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**Audit of Local Expenditures by Chemonics
International Consulting Division
under USAID/Egypt's Agricultural Production
and Credit Project No. 263-0202**

**Audit Report No. 6-263-91-07-N
May 30, 1991**

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

May 30, 1991

MEMORANDUM FOR D/USAID/Egypt, Marshall D. Brown

FROM : RIG/A/Cairo, F. A. Kalhammer *F. A. Kalhammer*

SUBJECT: Audit of Local Expenditures by Chemonics International Consulting Division under USAID/Egypt's Agricultural Production and Credit Project No. 263-0202

The enclosed non-Federal audit report, dated January 30, 1991, by Price Waterhouse presents the results of a financial audit of Chemonics International Consulting Division's local expenditures under USAID/Egypt's Agriculture Production and Credit Project (APCP, 263-0202). Chemonics is to assist the Government of Egypt's project implementing agency to provide farmers with new technology, improved financial services, and expanded access to input supply, so they can take advantage of higher returns on investment in a deregulated agricultural sector. To accomplish this Chemonics has entered into a "host country contract" with the Principal Bank for Development and Agricultural Credit (PBDAC). The costs incurred under that contract are paid by A.I.D.

We had Price Waterhouse make an audit of Chemonics' local expenditures totalling \$4.3 million for the period September 15, 1988 to April 30, 1990 under host country contract No. 263-0202-02. Price Waterhouse concluded that billed costs equivalent to \$49,215 are questionable because they may be unallowable or are unsupported by adequate documentation.

Recommendation No. 1: We recommend that USAID/Egypt resolve the questioned and unsupported costs of \$49,215 which appear on page 10 of the enclosed report.

This recommendation will be included in the Inspector General's audit recommendation follow up system. Until we are advised of USAID/Egypt's determination regarding the questioned and unsupported costs, the recommendation is considered unresolved. The recommendation can be resolved when we receive the Mission's formal determination as to the amounts sustained or not sustained. It can be closed when any amounts determined to be owed to A.I.D. are paid by Chemonics.

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The auditors noted other matters involving the internal control structure of Chemonics and its operations such as lack of proper procedures for authorizing expenditures in excess of detailed budgetary limits and inadequate segregation of duties.

As to the matter of adherence to periodic budget limits in both AID direct and host country contracts, the CPA's observations with regard to overruns of annual budget levels by the contractor should not, in our view, be disregarded. To that end, we are making the following recommendation which will not be entered into the Inspector General's follow-up system but will be tracked by this Office.

Recommendation No. 2: We recommend that USAID/Egypt issue both a "CONTRACTOR NOTICE" and a "STAFF NOTICE", as the Mission deems applicable, calling attention to the fact that the Mission expects contractors financed by AID, either directly or under host country contracting arrangements, to adhere to approved periodic budget level limitations, and to seek permission in writing from the cognizant contracting and/or project officer, as the case may be, before incurring any expenses which exceed any such limitations.

Please advise this office within 30 days of any actions planned or taken to close these recommendations. We appreciate the courtesies extended to the staff of Price Waterhouse and our staff.

AUDIT OF
CHEMONICS INTERNATIONAL CONSULTING DIVISION
AGRICULTURAL PRODUCTION AND CREDIT PROJECT
CONTRACT NUMBER 263-0202-02

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AUDIT OF
CHEMONICS INTERNATIONAL CONSULTING DIVISION
AGRICULTURAL PRODUCTION AND CREDIT PROJECT
CONTRACT NUMBER 263-0202-02

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January 30, 1991

Mr. Frederick A. Kalhammer
Regional Inspector General for Audit
United States Agency for
International Development
Mission to Egypt
Cairo, Egypt

Dear Mr. Kalhammer:

This report presents the results of our audit of host country contract number 263-0202-02 between Chemonics International Consulting Division (Chemonics) and the Principal Bank for Development and Agricultural Credit (PBDAC) for the Agricultural Production and Credit Project (APCP). This contract is financed by USAID/Egypt under Project Number 263-0202.

Background

The purpose of the project is to provide farmers with new technology, improved financial services, and expanded access to input supply, so that they can take advantage of higher returns on investment in a deregulated agricultural sector. PBDAC will need to increase its capital, improve its efficiency of operations, and add new lending packages to meet the demands for credit in the agricultural, rural development, farm-related business sectors. To accomplish this, APCP provides for five areas of activity: policy reform; a set of incremental grants from USAID tied to the reforms; private enterprise support; expansion of PBDAC's capital and available credit sources; and improvement of credit packages.

This contract is directed primarily at the final three areas of activity of APCP. The overall objective of the contract is to collaborate with PBDAC to improve the financial services to rural clients. The contractor will assist in reorienting PBDAC as a financial institution.

The contract is a five-year cost reimbursable plus fixed fee host country contract. It was signed on September 15, 1988 under a Letter of Commitment for \$ 18,407,734. A major contract amendment is currently under discussion.



Audit Objectives and Scope

The objective of this engagement was to perform a financial and compliance cost-incurred audit of A.I.D. funds provided to Chemonics pursuant to contract 263-0202-02 for the Agricultural Production and Credit Project. Specific objectives were to determine whether:

- The reimbursable costs reported as incurred by Chemonics under the contract are in fact allowable, allocable and reasonable in accordance with the terms of the contract and other applicable regulations;
- The internal controls and accounting practices of Chemonics are adequate; and
- Chemonics complied with the applicable contract terms which may have affected the costs incurred under the contract.

Preliminary planning and review procedures were performed during June 1990 and consisted of discussions with RIG/A/C personnel and Chemonics officials. We reviewed the contract and made a review of the accounting system utilized during the period under examination. Audit work commenced in June 1990 at the Chemonics office in Cairo and was completed in November 1990.

Our selection of disbursements to be tested was made on a judgmental basis and was structured to test a majority of expenditures made in Egyptian pounds. We also performed a limited review of some costs incurred in U.S. dollars, namely by checking the arithmetic calculation of indirect costs (based on contractually specified rates), and by comparing salary expenditure to budget. In these cases we relied on invoice data rather than on supporting records and documentation which are maintained in the U.S.

We tested vouchers for expenditure made in Egyptian pounds totaling \$ 868,750 out of a total Egyptian pound expenditure of approximately \$ 1,524,059. Of expenditure incurred in U.S. dollars, we reviewed the accuracy of arithmetic calculations for indirect costs of \$ 2,280,595. We reviewed salary against budget on U.S. salary billings representing costs of \$ 1,174,893. The total tested or reviewed in all categories was therefore \$ 4,324,238 of the total invoiced of \$ 7,674,655 (before adjustments and questioned costs).

Because we did not have access to records and supporting documentation maintained in the United States supporting U.S. dollar incurred costs, we were unable to test approximately \$ 2,681,972 of non-labor direct costs, and could perform only a limited review on U.S. salary expenditures of \$ 1,188,029. Together these amounts account for over 50 percent of costs invoiced through April 30, 1990. Because of this limitation on the scope of our audit we are unable to express an opinion on the Statement of Contract Costs. (The Statement of Contract Costs does not separately identify total costs incurred in Egyptian pounds and those incurred in U.S. dollars.)



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

1. Reconciliation of Chemonics accounting records to invoices issued to USAID and testing of costs for allowability;
2. Determination that allowances were appropriate and conformed with the terms of the contract and relevant regulations;
3. Testing of travel and R&R claims and determination that expenditure was supported by adequate source documents and was properly approved;
4. Reviewing that calculated indirect costs as shown on the invoice were calculated accurately using appropriate base data and percentages;
5. Reviewing that salaries as shown on the invoice conformed with the budgetary terms of the contract; and
6. Testing of other direct costs for allowability and appropriate support.

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

Results of Audit

Statement of contract costs:

Our examination identified \$ 563,519 in questionable costs, including \$ 2,534 in unsupported costs. \$ 514,304 of these questioned costs are the result of a test against a specific contractual provision on salary costs which was not being applied by PBDAC or USAID as we understood it. Both A.I.D. Legal and the Controller's office have concurred that there is a reasonable basis for questioning these costs. However legal's view is that there would not be a sufficient legal basis for issuing a bill for collection for these amounts because of (a) another apparently contradictory clause, and (b) possibly implicit approvals. Excluding these costs, therefore, our examination identified \$ 49,215 in questionable costs, including \$ 2,534 in unsupported costs.

It should be noted that the Mission recognizes the wide latitude in salary costs afforded to Chemonics by the contract under Legal's assessment of sustainability. Contract amendment negotiations are expected to address this issue.

Internal control structure:

We recommend changes in the accounting systems and system of budgetary control. We also recommend improvements in documentation for travel and R&R.



Compliance with agreement terms and applicable laws and regulations:

Items of noncompliance have been noted dealing with tax and social security withholding, and with obtaining required approvals.

Management Comments

Management has accepted many of the findings of the audit. Their main objections, in our view, center on the following issues:

1- Levels of salary expenditure. The contract states that "salaries and any annual increments as listed in the final accepted cost proposal shall not be exceeded without prior approval in writing". We audited salary expenditure levels against the detailed year-by-year "Final Budget", which indicated significant (unauthorized) expenditure to-date (which, together with fringe benefits, overheads, etc, exceeds total fixed fees). Management disagrees with this approach, citing the single figure for all salaries for the entire 5-year period as being the relevant control figure.

Legal has indicated that a disallowal of these questioned costs would probably not be sustainable. (See "Results of Audit" above.)

2- Reporting against budget. We take the view that actual expenditure should be reported against "to-date" budgets, not just the overall 5-year budget. This should highlight variances more effectively for review both by USAID and by the Contracting Agency. Management disagrees.

3- Accounting systems. We recommend improvements to facilitate the control and reconciliation of the separate Egyptian and U.S. accounting systems. Management considers that its systems comply with contractual requirements.

This report is intended for the information of the audit committee, management, and others within the organization, and the United States Agency for International Development. The restriction is not intended to limit the distribution of this report which is a matter of public record.

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Price Waterhouse



January 30, 1991

Regional Inspector General for Audit
United States Agency for
International Development
Mission to Egypt
RIG/A/C Office
Cairo, Egypt

Statement of Contract Costs Report of Independent Accountants

We were engaged to audit the accompanying Statement of Contract Costs for the period from July 12, 1988 to April 30, 1990 relating to host country contract number 263-0202-02 between Chemonics International Consulting Division and the Principal Bank for Development and Agricultural Credit for the Agricultural Production and Credit Project. The contract is funded by USAID/Egypt under Project Number 263-0202. The Statement of Contract Costs is the responsibility of Chemonics International Consulting Division management.

We did not have access to records and supporting documentation maintained in the United States supporting U.S. dollar incurred costs, and we were therefore unable to test approximately \$ 2,681,972 of non-labor direct costs, and could perform only a limited review on U.S. salary expenditures of \$ 1,188,029. Together these amounts account for over 50 percent of costs invoiced through April 30, 1990.

As described in Note 2, the accompanying Statement of Contract Costs has been prepared on the basis of cash disbursements, except for subcontractor costs and for indirect costs billed in accordance with contractual provisions. Consequently, costs invoiced are not recognized when the liability is incurred. In addition, the accompanying statement has been prepared in accordance with the cost principles set forth in A.I.D. Handbook 11. Accordingly, the accompanying statement is not intended to present results in accordance with generally accepted accounting principles.

Because of the matter described in the second paragraph above, the scope of our audit work was not sufficient to enable us to express, and we do not express an opinion on the accompanying Statement of Contract Costs.

Price Waterhouse

AUDIT OF CHEMONICS INTERNATIONAL CONSULTING DIVISION - AGRICULTURAL PRODUCTION AND CREDIT PROJECT - CONTRACT NUMBER 263-0202-02
STATEMENT OF CONTRACT COSTS FOR THE PERIOD JULY 12, 1988 THROUGH APRIL 30, 1990

	Statement of Contract Costs	Adjustments (Note 4)	Questioned Costs Per Salary Budgetary Test (Note 5)	Other Questioned Costs (Note 5)	Unsupported Costs (Note 5)	Reimbursable Costs	Reimbursable Costs Excluding Salary Budgetary Test	Audit Findings Reference
Salaries:								
Long-Term Expatriate	\$ 877,370.96	\$	\$ (13,949)	\$ (2,796)	\$	\$ 860,626	\$ 874,575	1,2
Short-Term Expatriate	143,651.55		(28,142)			115,510	143,652	3
Home Office	167,006.13		(128,097)			38,909	167,006	4
Local Long-Term Professional	91,107.27					91,107	91,107	
Local Short-Term Professional	40,468.22		(36,026)			4,442	40,468	5
Local Support	96,576.40		(6,569)	(17,404)		72,603	79,172	6,7
Total Salaries	\$ 1,416,180.53		(212,783)	(20,200)		1,183,197	1,395,980	
Fringe Benefits:								
Long-Term Expatriate	\$ 151,346.48		(2,407)	(482)		148,457	150,864	8
Short-Term Expatriate	24,779.88		(4,854)			19,926	24,780	8
Home Office	28,808.55		(22,097)			6,712	28,809	8
Local Long-Term Professional	719.76					720	720	
Local LT In-Country Expense	14,316.71			(2,500)		11,816	11,816	9
Local Short Term Professional	319.70		(285)			35	320	8
Local ST In-Country Expense	155.40					155	155	
Local Support In-Country Expense	28,756.85					28,757	28,757	
Total Fringe Benefits	\$ 249,203.33		(29,643)	(2,982)		216,578	246,221	
Overhead:								
Expatriate Long-Term	\$ 821,122.29		(13,055)	(2,617)		805,450	818,505	10
Expatriate Short-Term	134,441.97		(26,337)			108,105	134,442	10
Home Office	194,816.02		(149,428)			45,388	194,816	10
Local Long-Term Professional	84,622.32			(1,996)				10
Local Short-Term Professional	32,680.94		(28,983)	102		82,729	82,729	11
Total Overhead	\$ 1,267,683.54		(217,803)	(4,511)		1,045,370	1,263,173	
Other:								
Travel & Transportation	\$ 401,767.23	(1,643)		(5,696)	(880)	393,548	393,548	12
Allowances	731,981.50	(5,151)		(1,280)		725,551	725,551	13
Other Direct Costs	637,826.46	(3,519)		(5,158)	(1,387)			15, 14
Equipment, vehicles & Freight	1,583,224.15			(1,946)		625,816	625,816	16
Training	12,418.18					1,583,224	1,583,224	
Subcontractors and Consultants	567,433.72					12,418	12,418	
Total Other	\$ 3,934,651.24	(10,313)		(14,080)	(2,267)	3,907,991	3,907,991	
SUBTOTAL	\$ 6,867,718.64	(10,313)	(460,229)	(41,773)	(2,267)	6,353,136	6,813,365	
General & Administrative	\$ 278,142.62	(418)	(18,639)	(1,642)	(92)	257,302	275,941	17
Fixed Fee	528,793.25	(794)	(35,436)	(3,216)	(175)	489,173	524,609	14
TOTAL	\$ 7,674,655.01	(11,525)	(514,304)	(46,681)	(2,514)	7,099,611	7,613,915	

See accompanying notes to Statement of Contract Costs.

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AUDIT OF
CHEMONICS INTERNATIONAL CONSULTING DIVISION
AGRICULTURAL PRODUCTION AND CREDIT PROJECT
CONTRACT NUMBER 263-0202-02
NOTES TO STATEMENT OF CONTRACT COSTS

NOTE 1 - SOURCE OF DATA

The first column, labeled "Statement of Contract Costs", is the responsibility of Chemonics International Consulting Division management, and gives the cumulative figures taken from the invoice dated April 30, 1990. The other columns have been developed for the purpose of this report based on our audit of those figures.

NOTE 2 - ORGANIZATION AND BASIS OF PRESENTATION

The Statement of Contract Costs has been prepared on the basis of cash disbursements except for subcontractor costs and for indirect costs which are billed in accordance with contractual provisions. Consequently, costs invoiced are not recognized when the liability is incurred. Additionally, the statement has been prepared in accordance with the cost principles set forth in A.I.D. Handbook 11, which prescribes the nature and treatment of reimbursable costs not specifically defined in the contract.

NOTE 3 - DESCRIPTION OF CONTRACT

The contract is a cost reimbursable plus fixed fee contract between Chemonics International Consulting Division (Chemonics) and the Principal Bank for Development and Agricultural Credit (PBDAC).

NOTE 4 - ADJUSTMENTS

Adjustments represent billing adjustments made by Chemonics subsequent to April 30, 1990. These were for reversal of legal costs related to replacement of a Chemonics expatriate employee and reversal of some travel and accommodation costs.

NOTE 5 - QUESTIONED AND UNSUPPORTED COSTS

Questioned and unsupported costs consist of audit findings proposed on the basis of the terms of the contract and the accounting principles described in Note 2, and are detailed in the "Statement of Contract Costs - Audit Findings" section of this report.

NOTE 6 - RETROACTIVE ADJUSTMENT IN OVERHEAD RATES

Contract amendment number 1, effective June 28, 1990, retroactively changed the provisional overhead rates, as the result of a planned Negotiated Indirect Cost Rate Agreement. The effect of the resulting retroactive adjustment has not been reflected in the Statement of Contract Costs. The effect of this adjustment on the Statement of Contract Costs is a reduction of approximately \$ 238,000.

AUDIT OF
CHEMONICS INTERNATIONAL CONSULTING DIVISION
AGRICULTURAL PRODUCTION AND CREDIT PROJECT
CONTRACT NUMBER 263-0202-02
STATEMENT OF CONTRACT COSTS
AUDIT FINDINGS

Our audit procedures identified the following costs billed to the contract which are questionable or not supported.

	<u>Questioned</u> Costs Per <u>Note A *</u>	<u>Questioned</u> Costs Per <u>Other Notes *</u>	<u>Unsupported</u> Costs *	<u>Notes</u>
1. Double payment for two administrative specialists when the first person in this position was removed and replaced.		\$ 2.796		B
2. Other salaries charged for long-term expatriates in excess of what was authorized.	\$ 13.949			A
3. Salaries charged for short-term expatriates in excess of what was authorized.	28.142			A
4. Salaries charged for home office staff in excess of what was authorized.	128.097			A
5. Salaries charged for local short term staff in excess of what was authorized.	36.026			A
6. Overtime for local support staff charged to the project without advance approval by USAID, as required by the contract.		17.404		C
7. Other salaries charged for local support staff in excess of what was authorized.	6.569			A

	Questioned Costs Per <u>Note A *</u>	Questioned Costs Per <u>Other Notes *</u>	Unsupported <u>Costs *</u>	<u>Notes</u>
8. Fringe benefits calculated on the above:				
- Long-term expatriate	2,407	482		
- Short-term expatriate	4,854			
- Home office	22,097			
- Local short-term professional	285			D
9. Life insurance inappropriately charged as a local benefit.		2,500		E
10. Overheads calculated on the above:				
- Long-term expatriate	13,055	2,617		
- Short-term expatriate	26,337			
- Home office	149,428			
- Local long-term professional		1,996		
- Local short-term professional	28,983			D
11. Understated overhead charges for local long-term professional staff.		(102)		F
12. Claims for rest & recreation not complying with regulations or not adequately supported.		5,696	\$ 880	G
13. Overcharge in quarters allowance.		1,280		H
14. Foreign exchange gain credited on an invoice, but for an amount which is less than that actually recognized and reported to Head Office by the local Chemonics office.			1,387	I
15. Legal fees charged related to replacement of an employee not at PBDAC's request.		5,158		J

	<u>Questioned Costs Per Note A *</u>	<u>Questioned Costs Per Other Notes *</u>	<u>Unsupported Costs *</u>	<u>Notes</u>
16. Telephone calls charged which cannot be identified as business calls.	_____	<u>1,946</u>	_____	K
Subtotal	<u>460,229</u>	<u>41,773</u>	<u>2,267</u>	
17. General & administrative (4.05% percent of the subtotal above).	18,639	1,692	92	D
18. Fixed fee (7.4% applied to all amounts above.)	<u>35,436</u>	<u>3,216</u>	<u>175</u>	D
Total	\$ <u>514,304</u>	\$ <u>46,681</u>	\$ <u>2,534</u>	
Grand total of all questioned costs	\$ <u>563,519</u>			
Grand total of all questioned costs excluding those questioned per Note A	\$ <u>49,215</u>			

* Costs in the columns labeled 'questioned costs' are supported by vouchers or other documentation, and could be called 'supported questioned costs'. Costs in the column labeled 'unsupported costs' are also formally included in the classification of 'questioned costs', but are required to be separately identified in the audit report. This second category could be called 'unsupported questioned costs'.

Recommendation

We recommend that USAID/Egypt, in conjunction with PBDAC, resolve the questioned costs identified on pages 8 through 10 of this report, totaling \$ 49,215 (\$ 2,534 unsupported). (This takes account of the Legal opinion on the non-sustainability of \$ 514,304 of questioned costs related to the budgetary test on salaries.)

Notes:

A. SALARIES

Findings

Salaries charged are in excess of what was authorized.

Auditee's Response

The salaries charged for long-term expatriates, short-term expatriates, home office staff, local short-term staff, and local support staff have not exceeded what was authorized in the Contract Budget. The Contract Budget authorizes \$ 3,572,440 for salaries. The total to date, i.e., up to and including October 31, 1990, has been \$ 1,905,917, or 53.4% of the authorized amount.

All long- and short-term staffing has been approved by the contracting agency, the Principal Bank for Development and Agricultural Credit.

The auditee has instituted a revision to the approval procedure whereby now, in addition to formally requesting the written approval of the contracting agency PBDAC, the contractor seeks USAID written concurrence for all short- and long-term assignments through a Memorandum of Understanding authorizing the position and a request memorandum authorizing a particular person for the position.

In addition, the auditee has instituted an operational control budget.

References:

The auditee requests the auditor to refer to the following items in the Host Country Contract signed on September 15, 1988:

- Contract Budget, Annex F showing \$ 3,572,440 as the authorized amount for salaries.
- Please note that the Contract Budget follows the format in the original RFTP.
- Article V - Level of Effort, Section A, Page 2, stating, "The estimated level of effort for the performance of the Contract shall be 1.248 person-months of direct professional labor".
- Article V - Level of Effort, Section C, Page 4, which states, "The rate at which the Contractor provides services may fluctuate, provided that such fluctuation does not exhaust the estimated total person-months of effort prior to the expiration of this Contract. The estimated number of months of effort for any classification (except for Key Personnel) may be utilized by the Contractor in any other direct labour classification, if necessary."
- Annex E, Page E-2, Number 3 entitled "Salaries, Staffing and Level of Effort", Subsection (a) General Agreements, Item (1) Initial salaries will be based on the principle of the most recent base salary plus ten percent; and Item (2) Annual increases will be determined based on a total pool of ten percent of the previous years' base salaries.
- AWP-III Operational Control Budget & Worksheet, October 31, 1990.

Auditors' Comments

The Auditee's comments notwithstanding, we believe we have validly questioned the costs under discussion. They indicate levels of expenditure significantly in excess of budgeted and authorized rates. We note that the Auditee has now instituted changes to its prior procedures related to this area.

Both A.I.D. Legal and the Controller's office have concurred that there is a reasonable basis for questioning these costs. However Legal's view is that there would not be a sufficient legal basis for issuing a bill for collection for these amounts because of (a) another apparently contradictory clause, and (b) possibly implicit approvals given. This notwithstanding, the basis of our findings should be explained in more detail, as follows.

The contract requires that "salaries and any annual increments as listed in the final accepted cost proposal of the contractor shall not be exceeded without prior approval in writing by the Contracting Agency and A.I.D."

The document containing this information is definitely, in our view, a detailed schedule, broken down by year and salary classification, called the "Final Budget". There was a clear distinction throughout the contracting process between the "contract" and the "cost proposal", and separate documents for each of these were submitted by Chemonics. The principal element of the cost proposal is the budget, and the cost proposal volume itself is introduced with the explanation that "the cost proposal reflects our estimate, on a per year basis ...". Furthermore Chemonics itself has relied on another clause citing the "final agreed cost proposal" to try to justify legal costs, using the legal costs figure taken from the "Final Budget".

We tested actual expenditures against this detailed Final Budget, and determined that these amounts were being exceeded, and that there had been no prior approval in writing from USAID as required. The effect of this is that funds allocated to salaries are being expended at rates in excess of those authorized by the contract.

Another contract provision (cited by the auditee) allows the contractor to vary the rate at which services are provided, and to vary the utilization of hours between different classifications, provided that the estimated total person-months of effort are not exhausted prior to expiration of the contract. It is our view that this second clause does not nullify the first clause, but rather that both must be complied with independently. Furthermore we inquired whether there was a control system in place to ensure compliance with the person-months constraint, and were told it did not exist.

The view has been expressed that the apparent contradiction between the clause cited by us and the clause cited by the auditee requires an alternative interpretation of the one we have cited. We cannot opine on the legal aspects of this view. However we note that there is a fundamental contradiction of a similar nature for the contract as a whole, because the total manpower explicitly authorized is inconsistent with the total salary expenditure explicitly authorized. (Manpower levels authorized were significantly increased from those which were costed without any corresponding increase in the budget authorized.) As a result manpower authorizations will almost certainly conflict with budgetary authorizations. Our finding is highlighting at a detailed level a problem which exists overall.

As regards the other points raised by the auditee:

- The single-value, 5-year total figure for salaries cited by the Auditee is not the relevant figure for the tests made by us, as explained above.
- Approval by the Contracting Agency (PBDAC) is not the same as approval by USAID, as required by the contract and cited in the Audit Findings.
- Variances in the rates of usage might explain some of the cost variances, but not all, eg for all expatriate long-term staff, where the issue is salary levels. Furthermore there is no assurance that variances in the rates of usage are themselves being controlled.
- The initial aide memoire terms cited from Annex E are superceeded by the explicit terms of the contract; the aide memoire is not the "final accepted cost proposal" explicitly referred to by the contract.

It should be noted that the Mission recognizes the wide latitude in salary costs afforded to Chemonics by the contract under Legal's assessment of sustainability. Contract amendment negotiations are expected to address this issue.

B. DOUBLE PAYMENT

Findings

Double payment was made for the administrative specialist when the first person in this position was removed and replaced.

The amount in question for double payment is \$ 2,796. This is less than the \$ 16,745 of salaries for long-term expatriates questioned in Note A above, so may be considered part of that questioned cost, to avoid double-counting. (If the \$ 2,796 is disallowed, then \$ 13,949, i.e. the difference, remains to be questioned under the criteria of Note A above.)

Auditee's Response

The auditee acknowledges and will adjust the amount in question (\$ 2,796) with the understanding that this is an issue under consideration and discussion between Chemonics and the USAID Mission. Mutual agreement and resolution is pending.

The auditee has instituted a revision to the approval procedure whereby now, in addition to the contracting agency's approval, the contractor seeks USAID concurrence for all short-term and long-term assignments through a Memorandum of Understanding authorizing the position and a request memorandum authorizing the position and a request memorandum authorizing a particular person for the position.

C. OVERTIME

Findings

Overtime for local support staff was charged to the project without advance approval by USAID, as required by the contract.

The amount of \$ 17,404 is less than the \$ 23,973 of salaries for local support staff questioned above, so may be considered part of that questioned cost, to avoid double-counting. (If the \$ 17,404 is disallowed, then \$ 6,569, ie the difference, remains to be questioned under the criteria of Note A above).

Auditee's Response

It is the policy of Chemonics International to pay overtime staff in non-professional or support positions. Overtime worked by professional staff is considered a fact of professional life, and is not compensated. Relevant sections of the Chemonics International Policy Manual apply.

Only local support staff are required under Egyptian labor law to receive overtime. Their hours are dictated by their supervisor(s) and managed by the APCP administrative specialist who is responsible for the day-to-day coordination and management of administrative and logistical tasks for Chemonics' APCP technical assistance team in Egypt.

The auditee contends that overtime for non-professional staff is justified for several reasons:

- The Cairo Mission allows for payment of overtime for both professional and non-professional staff.
- An analysis of non-professional timesheets will show that most overtime was paid to project drivers who were in the field, driving professional staff on project business to meet technical responsibilities.

- Chemonics showed overtime payments as a separate line on local timesheets. There was no attempt to "bury" the overtime of non-professional staff. Chemonics was never disallowed or challenged for paying overtime.
- Egyptian labor laws require the payment of overtime.
- An extrapolated analysis of the second point above would argue that the payment of overtime in such cases would actually result in a net savings to the contract. As an example, were no overtime to be paid, it could be argued that drivers (and accompanying professional staff) would stop at the conclusion of an eight-hour day, rather than continue back home to Cairo. All staff would be required to spend the night in a hotel, thus drawing additional per diem. Thus, by continuing the return trip the following morning, rather than being in the office, all staff would remain in travel status, continue to collect per diem, and probably be less productive sitting in a vehicle than working in the office.

References:

- Chemonics Policy Manual, Section 2342, Payment of Overtime; Section 2344, Requirement of Overtime Availability.
- Annex C, Section 3, Law to Govern, which states, "This contract shall be interpreted in accordance with the applicable laws of the Arab Republic of Egypt."
- (Egyptian) Labour Law, Articles 133, 134, 135, and 140.
- Department of State unclassified fax attached and identified as "App. 1.B."

Auditors' Comments

The observation remains that the contract prohibits the payment of overtime unless arrangements have been approved in advance by the Contracting Agency and USAID (Annex C, Item 5.B). Such approval could have been sought, but was not.

The issue of overtime for nonprofessional employees was also raised in the audit of Chemonics International Consulting Division Basic Village Services Contract Number 263-0103-C-00-1014, Audit Report Number 6-263-89-06-N dated May 29, 1989. The Auditee's Response is largely a verbatim repeat of its response to that earlier finding.

D. FRINGE BENEFITS, OVERHEADS, GENERAL & ADMINISTRATIVE, AND FIXED FEE.

These are calculated in accordance with the contract, given the other questioned and unsupported costs cited.

E. LIFE INSURANCE

Findings

Life Insurance was inappropriately charged as a local benefit.

Life insurance costs cannot be clearly identified from existing transaction descriptions. The figure of \$ 2,500 is an estimate based on three months of identified costs, extrapolated to sixteen months.

Auditee's Response

Chemonics contends that Life Insurance is an allowable expense as a fringe benefit--therefore a direct cost--and as authorized by the contract.

References:

- Handbook 11, Page 1-54, D. Direct Costs.
- Contract, Annex E. Page 4, Item 5 stating, "The fringe and overhead rates were accepted as proposed..."
- Handbook 11, Page 4A-13, Direct Costs.
- APCP RFTP. (outdated) General Provisions.

Auditors' Comments

Life insurance costs are neither provided for in USAID direct hire conditions, nor are they provided for in the detailed Final Budget, although other categories of insurance are specifically included.

F. CALCULATION OF EXISTING OVERHEAD CHARGES

Findings

The cumulative amount shown on the invoice for local long-term professional staff is understated.

Auditee's Response

The auditee contends that the calculation process for overhead is correct, however, given that the amount in question is very small in comparison to the total amount invoiced for the item through the audit period covered (\$ 102 as compared to a total invoiced amount of \$ 84,622.32), and that the supposed miscalculation is to the benefit of the client, and that the cost of reconstructing all applicable calculations would be significant. The auditee accepts the finding and will not request a refund from PBDAC.

References: All invoices through the period of the audit.

G. REST AND RECREATION

Findings

Claims for rest & recreation (R&R) do not comply with regulations or are not adequately supported. They are, in detail:

- R&R taken within six months of arrival at post, contrary to regulations. \$ 1,621
- Tickets with economy fare reimbursement, not APEX as actually ticketed. 2,630
- Tickets with quote to wrong location, for economy fare reimbursement, not APEX as actually ticketed. 2,844
- Original of airline ticket backing sheet not available but just a photocopy, which may not correspond with actual flights taken. 880

Auditee's Response

USAID/Cairo Contractor Notice 12-89 ("Rest & Recreation") states under Allowable Air Fares:

"In all cases, the traveller must use available economy class concessional fares, eg excursion, APEX, etc. If the traveler pays a higher fare when a concessional fare is available, the reimbursement will be limited to the concessional fare."

All reimbursements made during the audit period for R&R tickets were made in accordance with the above USAID guidance, i.e. concessional fares were used for travel. In one instance, through an oversight, the backing sheet portion of an air ticket was not returned for attachment to the original disbursement memorandum. However, there is a photocopy of the ticket on record and the employee for whom the ticket was issued (used by his spouse) is willing to certify that his wife traveled in accordance with the routing shown. For other tickets under question, Chemonics refers the auditor to the "APT" Airline Passenger Tariff Manuals: an examination of quoted concessional fares vis-a-vis travel dates will demonstrate that all tickets reimbursed do meet the USAID guideline criteria, i.e. were on a concessional basis.

With regard to specific auditor comments, please note that R&R can be taken within six months of arrival at post with Chief of Party and PBDAC approval; a retroactive approval will be requested. Concerning comments presented for R&R tickets with respect to "APEX" fares and "locations," the auditee contends that all reimbursements have been made in accordance with applicable regulations, however, given the complexity of those regulations, the auditee will review the questioned transactions to ensure full compliance.

References: USAID Contractor Notice 12-89; "APT" Manuals.

Auditors' Comments

We note that the Auditee agrees to review the cited instances. USAID should approve the ultimate resolution of each. The unsupported ticket could be accepted, on an exceptional basis, if the employee would certify travel as shown on the photocopy and that there was no reimbursement from another source. The dates of the early travel should be confirmed; the tickets indicate it was taken before arrival at post. Even if the year was shown incorrectly, it was still within six months of arrival.

H. QUARTER'S ALLOWANCE

Findings

Quarters allowance is overstated.

Auditee's Response

All overages in quarter's allowance were reconciled in two stages: the first stage occurred on August 5, 1990 and a non-cash transaction was performed whereby the Quarters Allowance line item was credited for the majority of the overages. The second stage, which was identified with the initial stage but took somewhat longer to effect as a result of complicated reconciliation steps, occurred on November 13, 1990 and brought the line item in full compliance.

Reference: Chemonics APCP Invoice Nos. 19 and 26.

I. FOREIGN EXCHANGE GAIN

Findings

A foreign exchange gain was credited on an invoice, but for an amount which is less than that actually recognized and reported to Head Office by the local Chemonics office.

Auditee's Response

Home office research being conducted as of December 7, 1990.

(No further response received in time for this report.)

J. LEGAL FEES

Findings

Legal fees were charged related to replacement of an employee not at PBDAC's request.

Auditee's Response

This is an issue under consideration and discussion between Chemonics and the USAID Mission. Mutual agreement and resolution is pending.

K. TELEPHONE

Findings

Telephone calls were charged which cannot be identified as business calls. These have been estimated by Chemonics as Egyptian pounds 5,000.

Auditee's Response

Beginning with Chemonics' APCP Invoice No. 20, the process of reconciling all "unknown" long distance telephone calls began. This was a long and complicated process which was finalized with APCP Invoice No. 26. Thus, at present, all non-business or unidentified telephone charges have been reconciled and the Communications line item has been credited for the full amount.

References: Chemonics APCP Invoices Nos. 20 through 26.

4, P. ad 157
New Mead
Cairo, Egypt

TELEPHONE 1537441-1537447
FAX 1537441-1537447
TELEX 1537441-1537447
TELEGRAPH 1537441-1537447
CAIRO 01

Price Waterhouse



January 30, 1991

Regional Inspector General
United States Agency for
International Development
Mission to Egypt
RIG/A/C Office
Cairo, Egypt

Report on Internal Control Structure Report of Independent Accountants

We were engaged to audit the Statement of Contract Costs paid for the USAID/Egypt-funded contract between Chemonics International Consulting Division and the Principal Bank for Development and Agricultural Credit for the Agricultural Production and Credit Project, for the period from July 12, 1988 to April 30, 1990 and have issued our report thereon dated January 30, 1991, in which we disclaimed an opinion due to limitations to the scope of our work.

In planning and performing our audit of the Statement of Contract Costs paid for the period from July 12, 1988 to April 30, 1990, we considered Chemonics International Consulting Division's control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement of Contract Costs and not to provide assurance on the internal control structure.

The management of Chemonics International Consulting Division is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.



For the purpose of this report, we determined the significant internal control structure policies and procedures to be in the categories of disbursements and local payroll. For these internal control structure categories cited, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weakness under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted other matters involving the internal control structure and its operation that we have identified in the "Internal Control Structure - Audit Findings" section of this report.

This report is intended for the information of the audit committee, management, and others within the organization, and the United States Agency for International Development. The restriction is not intended to limit the distribution of this report which is a matter of public record.

Final version

AUDIT OF
CHEMONICS INTERNATIONAL CONSULTING DIVISION
AGRICULTURAL PRODUCTION AND CREDIT PROJECT
CONTRACT NUMBER 263-0202-02
INTERNAL CONTROL STRUCTURE
AUDIT FINDINGS

Our audit procedures as they related to internal accounting control included those that we considered necessary to determine the nature and extent of audit procedures to be performed in connection with auditing standards generally accepted in the United States of America. Our procedures also included such tests as we considered necessary to report in accordance with Government Auditing Standards (1988 Revision), issued by the Comptroller General of the United States. The procedures consisted primarily of a walk-through of Chemonics' systems.

1. The separate accounting systems used in Egypt and the United States should be revised (a) to minimize the risk of errors in the current manual data transfer process; (b) to identify U.S. dollar and Egyptian pound expenditures separately in the U.S. system; and (c) to allow reconciliation of the records maintained in Egypt with the corresponding figures shown on the U.S. system.

Discussion

Separate accounting systems are maintained in Cairo for local currency expenditure, and in Washington for total expenditure expressed in U.S. dollars. At the end of each accounting period the books in Cairo are closed, and the resulting reports are faxed to Washington. The results are converted to U.S. dollars at the current rate of exchange, many line items are summarized, and then entered into the U.S. system expressed only in U.S. dollars.

It is difficult to reconcile the records held in Cairo to the amounts shown on the invoice produced by the U.S. system because most of the expenditures are in "mixed currency" accounts. (By our calculations, over half of all costs invoiced to April 30, 1990 was classified in accounts with both U.S. dollar and Egyptian pound expenditures added together.) To reconcile records in Cairo with those in the U.S. requires a line-item by line-item check. The local accountant checks a number of line items, but not all, and has found cases of incorrect recording or account misclassification. We have independently identified further such examples in our audit testing, plus several related examples of dollar expenditure incorrectly being shown as local currency expenditure.

Recommendation

We recommend that management implement an automated interface between the accounting system used in Egypt and that used in the United States. This would minimize the risk of errors in amount

and classification which occur with the present manual process. It would also facilitate the inclusion of complete line item detail for Egyptian expenditure on invoices as there is for U.S. expenditure.

We also recommend that the U.S. accounting system be revised to identify separately U.S. dollar expenditure and Egyptian pound expenditure. Ideally it should maintain Egyptian pound expenditure totals both in the original currency, and as translated for billing. This would facilitate reconciliation to the records kept in Egypt. It should also facilitate management control because the two types of expenditure are incurred in two different countries, with different individuals generally responsible.

We also recommend the minor exercise of reviewing the accounting system in Egypt to ensure it produces appropriate totals and subtotals to facilitate reconciliation to the (modified) U.S. system.

Auditee's Response

A. Automated Interface

Such an automated interface would be inappropriate and costly to the client at this time. Due to the current infrastructure of Egypt, it is often difficult to get a telephone line, but the auditee appreciates the auditor's comments for future reference.

B. Accounting Systems

The invoice identifies Egyptian pound expenditures in the description columns.

Chemonics' accounting system--both in the U.S. and in Egypt--is designed to have an innate system of checks and balances. The system conforms to standard accounting procedures and Handbook 11, Chapter 4, Cost Principles for Borrower/Grantee Contracts, i.e., Allocability, Allocability, and Reasonableness. Furthermore the accounting system is in full compliance with Handbook 11 guidelines regarding contractor's historically normal practice.

References: Handbook 11, Pages 4-3 and 4-4, Section 2.0. Costs; and Page 4-5, Section 2.4, Accounts and Records - Contractor's Normal.

Auditors' Comments

A. Automated Interface

We do not understand the Auditee's comments about the difficulty of obtaining telephone lines, given that the Auditee already obtains telephone lines to fax back printed

information. Also, telephone lines are currently used by other companies to transfer computer data between the U.S. and Egypt, so the problems cited by the Auditee do not appear that significant. This notwithstanding, we did not specify how an automated interface should be implemented. Physical transfer via diskette, for example, should be no more difficult than transporting printouts.

B. Accounting Systems

The Auditee's position that its systems comply with regulations does not change our observations. Improvements are still desirable.

2. The invoices prepared by the contractor should be revised to show (a) budget-to-date information, and (b) totals for all detailed lines in the final agreed budget.

Discussion

Actual expenditure is currently reported only against the total project budget for its entire five-year life. The budget is broken down by year, but this breakdown is not reflected in the contractor's reports.

Separate detailed budgets were established at the beginning of the project for a number of classifications which are not currently being separately identified on the Chemonics invoices. Examples of lines which have separate budgets which should be reported in this way are travel to/from post; R+R; Sunday pay; communications; reproduction costs; and exchange rate gain/loss. Likewise, new categories of expenditure have been established subsequent to the contract for which no budget exists, yet this is obscured by the high level of summarization currently shown. Examples of items of this type which should be separately reported are meeting expenses and equipment/machinery rental.

Recommendation

We recommend that a viable budgetary control mechanism be implemented.

Actual expenditure should be reported against "to-date" budgets, ie budgets which correspond as closely to the budgeted expectation as possible, balancing cost of preparation with benefit to be obtained. At a minimum this should reflect budgets for years past, plus a pro-rationed portion of the current year's budget (eg 5/12ths of the year's budget in month five). The approach used to determine "to-date" budgets should be agreed to in writing by USAID.

There are a number of budgets at the detailed line level which are not being reported against. Reporting at this level will help to identify variances from amounts explicitly budgeted at the

beginning of the contract. It will also help to identify classes of expenditure which were not explicitly budgeted at the beginning of the contract. Variations to this requirement to report at the level of all detailed lines with individual budgets should only be with the written approval of USAID.

A narrative set of notes should be included with each invoice to explain variances for which the reason may be unclear.

Chemonics may consider formally revising the allocation between detailed lines in the budget, where the original budget line amounts lose their meaning.

In the case of person-month budgets, the contractor has the contractual flexibility to use some resources in different ways from those budgeted so long as the total person-months budget is not exceeded. A "mini" budgetary control system needs to be established for person-months if this flexibility is being used. Otherwise there is no mechanism to be sure the contractual terms will be complied with.

Auditee's Response

Chemonics complies with the reporting requirements of the contract. Further, the home office maintains, and informally submits a copy to the USAID Project Officer a budget monitor periodically updated.

Reference: Budget Monitor, Project: Egypt ACP, October 31, 1990.

Auditors' Comments

The Auditee's position that it complies with the reporting requirements of the contract does not change our observations. In particular it is of limited benefit to report cumulative expenditure only against the total 5-year budget, ignoring the fact that this budget has been broken down by year, with different rates of expenditure planned for different years. As a result, variances are not being highlighted for review by USAID and the Contracting Agency (PBDAC). Essential, and readily available, control information is not being provided.

The information being provided informally to the USAID Project Officer meets one of our two requirements, i.e. it does report expenditure against (most) detailed classifications. However it still reports actual against the total 5-year budget, and not the "current" or "project-to-date" budget. Furthermore it is not being provided on a regular basis.

We accept that it is not necessary to report the information suggested on the invoice, per se, as stated in our initial recommendation. However it should be required to be reported in some manner, via a formal arrangement both to USAID and to the Contracting Agency (PBDAC), on a regular basis.

3. Procedures need to be clarified for authorizing expenditure in excess of detailed budgetary limits.

Discussion

Existing requirements for budgetary control are limited, and there is no general requirement not to exceed budgeted amounts.

- Only salaries and related annual increments require approval in advance for expenditure which exceeds the (yearly) budgets.
- If the contractor at any time has reason to believe that total project costs will exceed the maximum payable, notice shall be given in writing with a revised estimate of total costs.
- Any line item of the approved budget itself, other than salaries and overhead, may be modified by up to 15 percent; modifications of more than 10 percent require the prior approval of the Contracting Agency and USAID.

Several categories of expenditure currently have spending significantly in excess of their "to-date" budget allocations, yet there is no contractual obligation to constrain this spending, or to seek approval from PBDAC or USAID. Examples are Sunday pay, communications, reproduction costs, expendable supplies, and editing/translation/clerical services.

Categories of expenditure have also been established for which there are no explicit budget allocations, and which significantly exceed the "miscellaneous other direct costs" budget. These include equipment/machinery rental and meeting expenses.

Recommendations

We recommend that procedures be established for authorizing expenditure when "to-date" detailed budgetary limits are exceeded.

For example, it might be required to stop all discretionary spending on a detailed category if the "to-date" budget were exceeded by 20% at the end of any reporting period, pending written approval from USAID of a request to authorize further spending. It would be in Chemonics' interest to avoid such situations by limiting expenditure in the first place or by anticipating excesses and obtaining approval in advance. A penalty could be assessed for unauthorized excesses.

The USAID approval process should require a statement from Chemonics about the impact of the excess on total project costs, and the areas where compensating savings are expected, if any.

Auditee's Response

The Auditee appreciates the recommendations for future reference when authorized expenditures are reaching their limits.

Reference: Handbook 11, Page B1-7, Item b. Budget Flexibility.

Auditor's Comments

The Auditee's response does not address the issue raised in the findings, namely that many detailed "to-date" budgets and even some detailed five-year budgets are already being exceeded, and that clarification of procedures is already required. This is in Chemonics' own interest, as questions have been raised regarding the extent to which the Contracting Agency can dictate such spending.

4. Requirements for supporting documentation for travel and R&R should be formalized.

Discussion

There is no voucher or standard form used for travel expenses, as used in many companies, to show relevant details and costs, to ensure the provision of adequate information and to facilitate the review and approval process.

There is a particular need for improvement in the R&R area. See the discussion of R&R expenses in the Audit Findings accompanying the Statement of Contract Costs.

Recommendation

We recommend that requirements for supporting documentation for all travel should be formalized to ensure that necessary receipts are attached (especially airline ticket backing sheets) and that relevant information is given in a clearly legible form, eg

- Name
- Dates of departure/return
- Dates of entry/exit from US
- Carrier across the Atlantic

There should also be independent confirmation with each entitlement travel charge of the minimum cost concessionary fare, given the dates of departure, the relevant destination if an alternate or additional destination is used, and the period involved. This may be a statement from a travel agent, or a highlighted photocopy from the Airline Passenger Tariff book.

We recommend that a form be used for all travel. A declaration on the form, to be signed, should confirm that the fares represent the minimum applicable fares to the claimant's best knowledge.

Auditee's Response

With reference to specific recommendations made by the auditor the auditee would like to note that with the exception of the one R&R air ticket referenced under STATEMENT OF CONTRACT COSTS, Note G, airline ticket backing sheets are available for all tickets reimbursed. Furthermore, the backing sheet does provide the "name, dates of departure/return, and carrier across the Atlantic." Regarding "Dates of entry/exit from U.S.," each time a technical advisor travels to his Home of Record country, he is required to submit a Home of Record Form that clearly details entry and exit dates from his Home of Record country, plus the Form also notes any interim exits and re-entries from his Home of Record country.

Regarding "minimum cost concessionary fares," as cited above under STATEMENT OF CONTRACT COSTS, Note G, "APT Manuals" are available at any one of a number of different air agents (including the Thomas Cook Agent located in the Barclays' Bank Building). The auditee on a routine basis seeks written verification of prevailing fare rates for all classes of travel (concessionary fares included), and should an occasion arise to question a specific requested air ticket reimbursement, the auditee does verify ad hoc fares via the "APT" Manuals.

However, given the complexity of USAID travel regulations and the concomitant need for adequate supporting documentation, the auditee accepts the auditor's recommendation and will design and institute a standard "travel form."

References: APCP-Chemonics' financial records: the APCP-Chemonics Home of Record Form: on-file written verifications of air fares: "APT" Manuals.

Auditors' Comments

We note that the Auditee has accepted implementing the recommendation.

See also our comments on the specific questioned costs in the Statement of Contract Costs.

5. Reversing entries should use the rate of exchange of the original transaction so as to fully reverse the amounts originally billed.

Discussion

A number of adjusting entries have been made of Egyptian pound expenditure to reverse out amounts previously billed to USAID, eg for the reversal of legal fees, and benefits for an employee who left early.

These adjustments, or the supporting calculations, have been made using current exchange rates rather than the rates in effect at the time of the original posting. Given the overall depreciation of the Egyptian pound against the U.S. dollar, this results in less being credited in dollars than was originally debited. The charges are therefore not fully reversed.

Recommendation

We recommend that reversals should be posted to the U.S. books using the rates of exchange at which the original transactions were posted.

This might be implemented via a dual closing of the local books, one for current period transactions translated at the current bookkeeping rate, and one for adjustments, with dollar amounts corresponding to the original billings.

Auditee's Response

The auditee appreciates and will follow the auditor's recommendation. When reversing a transaction, we will use the rate of exchange at which the original transaction was posted.

6. Limitations in segregation of duties, and the resulting need for close supervision should be clearly recognized by management.

Discussion

Because of the limited number of personnel in the Cairo office of Chemonics/APCP, there is limited segregation of duties. Close supervision by management personnel is the primary compensating control.

Recommendations

We recommend that close supervision be exercised of the following functions where there is currently limited opportunity for segregation of duties:

- Accounting/disbursements/cash custody (for payroll and other payments)
- Ordering/receiving/payment
- Equipment receipt/recording/custody

Auditee's Response

The auditee has established an overall Program Support management system that does segregate duties and provide close supervision. The foundation documents upon which this system is established are: (a) the Program Support Organizational Chart, (b) on-file job descriptions for all Program Support staff, (c) on-file Procedure and Policy Memorandums, and (d) on-file Program Support Memorandums. In addition, the auditee maintain's an ACP Project Inventory Control System (PICS) that is used both in Cairo and on a world-wide basis by all Chemonics projects. As the auditor noted, because of the limited number of personnel available (especially in the Finance Section), there is a high degree of concentration of duties. The auditee is fully aware of this situation and has, accordingly, allocated duties in such a manner as to optimize the use of "checks and balances" with its limited personnel resources.

References: Program Support Organizational Chart; Program Support job descriptions; Policy & Procedure Memorandums; Program Support Memorandums; and the ACP "PICS" records.

7. Improvements can be made in a number of other areas.

Discussion

1. No physical check of the equipment inventory has ever been taken.
2. Invoices are not cancelled after being used, which creates the risk of duplicate payments.
3. There is no upper limit on the size of a check a single signatory can sign.

Recommendations

We recommend that:

1. physical checks of equipment should be taken periodically, at least once a year;
2. invoices should be cancelled after being paid, eg with a 'Paid' stamp; and
3. two signatures should be required on large checks (limit to be decided by management).

Auditee's Response

1. The auditee differs with this assumption, as the following Project Inventory Control (PIC) report print-out demonstrates that Chemonics does in fact track inventory. The PIC is maintained in the home office with input from the field office. Once a year the auditee will do a physical inventory check of nonexpendable commodities which are included in the Project Inventory Control report that is periodically submitted to USAID.

Reference: Project Inventory Control report.

2. Two "PAID" stamps have been procured and all appropriate vouchers are now being stamped after having been paid.
3. This is an in-house Chemonics management issue.

Auditors' Comments

1. The Auditee's response documents the existence of an equipment inventory, which we have never questioned. Our observation stands, however, that there have been no physical checks taken against it. Equipment may have gone missing without detection.
3. The meaning of this response is unclear.

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Price Waterhouse



January 30, 1991

Regional Inspector General
United States Agency for
International Development
Mission to Egypt
RIG/A/C Office
Cairo, Egypt

Report on Compliance With Agreement Terms
And Applicable Laws And Regulations
Report of Independent Accountants

We were engaged to audit the Statement of Contract Costs paid for the USAID/Egypt-funded contract between Chemonics International Consulting Division and the Principal Bank for Development and Agricultural Credit for the Agricultural Production and Credit Project, for the period from July 12, 1988 to April 30, 1990 and have issued our report thereon dated January 30, 1991, in which we disclaimed an opinion due to limitations to the scope of our work.

Compliance with laws, regulations and contracts applicable to the Agricultural Production and Credit Project contract is the responsibility of Chemonics International Consulting Division management. As part of obtaining reasonable assurance about whether the Statement of Contract Costs is free of material misstatement, we performed tests of Chemonics International Consulting Division's compliance with certain provisions of laws, regulations and contracts. However, our objective was not to provide an opinion on overall compliance with such provisions.

Our testing of transactions and records disclosed instances of noncompliance with those laws and regulations and the contract. All instances of noncompliance that we found are identified in the "Report on Compliance - Audit Findings" section of this report.

The results of our tests indicate that, with respect to the items tested, Chemonics International Consulting Division complied, in all material respects, with the provisions referred to in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that Chemonics International Consulting Division had not complied, in all material respects, with those provisions.

This report is intended for the information of the audit committee, management, and others within the organization, and the United States Agency for International Development. The restriction is not intended to limit the distribution of this report which is a matter of public record.

Price Waterhouse

AUDIT OF
CHEMONICS INTERNATIONAL CONSULTING DIVISION
AGRICULTURAL PRODUCTION AND CREDIT PROJECT
CONTRACT NUMBER 263-0202-02
REPORT ON COMPLIANCE
AUDIT FINDINGS

The following instances of noncompliance with laws and regulations and the contract came to our attention during our audit:

1. Taxes and social security deductions are not being withheld in several cases.

Discussion

Egyptian laws require the withholding of taxes and social security deductions from local suppliers and employees. We noted that taxes are not being withheld from payments to Egyptian suppliers, nor from payments to individuals (including local short-term professionals) for services rendered. Also, taxes and social security deductions are not being withheld on overtime payments to local staff.

Recommendation

We recommend compliance with legal requirements for making deductions for tax and social security.

Auditee's Response

The Debit Credit Taxation Law was enacted by the GOE in the early 1960's. Compliance with this law for any organization represents an incredible administrative burden. For every procurement of LE 10 or more from the local market, the purchaser must withhold a variable percentage of the purchase price (ranging from 1% to 10% dependent on the size and nature of the purchase), then on a quarterly basis submit the withheld amount to the GOE Taxation Authority in report form. The report must list the date and nature of the transaction; the full purchase price and the withheld amount; and the vendor's name, address, tax registration number. The auditee would appreciate it if the USAID Mission would issue a Contractor's Notice that would clearly explain all compliance steps. Should the Mission require full compliance, additional finance and administrative staff will be required to process the paperwork.

With regard to withholding salary tax and social insurance from the salary of local short-term professionals, the auditee has researched both issues with its legal counsel. Previously, the auditee had operated on the principle that the declaration of income/salary-related taxes for short-term professionals was the responsibility of the professional who acted as a vendor of services. Based on the advice of its lawyer, the auditee will begin withholding salary tax from the salary payments of short-term professionals effective January 1, 1991 so as to

better ensure full, unquestioned compliance with GOE tax law. However, the auditee's legal counsel advises that the withholding of social insurance from the salary of short-term professionals is not required under GOE law for short-term professionals. Because it is not required by GOE law, and owing to the complexity of trying to process social insurance payments over a network of diverse short-term professional social insurance enrollment schemes, the auditee will continue to leave the question of social insurance payment compliance with the individual short-term professional.

With regard to long-term local employees, based on the advice of its legal counsel, the auditee will comply with the auditor's recommendation and effective January 1, 1991 will begin deducting both salary tax and social insurance from overtime payments.

References: Legal counsel advice in the form of an exchange of letters concerning the questioned items.

2. The Chief of Party was replaced without the contractual requirements for this action being complied with, including a submission at least 90 days in advance.

Discussion

The contract requires that, prior to removing or replacing the Chief of Party, the Contractor shall obtain the approval of the Contracting Agency ninety (90) days in advance and shall submit justification (including proposed substitutions) in sufficient detail to permit evaluation of the impact on the Contracting Agency and USAID.

This requirement was not complied with.

Recommendation

We recommend that key personnel not be changed without advance approval as stipulated by the contract.

Auditee's Response

The auditee agrees that it failed to comply with the exact terms of its contract in this regard. However, the auditee would also like the record to note that relevant management personnel at both the PBDAC and USAID were consulted in advance of the auditee's intent to remove the former Chief of Party and neither agency raised any objection. After the removal of the Chief of Party, candidates were offered for review, and subsequently, a new Chief of Party was approved and fielded.

3. An expatriate position was added to the project without required formal approvals.

Discussion

The contract requires that salaries listed in the final accepted cost proposal shall not be exceeded without prior approval in writing by the Contracting Agency (PBDAC) and USAID.

An expatriate commodity and trading specialist was added to the project in September 1989. without this written approval.

Recommendation

We recommend that management should obtain formal written approval both from the Contracting Agency (PBDAC) and USAID for any changes in the numbers of employees or their salary levels which cause the amounts listed in the "Final Budget" to be exceeded.

Auditee's Response

As stated in the auditee's response to the auditor's findings Items 1-5, inclusive, Statement of Contract Costs, the auditee contends that the salaries listed in the final accepted contract budget were not exceeded.

As noted earlier, the auditee has instituted a revision to the approval procedure whereby now, in addition to the contracting agency's approval, the contractor seeks USAID concurrence for all short- and long-term assignments through a Memorandum of Understanding authorizing the position and a request memorandum authorizing a particular person for the position.

References:

- Contract Budget, Annex F.
- Chemonics Home Office Egypt ACP Budget Monitor (See Internal Control # 2).

Auditor's Comments

The issues addressed above are the same as those in the findings about salary costs incurred in excess of budget. (The cost of this position is not included in those findings.)

There is another aspect to this issue, namely that all long-term expatriate positions were explicitly identified and agreed during contract negotiations, as documented in the Contract, the Aide Memoires attached to the Contract, and in the detailed Final Budget. To change this without formal approvals was inappropriate in our view.

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