

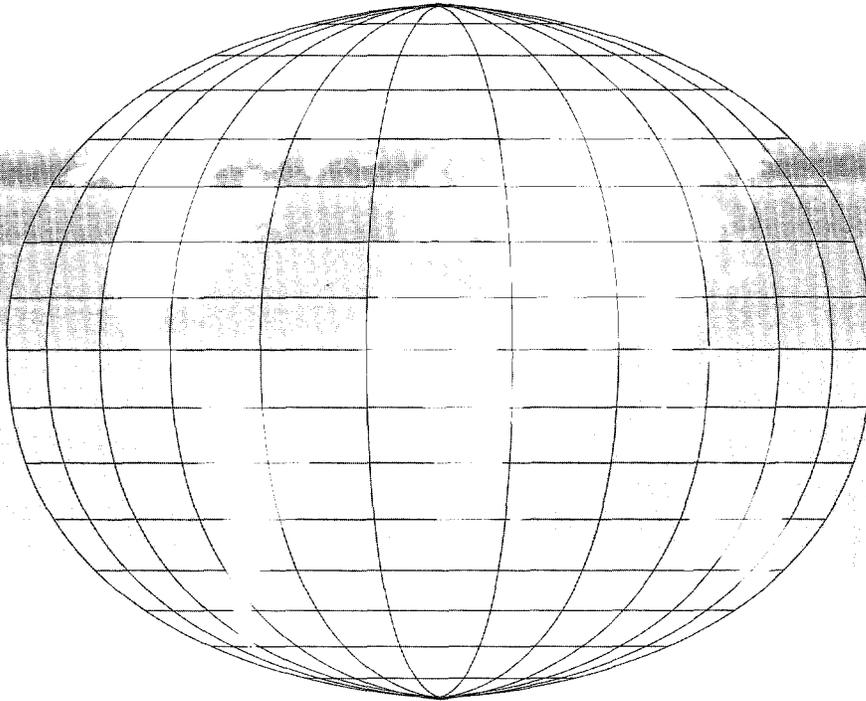
# Report of Audit

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**Financial Audit of Allied Accountants,  
Expenditures Incurred Under Indefinite Quantity Contracts  
Nos. 263-0000-I-00-3057-00 and 263-0000-I-00-3123-00**

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**Report No. 6-263-98-001-N  
October 8, 1997**



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

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**Regional Inspector General for Audit  
Cairo, Egypt**

**OFFICE OF INSPECTOR GENERAL  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



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

CAIRO, EGYPT

October 8, 1997

**MEMORANDUM**

TO : DIRECTOR USAID/Egypt, John R. Westley

FROM: RIG/A/C, Lou Mundy *Bruce Boye*  
for

SUBJECT: Financial Audit of Allied Accountants, Expenditures Incurred Under Indefinite Quantity Contract Nos. 263-0000-I-00-3057-00 and 263-0000-I-00-3123-00

The attached report, transmitted on April 22, 1997, by Talal Abu-Ghazaleh & Co., presents the results of a financial audit of Allied Accountants under Indefinite Quantity Contract (IQC) Nos. 263-0000-I-00-3057-00 and 263-0000-I-00-3123-00. These IQCs were established to provide 1) short-term fast-response technical services in the area of financial auditing, and 2) financial management reviews, financial management services of contracts, grants, cooperative agreements, host country agreements, and other operations or activities related to USAID/Egypt programs.

We engaged Talal Abu-Ghazaleh & Co. to perform a financial audit of Allied Accountants' incurred expenditures of \$753,103 (equivalent to LE 2,560,550) for the period February 18, 1993 through September 30, 1996. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Talal Abu-Ghazaleh & Co. also evaluated Allied Accountants' internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statements.

The audit report questions \$21,944 (equivalent to LE 74,612) in costs billed to USAID/Egypt by Allied Accountants. The questioned costs relate primarily to the lack of supporting documentation for payroll expenses and the inclusion of fringe benefits in salary rates billed to USAID/Egypt. The audit report also identified two unsupported expense items, totaling \$505,000, used in the calculation of the "fixed multiplier" applied to salary rates billed to USAID/Egypt. The auditors noted one instance of material noncompliance with contract terms regarding the inclusion of fringe benefits in the rates charged to USAID/Egypt. The auditors did not note any instances of material internal control weaknesses.

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In response to the draft report, responsible Allied Accountants officials provided additional explanation to the report findings. Talal Abu-Ghazaleh & Co. reviewed Allied Accountants' response to the findings and, where applicable, provided further clarification of their position (see Appendices 1 and 2).

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

**Recommendation No. 1:** We recommend that USAID/Egypt make a management decision on the questioned costs of \$21,944 (ineligible costs of \$8,265 and unsupported costs of \$13,679) detailed on pages 8 through 16 of Talal Abu-Ghazaleh & Co.'s audit report, and recover from Allied Accountants the amounts determined to be unallowable.

**Recommendation No. 2:** We recommend that USAID/Egypt make a determination as to whether the unsupported cost line items detailed on pages 21 and 22 of Talal Abu-Ghazaleh & Co.'s audit report should be excluded from Allied Accountants' fixed multiplier calculation at the next contract renewal or new contract award.

Recommendation No. 1 is open and will be considered to have had a management decision upon the Mission's determination of the amount of recovery; it will be considered to have had final action upon the recovery or offset of funds. Recommendation No. 2 is open and will be considered to have had a management decision upon the Mission's determination concerning the fixed multiplier calculation; it will be considered to have had final action upon documentation of this determination in the respective USAID/Egypt contract files.

Please advise this office within 30 days of any action planned or taken to close 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



**Audit of Allied Accountants**  
**Indefinite Quantity contracts**  
**#263-0000-I-00-3057-00 & 263-0000-I-00-3123-00**

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

April 22, 1997

Dear Mr. Mundy,

This report represents the results of our financial audit of Allied Accountants Indefinite Quantity Contracts (IQC) Nos. 263-0000-I-3057-00 & 263-0000-I-3123-00, for the period from February 18, 1993 through September 30, 1996. The fixed multiplier was audited from September 1, 1995 through August 31, 1996.

**I) Background**

Allied Accountants signed IQC No. 263-0000-I-00-3057-00 with United States Agency for International Development/Egypt (USAID/Egypt) on February 17, 1993 and IQC No. 263-0000-I-3123-00 on September 22, 1993. Under IQC No. 263-0000-I-00-3057-00, Allied Accountants was to provide short term fast response audit technical services in the area of financial auditing for USAID/Office of the Regional Inspector General for Audits/Cairo (RIG/A/C) and the office of the Regional Inspector General for Audits/Nairobi (RIG/A/N). Under IQC No. 263-0000-I-00-3123-00, Allied Accountants was to provide financial management reviews, financial management services of contracts, grants, cooperative agreements, host country agreements and other operations or activities related to USAID/Egypt Program. Contract # 263-0000-I-00-3057-00 was amended seven times the last of which was on January 14, 1996, and contract # 263-0000-I-00-3123-00 was amended three times the last of which was on October 31, 1996.

**II) Audit Objectives, Scope, and Methodology**

The objective of this engagement was to conduct a financial audit of Allied Accountants billings in accordance with the above mentioned contracts for the period from February 18, 1993 through September 30, 1996 and carry out an audit of the fixed multiplier for the period from September 1, 1995 through August 31, 1996. The audit included an examination of Allied Accountants billing invoices, expenses, compliance with contract terms and conditions, and applicable USAID/Egypt rules and regulations, review of internal controls and the calculation of the fixed multiplier. The specific objectives of our audit were to:

- 1) Express an opinion on whether the fund accountability statements present fairly, in all material respects, delivery/task order revenues received and costs incurred for the periods under audit in conformity with generally accepted accounting principles.
- 2) Determine if the costs reported as incurred under the contracts are in fact allowable, allocable and reasonable in accordance with the terms of the contracts.
- 3) Evaluate and obtain sufficient understanding of the internal control structure, assess control risk and identify reportable conditions, including material internal control weaknesses.

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- 4) Perform tests to determine whether Allied Accountants complied, in all material respects, with Indefinite Quantity Contract terms, extensions, amendments, and applicable laws and regulations.
- 5) Perform an audit of the fixed multiplier to determine if the approved rate is appropriate or should be modified at the next contract renewal or new contract award.

The scope of our work included:

- 1) Auditing all invoices billed by Allied Accountants to and reimbursed by USAID/Egypt for technical audit services rendered under above mentioned IQC for the period from February 18, 1993 through September 30, 1996. Our approach was focused on substantive audit testing of invoice details traced to job summary records, employee time sheets, payroll and personnel records. Actual hours billed were traced to supporting audit work papers to assess the reasonableness of the hours spent.
- 2) Auditing costs incurred by Allied Accountants for the period from August 31, 1995 through September 1, 1996 in order to verify the reasonableness of the calculated fixed multiplier. Our audit approach was focused on substantive audit testing of the various cost items to supporting documents, and payroll records when applicable, and testing whether costs incurred and incorporated in the fixed multiplier calculation are supported, reasonable, allowable, allocable, and eligible. We recalculated the fixed multiplier to ensure reasonableness.
- 3) A review of delivery orders issued by the USAID/Egypt for services to ensure that invoices billed by Allied Accountants agree with delivery order' terms.
- 4) We have been unable to evaluate the control environment, accounting system, and control procedures of the Electronic Data Processing (EDP) facility located in the Allied Accountants regional office in Riyadh, Saudi Arabia. All accounting records are forwarded to that location for data processing. Hard copies of accounting records (i.e. job cost summaries, invoice listings, ledgers, etc.) are forwarded back to the Cairo office from the U.S. headquarters located in Chicago. We have used alternative procedures to satisfy ourselves as to the propriety of the electronic data processing and we have found no material observations to conclude a deficiency in the EDP internal control structure.

The methodology of the audit consisted of an internal control evaluation, testing of invoices and expenditures, and testing Allied Accountants compliance with specific requirements of the contract and applicable regulations and laws. Our audit approach to study the fixed multiplier focused on substantive audit testing of the various cost items to supporting documents, and to verify that they agree with USAID contract and applicable cost principles, together with questioning their reasonableness. Finally, we calculated the fixed multiplier to determine if the approved rate is appropriate or should be modified at the next contract renewal or new contract award.

We used judgmental sampling techniques to test whether or not invoices billed by Allied Accountants are properly supported by the records referred to above.

Preliminary planning began with our pre-audit survey on December 9, 1996. Our preliminary planning consisted of:

- discussions with RIG/A/C officials;
- review of the contracts;
- interviews and discussions with Allied Accountants personnel concerning the status of the contract;
- review of Allied Accountants organizational structure and established policies and procedures and controls related to personnel , and reporting and billing to USAID/Egypt.

We started our field audit with an entrance conference on March 16, 1997 attended by members of the audit team, USAID/Egypt personnel and management and members of Allied Accountants.

Our testing program included, but was not limited to, the following procedures:

- Reviewing direct and indirect expenses billed to and reimbursed by USAID, identifying and quantifying questionable costs.
- Reviewing direct salary charges to determine whether salary rates are reasonable for the position billed, in accordance with rates approved by USAID, and supported by appropriate payroll records.
- Reviewing other direct costs to determine allowability as to whether they are supported by adequate documentation.
- Reviewing printouts of the accounting ledgers to determine proper recording of revenues and expenditures.
- Determining whether contract revenues received are presented fairly, in all material respects, in the fund accountability statements.
- Reviewing the fixed multiplier cost pool and ensuring it includes only costs authorized by the USAID contracts and applicable costs principles.

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 statements are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 46 of Chapter 3 of GAS, because no such quality control review program is offered by professional organizations in Jordan. We believe that the effect of this departure from the financial audit requirements of GAS is not material because we are participant in the Talal Abu Ghazaleh International (TAGI) worldwide internal quality control program. This program requires our office to be subjected, every year, to an extensive quality control review by partners and managers from the Regional Office or other TAGI offices.

### III) Results of Audit

#### Fund Accountability Statements

Changed in accordance with auditee's response.

- A) The audit of IQC No. 263-0000-I-00-3057-00 identified the following questioned costs. The details are as follows:
- US\$ 12,091 (L.E. 41,111) in unsupported questioned costs consisting of US\$ 8,216 (L.E. 27,934) value of unsupported hours billed to USAID, US\$ 1,103 (L.E. 3,751) value of unsupported hours billed to USAID (West Bank and Gaza), and US\$ 2,772 (L.E. 9,426) of unsupported direct expenses.
  - US\$ 5,737 (L.E. 19,505) in ineligible questioned costs consisting of US\$ 4,425 (L.E. 15,046) value of differences between rates charged to USAID and actual rates paid to staff per payroll records, and US\$ 1,312 (L.E. 4,459) value of differences between rates charged to USAID and actual rates paid to staff per payroll records (West Bank and Gaza).
- B) The audit of IQC No. 263-0000-I-00-3123-00 identified the following questioned costs. The details are as follows:
- US\$ 1,588 (L.E. 5,398) in unsupported questioned costs representing the value of unsupported hours billed to USAID.
  - US\$ 2,528 (L.E. 8,598) in ineligible questioned costs consisting of differences between rates charged to USAID and actual rates paid to staff per payroll records.

#### Fixed Multiplier

During our audit of the fixed multiplier, expense line items presented in the "Fixed Multiplier Schedule" for fiscal year ending August 31, 1996 provided to us by the management of Allied Accountants included an unsupported expense item "SC Services (AW Services)" with a total balance of US\$ 387,000, of which only US\$ 285,000 was recorded in the general ledger. Also, the Schedule included an unsupported line item "Share of indirect costs of bids and proposals" with a balance of US\$ 118,000. None of this balance was recorded in the company general ledger.

#### Compliance with applicable laws and regulations

##### **Changed in accordance with auditee's response.**

We have identified instances of noncompliance with applicable laws and regulations under both IQC No. 263-0000-I-00-3057-00 and No. 263-0000-I-00-3123-00. These instances include the value of differences between rates charged to USAID and actual rates paid to staff per payroll records.

Details relating to noncompliance are set forth in the Report on Compliance with Applicable Laws and Regulations.

#### Internal Control

There were no reportable conditions or material misstatements findings in internal control as mentioned in internal control structure report.

This report is intended for the information of Allied Accountants management and others within the organization and the United States Agency for International Development.



## Report on the Fund Accountability Statements Independent Auditor's Report

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

We have audited the accompanying fund accountability statements of funds received and costs incurred by Allied Accountants related to expenditures under contracts Nos. 263-0000-I-00-3057-00 & 263-0000-I-00-3123-00 for the period from February 18, 1993 through September 30, 1996 and audit of the fixed multiplier, for the period from September 1, 1995 through August 31, 1996. The Fund Accountability Statements are the responsibility of Allied Accountants' management. Our responsibility is to express an opinion on these fund accountability statements based upon our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the fund accountability statements. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 46 of chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Jordan. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we are a participant in the Talal Abu Ghazaleh International (TAGI) internal quality control program. This program requires our office to be subjected, every year, to an extensive quality control review by partners and managers from the Regional Office or other TAGI offices.

As detailed in the fund accountability statements and more fully described in note 5 thereto, the results of our tests disclosed US\$ 21,944 (L.E. 74,612) of questionable contracts' costs. These amounts are comprised of unsupported cost of a) US\$ 12,091 (L.E. 41,111) of which US\$ 1,103 (L.E. 3,751) value of unsupported hours billed to USAID related to West Bank/Gaza audits and US\$ 2,772 (L.E. 9,426) of unsupported direct expenses for IQC No. 263-0000-I-00-3057-00, and US\$ 1,588 (L.E. 5,398) for IQC No. 263-0000-I-00-3123-00, b) ineligible costs of US\$ 5,737 (L.E. 19,505) of which US\$ 1,312 (L.E. 4,459) related to West Bank/Gaza audits for IQC No. 263-0000-I-00-3057-00 and US\$ 2,528 (L.E. 8,598) for IQC No. 263-0000-I-00-3123-00. Unsupported costs are those lacking adequate documentation. Ineligible costs are those that are not program related or are prohibited by the contract or applicable laws and regulations.

In our opinion, except for the effects of the questioned costs referred to in the preceding paragraph, the fund accountability statements referred to above present fairly, in all material respects, the amounts received and the costs incurred pursuant to contracts Nos. 263-0000-I-00-3057-00 & 263-0000-I-00-3123-00 and their amendments for the period from February 18, 1993 through September 30, 1996 in conformity with the generally accepted accounting principles.

Audit of Allied Accountants under  
IQC No. 263-0000-I-00-3057-00 & 263-0000-I-00-3123-00  
Page # 7  
Talal Abu Ghazaleh & Co.  
April 22, 1997

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This report is intended for the information of Allied Accountants management and others within the organization and the United States Agency for International Development. However, upon acceptance by the USAID, Office of the Inspector General, this report is a matter of public record, and its distribution is not limited.

*Talal Abu Ghazaleh & Co.*  
Talal Abu-Ghazaleh & Co.  
Amman - Jordan  
April 22, 1997



Audit of Allied Accountants

Fund Accountability Statement

on IQC No. 263-0000-I-00-3057-00

for the period from February 18, 1993 through September 30, 1996

	<u>Budget</u> <u>US\$</u>	<u>Actual</u> <u>US\$</u>	<u>Questioned Costs</u>		<u>Notes</u>
			<u>Ineligible</u> <u>US\$</u>	<u>Unsupported</u> <u>US\$</u>	
USAID / Egypt Funds Received		686,040			
<u>Expenditures</u>					
<u>Billed for USAID/Egypt work</u>					
Fees	522,406	492,849	4,425	8,216	Note 5
Pre - Audit					
Surveys	55,000	55,000			
Other					
Expenses	1,531	1,531			
<u>Subtotal</u>	<u>578,937</u>	<u>549,380</u>	<u>4,425</u>	<u>8,216</u>	
<u>Billed for USAID/ West Bank &amp; Gaza work</u>					
Fees	79,145	79,257	1,312	1,103	Note 5
Pre - Audit					
Surveys	10,000	10,000			
Other					
Expenses	47,403	47,403		2,772	Note 5
<u>Subtotal</u>	<u>136,548</u>	<u>136,660</u>	<u>1,312</u>	<u>3,875</u>	
<u>Total</u> <u>Expenditures</u>	<u>715,485</u>	<u>686,040</u>	<u>5,737</u>	<u>12,091</u>	

The accompanying notes are an integral part of the fund accountability statement.

Audit Allied Accountants

Fund Accountability Statement

on IQC No. 263-0000-I-00-3123-00  
 for the period from February 18, 1993 through September 30, 1996

	<u>Budget</u> US\$	<u>Actual</u> US\$	<u>Questioned Costs</u>		<u>Notes</u>
			<u>Ineligible</u> US\$	<u>Unsupported</u> US\$	
USAID / Egypt Funds Received		67,063			
<u>Expenditures</u>					
Fees	66,454	66,449	2,528	1,588	Note 5
Other Expenses	1,248	614			
<u>Total</u> <u>Expenditures</u>	<u>67,702</u>	<u>67,063</u>	<u>2,528</u>	<u>1,588</u>	

The accompanying notes are an integral part of the fund accountability statement.

Audit of Allied Accountants  
Fund Accountability Statements  
on IQC's Nos. 263-0000-I-00-3057-00 & 263-0000-I-00-3123-00  
for the period from February 18, 1993 through September 30, 1996

Notes to Fund Accountability Statements

**Note 1:**      Accounting Basis

The fund accountability statements were prepared on the accrual basis.

**Note 2:**      Source of Data

The column labeled "actual" is the responsibility of Allied Accountants and presents the cumulative invoices billed to USAID/Egypt from February 18, 1993 through September 30, 1996.

**Note 3:**      Budget

The column labeled "Budget" includes USAID/Egypt's approved costs in accordance with delivery orders and their amendments.

**Note 4:**      Exchange Rate

Expenditures paid in Egyptian Pounds (L.E.) were translated into US Dollars (\$). The period average exchange rate method was used. This rate is \$1=LE 3.4

**Note 5:**      Questioned Costs

Questioned costs are presented in two separate categories - ineligible and unsupported - ineligible costs are those that are not program related or are prohibited by the contract or applicable laws and regulations. Unsupported contract costs are those lacking adequate documentation.

**A)      Chargeable Hours (Unsupported)**

Changed in accordance with auditee's response.

During our audit we noted instances of variances between the number of hours appearing on the invoice billed to USAID and the number of hours charged in Allied Accountants job cost summaries (JCS's). The JCS's are the internal time recording mechanism used by Allied Accountants to record the total of actual hours spent by employees assigned to each engagement. All time sheets completed by employees are posted to the JCS.

In compliance with contract 263-0000-I-00-3057-00 section G.5., and contract 263-0000-I-00-3123-00 section G.4, both stipulating that "The Contracting Officer is the only individual who may legally commit the Government to the expenditure of public funds. No costs are reimbursable to the Contractor which have not been incurred in accordance with specific requirements set forth in this Contract, a formal modification to this contract, or other specific,

written authorization from the Contracting Officer". Allied Accountants should bill USAID actual time spent, not to exceed the total work days for each labor category. In some instances Allied Accountants billed USAID for budgeted hours rather than actual hours recorded in the JCS's.

- Unsupported costs for IQC # 263-0000-I-00-3057-00 - USAID/Egypt, local audits: US\$ 8,216 (L.E.27,934).
- Unsupported costs for IQC # 263-0000-I-00-3057-00 - USAID/West Bank & Gaza audits: US\$ 1,103 (L.E.3,751).
- Unsupported costs for IQC # 263-0000-I-00-3123-00: US\$ 1,588 (L.E.5,398).

IQC n. 263-0000-I-00-3057-00 :

Delivery Order No. / Staff Position	Hours Billed to USAID	(US\$) Billed to USAID	Hours per JCS	Hours per JCS (US\$)	Value of the Difference (US\$)
D.O. No. 2					
Partner	16	1,449	0	0	1,449
staff	72	32	0	0	32
D.O. No. 3					
Partner	24	2,175	4	363	1,812
D.O. No. 8					
Partner	8	761	0	0	76
Senior	308	10,588	304	10,450	13
Staff	304	1,710	286	1,608	10
Staff	304	1,710	300	1,687	2
D.O. No. 9					
Partner	8	738	4	369	369
D.O. No. 10					
Partner	8	1,103	4	552	551
D.O. No. 12					
Partner	8	1,103	0	0	1,103
D.O.No.15					
Partner	8	1103	4	551	55
D.O. No. 17					
Partner	8	1,103	4	551	552
D.O. No. 21					
Partner	8	772	0	0	772
<b>Sub Total</b>					8,216
D.O. No. 13					
Partner (Gaza)	8	1,103	0	0	1,103
<b>Total</b>					9,319

IQC # 263-0000-I-00-3123-00 :

Delivery Order No./ Staff Position	Hours Billed to USAID	(US\$) Billed to USAID	Hours per JCS	Hours per JCS (US\$)	Value of the Difference (US\$)
D.O. No. 1 Partner	4	362	2	181	181
D.O. No. 4 Partner	8	1,103	2	275	828
D.O. No. 8 Partner	4	579	0	0	579
<b>Total</b>					1,588

B) Unsupported Other Expenses

Changed in accordance with auditee's response.

During our review of other expenses, in IQC# 263-0000-I-00-3057-00, there was no supporting documentation to justify US\$ 2,772 (L.E. 9426) billed to USAID. Actual supported expenses for delivery order No.13 were US\$ 13,141 (L.E.44,679) while billed amount was US\$ 15,913 (L.E.54,105). In compliance with contract 263-0000-I-00-3057-00 section G.5., and contract 263-0000-I-00-3123-00 section G.4, both stipulating that "The Contracting Officer is the only individual who may legally commit the Government to the expenditure of public funds. No costs are reimbursable to the Contractor which have not been incurred in accordance with specific requirements set forth in this Contract, a formal modification to this contract, or other specific, written authorization from the Contracting Officer". Allied Accountants should only bill USAID for actual expenses spent on USAID jobs

- Unsupported costs for IQC # 263-0000-I-00-3057-00 - USAID/West Bank & Gaza work: US\$ 2,772 (L.E. 9,426).

C) Rates billed to USAID

Changed in accordance with auditee's response.

We noted that the direct portion of the rate billed to USAID of some professional staff does not agree with direct rates as calculated from payroll records due to the inclusion of fringe benefits in the rates billed to USAID. Thus some staff members have been charged out to USAID in excess of their actual salary as defined by Contract terms in Section B.2.a.1 which stipulates that "Fixed daily rates are determined by multiplying the individual's daily salary by the negotiated fixed multiplier." Although the fringe benefits line item was not included in the fixed multiplier expense pool, there is no written approval from USAID to include fringe benefits in the direct portion.

- Ineligible costs for IQC # 263-0000-I-00-3057-00 - USAID/Egypt local audits: US\$ 4,425 (L.E. 15,046).
- Ineligible costs for IQC # 263-0000-I-00-3057-00 - USAID/West Bank & Gaza audits: US\$ 1,312(L.E. 4,459).
- Ineligible costs for IQC # 263-0000-I-00-3123-00 - : US\$ 2,528 (L.E. 8,598).

IQC # 263-0000-I-00-3057-00 :

Delivery Order / Personnel	Rates Billed to USAID Per Invoice (Man Day) US\$	Staff Rates as Calculated from Payroll Records (Man Day) US\$	Number of days billed	Value of the Difference US\$
D.O. No. 1 Staff	60.3	51.5	3	26
D.O. No. 2 Staff	24	8.5	3	47
D.O. No. 8 Staff	45.6	36.2	38	358
Staff	45.6	36.2	19	179
D.O. No. 10 Staff	63.5	50	25	338
D.O. No. 11 Staff	70	55	76	1,140
D.O. No. 12 Staff	74.4	58.5	8	127
D.O. No. 14 Senior	399.4	348.5	1	51
Staff	70	55.3	19.25	283
Staff	70	55.3	41.75	614
D.O. No. 15 Senior	399.4	348.5	1	51
Staff	81.7	64.4	2	35
Staff	70	55.3	25	367
D.O. No. 17 Staff	70	55.3	10	147
Staff	70	55.3	45	662
<b>Sub total</b>				<b>4,425</b>
D.O. No. 13 Staff (Gaza Strip)	66.7	52.3	36	519
D.O. No. 16 Staff (Gaza Strip)	66.7	52.3	55	793
<b>Total</b>				<b>5,737</b>

IQC # 263-0000-I-00-3123-00 :

Delivery Order/ Personnel	Rate Billed to USAID Per Invoice (Man Day) US\$	Staff Rate as Calculated from Payroll Records (Man Day) US\$	number of days billed	Value of the Difference US\$
D.O. No. 2				
Audit manager	262.3	255.9	4	26
Staff	52	42.3	26	252
D.O. No. 4				
Staff	74.7	58.5	15	243
Staff	63.2	50	15	198
Staff	36.7	29.4	10	73
D.O. No. 5				
Staff	63.5	50	7	95
Staff	63.5	50	20	271
Staff	63.5	50	8	108
D.O. No. 6				
Staff	74.4	58.5	40	635
D.O. No. 7				
Staff	81.7	64.4	27	468
Staff	66.7	52.3	11	159
<b>Total</b>				<b>2,528</b>

**Report on the Internal Control Structure**  
**Independent Auditor's Report**

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

We have audited the accompanying fund accountability statements of funds received and costs incurred by Allied Accountants under Contracts Nos. 263-0000-I-00-3057-00 & 263-0000-I-00-3123-00 for the period from February 18, 1993 through September 30, 1996, and audit of the fixed multiplier, for the period from September 1, 1995 through August 31, 1996, and have issued our reports thereon dated April 22, 1997.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 46 of chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Jordan. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we are participant in the Talal Abu Ghazaleh International (TAGI) worldwide internal quality control program. This program requires our office to be subjected, every year, to an extensive quality control review by partners and managers from other TAGI offices.

The management of Allied Accountants 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 the transactions are executed in accordance with the management's authorization and recorded properly to permit the preparation of fund accountability 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, 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 statements of Allied Accountants for IQC's Nos. 263-0000-I-00-3057-00 & 263-0000-I-00-3123-00 for the period from February 18, 1993 through September 30, 1996, we obtained an understanding of the internal structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the

American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of Allied Accountants management and others within the organization and the United States Agency for International Development. However, upon acceptance by the USAID Office Of the Inspector General, this report is a matter of public record, and its distribution is not limited.

*Talal Abu Ghazaleh & Co.*  
Talal Abu-Ghazaleh & Co.  
Amman - Jordan  
April 22, 1997



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**Report on Compliance with Laws and Regulations**  
**Independent Auditor's Report**

Mr. Lou Mundy  
Regional Inspector General for Audit-Cairo  
United States Agency for International Development  
Cairo, Egypt.

We have audited the accompanying fund accountability statements of funds received and costs incurred by Allied Accountants under Contracts Nos. 263-0000-I-00-3057-00 & 263-0000-I-00-3123-00 for the period from February 18, 1993 through September 30, 1996, and audit of the fixed multiplier, for the period from September 1, 1995 through August 31, 1996, and have issued our reports thereon dated April 22, 1997.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 46 of chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Jordan. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we are participant in the Talal Abu Ghazaleh International (TAGI) worldwide internal quality control program. This program requires our office to be subjected, every year, to an extensive quality control review by partners and managers from other TAGI offices.

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

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in laws, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements. The results of our tests of compliance disclosed one material instance of noncompliance.

- As described in Note 5 to the fund accountability statements, we noted that the direct portion of the rate billed to USAID of some professional staff does not agree with direct rates as calculated from payroll records due to the inclusion of fringe benefits in the rates billed to USAID. Thus some staff members have been charged out to USAID in excess of their actual salary as defined by Contract terms in Section B.2.a.1 which stipulates that "Fixed daily rates are determined by multiplying the individual's daily salary by the negotiated fixed multiplier." Because the fringe benefits line item was not included in the fixed multiplier expense pool, Allied Accountants added fringe benefit amounts to their direct billing rates. USAID has not provided a written approval on the inclusion of fringe benefits in the direct portion

**Recommendation**

We recommend that the Partner/Manager-in charge ensures that rates billed to USAID are based on actual staff daily rates (actual salary excluding the fringe benefits), in compliance with the contract terms.

We considered this material instance of noncompliance in forming our opinion on whether Allied Accountants fund accountability statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated April 22, 1997, on those fund accountability statements.

This report is intended for the information of Allied Accountants management and others within the organization and the United States Agency for International Development. However, upon acceptance by the USAID Office of the Inspector General, this report is a matter of public record, and its distribution is not limited.

*Talal Abu Ghazaleh & Co.*  
Talal Abu-Ghazaleh & Co.  
Amman - Jordan  
April 22, 1997



Report on the Fixed Multiplier  
Independent Auditor's Report

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

We have audited the accompanying fund accountability statements of funds received and costs incurred by Allied Accountants under Contracts Nos. 263-0000-I-00-3057-00 & 263-0000-I-00-3123-00 for the period from February 18, 1993 through September 30, 1996, and audit of the Fixed Multiplier, for the period from September 1, 1995 through August 31, 1996 and have issued our reports thereon dated April 22, 1997.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 46 of chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Jordan. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we are participant in the Talal Abu Ghazaleh International (TAGI) worldwide internal quality control program. This program requires our office to be subjected, every year, to an extensive quality control review by partners and managers from other TAGI offices.

The fixed multiplier is used to calculate the daily billing rate billed to USAID.

Our audit approach to study the fixed multiplier focused on substantive audit testing of the various cost items to supporting documents, and to verify that they agree with USAID contract and applicable cost principles, together with questioning their reasonableness. Finally, we calculated the fixed multiplier to determine if the approved rate is appropriate or should be modified at the next contract renewal or new contract award.

During our audit of the fixed multiplier we noted the following points:

**Changed in accordance with auditee's response**

- Total indirect costs in the "Fixed Multiplier Schedule " provided to us by the management for fiscal year ending August 31, 1996 included an unsupported expense item "SC Services (AW Services)" with a total balance of US\$ 387,000, of which only US\$ 285,000 was recorded in the general ledger. The direct effect is an overstatement of US\$ 387,000 of the indirect cost pool for the period mentioned above
- Unsupported cost of US\$387,000.

**Changed in accordance with auditee's response**

- The "Fixed Multiplier Schedule" for fiscal year ending August 31, 1996 included an unsupported line item "Share of indirect costs of bids and proposals" with a balance of US\$ 118,000. None of this expense is recorded in the firms general ledger. The direct effect is an overstatement of US\$ 118,000 of the indirect cost pool for the period mentioned above.
- Unsupported cost of US\$118,000.

Based on our tests on the fixed multiplier calculation and the findings presented above, we believe that the fixed multiplier rate should be modified at the next contract renewal or new contract award.

This report is intended for the information of Allied Accountants management and others within the organization and the United States Agency for International Development. However, upon acceptance by the USAID Office of the Inspector General, this report is a matter of public record, and its distribution is not limited.

*Talal Abu Ghazaleh & Co.*  
Talal Abu- Gazaleh & Co.  
Amman - Jordan  
April 22,1997



<b>Fixed Multiplier Schedule</b>				
<b>For Fiscal Year Ending August 31, 1996</b>				
<b>Cost presented in US\$000</b>				
Line Item	Calculation of Allied Accountants			Questioned cost - unsupported
	Total	Unallowable	Net	
<b>Indirect Costs</b>				
Payroll	873	20	853	
Payroll Non - Chargeable in Suspense	(6)		(6)	
Vacation, Holiday, Sick Leave	219		219	
Social Insurance	80		80	
People Support	68	4	64	
Training	86	4	82	
Practice Tools	12		12	
Practice Management	273	15	258	
Facilities	60	2	58	
Communications	77	4	73	
Marketing	58	14	44	
Other	4	4	0	
Financing	5	5	0	
Amortization / Depreciation	56	1	55	
GMU Administration Allocation	46	2	44	
Regional Management Cost	52		52	
Expatriate	132	3	129	
Training Conduct	3	(13)	16	
Training development	10		10	
Line Management Allocation	3	3	0	
SC Services (AW Services)	387		387	387
<b>Total Indirect Cost</b>	<b>2,498</b>	<b>68</b>	<b>2,430</b>	
<b>Adjustments</b>				
Partner Profit Adjustments	(74)		(74)	
Local Marketing - Proposals	(66)		(66)	
Share of Indirect Costs of Bids and Proposals			118	118
<b>Total Adjusted Indirect Costs</b>			<b>2,408</b>	
<b>Direct Costs</b>				
Payroll	1,299		1,299	
Adjustments				
Partner Time Adjustment	(51)		(51)	
Bids and Proposals	66		66	
<b>Adjusted Direct Costs</b>	<b>1,314</b>		<b>1,314</b>	

Notes to the Fixed Multiplier Calculation

Note 1 Fixed Multiplier Calculation

The calculation of the fixed multiplier was according to the following equations:

Fixed multiplier = Direct Rate (100%) + Indirect Rate (%) + 10% of Total Cost Profit Rate.

Indirect Rate = Indirect Cost/Direct Cost

Note 2 Fixed Multiplier calculation

Indirect rate (%) = An average of (1994 actual indirect costs/1994 actual direct labor) and (1995 budgeted indirect costs/1995 budgeted direct labor)=180%.

Used to Set Fixed Multiplier	Actual for FY'96 per Allied Accountants	Excluding unsupported costs
1.8000	2408/1314=1.8326	1903/1314=1.4482

Fixed Multiplier = Direct Rate (100%)+Indirect Rate (%)+10% Of Total Cost Profit Rate.

In Contract	For FY'96 per Actual A.
3.080	3.116

Appendix 1:

Allied Accountants Management Response

Allied Accountants Response to Talal Abu-Ghazaleh & Co. April 22, 1997 Draft Report

We offer the following responses to your "Result of Audit" presented in the draft report for the audit of our Indefinite Quantity Contracts with USAID, #263-I-0000-3057-00 & 263-0000-I-00-3123-00

Results of Audit (page # 5 of the draft report)

Fund Accountability Statement

Unsupported Costs

Per the draft report:

"A) The audit of IQC No. 263-0000-I-00-3057-00 identified US\$ 12,091 (L. E. 41,111) in unsupported questioned costs"

"B) The audit of IQC No. 263-0000-I-00-3123-00 identified US\$ 1,588 (L. E. 5,398) in unsupported questioned costs"

"The details of the costs questioned are included in Notes to the fund accountability statements of this report"

The notes to the fund accountability statements breakdown the unsupported costs into A) Chargeable Hours and B) Other Expenses.

A) Chargeable Hours (Unsupported)

Per page #12 of the draft report a total of \$10,907 billed to USAID was unsupported because of "variances between the number of hours appearing on the invoice and the number of hours charged in Allied Accountants job cost summaries (JCS's). The report goes on "In compliance with contract section G.4., Allied Accountants should bill USAID actual time spent, not to exceed the total work days for each labor category"

The last sentence of this section states "Allied Accountants always bills USAID for budgeted time"

Our Response:

All but \$250 of the of the \$10,907 ( \$10,657) referred to above involves the audit partner's time as detailed in the schedules presented on page #13 of the draft report.

The \$250 variance (for other than partner time) was caused by time sheet adjustments that took place subsequent to the billings. These adjustments were posted to JCS but the USAID billing were not adjusted accordingly. Therefore we concur with the auditor's finding regarding this \$250.

As for the \$10,657 of partner's time, we believe the auditor's "finding" is not correct for the following reasons:

## Allied Accountants Response to Talal Abu-Ghazaleh &amp; Co. April 22, 1997 Draft Report

- The partner time billed is supported by the audit reports that he reviewed, and approved. The partner signed each of the reports related to the delivery/ task orders in question. Along with his signature comes the responsibility that the whole firm is taking for the report as supported by the workpapers (note: the partner signs as Allied Accountants or Arthur Andersen)
- The amounts billed, mostly eight (8) hours for each task order in question are very reasonable by accounting firms standards.
- The cause of the variance between the JCS and the amount billed is that the partner time sheets have not consistently been prepared and entered into the JCS. This point is of most importance since the reference to the partner hours reflected in the JCS would have been valid only if all of the partner time spent on the various audit projects had been reflected in the JCS. Since the time in the JCS does not account for all the of the partner's time, the JCS cannot be used to determine support or lack of support for the hours billed. Instead, the partner time can be supported with the product that he produced (in this case the audit reports) along with the reasonableness of the amounts billed.

In addition, the criteria the draft report uses ( Section G.4 of the contract) for the "findings" is not correct. Section G.4 of IQC No. 263-0000-I-00-3057-00 designates the Contracting Officer's Technical Representative (COTR), while section G.4 of IQC No. 263-0000-I-00-3123-00 discusses the authority to bind the U.S. government. In both IQCs, section G.4 has nothing to do with the issues discussed in the finding.

As support for the partner time billed, we are enclosing certain sections of the audit reports for the delivery / task orders in question. The sections enclosed are those including the partner's signature (as Allied Accountants and or Arthur Andersen).

The auditor's last sentence in the paragraph: "Allied Accountants always bills for USAID for budgeted time" is also not correct. We are enclosing copies of actual billings, approved budgets, and JCS reports that prove that. We have billed actual time up to the budgeted time.

See support in section I of the attached binder.

### B) Unsupported Other Expenses

The draft report states that " in IQC # 263-0000-I-3057-00, there was no supporting documentation to justify US\$ 2,772 (L. E. 9,426) billed to USAID. Actual supported expenses for delivery order No. 13 were US\$ 13,141 (L.E. 44,679) while billed amount was US \$ 15,913 (L.E. 54,105). As specified in the contract section G.4, Allied Accountants should only bill USAID with actual expenses spent on USAID jobs. Allied Accountants always bills USAID for budgeted expenses".

### Our Response:

We are enclosing the support for the US\$ 2,772 in question which represents costs of airline tickets that were incurred when auditing an aid recipient in Gaza. The amount that the auditor indicates is supported (US\$ 13,141) represents all out of pocket expenses except airline tickets. We are enclosing support for the \$15,913 that was billed to USAID. The support consists of:

Allied Accountants Response to Talal Abu-Ghazaleh & Co. April 22, 1997 Draft Report

- A breakdown of the US\$ 13,141 and its related supporting documents (invoices, receipts) that show that this amount does not include airline tickets.
- Support for the airline tickets for US\$ 2,772 consisting of ticket receipts and travel agents invoices.

The use of Section G.4 of the contract as the criteria for this "finding" is not correct. Section G.4 of IQC No. 263-0000-I-00-3057-00 designates the Contracting Officer's Technical Representative (COTR), while section G.4 of IQC No. 263-0000-I-00-3123-00 discusses the authority to bind the U.S. government. In both IQCs, section G.4 has nothing to do with the issues discussed in the finding.

The auditor's last sentence in the paragraph: "Allied Accountants always bills USAID for budgeted expenses". As the attached support proves, we have billed USAID only for actual expenses up to the budgeted amount. In some cases we incurred more than what has been billed. In other cases, we incurred less than the budgeted amounts and billed accordingly.

See support at section II of the attached binder.

**Rate billed to USAID**

Per the draft report:

A) The audit of IQC No. 263-0000-I-00-3057 identified "US\$ 5,737 (L. E. 19,505) in ineligible questioned costs from differences between the rates billed to USAID and those approved by USAID in the delivery / task order."

B) The audit of IQC No. 263-0000-I-00-3123-00 identified "US\$ 2,528 (L. E. 8,598) in ineligible questioned costs from differences between the rates billed to USAID and those approved by USAID in the delivery / task order."

"The details of the costs questioned are included in Notes to the fund accountability statements of this report"

The notes to the fund accountability statement specify the task orders to which the above "finding" refer to. The stated cause of the "finding" : "Because the fringe benefits line item was not included in the fixed multiplier expense pool, Allied Accountants added fringe benefit amounts to their direct billing rate"

**Our Response:**

The statement that we billed USAID for rates other than those approved per the delivery / task order is not correct. We are enclosing copies of the USAID billings and the delivery / task orders pages that show the approved rates. The enclosed material clearly shows that we billed for rates that have been approved by USAID in the delivery / task order.

The stated cause of the finding (adding of fringe benefits) is a different issue that is presented in the draft report in an incomplete manner. USAID has been aware of this issue and how we prepared our cost proposals and approved our cost proposals

Allied Accountants Response to Tatal Abu-Ghazaleh & Co. April 22, 1997 Draft Report

accordingly. However, for the purposes of our response, the finding's cause and any discussions related to it are irrelevant because the "finding" itself is not correct, as proven by the enclosed support.

See support at section III of the attached binder.

### Fixed Multiplier

The draft report states that our "Fixed Multiplier Schedule" for fiscal year ending August 31, 1996 "included an unsupported expense item "SC Services (AW Services)" with a total balance of US \$ 387,000 of which only US \$ 285,000 was recorded in the general ledger. Also, the Schedule included an unsupported line item of US \$ 118,000. None of this balance was recorded in the company general ledger".

### Our response:

We are enclosing backup for both the \$285,000 and \$387,000 even though for the purposes of the contract, only the \$387,000 is relevant. We are also enclosing a certificate from Arthur Andersen headquarters that \$387,000 was properly allocated to Allied Accountants.

As described below, the \$285,000 represents headquarters cost allocation based on Partner Units. This method of cost allocation is acceptable for financial statement purposes but not for federal contracts (contracts with the United States) purposes. For allocating headquarters costs, the federal government mandates on its contractors like Arthur Andersen LLP and Andersen Consulting LLP, the use of allocation methods prescribed by Cost Accounting Standards (CAS) which are incorporated into Federal Acquisition Regulations (FAR).

### The \$285,000 versus \$387,000 Allocation

In accordance with CAS 403, Allocation of Home Office Expenses to Segments, it was determined with the Defense Contract Audit Agency (DCAA) (the DCAA is responsible for performing audit of U.S. government contractors, including Arthur Andersen LLP and Andersen Consulting LLP, to ensure that these contractors are complying with applicable U.S. government procurement regulations ( i.e. Federal Acquisition Regulations, Cost Standards, etc.)) that the manner in which the AA World Headquarters Expenses (AAWE) are allocated for financial accounting purposes (i.e., the financial statements), is not appropriate for U.S. Government Contract purposes. The allocation base used to allocate these expenses to the various offices around the world that is included in the financial statements is Partner Units (ownership shares). Using the Partner Units allocation base, the Cairo office is allocated \$285,000 of the total AA World Headquarters (AAWH).

As stated above, the DCAA did not approve the use of Partner Units as the allocation base for purposes of determining the amount of AAWE cost to include in the calculation of indirect cost rates used for U.S. Government contract purposes. Accordingly, we have taken the pool of AAWH costs and done a separate allocation of the AAWH costs to all of the Andersen World-wide offices in accordance with the CAS 3-factor formula. The 3 factor formula is the average percentage of the ratio of Cairo offices' salary expense, revenues and net asset

## Allied Accountants Response to Talal Abu-Ghazaleh &amp; Co. April 22, 1997 Draft Report

value as a percentage of the total Andersen World-wide amounts for the same items. As a result of complying with the CAS 403 requirements and the DCAA, this results in an allocation of the AAWH costs to the Cairo office of \$387,000 which should be used for purposes of calculating the indirect cost rates (i.e., overhead rates) used for U.S. government contracts.

Please Note: the 3-factor formula is prescribed by CAS and is not an internal Arthur Andersen method.

**Support for the \$387,000**

The \$387,000 is based on the fiscal year 1995 actual information for the SC and Business Unit. This was done due to the fact that the close of the fiscal year 1996 books for the SC and Business Unit was not completed until December 1996. The new overhead and G&A rates for fiscal year 1996 were required for the new proposal to USAID in November or December of 1996. Therefore, to accommodate USAID's schedule, the fiscal year 1995 amounts were used for purposes of calculating the FY 1996 rates.

The following support is enclosed for the \$387,000 (see section IV of the attached binder):

Tab A

Summary of G&A calculation supporting the \$387,000. The breakdown of this amount is as follows:

Area Management	\$ 16,000
BU Management & Investment	253,000
Andersen World-wide G&A	<u>118,000</u>
Total World-wide G&A	\$ 387,000

The support for the Area Management amount is the Cairo office financial statements (see attached section). This amount is contained in the account detail from the "Line Management" caption on the office's Income Statement.

Tab B

This tab contains the support for the Arthur Andersen Business Unit (BU) Management & Investment amount of \$253,000 which was allocated to the Cairo office. The following documents are contained in this tab:

- Schedule of the BU Management & Investment expense detail. This is a management report produced by the Arthur Andersen Business Unit to monitor and manage its expenses. This schedule provides the expense detail for the financial statements which are described below.
- Arthur Andersen Business Unit Financial Statements. This is the consolidated financial statement for all of the Arthur Andersen (does not include Andersen Consulting or Andersen World-wide - headquarters organisation) offices world-wide. The total expense of the Arthur Andersen Business Unit office

## Allied Accountants Response to Talal Abu-Ghazaleh &amp; Co. April 22, 1997 Draft Report

(\$184,042,000) is contained on Page 8 of the statements and is entitled "BU MGMT & INVESTMENT."

- Memo describing the reconciliation between the schedule of BU Management & Investment expense and the same amount per the Arthur Andersen Business Unit financial statements. The reconciling item between the two reports is the "true up" of the BU expense allocation to the individual offices (including Cairo) for purposes of preparing the individual offices' financial statements on the Arthur Andersen accounting system. The management report basically does not include the "Trueup", which in effect understates the actual expenses incurred by the Business Unit. We have concluded that the difference of \$185,000 or 0.1 % between the two reports is immaterial both in total and in terms of the Cairo office. Cairo would only receive a portion of this amount.

To summarise, this tab should have the financial statements and other supporting documentation needed for the BU Management & Investment amount included in the G&A calculation for the Cairo office.

Tab C

This tab contains the support for the Andersen World-wide G&A Expense amount of \$118,000 which was allocated to the Cairo office. This is referred to internally within Andersen as the "SC Services" expenses. The SC is the world headquarters office for the Andersen organisation. The following documents are contained in this tab:

- Summary of Andersen World-wide payroll and non-payroll expenses prepared by the Chicago office, as part of the G&A calculation. The supporting documentation for this schedule is described below.
- Schedule of the SC Services expense detail. This is a management report produced by the Andersen World-wide office to monitor and manage its expenses. This
- schedule provides the expense detail for the financial statements which are described below.
- Arthur Andersen World-wide Organization Financial Statements. This is the consolidated financial statement for entire Andersen Organization (Arthur Andersen and Andersen Consulting) world-wide. The total expense of the Andersen World-wide office is \$163,916,000 and is entitled "SC M&I COSTS".
- Reconciliation of the SC Services expense management report to the Andersen World-wide financial statements. There is a miscellaneous adjusting entry of \$17,000 or 0.01 % is immaterial both in total and to the Cairo office. The Cairo office would only receive a small portion of this amount.

To summarize, this tab has the financial statements and other supporting documentation needed for the Andersen World-wide G&A expense amount included in the G&A calculation for the Cairo office.

Tab D

This tab contains the unallowable cost factors used to exclude unallowable costs from the BU Management & Investment and the Andersen World-wide G&A expenses.

Tab E

The 3-Factor Formula calculations for the allocation of the BU Management & Investment and Andersen World-wide G&A expenses.

Tab F

The Andersen Consulting Business Unit Financial statements. This is the world-wide consolidated financial statements for all Andersen Consulting offices. This is support for several inputs to the 3 factor formula in Tab E above.

Tab G

The Arthur Andersen United States financial statements. This is support for several inputs to the 3 factor formula in Tab E. above.

Support for the \$285,000

The following support is enclosed for the \$285,000 (see section V of the attached binder):

The breakdown of the \$285,000 Firm Wide (F/W) is as follows:

<u>Description</u>	<u>Amount(L.E)</u> (in 000)	<u>Amount(\$)</u> (in 000)
Partner Retirement	136	40
Line Management Allocation	116	34
Bu Management & Investment	453	133
AW Services	239	70
Practice Protection Costs	24	2
<b>Total F/W Allocation</b>	<b>968</b>	<b>285</b>

The amount for Partner retirement is supported as follows:

<u>Acct. Name</u>	<u>Acct. No.</u>	<u>Amount(L.E)</u>	<u>Amount(\$)</u>
Supp. pyment -chrg to gmu	862000	68	20
Prv Ret Res Dec Prtts Aud	862100	4	1
Prv Ret Res Dec Prtts Tax	862400	2	1
Ptr Retirement Chrg To gmu	863000	18	6
Prov Ret Partn Aud	863100	27	8
Prov Ret Partn Tax	863400	<u>15</u>	<u>4</u>
		134	40

The amount for line management allocation is supported as follows:

## Allied Accountants Response to Talal Abu-Ghazaleh &amp; Co. April 22, 1997 Draft Report

<u>Acct. Name</u>	<u>Acct. No.</u>	<u>Amount(L.E)</u>	<u>Amount(\$)</u>
Industry Manag. Alloc.	784000	19	6
Industry Manag. Alloc.Aud	784100	32	9
Industry Manag. Alloc.Tax	784400	-2	-1
Area Management	785000	54	16
Other Management Costs	787000	0	0
Practice Acquisition Costs	788000	0	0
Central Pract. Acquis. Cost	789000	6	2
Central Pract. Acquis.Aud	789100	7	2
Central Pract. Acquis.Tax	789400	0	0
		116	34

The amount for Bu Management And Investment is supported as follows:

<u>Acct. Name</u>	<u>Acct. No.</u>	<u>Amount(L.E)</u>	<u>Amount(\$)</u>
Bu Mgmt Alloc. to gmu	803000	324	95
Bu Mgmt Alloc. Aud	803100	156	48
Bu Mgmt Alloc. Tax	803400	-64	-19
Training Develop. Alloc.	810000	17	5
Training Develop. Alloc.Aud	810100	21	6
Training Develop. Alloc.Tax	810400	-1	0
		453	133

The amount for AW Services is supported as follows:

<u>Acct. Name</u>	<u>Acct. No.</u>	<u>Amount(L.E)</u>	<u>Amount(\$)</u>
AW Serv. Alloc. gmu	824000	149	44
S.C Alloc.Charged.Aud	824100	-17	-5
S.C Alloc.Charged.Tax	824400	-16	-5
Iss Allocation To Off.	829000	0	0
Iss Allocation To Audit	829100	0	0
Iss Allocation To Tax	829400	0	0
AW Global Serv. Alloc. gmu	835000	100	29
AW Global Serv. Alloc. Aud	835100	30	9
AW Global Serv. Alloc. Tax	835400	-7	-2
		239	70

The amount for Practice Protection Cost is supported as follows:

<u>Acct. Name</u>	<u>Acct. No.</u>	<u>Amount(L.E)</u>	<u>Amount(\$)</u>
Practice prot. Alloc.	859000	22	7
Practice prot. Alloc. Aud	859100	20	6
Practice prot. Alloc. Tax	859400	-17	-5
		25	8

Allied Accountants Response to Talal Abu-Ghazaleh & Co. April 22, 1997 Draft Report

### Support for the \$118,000

This is the cost of Bids and Proposals allowable as an indirect cost under Federal Acquisition Regulations (see section VI of the attached binder). The amount that is allowable is \$66,000 which is the amount reflected in our General Ledger for Bids and Proposals. The auditor saw this amount used as direct cost and indicated that it is supported (per page #23 of the draft report). The \$118,000 that the auditor refers to reflects the use of another methodology where \$118,000 is treated as indirect cost while the \$66,000 is treated as a direct cost. The use of this alternative methodology caused the fixed multiplier to be less than it should have been. Under it, the effect on the indirect cost pool (and therefore on the overhead rate) is less than it would have been had only the \$66,000 been included in the indirect pool and nothing (for Bids and Proposals) included in the direct pool.

So let's say for the purposes of this discussion that \$118,000 should be removed from the indirect cost pool. Then in accordance with FAR, the whole \$66,000 should be included in the indirect cost pool and taken out completely from the direct cost pool since it is not allowable as a direct cost.

The revised Fixed Multiplier Computation if the \$118,000 is taken out of the indirect cost pool, and the \$66,000 taken out of the direct cost pool and added to the indirect pool is as follows: (in 000)

Indirect Costs per schedule (page #23 of Draft Report)	2,408
Less adjustment for Bids and Proposals	(118)
Plus Bids and Proposals (per G/L)	<u>66</u>
Indirect Cost Pool (allowable under FAR)	2,356

Direct Costs per schedule (page #23 of Draft Report)	1,314
Less Bids and Proposals	<u>(66)</u>
Direct Cost Pool (allowable under FAR)	1,248

Overhead Rate:  $2,356/1,248 = 1.8878$

Fixed Multiplier Calculation  $(1 + 1.8878) * 1.1 = 3.17658$

Please note that the Fixed Multiplier that we billed USAID was 3.08 which is lower than the 3.17658 which would have been allowable under the FAR.

Appendix 2:

Auditor's Comments

1. Unsupported Chargeable Hours:

With regards to Management's response, we would like to offer the following comments:

- The Job Cost Summary reports clearly indicate the time spent by each staff member on each engagement. We have established the reliability of this reporting mechanism for all staff members, including the partner in charge, and accordingly, we have established that the information included in the JCS represent an accumulation of the hours recorded by staff in time sheets. We have reviewed some audit files as an alternative procedure to assess the reasonableness of the number of hours recorded by some staff members when they appeared, according to certain criteria, excessive and unreasonable.
- If, per Management's response, "the time in the JCS does not account for all of the partner's time" we would have used alternative procedures and may have concluded that more of the partner's time was unallowable.
- We have reworded parts of our reports in agreement with Management's response.

2. Unsupported Other Expenses:

With regards to Management's response, we would like to offer the following comments:

- The support provided by the Management is an invoice for traveling expense pertaining to a different project. According to the support, traveling occurred during May 1995, while the project in question, Delivery Order # 13, ended in February 1995.
- The invoice included traveling expenses for a staff member, Adel Aly, who did not work on Delivery Order # 13.
- The amount of the invoice does not agree with the amount in question.

3. Rates billed to USAID:

- Note number 5 of the report clearly indicates that the difference in question is between rates billed to USAID and those calculated from payroll records.
- We have reworded our report in agreement with Management's response.

4. Fixed Multiplier:

With regards to Management's response, we would like to offer the following comments:

- Management response explains in depth the mathematical models used to allocate the amounts in question to Allied Accountants/Cairo office. However, there is no support attached to the recording of US\$ 285,000 as SC Services (AW Services). This support may include a journal entry, debit note from Arthur Andersen World Wide, credit note from Allied Accountants/Cairo office, all dated at the time of recording of the US\$ 285,000, or subsequent proofs of payment.
- We have not been provided support proving that the unrecorded amounts of US\$102,000 in Services (AW Services) expenses, and US\$ 118,000 of the Share of Indirect Costs of Bids and Proposal, were actually recorded, per management response, in December 1996.

- The memorandum of allocation provided by Arthur Andersen Worldwide, is considered an internal; memorandum, and is not, in our judgment, sufficient evidential matter to conclude proper recording of the amounts in question.



Appendix 3:

Mission's Comments





UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

**M E M O R A N D U M**

**Date:** October 2, 1997  
**To :** Bruce Boyer, A/RIG/A  
**From :** Mohamed Tanamly, Deputy Controller  
**Subject:** Financial Audit of Allied Accountants, Expenditures Incurred Under Indefinite Quantity Contract Nos. 263-0000-I-00-3057-00 and 263-0000-I-00-3123-00

During the response period, Mission met with Allied Accountants' (AA) Audit Manager and discussed the findings.

The review covered the following areas:

- \* **Partner's unsupported chargeable hours** which can be substantiated by applying alternative method and implementation of corrective action by AA.
- \* **Daily Rates** billed to USAID (included fringe benefits) in excess of the approved delivery orders rates.
- \* **Unsupported Air Fare.**
- \* **AA's Fixed Multiplier unsupported costs:**  
AA provided a certification from their Chicago Office, along with copy of internal supporting documentation which will be subject for further review by Mission.

Mission expects to reach final determination during November 1997.

Therefore, please issue the report in final.

Thank you for your cooperation.

CC:

PROC: A. Terio

106 Kasr El Aini Street  
Garden City  
Cairo, Egypt

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