U.S.

   The BFC would also like to emphasize the fact that the majority of the BFC training program participants work and live in all regions of the country. The BFC does not focus only on participants from Cairo and Alexandria. Therefore, when factoring the salaries that the participants make, the BFC's not providing a transportation allowance would be a disincentive to someone

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V. **PARTICIPANT TRAINING (CONTINUED)**

3. continued

to upgrade his or her technical skills by participating in the overall training program.

PW has questioned this cost based on USAID Handbook 10, Chapter 17, Section 17D, paragraph 3 (d) 1. which states, "when in-country travel and per diem expenses are necessary for predeparture orientation, they should be paid by the host country." As the BFC is operating under a cooperative agreement, and, in the absence of a cost-sharing arrangement, and not a host country contract, the BFC believes that this provision is not applicable to the BFC.

4. **Questioned Cost (LE 105)** The BFC does not agree that this cost should be questioned.

See the BFC's response above under Pre-service II. 2. related to obtaining USAID/Egypt approval for international travel and the inclusion of non-international travel costs within this questioned cost.

The total amount not attributable to international travel is the full amount, LE 105.

Documentation to support the BFC's calculation is available for review.

VI. **OTHER DIRECT COSTS**

1. **Questioned Cost (LE 502)** The BFC does not agree that this cost should be questioned.

The BFC acknowledges that taxes assessed by the host government are not allowable for USAID/Egypt reimbursement according to the Standard Provisions B4 of the BFC's umbrella grant agreement.

This questioned cost relates to sales taxes applied by a public sector vendor on the telephone bill. The BFC attempted to obtain an exemption from sales taxes applied by presenting the BFC's tax exemption letter. The vendor required that a letter specifically addressed to the telephone company for each bill would be required in order for an exemption to be granted. Considering the lengthy process involved in obtaining a blanket tax exemption letter, obtaining an exemption letter for each telephone bill is extremely impractical. Under the circumstances, the BFC was not practically able to obtain an exemption from the public sector vendor. In addition, the BFC promptly notified the USAID/Egypt project officer about the BFC's efforts relating to this matter.

To illustrate USAID/Egypt's position on unavoidable taxes or duties paid by recipients, refer to USAID Handbook 13 - CIB 96-02 which states, "In supporting a grants or cooperative agreement, USAID/Egypt is obligated to

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VI. OTHER DIRECT COSTS (CONTINUED)

1. continued

reimburse the recipient for all costs in accordance with the applicable cost principles. If the recipient has no recourse but to pay duties to bring in equipment and vehicles, those costs should be reimbursable under the award."

The BFC was clearly unable to avoid sales taxes for which the BFC's exemption letter was refused by the public sector vendor; accordingly, the BFC asserts that unavoidable taxes should be allowed for USAID/Egypt reimbursement.

Written communication with the USAID/Egypt project officer and the telephone company regarding the above matter is available for review.

2. **Questioned Cost (LE 111,002)** The BFC does not agree that this cost should be questioned.

See the BFC's response above under Pre-service II. 2. related to obtaining USAID/Egypt approval for international travel and the inclusion of non-international travel costs within this questioned cost.

The total amount not attributable to international travel is LE 42.998. The BFC has submitted the details and supporting documents for the remaining LE 68,004 for the project officer's approval.

Documentation to support the BFC's calculation is available for review.

INDIRECT COSTS - IELP

A. PERSONNEL COMPENSATION

1. **Indirect Cost Pool Exclusion (LE 104,563)** The BFC does not agree that this cost should be excluded from the indirect cost pool.

This cost does not relate directly to the USAID/Egypt projects, but it does relate to the overall benefit of the BFC organization; therefore, by definition, this amount should be charged to the indirect cost pool.

The BFC's reasons for not including this cost as a direct cost are as follows:

> This costs refers to the salary which was paid to one of the two coordinators of the Teacher Exchange Segment (TES) for the 1993-1994 fiscal year. Incidentally, the report incorrectly refers to TES as the TSI. The TSI is an acronym which is used for a pre-service participant training program called the Teaching English to Speakers of Other Languages (TESOL) Summer Institute program.

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A. PERSONNEL COMPENSATION (CONTINUED)

1. continued

When IELP was designing TES in the spring of 1993, OET agreed to the role and function that the coordinator in question would have as one of the two TES coordinators. Due to the time constraints involved in setting up this activity and to the cultural sensitivities of placing American "foreign" teachers in Egyptian schools, OET personnel acknowledged the necessity of having an individual who was knowledgeable of, and had contacts within, the Ministry of Education and the Experimental Language Schools. This coordinator was responsible for serving as the BFC's primary liaison with the Ministry of Education and Experimental Language Schools to procure all requisite clearances from these institutions and to ensure that institutions understood the program from technical and cross-cultural perspectives.

It was decided not to include this coordinator's salary as a direct program cost, based on the precedent that each technical component should have only one supervisor.

In addition, the BFC would like to highlight the fact that six months prior to the formalization of TES as a part of IELP, the individual who became this coordinator was employed by the BFC to act as an advisor to plan and to design this training activity.

To demonstrate OET's acknowledgement that it viewed the coordinator in question as one of the TES coordinators, one should refer to the *IELP Quarterly Performance Report* for the May 1993 to July 1993 period, in which IELP reported on its activities concerning the development of an initial, one-year pilot TES activity in the Ministry of Education's Experimental Language Schools. This report and all subsequent quarterly reports refer to this coordinator as one of the TES coordinators. No objections were ever made to this coordinator either being called or functioning as one of the TES coordinators.

Further, it should be noted that the 1995-1996 budget contains the salary for this position as a direct line item cost.

Supporting documents further explaining the role of the IELP coordinator discussed above are available for review.

2. **Indirect Cost Pool Exclusion (LE 102)** The BFC agrees that this cost should be excluded from the indirect cost pool.

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B. PERSONNEL BENEFITS

1. **Indirect Cost Pool Exclusion (LE 6,166)** The BFC does not agree that this cost should be excluded from the indirect cost pool.

   See the BFC's response above under Personnel Compensation A. 1. related to the TES Coordinator and the definition of an indirect cost.

   Supporting documents further explaining the role of the IELP coordinator discussed above are available for review.

2. **Indirect Cost Pool Exclusion (LE 207,736)** The BFC does not agree that this cost should be *entirely* excluded from the indirect cost pool.

   Housing costs are part of the Executive Director's benefits included in her contractual agreement, accordingly, a value must be assigned to the housing and such value should be charged to the organization's indirect cost pool as the Executive Director benefits the BFC organization.

   The BFC acknowledges that the valuation of the flat rental may not have been in accordance with USAID/Egypt regulations. The BFC did, however, attempt to provide a reasonable estimate of the fair rental value of the BFC's flat to be charged to the indirect cost pool by obtaining a rental market survey.

   The BFC acknowledges that the lease payments of this flat create a material equity in the property and should be depreciated over the useful life of the property from the date that such material equity is created. OMB Circular No. A-122, Attachment B, Section 42, Paragraph d., states that, "a material equity in the property exists if the lease is noncancelable or is cancelable only upon the occurrence of some remote contingency and has one or more of the following characteristics: ...the term of the lease...is equal to 75 percent or more of the economic life of the leased property; i. e., the period the property is expected to be economically useable by one or more users."

   The OMB Circular No. A-122, Attachment B, Section 42, Paragraph d.1., gives the option to depreciate such material equity or to apply a use allowance to the acquisition price. Depreciation is more appropriate as opposed to use allowance in this case because the flat has never been depreciated. This treatment is in accordance with OMB Circular No. A-122, Attachment B, Section 9, Paragraph a. which states that "compensation for the use of buildings...may be made through...depreciation."

   The BFC's lease for this flat should be capitalized beginning in 1987. Under the Egyptian property rental laws, the Egyptian tenant is favored. Prior to 1987, the BFC was not recognized as a legal entity in Egypt, consequently, was not in a position to defend itself in a court of law against any attempts from the landlord to regain possession of the flat and the landlord was able to legally regain the use of such flat at any time. Therefore, the BFC's rental contract could not be considered a lease which created a material equity in the property prior to 1987. In 1987, the BFC's occupancy in the flat was assured

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B. PERSONNEL BENEFITS (CONTINUED)

2. continued

for the foreseeable future, as the BFC was able to defend itself in a court of law against any attempts from the landlord to regain possession of the flat.

The BFC will, therefore, capitalize the flat beginning in 1987 and depreciate the asset over 20 years. The value of the property in 1987, determined by a reputable real estate service is LE 1,000,000. The BFC has chosen 20 years as opposed to 30, 40, or 50 years due to the volatility of the Egyptian lease laws which casts some doubt on the BFC's indefinite occupancy of the flat.

LE 1,000,000 depreciated over 20 years equals LE 50,000 each year. LE 50,000 * 4 years equals LE 200,000. Comparing the calculated depreciation (LE 200,000) with the BFC's previous estimate of the rental value (LE 207,736) shows a difference of LE 7,306 that should be subtracted from the indirect cost pool.

The legal opinion, real estate valuation, protocol, and gazette publication that support the BFC's conclusion are all available for review.

3. **Indirect Cost Pool Exclusion (LE 324)** The BFC does not agree that this cost should be *entirely* excluded from the indirect cost pool.

The BFC agrees that the accommodation costs for which the BFC does not have original supporting documents from the hotel should be excluded from the indirect cost pool.

The BFC does not agree that the cost for transportation should be removed from the indirect cost pool. According to USAID/Egypt USAID Handbook 22, Chapter 301, travel costs less than $ 50 per trip do not require supporting documents to be eligible for USAID/Egypt reimbursement.

It should be noted, however, that the BFC has on file and available for review a detailed cost report from the individuals who travelled.

Consequently, the BFC agrees to remove from the indirect cost pool LE 183 (LE 105 + 78), which is the portion of this cost that relates to accommodation.

4. **Indirect Cost Pool Exclusion (LE 843)** The BFC does not agree that this cost should be excluded from the indirect cost pool.

This cost does not relate directly to the USAID/Egypt projects, but it does relate to the overall benefit of the BFC organization; therefore, by definition, this amount should be charged to the indirect cost pool.

It is the BFC's official policy to pay a one-month bonus to all staff members for the three major feasts recognized in Egypt. Such costs are allowable in accordance with OMB Circular No. A-122, Attachment B, Section 6,

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B. PERSONNEL BENEFITS (CONTINUED)

4. continued

Subsection f, paragraph 2, which states that "fringe benefits...[are allowable] provided such benefits are granted in accordance with the established written organization policies."

Bonus payments are normal, recurring costs for the BFC to do business and are accounted for as indirect costs. Bonuses are, therefore, an eligible indirect cost that should be included in the indirect cost pool.

The janitors' employment contracts are available for review.

5. **Indirect Cost Pool Exclusion (LE 7,363)** The BFC does not agree that this cost should be excluded from the indirect cost pool.

This cost does not relate directly to the USAID/Egypt projects, but it does relate to the overall benefit of the BFC organization; therefore, by definition, this amount should be charged to the indirect cost pool.

It is the BFC's official policy to pay to the BFC's Executive Director a Level of Responsibility Allowance (LORA) equalling .2% of all the BFC revenue. Such costs are allowable in accordance with OMB Circular No. A-122, Attachment B, Section 6, Subsection f, paragraph 2, which states that "fringe benefits...[are allowable]...provided such benefits are granted in accordance with the established written organization policies."

This cost is a normal, recurring cost for the BFC to do business and is accounted for as an indirect cost. This cost is, therefore, an eligible indirect cost that should be included in the indirect cost pool.

The letter in which the BFC Board of Directors authorized the LORA is available for review.

6. **Indirect Cost Pool Exclusion (LE 137)** The BFC does not agree that this cost should be excluded from the indirect cost pool.

This cost does not relate directly to the USAID/Egypt projects, but it does relate to the overall benefit of the BFC organization; therefore, by definition, this amount should be charged to the indirect cost pool.

It is the BFC's official policy to pay the costs associated with obtaining work permits for the BFC employees. Such costs are allowable in accordance with OMB Circular No. A-122, Attachment B, Section 6, Subsection f, paragraph 2, which states that "fringe benefits...[are allowable] provided such benefits are granted in accordance with the established written organization policies."

Payments for obtaining work permits are normal, recurring costs for the BFC to do business and are accounted for as indirect costs. Such payments are,

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B. PERSONNEL BENEFITS (CONTINUED)

6. continued

therefore, an eligible indirect cost that should be included in the indirect cost pool.

7. **Indirect Cost Pool Exclusion (LE 67,830)** The BFC does not agree as to the portion of this cost that PW has excluded from the indirect cost pool.

This cost does not relate directly to the USAID/Egypt projects, but it does relate to the overall benefit of the BFC organization; therefore, by definition, this amount should be charged to the indirect cost pool.

This indirect pool allocation relates to a calculated severance liability for the BFC employees which is allowable for USAID/Egypt reimbursement according to the OMB Circular No. A-122, Attachment B, Section 44.

Severance costs are normal, recurring costs for the BFC to do business and are accounted for as indirect costs. Such payments are, therefore, an eligible indirect cost that should be included in the indirect cost pool.

The BFC has calculated the severance allocation for fiscal years ending September 30, 1991 through 1994. The calculated allocation for this period is LE 403,656. PW selected a severance allocation of LE 318,400 from the BFC indirect cost pool. This difference of LE 85,256 should be added to the indirect cost pool.

Support for the BFC's allocation of severance benefits to the indirect cost pool is available for review.

C. STAFF DEVELOPMENT

1. **Indirect Cost Pool Exclusion (LE 6,181)** The BFC does not agree that this cost should be excluded from the indirect cost pool.

See the BFC's response above under Pre-service II. 2. related to obtaining USAID/Egypt approval for international travel and the inclusion of non-international travel costs within this cost.

The total amount not attributable to international travel is LE 2,654. The BFC has submitted the details and supporting documents for the remaining LE 3,527 for the project officer's approval.

Documentation to support the BFC's calculation is available for review.

2. **Indirect Cost Pool Exclusion (LE 12,135)** The BFC agrees that this cost should be excluded from the indirect cost pool.

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D. TRAVEL EXPENSES

1. **Indirect Cost Pool Exclusion (LE 51,358)** The BFC does not agree that this cost should be excluded from the indirect cost pool.

See the BFC's response above under Pre-service II. 2. related to obtaining USAID/Egypt approval for international travel and the inclusion of non-international travel costs within this cost.

The total amount not attributable to international travel is LE 22,927. The BFC has submitted the details and supporting documents for the remaining LE 28,431 for the project officer's approval.

Documentation to support the BFC's calculation is available for review.

E. BFC MEETINGS AND REPRESENTATIONS

1. **Indirect Cost Pool Exclusion (LE 590)** The BFC does not agree that this cost should be excluded from the indirect cost pool.

This cost does not relate directly to the USAID/Egypt projects, but it does relate to the overall benefit of the BFC organization; therefore, by definition, this amount should be charged to the indirect cost pool.

The Cultural Affairs Officer from the U.S. Embassy who is a member of the BFC Board of Directors and the BFC's Treasurer joined the BFC's Executive Director on a trip to Turkey to attend a conference which benefits the BFC organization.

Costs associated with business development are normal, recurring costs for the BFC to do business and are accounted for as indirect costs. Such payments are, therefore, an eligible indirect cost that should be included in the indirect cost pool.

F. PROPERTY MANAGEMENT

1. **Indirect Cost Pool Exclusion (LE 396,880)** The BFC does not agree that this cost should be *entirely* excluded from the indirect cost pool.

This cost relates to one of the BFC offices that is used in the BFC's administration, accordingly, a value must be assigned to the flat and such value should be charged to the organization's indirect cost pool as the activities conducted in the office benefits the BFC organization.

See the BFC's response above under Personnel Compensation B. 2. related to depreciation of capitalized leases.

The BFC will, therefore, capitalize the flat beginning in 1987 and depreciate the asset over 20 years. The value of the property in 1987, determined by a reputable real estate service is LE 1,250,000. The BFC has chosen 20 years as

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F. PROPERTY MANAGEMENT (CONTINUED)

1. continued

opposed to 30, 40, or 50 years due to the volatility of the Egyptian lease laws which casts some doubt on the BFC's indefinite occupancy of the flat.

LE 1,250,000 depreciated over 20 years equals LE 62,500 each year. LE 62,500 * three years equals LE 187,500. Comparing the calculated depreciation (LE 187,500) with the BFC's previous estimate of the rental value (LE 396,880) shows a difference of LE 209,380 that should be deducted from the indirect cost pool.

The legal opinion, real estate valuation, protocol, and gazette publication that support the BFC's conclusion are all available for review.

G. REDECORATION AND RENOVATION

1. **Indirect Cost Pool Exclusion (LE 1,231)** The BFC does not agree that this cost should be excluded from the indirect cost pool.

This cost does not relate directly to the USAID/Egypt projects, but it does relate to the overall benefit of the BFC organization; therefore, by definition, this amount should be charged to the indirect cost pool.

Renovation work was performed on one of the BFC flats. Although, the BFC is operating in several locations in Garden City and Zamalek, the BFC is operating as one organization with one Executive Director. The BFC has one office-wide maintenance and renovation plan. Therefore, costs charged for renovating one office location are considered to be a renovation for the BFC organization.

Renovation costs are normal, recurring costs for the BFC to do business and are accounted for as indirect costs. Such costs are, therefore, an eligible indirect cost that should be included in the indirect cost pool.

H. EQUIPMENT MAINTENANCE

1. **Indirect Cost Pool Exclusion (LE 3,681)** The BFC does not agree that this cost should be *entirely* excluded from the indirect cost pool.

The BFC acknowledges that taxes assessed by the host government are not allowable for USAID/Egypt reimbursement according to the Standard Provisions B4 of the BFC's umbrella grant agreement. This cost, however, relates to sales taxes paid on a photocopier purchased before the BFC obtained a tax exemption letter.

Contractor Notice 1-92 dated January 12, 1992 notified USAID/Egypt contractors about the country-wide sales tax announced on May 1, 1991. The notice clarified that the sales tax would be considered by USAID/Egypt as an identifiable tax assessed by the host government which is not eligible for

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H. EQUIPMENT MAINTENANCE (CONTINUED)

1. continued

USAID/Egypt reimbursement. The notice also outlined the steps for obtaining a tax exempt letter that could be provided as proof to the BFC's vendors that the BFC is a tax exempt organization.

The BFC immediately acted to obtain the tax exempt letter, however, the BFC did not receive the tax exemption letter from the Egyptian Tax Authority until September 30, 1992.

To illustrate USAID/Egypt's position on unavoidable taxes or duties paid by recipients, refer to USAID Handbook 13 - CIB 96-02 which states, "In supporting a grants or cooperative agreement, USAID/Egypt is obligated to reimburse the recipient for all costs in accordance with the applicable cost principles. If the recipient has no recourse but to pay duties to bring in equipment and vehicles, those costs should be reimbursable under the award."

The BFC was clearly unable to avoid such sales taxes that were assessed prior to September 30, 1992; accordingly, the BFC asserts that taxes paid should be allowed for USAID/Egypt reimbursement. Accordingly, the BFC will capitalize the sales taxes as part of the cost of the photocopier which will then be depreciated in accordance with OMB Circular No. A-122, Attachment B, Section 9.

Invoices related to the photocopier purchase are available for review.

2. **Indirect Cost Pool Exclusion (LE 1,658)** The BFC does not agree that this cost should be excluded from the indirect cost pool.

This cost does not relate directly to the USAID/Egypt projects, but it does relate to the overall benefit of the BFC organization; therefore, by definition, this amount should be charged to the indirect cost pool.

Maintenance work was performed on air conditioners at one of the BFC flats. Although, the BFC is operating in several locations within Garden City and Zamalek, the BFC is operating as one organization with one Executive Director. The BFC has one office-wide maintenance and renovation plan. It would be extremely arduous for the BFC to calculate the amount of time the air conditioner runs while IELP business is being conducted in a particular room and to apportion the air conditioner maintenance costs to IELP based on that calculation. Therefore, costs charged for maintaining air conditioner at one office location is considered to be a maintenance cost for the BFC organization.

Maintenance costs are normal, recurring costs for the BFC to do business and are accounted for as indirect costs. Such costs are, therefore, an eligible indirect cost that should be included in the indirect cost pool.

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H. EQUIPMENT MAINTENANCE (CONTINUED)

3. **Indirect Cost Pool Exclusion (LE 386)** The BFC agrees that this cost should be excluded from the indirect cost pool.

4. **Indirect Cost Pool Exclusion (LE 99)** The BFC does not agree that this cost should be excluded from the indirect cost pool.

   This cost relates to sales taxes paid for the maintenance of equipment before the BFC obtained a tax exemption letter.

   See the BFC's response above under Equipment Maintenance H. 1. related to the BFC's tax exemption letter.

   Invoices for equipment maintenance are available for review.

I. PRINTING AND COPYING

1. **Indirect Cost Pool Exclusion (LE 130)** The BFC does not agree that this cost should be excluded from the indirect cost pool.

   This cost relates to sales taxes paid on printing and copying charges. Although this cost was billed to USAID/Egypt after the BFC obtained a tax exemption letter, the invoice issued from the vendor was dated (August 20, 1991) before the BFC received the tax exemption letter.

   See the BFC's response above under Equipment Maintenance H. 1. related to the BFC's tax exemption letter.

   The invoice discussed above is available for review.

J. OFFICE AUTOMATION

1. **Indirect Cost Pool Exclusion (LE 18,952)** The BFC does not agree that this cost should be *entirely* excluded from the indirect cost pool.

   The BFC acknowledges that the valuation of the equipment rental may not have been in accordance with USAID/Egypt regulations. The BFC did, however, attempt to provide a reasonable estimate of the fair rental value of the BFC's equipment to be charged to the indirect cost pool by comparing rental fees the BFC charges to third party organizations for rental of similar equipment.

   The BFC agrees that the BFC's equipment should be capitalized at the acquisition price and depreciated in accordance with OMB Circular No. A-122, Attachment B, Section 9 over three years. The acquisition price of the property is LE 6,258. The acquisition date was June, 1991. The BFC has chosen a useful life of three years as opposed to five years.

   Deprecation is a system of accounting which distributes the cost of an asset over its estimated useful life. Selection of the appropriate measure of useful

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J. **OFFICE AUTOMATION (CONTINUED)**

1. continued

life should depend upon the nature of the asset involved and the primary causes of its depreciation. Individual companies may, for example, depreciate the same type of equipment over varying useful lives. The BFC believes that the estimated useful life of computer equipment is no more than three years. The rapidly changing technology market including computer, facsimile, and communication equipment makes products obsolete on the day of purchase. The BFC contends that depreciating the BFC's computers over three years is reasonable and not contrary to USAID/Egypt policy.

LE 6,258 depreciated over three years equals LE 2,086 each year. LE 2,086 * 3 years equals LE 6,258. Comparing the calculated depreciation (LE 6,258) with the BFC's previous estimate of the rental value (LE 18,952) shows a difference of LE 12,694 that should be deducted from the indirect cost pool.

Invoices that support the BFC's conclusion are all available for review.

2. **Indirect Cost Pool Exclusion (LE 45,471)** The BFC does not agree that this cost should be excluded from the indirect cost pool.

This cost relates to depreciation charges billed to USAID/Egypt for computer equipment based on a three-year as opposed to a five-year useful life.

Deprecation is a system of accounting which distributes the cost of an asset over its estimated useful life. Selection of the appropriate measure of useful life should depend upon the nature of the asset involved and the primary causes of its depreciation. Individual companies may, for example, depreciate the same type of equipment over varying useful lives. The BFC believes that the estimated useful life of computer equipment is no more than three years. The rapidly changing technology market--including computer, facsimile, and communication equipment--makes products obsolete on the day of purchase. The BFC contends that depreciating the BFC's computers over three years is reasonable and not contrary to USAID/Egypt policy.

3. **Indirect Cost Pool Exclusion (LE 3,291)** The BFC does not agree that this cost should be *entirely* excluded from the indirect cost pool.

The BFC acknowledges that charging the full cost of a fax machine to the indirect cost pool may not have been in accordance with USAID/Egypt regulations which require depreciation of such items. The BFC maintains a cash basis accounting system; therefore, accounting for capital assets on the accrual basis is outside the realm of the BFC's basic accounting system.

The BFC agrees that the fax machine is a capital asset that should be capitalized and depreciated. The BFC will capitalize the fax machine at the acquisition price as of the date of purchase and depreciate it in accordance with OMB Circular No. A-122, Attachment B, Section 9 over three years. The acquisition price of the property is LE 4,114. The acquisition date was in

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J. OFFICE AUTOMATION (CONTINUED)

3. continued

fiscal year ending September 30, 1994. (See discussion above under Office Automation J. 1. related to the asset's useful life.).

LE 4,114 depreciated over three years equals LE 1,371 each year. LE 1,371 * one year equals LE 1,371. Comparing the calculated depreciation (LE 1,371) with the BFC's previous estimate of the rental value (LE 823) shows a difference of LE 548 that should be added to the indirect cost pool.

Invoices that support the BFC's conclusion are available for review.

K. VEHICLE COSTS

1. **Indirect Cost Pool Exclusion (LE 4,578)** The BFC agrees that this cost should be excluded from the indirect cost pool.

L. LEGAL AND AUDITING FEES

1. **Indirect Cost Pool Exclusion (LE 3,070)** The BFC agrees that this cost should be excluded from the indirect cost pool.

M. CONTRACTUAL SERVICES

1. **Indirect Cost Pool Exclusion (LE 1,187)** The BFC agrees that this cost should be excluded from the indirect cost pool.

2. **Indirect Cost Pool Exclusion (LE 3,378)** The BFC does not agree that this cost should be *entirely* excluded from the indirect cost pool.

This cost does not relate directly to the USAID/Egypt projects. but it does relate to the overall benefit of the BFC organization; therefore, by definition, this amount should be charged to the indirect cost pool.

This cost relates bank charges for all of the BFC bank accounts. The BFC maintains one bank account for IELP funds exclusively for which the charges BFC bills USAID/Egypt directly. In addition, the BFC maintains numerous bank accounts that are shared by all of the organizations that fund the BFC's activities. The BFC is operating as one organization with one Executive Director. The BFC has one office-wide cash maintenance plan. Therefore, costs charged for maintaining one bank account are considered to be costs for the BFC organization.

Bank charges are normal, recurring costs for the BFC to do business and are accounted for as indirect costs. Such costs are, therefore, an eligible indirect cost that should be included in the indirect cost pool.

The total bank charges incurred by the BFC for fiscal years ending September 30, 1994 and 1993 that should be charged to the indirect cost pool are

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M. CONTRACTUAL SERVICES (CONTINUED)

2. continued

LE 14,675. Comparing the actual bank charges (LE 14,675) with the BFC's previous estimate of the bank charges (LE 3,378) shows a difference of LE 11,297 that should be added to the indirect cost pool.

Bank statements supporting the bank charges are available for review.

N. BFC OPERATIONAL COSTS

1. **Indirect Cost Pool Exclusion (LE 9,200)** The BFC agrees that the difference between full cost and the depreciation calculated by PW should be excluded from the indirect cost pool.

ETP NO. 2 INDIRECT QUESTIONED COSTS

O. NATIONAL PERSONNEL BENEFITS

1. **Indirect Cost Pool Exclusion (LE 1,361)** The BFC does not agree that this cost should be excluded from the indirect cost pool.

See the BFC's response above under Personnel Benefits B. 5. related to the LORA paid to the Executive Director.

REPORTABLE CONDITIONS - NON-MATERIAL WEAKNESSES

Following is the BFC's response to the reportable conditions included in the PW draft report, "Report of Independent Accountants on Internal Control Structure."

1. **The BFC does not have formal, written procurement policies and procedures established**

The BFC has a Contracting Policies and Procedures Manual dated March 1992. A revised policy was issued in March 1995. In addition, the BFC issued a Contracting Policies and Procedures Manual for IELP in July 1995.

All Policies and Procedures Manuals are available upon request.

2. **The BFC does not have sufficient controls in place to ensure fixed asset accountability**

The BFC has an inventory list which includes the BFC assets' description, purchase date, cost, location and condition. All USAID/Egypt-financed assets are properly marked with the USAID logo.

The BFC does not conduct an annual physical inventory count. USAID/Egypt, however, contracts with a consulting firm to perform an annual physical count of the BFC fixed assets purchased with USAID/Egypt funds. The consulting firms' representative is accompanied by an IELP financial staff member who compares the physical count with the IELP inventory list. The consulting firm forwards its report

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directly to USAID/Egypt. The BFC has not received a copy of such reports; however, a copy is available at USAID/Egypt.

3. **The BFC's Financial Management System ("FMS") does not accumulate, record and track program expenditures, both direct and indirect, in an easy, cost effective manner.**

The BFC does not agree that the BFC accounting system does not accumulate, record, and track program expenditures, both direct and indirect, in an easy, cost-effective manner. In fact, PW established the BFC accounting system in 1984 and, therefore, should have known the BFC's system and communicated this weakness to the BFC prior to 1996. The BFC accumulates its costs properly into a single indirect cost pool for the entire organization. The methodology used to audit the BFC's indirect cost pool made it appear that the BFC accounting system was inadequate. The purpose of an indirect cost pool is to allocate those costs that are legitimate and reasonable costs of running an organization and for which no direct benefit can be attributed to any one project, grant, agreement, fund, etc. It is not necessary to analyze each line item within the indirect cost pool to determine the portion attributable to each project, grant, agreement, fund, etc.

In the BFC's opinion, had it been USAID/Egypt's intention for the BFC to perform such an analysis, USAID/Egypt would have funded the BFC's administration costs on a direct line-by-line basis rather than offering the BFC reimbursement based on a provisional indirect rate. Unfortunately, the BFC felt that it was not in a position to challenge PW's audit methodology. After an eight-month intensive exercise which has occupied the majority of the time of ten senior the BFC staff members and crippled many of the BFC's normal activities, the BFC realizes, in retrospect, that such an exercise should have been vehemently refused – an exercise for which the BFC is now being criticized by PW.

REPORTABLE CONDITIONS - MATERIAL WEAKNESSES

1. **Controls relating to the proper accumulation of indirect cost pool charges in accordance with applicable cost principals are inadequate**

The BFC agrees that the methodology used in instances related to property depreciation may not have been in accordance with USAID/Egypt regulations. As previously mentioned, the BFC maintains one organization-wide indirect cost pool and no attempt is made to allocate indirect costs to specific grants.

2. **The BFC does not have adequate controls in place to monitor activities of subrecipients of grant funds.**

The BFC does not agree that it lacks adequate controls to monitor activities of subrecipients of agreement funds. The cooperative agreement does not treat CDELT as a subrecipient. In the program description, CDELT is one of the main components of the project. The BFC was merely a conduit for channeling funds to CDELT, as mandated by OET. The BFC had no oversight of CDELT's technical activities; these details, as well as the USAID-funded portion of CDELT's budget, were negotiated directly between OET and CDELT personnel.

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MATERIAL INSTANCES OF NON-COMPLIANCE

Following is the BFC's response to the material instances of non-compliance included in the PW draft report, "Report of Independent Accountants on Compliance with Laws, Regulations, Contracts, and Grants."

1. **The BFC did not submit a Certification of Unavailability of U.S. Flag Carriers for International Trips Taken on Non-US Flag Airlines**

PW's report stated that "Material instances of non-compliance are failures to follow requirements, or violations of prohibitions contained in laws, regulation, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement and schedules of computations of indirect costs rates."

PW noted one questioned cost in which the BFC did not obtain the Certificate of Unavailability of U.S. Flag Carriers for International Trips Taken on Non-U.S. Flag Airlines. PW questioned LE 63,802 related to this non-compliance which was incorrectly calculated. The correct amount is LE 31,937. In any event, this non-compliance should not be considered "material" given the funding level of LE 41,393,663 and PW's definition of materiality.

See the BFC's response to the questioned cost related to this material non-compliance finding above under In-Service III. 2. related to obtaining USAID/Egypt approval for international trips taken on non-U.S. flag air carriers.

2. **The BFC did not obtain prior written USAID/Egypt project officer approval for international trips taken relating to IELP program activities during the period October 1, 1990 to April 30, 1994**

The BFC acknowledges that all international trips sponsored by USAID/Egypt should have been approved by the USAID/Egypt project officer prior to the commencement of travel. The BFC will strictly adhere to this requirement in the future.

See the BFC's response to the questioned cost related to this material non-compliance finding above under Pre-service II. 2. related to obtaining USAID/Egypt approval for international travel and the inclusion of non-international travel costs within this questioned cost.

BINATIONAL FULBRIGHT COMMISSION

**USAID/EGYPT GRANT AGREEMENT
NO. 263-0125-G-00-1010-00 (ETP NO. 1),
NO. 263-0125-G-00-4024-00 (ETP NO. 2), AND
COOPERATIVE AGREEMENT
NO. 263-0125-A-00-0096-00 (IELP)**

INDEPENDENT ACCOUNTANTS RESPONSE

Management of the Binational Fulbright Commission ("BFC") provided comments to our draft report presented at the exit conference held on March 6, 1996. These comments have been included, unedited, in appendix A of this report. We have reviewed management's comments and have either adjusted our final report or clarified our positions. Our response below parallels the audit report findings and management's comments.

RESPONSE TO MANAGEMENT'S INTRODUCTION, COMMENTARY ABOUT USAID/EGYPT OVERSIGHT, AND SUMMARY

No comment.

RESPONSE TO MANAGEMENT'S COMMENTARY ON THE AUDIT CONDUCTED BY PRICE WATERHOUSE

Price Waterhouse audit approach

The Price Waterhouse audit approach follows the requirements of the American Institute of Certified Public Accountants ("AICPA's") Generally Accepted Auditing Standards ("GAAS") as well as U.S. Government Auditing Standards ("GAS"). The preparation of the fund accountability statement and schedules of computations of indirect cost rates is the responsibility of BFC management. Our responsibility is to express an opinion on this statement and schedules based on our audit. BFC management has acknowledged this responsibility in management representation letters addressed to Price Waterhouse dated August 29, 1995. Management reaffirmed these same representations in a letter dated April 17, 1996, the same day management comments were submitted. Our audit methodology does not include preparing any statements or schedules, or making any calculations or determinations that are the responsibility of management. No exception was made for the BFC audit.

BFC management has indicated in their response that Price Waterhouse calculated the indirect cost rates and that this calculation was "laborious, incorrectly applied, and inappropriate." Price Waterhouse did not prepare the schedules of computations of indirect cost rates; BFC management did. Price Waterhouse simply audited these schedules that were prepared by BFC management. BFC management has acknowledged their responsibility for the preparation of these indirect cost rates in accordance with applicable regulations in the aforementioned management representation letter. In the letter of August 29, BFC management further represents that "Management, where applicable, has allocated portions of certain indirect costs to the appropriate indirect cost pool; these allocation methodologies reasonably reflect, in management's opinion, the portions of allowable indirect costs that were incurred in achieving the objectives of the Agreements." Price Waterhouse did not make these allocations; BFC management did. We simply audited these allocations. During our pre-audit survey and the audit, we discussed with management the reasons for not having an entity-wide indirect cost rate. Management attested to us that the calculation of an entity-wide rate was impractical given their information system. Management further attested that the provisional indirect cost rates were established based upon calculations similar to the IELP and ETP schedules of computations of indirect cost rates that management provided us. Although management has represented to us that all information comprising the computation of the indirect cost rates was made available to us, it was not until we received management's written comments of April 17, 1996 that we became aware that BFC had an alternative entity-wide indirect cost rate calculation. We would be more than happy to audit this rate if BFC management, USAID/Egypt and RIG/A/C should so desire.

Moreover, our audit approach and workpapers were subjected to an external quality control review ("QCR") by Shawki and Company ("Shawki") to determine if our audit was conducted in accordance with GAS. Shawki's QCR report concludes that we did comply with GAS in performing our audit of BFC's fund accountability statement and schedules of computations of indirect cost rates.

Difficulties encountered during the audit

We concur that the audit was labor intensive. This was a result of auditing management's indirect cost rate schedules and allocation methodologies. Material Weakness No. 1 in our Report on Internal Control Structure discusses the inadequacies of controls relating to the proper accumulation of indirect cost pool charges in accordance with applicable cost principles. We note in this weakness that management was unfamiliar with OMB Circular A-122, Cost Principles for Non-Profit Organizations. As a result, many items were included in the indirect cost pools that were either unallowable or had been allocated to the indirect cost pools by management using inappropriate methodologies. Questioning these items, and in turn resolving them with management, took a significant amount of time. This was compounded by management continually revising the contents of their indirect cost pools. In an effort to finalize our work, it became necessary to give management a cut-off date for the finalization of the contents of their indirect cost pools. During the audit, our professionals made every effort to be efficient and not dominate the time of management. We met periodically with management at their convenience to discuss the current issues to keep them apprised of our findings to-date. We held two "closing meetings" on October 11, 1995 and November 1, 1995 with management to discuss, in-depth, the issues regarding their indirect cost rate calculations and our findings to-date. At these closing meetings, management made no mention of having an alternative entity-wide indirect cost rate. As a result of the aforementioned factors, the audit was less than efficient and took a significant amount of time.

Statutory audits vs. USAID/Egypt audits

Price Waterhouse does perform annual statutory audits of BFC. However, the scope and objective of the statutory audit is entirely different than the scope and objectives of the audit USAID/Egypt engaged us to perform. Our statutory audit objective was to perform audit work necessary to render an opinion on BFC's financial statements. In contrast, our USAID/Egypt audit objectives relating to the IELP and ETP agreements were five-fold. First, to express an opinion on BFC's fund accountability statement; second, to determine if the costs incurred under the IELP and ETP agreements were allowable, allocable and reasonable in accordance with the terms of the agreements; third, to evaluate and obtain a sufficient understanding of the internal control structure of BFC as it relates to the IELP and ETP agreements, assess control risk and identify reportable conditions; fourth, to perform tests to determine whether BFC complied, in all material respects, with IELP and ETP agreement terms and applicable laws and regulations; and fifth, to perform an audit of BFC's indirect cost rates.

In planning and performing both audits, we obtained an understanding of BFC's control structure to assess control risk and determine our auditing procedures and not to provide an opinion on BFC's internal control structure. Accordingly, we did not express an opinion on BFC's internal control structure. Our consideration of BFC's internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions or material weaknesses as defined by the AICPA. During the statutory audit we place little reliance on BFC's controls because we substantively test financial statement account balances. In contrast, we test individual expenditure transactions during the USAID/Egypt audit. We performed the audit work necessary to meet the objectives of both audits. Considering its objective, the statutory audit did not identify reportable conditions related to BFC's management of IELP funds. Not surprisingly, the USAID/Egypt audit objectives, which focused on the IELP and ETP agreements, did identify such reportable conditions. They are two different audits. We did, however, utilize the statutory workpapers to refamiliarize our staff with BFC's organization and general controls. Beyond this, the statutory workpapers held little utility for the USAID/Egypt audit; as previously indicated, the objectives of the statutory and USAID/Egypt audits were entirely different.

Summary

The preparation of the fund accountability statement and schedules of computations of indirect cost rates is the responsibility of BFC management. BFC management has acknowledged this responsibility in management representation letters addressed to Price Waterhouse. BFC management prepared the schedules of computations of indirect cost rates for both IELP and ETP. It is our responsibility to express an opinion on these schedules based on our audit. We did so. An external QCR team affirmed that we conducted our audit in accordance with GAS. We were unaware that BFC management had an alternative entity-wide indirect cost rate calculation until we received management's written comments of April 17, 1996.

Significant difficulties were encountered during the audit. This was a result of auditing management's indirect cost rate schedules and allocation methodologies. The schedules included numerous items in the cost pools that were either unallowable or had been allocated to the indirect cost pools using inappropriate methodologies. As noted in our report, this was attributed to management's lack of familiarity with OMB Circular A-122. In addition, management continually revised the contents of their indirect cost pools. Our professionals made every effort to be efficient and not dominate the time of management.

Price Waterhouse does perform annual statutory audits of BFC. However, the scope and objective of the statutory audit is entirely different than the scope and objectives of the USAID/Egypt audit. They are simply two different audits. Given the significant differences, a statutory audit would not identify reportable conditions related to BFC's management of specific funds/programs (i.e. IELP) , but the USAID/Egypt audit, which focused on IELP, did. In an effort to save time and be efficient, we used the statutory workpapers to refamiliarize our staff with BFC's organization and general controls.

We would be happy to answer any questions that BFC management, USAID/Egypt or RIG/A/C may have. Please contact us at your convenience.

RESPONSE TO BFC MANAGEMENT COMMENTS TO QUESTIONABLE COSTS AS DETAILED IN SUPPLEMENTAL SCHEDULE NO. 2

Before we provide our response to management's comments to the questionable costs we identified, it is important to note that Price Waterhouse does not disallow costs. It is simply our job to bring costs to the attention of USAID/Egypt for which they may have questions of the recipient. Allowing or disallowing costs is a responsibility borne by USAID/Egypt.

DIRECT COSTS - IELP

I. CASH

1. Price Waterhouse has reviewed the information provided by management in its response and notes that management did communicate to USAID/Egypt that BFC would incur a penalty charge for the early termination of a time deposit to ensure the continuity of IELP operations. However, documentation from USAID/Egypt approving that these penalty charges may be billed to USAID/Egypt does not exist. As such, our position remains unchanged.

II. PRE-SERVICE

1. We have reviewed management's response to this finding and have considered their position. However, absent any documentation supporting the project officer's approval of these costs, our position remains unchanged.

2. During our audit of travel related costs billed to USAID/Egypt, management informed us that any charges relating to international trips were recorded in the BFC general ledger as "international travel." In addition, during the audit we inquired of management whether USAID/Egypt project officer approval for such travel had been obtained. Management informed us that such approval had not been obtained for specific international trips as required by the Mandatory Standard Provisions governing the IELP program. As such, it was mutually agreed, in the interest of audit efficiency, that we would not perform a detailed review of the entire listing of costs included in the international travel general ledger account. We did, however, review a sample of the charges to verify management's statements that the account

contained only international travel costs. We acknowledge that some charges not specifically related to the purchase of airline tickets may have been included in the general ledger account. However, we felt that since these costs were directly related to unapproved international trips, project officer approval for these costs was also required under the Mandatory Standard Provisions. As such, the entire balance in the international travel general ledger account was questioned as ineligible. Subsequent to the exit conference, management obtained a retroactive approval for these charges from the USAID/Egypt project officer. We have reviewed this approval and have adjusted our report accordingly to exclude $208,127 or LE 682,656 of travel costs previously questioned as ineligible.

III. IN-SERVICE

1. Based on further review of the applicable regulations, we have adjusted this finding to exclude $305 or LE 1,000 of costs previously questioned as ineligible.

2. See our comments under II. 2. Based on the documentation reviewed, we have adjusted our report to exclude $119,620 or LE 392,354 of travel costs previously questioned as ineligible. In addition, we have reviewed the USAID/Egypt project officer's approval of the "Certification of Unavailability of U.S. Flag Carriers" for non-U.S. flag carrier airfares of $19,452 or LE 63,802 included in the above previously questioned amount. This amount has also been excluded from our report.

IV. ENGLISH FOR SPECIFIC PURPOSES

1. We reviewed the documentation that BFC submitted to the vendor regarding BFC's tax exempt status. BFC communicated that they were tax exempt and that taxes should not be billed. However, the vendor's invoice for the items purchased still included sales taxes. BFC subsequently paid the full amount of the invoice, including taxes. Accordingly, our position remains unchanged. It should also be noted that BFC's reference to USAID Handbook 13 - CIB 96-02 refers to unavoidable taxes and duties relating to equipment imported into the country and does not relate to sales taxes paid for locally procured goods and services.

2. See our comments under II. 2. Based on our review of the USAID/Egypt project officer's approval, we have adjusted our report to exclude $17,013 or LE 55,803 of travel costs previously questioned as ineligible.

V. PARTICIPANT TRAINING

1. We have reviewed management's response relating to the amount questioned. While BFC may have obtained approval for wrap-up costs for program activities during the 1995-1996 program year, such approval for the reception held during the audit period was not obtained. Consequently, our position remains unchanged.

2. Subsequent to the exit conference, BFC management provided us with a listing of the amounts paid to participants during the pre-departure orientation. The documentation provided to us showed that the participants were provided a lunch and transportation for attending the orientation seminar. The participants were not provided a per diem. Based on this documentation, we have adjusted our report to exclude $242 or LE 795 in amounts previously questioned as ineligible.

3. Based on further review of the applicable regulations, we have adjusted our report to exclude $586 or LE 1,921 in costs previously questioned as ineligible.

4. See our comments under II. 2. Based on our review of the USAID/Egypt project officer's approval, we have adjusted our report to exclude $32 or LE 105 of travel costs previously questioned as ineligible.

VI. OTHER DIRECT COSTS

1. We reviewed the documentation referred to by BFC in its response. Although BFC communicated to the USAID/Egypt project officer its situation regarding the payment of taxes, BFC did not receive approval from USAID/Egypt stating that such charges would be allowable for reimbursement. It should also be noted that BFC's reference to USAID Handbook 13 - CIB 96-02 refers to unavoidable taxes and duties relating to equipment imported into the country. It does not relate to sales taxes paid for locally procured goods and services. As such, our position remains unchanged.

2. See our comments under II. 2. Based on our review of the USAID/Egypt project officer's approval, we have adjusted our report to exclude $33,842 or LE 111,002 of travel costs previously questioned as ineligible.

INDIRECT COSTS - IELP

A. PERSONNEL COMPENSATION

1. Management indicates that, by definition, since the cost has an overall benefit to the BFC organization, it should be charged to the indirect cost pool. However, as previously indicated in our response to management's commentary on the audit conducted by Price Waterhouse, management prepared and provided to us the IELP and ETP schedules of computations of indirect cost rates. These schedules include allocated portions of indirect costs to the IELP and/or ETP indirect cost pools. Management did not advise us of and/or provide to us an entity-wide indirect cost rate calculation during the audit.

   While we acknowledge that the program director for the TES program may be necessary for the functioning of the program, it is our understanding that this position was specifically excluded as an allowable direct cost since a technical component of a program can have only one supervisor. As this cost represents an unallowable direct cost, we believe it is also unallowable as an indirect cost in accordance with the regulations stipulated in OMB Circular A-122. As such, our position remains unchanged.

2. Management agrees with our finding.

B. PERSONNEL BENEFITS

1. See our comments under A.1.

2. Depreciation, by definition, includes the recovery of the **acquisition cost** of an item over the estimated useful life of the item in question. In this case, the acquisition cost is effectively the date BFC first occupied the property. BFC has stated that the property should be capitalized beginning in 1987 when the organization was formally recognized as a legal entity. While we do not dispute BFC's methodology used in obtaining a valuation of the property, we do not feel that we are in a position to opine on the valuation date and the period of depreciation selected by BFC. The United States Federal Acquisition Regulations ("FAR"), Chapter 31.205-11(a) defines depreciation as "...a charge to current operations which distributes the cost of a tangible capital asset, less estimated residual value, over the estimated useful life of the asset in a systematic and logical manner. **It does not involve a process of valuation."** As such, using depreciation for the recovery of a market valuation of the occupied property is not appropriate. We believe that a use allowance on the property would be a more appropriate recovery methodology. USAID/Egypt needs to make a determination on this issue. As such, the current finding remains unchanged.

3. BFC also refers to USAID Handbook 22, Chapter 301, which states that travel costs less than $50 do not require supporting documents. This provision was effective in a June 1995 amendment. The provision in effect for the audit period required supporting documentation for travel costs in excess of

$25. We have adjusted the finding to include only that portion of travel costs that were questioned as unsupported in excess of $25. In addition, BFC has agreed to remove $56 or LE 183 of accommodation costs for which original support is unavailable.

4. Management indicates that, by definition, since the cost has an overall benefit to the BFC organization, it should be charged to the indirect cost pool. However, as previously indicated in our response to management's commentary on the audit conducted by Price Waterhouse, management prepared and provided to us the IELP and ETP schedules of computations of indirect cost rates. These schedules include allocated portions of indirect costs to the IELP and/or ETP indirect cost pools. Management did not advise us of and/or provide to us an entity-wide indirect cost rate calculation during the audit.

   We do not dispute that bonuses are allowable; however, based on the methodology employed by management in computing IELP's indirect cost rate, the finding remains unchanged.

5. Management indicates that, by definition, since the cost has an overall benefit to the BFC organization, it should be charged to the indirect cost pool. However, as previously indicated in our response to management's commentary on the audit conducted by Price Waterhouse, management prepared and provided to us the IELP and ETP schedules of computations of indirect cost rates. These schedules include allocated portions of indirect costs to the IELP and/or ETP indirect cost pools. Management did not advise us of and/or provide to us an entity-wide indirect cost rate calculation during the audit. Based on the methodology employed by management to compute IELP's indirect cost rate, our position remains unchanged.

6. Management indicates that, by definition, since the cost has an overall benefit to the BFC organization, it should be charged to the indirect cost pool. However, as previously indicated in our response to management's commentary on the audit conducted by Price Waterhouse, management prepared and provided to us the IELP and ETP schedules of computations of indirect cost rates. These schedules include allocated portions of indirect costs to the IELP and/or ETP indirect cost pools. Management did not advise us of and/or provide to us an entity-wide indirect cost rate calculation during the audit. Based on the methodology employed by management to compute IELP's indirect cost rate, our position remains unchanged.

7. Management indicates that, by definition, since the cost has an overall benefit to the BFC organization, it should be charged to the indirect cost pool. However, as previously indicated in our response to management's commentary on the audit conducted by Price Waterhouse, management prepared and provided to us the IELP and ETP schedules of computations of indirect cost rates. These schedules include allocated portions of indirect costs to the IELP and/or ETP indirect cost pools. Management did not advise us of and/or provide to us an entity-wide indirect cost rate calculation during the audit. Based on the methodology employed by management to compute IELP's indirect cost rate, our position remains unchanged.

   It should also be noted that Price Waterhouse did not select the severance allocation. We only audited the amount presented to us by management and made a determination, based on the terms of the Agreements, the amount that is allowable.

C. STAFF DEVELOPMENT

1. Based on further review of applicable regulations, we have adjusted this finding to exclude $1,884 or LE 6,181 of travel costs previously questioned as ineligible.

2. Management agrees with our finding.

D. TRAVEL EXPENSES

1. Based on further review of applicable regulations, we have adjusted this finding to exclude $15,658 or LE 51,358 of travel costs previously questioned as ineligible.

E. BFC MEETINGS AND REPRESENTATIONS

1. Management indicates that, by definition, since the cost has an overall benefit to the BFC organization, it should be charged to the indirect cost pool. However, as previously indicated in our response to management's commentary on the audit conducted by Price Waterhouse, management prepared and provided to us the IELP and ETP schedules of computations of indirect cost rates. These schedules include allocated portions of indirect costs to the IELP and/or ETP indirect cost pools. Management did not advise us of and/or provide to us an entity-wide indirect cost rate calculation during the audit. Based on the methodology employed by management to compute IELP's indirect cost rate, our position remains unchanged.

F. PROPERTY MANAGEMENT

1. See our comments under B. 2. Based on the documentation reviewed, our position remains unchanged.

G. REDECORATION AND RENOVATION

1. Management indicates that, by definition, since the cost has an overall benefit to the BFC organization, it should be charged to the indirect cost pool. However, as previously indicated in our response to management's commentary on the audit conducted by Price Waterhouse, management prepared and provided to us the IELP and ETP schedules of computations of indirect cost rates. These schedules include allocated portions of indirect costs to the IELP and/or ETP indirect cost pools. Management did not advise us of and/or provide to us an entity-wide indirect cost rate calculation during the audit. Based on the methodology employed by management to compute IELP's indirect cost rate, our position remains unchanged.

H. EQUIPMENT MAINTENANCE

1. We reviewed management's comments relating to the allowability of sales taxes. It should be noted that Contractor Notice 1-92 clearly states that USAID/Egypt is reminding contractors that taxes assessed in the host country are not eligible for reimbursement. Further, BFC's reference to USAID Handbook 13 - CIB 96-02 refers specifically to duties and taxes assessed for equipment imported into the country. It does not refer to taxes assessed for locally procured goods and services. We understand that these taxes were incurred during the process of obtaining a tax exemption letter from the Egyptian Tax Authority. However, absent USAID/Egypt approval to bill these taxes, our position remains unchanged.

2. Management indicates that, by definition, since the cost has an overall benefit to the BFC organization, it should be charged to the indirect cost pool. However, as previously indicated in our response to management's commentary on the audit conducted by Price Waterhouse, management prepared and provided to us the IELP and ETP schedules of computations of indirect cost rates. These schedules include allocated portions of indirect costs to the IELP and/or ETP indirect cost pools. Management did not advise us of and/or provide to us an entity-wide indirect cost rate calculation during the audit. Based on the methodology employed by management to compute IELP's indirect cost rate, our position remains unchanged.

3. Management agrees with our finding.

4. See our comments under H.1.

I. PRINTING AND COPYING

1. See our comments under H.1.

J. OFFICE AUTOMATION

1. Based on documentation provided by management subsequent to the exit conference, we agree with management's position that computers should be depreciated over a three year period. Consequently, we have adjusted our finding to exclude only those charges from the indirect cost pool that are in excess of depreciation incurred during the audit period, calculated using a three year useful life.

2. Based on documentation provided by management subsequent to the exit conference, we agree with management's position that computers should be depreciated over a three year period. Accordingly, we have removed from our report $13,863 or LE 45,471 of depreciation charges previously questioned as ineligible representing the excess of depreciation calculated over a five year period versus a three year period.

3. Based on our review of documentation provided by management subsequent to the exit conference, we agree with management's position that fax machines should be depreciated over a three year period. Accordingly, we have adjusted our report to exclude only those charges from the indirect cost pool that are in excess of depreciation incurred during the audit period, calculated using a three year useful life.

K. VEHICLE COSTS

1. Management agrees with our finding.

L. LEGAL AND AUDITING FEES

1. Management agrees with our finding.

M. CONTRACTUAL SERVICES

1. Management agrees with our finding.

2. Management indicates that, by definition, since the cost has an overall benefit to the BFC organization, it should be charged to the indirect cost pool. However, as previously indicated in our response to management's commentary on the audit conducted by Price Waterhouse, management prepared and provided to us the IELP and ETP schedules of computations of indirect cost rates. These schedules include allocated portions of indirect costs to the IELP and/or ETP indirect cost pools. Management did not advise us of and/or provide to us an entity-wide indirect cost rate calculation during the audit.

   We reviewed the documentation referred to by management in its response. We were unable to agree the amounts represented by management to BFC's financial records. Further, OMB Circular A-122, Attachment A, Section C.1, states that "a cost may not be allocated to an award as an indirect cost if any other cost incurred for the same purpose, in like circumstances, has been awarded as a direct cost." As such, based on the methodology employed by management to compute IELP's indirect cost rate, and based on our review of the documentation provided subsequent to the exit conference, our position remains unchanged.

N. BFC OPERATIONAL COSTS

1. Management agrees with our finding.

INDIRECT QUESTIONED COSTS - ETP NO. 2

O. NATIONAL PERSONNEL BENEFITS

1. Management indicates that, by definition, since the cost has an overall benefit to the BFC organization, it should be charged to the indirect cost pool. However, as previously indicated in our response to management's commentary on the audit conducted by Price Waterhouse, management prepared and provided to us the IELP and ETP schedules of computations of indirect cost rates. These schedules include allocated portions of indirect costs to the IELP and/or ETP indirect cost pools. Management did not advise us of and/or provide to us an entity-wide indirect cost rate calculation during the audit. Based on the methodology employed by management to compute IELP's indirect cost rate, our position remains unchanged.

RESPONSE TO BFC MANAGEMENT COMMENTS TO THE REPORT ON INTERNAL CONTROL STRUCTURE

REPORTABLE CONDITIONS - NON-MATERIAL WEAKNESSES

1. During the audit we were aware that management was in the process of implementing a written procurement policies and procedures manual. The manual has now been implemented. We have included in our report a statement relating to this. However, the finding remains in the report given that the condition existed during and at the end of the audit period.

2. We have reviewed management's response. We have added a comment to our recommendation that the physical inventory report, prepared by the USAID/Egypt employed consulting firm, be provided to BFC management in the future. The remainder of the finding remains unchanged.

3. Management indicates that, by definition, since the cost has an overall benefit to the BFC organization, it should be charged to the indirect cost pool. However, as previously indicated in our response to management's commentary on the audit conducted by Price Waterhouse, management prepared and provided to us the IELP and ETP schedules of computations of indirect cost rates. These schedules include allocated portions of indirect costs to the IELP and/or ETP indirect cost pools. Management did not advise us of and/or provide to us an entity-wide indirect cost rate calculation during the audit. Our position remains unchanged.

REPORTABLE CONDITIONS - MATERIAL WEAKNESSES

1. Management indicates that, by definition, since the cost has an overall benefit to the BFC organization, it should be charged to the indirect cost pool. However, as previously indicated in our response to management's commentary on the audit conducted by Price Waterhouse, management prepared and provided to us the IELP and ETP schedules of computations of indirect cost rates. These schedules include allocated portions of indirect costs to the IELP and/or ETP indirect cost pools. Management did not advise us of and/or provide to us an entity-wide indirect cost rate calculation during the audit. Our position remains unchanged.

2. Based on our review of management's comments, our position remains unchanged.

RESPONSE TO MANAGEMENT COMMENTS TO THE REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

1. Based on our review of the USAID/Egypt approved " Certification of Unavailability of U.S. Flag Carriers" received subsequent to the exit conference, we have excluded this finding from our report.

2. Based on our review of the USAID/Egypt retroactive approval of international trips received subsequent to the exit conference, we have adjusted our report to exclude this finding.

USAID

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

MEMORANDUM

DATE : July 1, 1996

TO : Lou Mundy, RIG/A/C

FROM : Shirley Hunter, OD/FM/FA

SUBJECT : Financial Audit of the Binational Fulbright Commission (USAID/Egypt Grant Agreements No. 263-0125-G-00-1010-00 and 263-0125-G-00-4024 and Cooperative Agreement No. 263-0125-A-00-0096-00) Draft Report dated May 30, 1996

Mission has reviewed the audit findings and conducted several meetings with the auditee, RIG/A/C as well as the CPA firm, to discuss the findings and the required actions to resolve and close the recommendations under the subject audit.

On Recommendation No. 1, Mission review has resulted in reducing the questioned costs from $383,851 as reflected in the first draft report to $4,084 per the final draft report. The $4,084 is currently under review by the Office of Procurement for final determination.

Recommendation No. 1.1 involves major adjustments due to changes in the indirect cost rates. Mission has conducted several meetings to discuss the method(s) of allocation of indirect costs used by Fulbright as well as the elements allocated to the indirect cost pool. However, due to different allocation methods used, and the major questioned costs included in the audit report, the Mission Office of procurement believes that further efforts need to be made before a final determination is issued.

Recommendation No. 2 is mainly related to the indirect costs methods of allocation and therefore, will be resolved based on the Office of Procurement's final determination regarding the questioned costs.

Therefore, Mission has no proposed changes to the audit report at this stage. Please issue the final report.

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