

PD-ABR-682

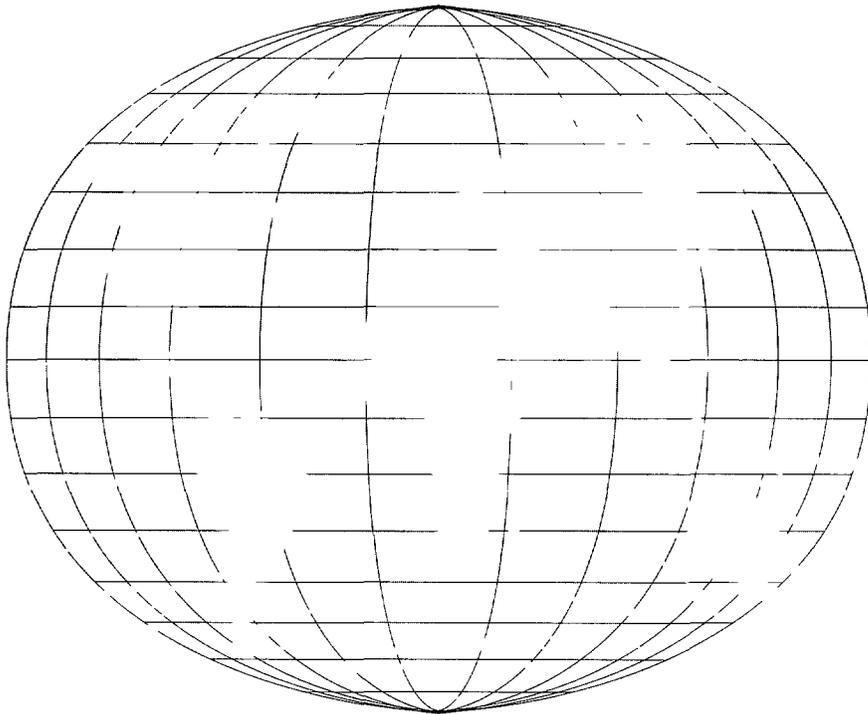
# Report of Audit

---

**Financial Audit of the International Resources Group,  
Costs Incurred Under Contract No. PCE-I-00-96-00002-00,  
Task Order Nos. 802 and 812**

---

**Report No. 6-263-99-012-N  
September 14, 1999**



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

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

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

PD-ABR-682



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

CAIRO EGYPT

**Report No 6-263-99-012-N  
September 14, 1999**

**MEMORANDUM**

**TO** DIRECTOR USAID/Egypt, Richard M Brown  
**FROM** Acting RIG/A/Cairo, Thomas C Asmus *Thomas C Asmus*  
**SUBJECT** Financial Audit of the International Resources Group, Costs Incurred Under Contract No PCE-I-00-96-00002-00, Task Order Nos 802 and 812

The attached report presents the results of a financial audit, dated July 14, 1999, of USAID resources managed by the International Resources Group (IRG) under USAID/Egypt's Task Order Nos 802 and 812 under the Global Bureau Environmental Policy and Institutional Strengthening indefinite quantity contract (IQC) The auditing firm of Price Waterhouse, Cairo, Egypt, prepared the report It covered those costs incurred by IRG for which supporting documentation was available in Egypt The audited periods were March 29, 1997, through March 31, 1998, for Task Order No 802 and from January 1, 1998, through January 31, 1999, for Task Order No 812

We engaged Price Waterhouse to perform a financial audit of expenditures of \$1,037,733 in USAID funds reimbursed to IRG during the audit periods The purpose of the audit was to evaluate the propriety of the costs incurred during the audit period As part of the audit, the auditors evaluated IRG's internal controls and compliance with applicable laws, regulations, contracts, and agreement terms as necessary in forming their opinion regarding the Fund Accountability Statement

The auditors issued a qualified opinion on IRG's Fund Accountability Statement, questioning costs of \$26,893 related principally to its leasing of office space Auditors identified two reportable internal control weakness (the lack of segregation of duties is considered a material weakness) as well as one instance of material noncompliance with applicable laws, regulations, contracts, and agreements The noncompliance issue relates to IRG's sub-lease of office space In response to the draft report, IRG officials provided additional documentation and explanations to the report findings Price Waterhouse reviewed IRG's response to the findings and, where applicable, made adjustments to the report (see Appendices A and B)

**U.S. Mailing Address  
USAID-RIG Unit 64902  
APO AE 09839-4902**

**Tel. (202) 516-5505  
Fax(RIG/A) (202)516-2530  
Fax(RIG/I) (202)516-5316**

**USAID  
Zahraa El-Maadi  
Maadi, Cairo, Egypt**

A

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 \$26,893 (ineligible costs of \$26,848 and unsupported costs of \$45) detailed on page 10 of the Price Waterhouse report, and recover from the International Resources Group the amount determined to be unallowable

**Recommendation No 2** We recommend that USAID/Egypt (a) require the management of the International Resources Group to prepare a decision paper on what action it plans to take on its lease of office space and (b) make a management decision on this issue

In response to Recommendation No 1, USAID/Egypt determined that \$26,893 is sustained and the Mission deducted this amount from IRG's June 1999 invoice. The sustained amount included ineligible costs of \$26,848 for the lease of office space and \$45 of unsupported costs related to travel. In addition, the contracting officer determined that an additional \$14,372 should be returned to USAID for costs associated with the lease and the Mission deducted this amount from IRG's July 1999 invoice. We consider Recommendation No 1 to have a management decision and final action and therefore to be closed upon report issuance.

In response to Recommendation No 2, IRG moved out of the leased office space and stopped making rent payments effective July 31, 1999. We consider Recommendation No 2 to have received a management decision and final action and therefore to be closed upon report issuance.

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.

Attachments a/s

**INTERNATIONAL RESOURCES GROUP**

**CONTRACT NO PCE-I-00-96-00002-00  
TASK ORDERS NUMBERS 802 AND 812**

**FUND ACCOUNTABILITY STATEMENT  
AND ADDITIONAL INFORMATION  
FOR THE PERIODS  
MARCH 29, 1997 THROUGH MARCH 31, 1998 AND  
JANUARY 1, 1998 THROUGH JANUARY 31, 1999**

**INTERNATIONAL RESOURCES GROUP**

**CONTRACT NO PCE-I-00-96-00002-00  
UNDER USAID/EGYPT  
TASK ORDERS NOS 802 AND 812**

**FUND ACCOUNTABILITY STATEMENT  
AND ADDITIONAL INFORMATION  
FOR THE PERIODS  
MARCH 29, 1997 THROUGH MARCH 31, 1998 AND  
JANUARY 1, 1998 THROUGH JANUARY 31, 1999**

**TABLE OF CONTENTS**

<b><u>INTRODUCTION</u></b>	<b><u>PAGE</u></b>
Background	1
Audit Objectives and Scope	2
Results of Audit	3
Management's Comments	3
Mission Response	4
<b><u>FUND ACCOUNTABILITY STATEMENT</u></b>	
Report of Independent Accountants	5
Fund Accountability Statement and Notes	7
<b><u>INTERNAL CONTROL STRUCTURE</u></b>	
Report of Independent Accountants	11
<b><u>COMPLIANCE WITH LAWS AND REGULATIONS</u></b>	
Report of Independent Accountants	14
<b><u>APPENDICES</u></b>	
Appendix A Management's Comments	
Appendix B Accountant's Response to Management's Comments	
Appendix C Mission Response	

## *Price Waterhouse*



July 14, 1999

Mr Darryl Burris  
Regional Inspector General  
United States Agency for International Development  
Zahraa El Maadi, Maadi  
Cairo, Egypt

Dear Mr Burris

This report presents the results of our financial related audit of costs incurred by the International Resources Group ("IRG"). The audit population included only costs incurred by IRG under Contract No PCE-I-00-96-00002-00 ("Contract") of the United States Agency for International Development Mission to Egypt ("USAID/Egypt"), Task Orders ("TO"), Nos 802 and 812 for the periods March 29, 1997 through March 31, 1998, and January 1, 1998 through January 31, 1999 (collectively, the "audit periods"), respectively. Additionally, the costs audited were incurred and paid in Egypt. Costs incurred from other locations under the TOs were excluded from the audit scope as issued by USAID/Egypt.

### **Background**

IRG, a consortium of International Resources Group, Winrock International, and Harvard Institute for International Development, was awarded an indefinite quantity contract. The contract is the Global Bureau Environmental Policy and Institutional Strengthening IQC, or EPIQ. The contract is part of a global effort of the Center for Environment, a part of USAID's Bureau for Global Programs, Field Support and Research. IRG would provide services to the Center for Environment under task orders effective worldwide. USAID/Egypt issued two task orders under the global IQC.

Task Order No 802 was effective March 29, 1997. The objective of the task order was to undertake an assessment of the environmental sector in Egypt to identify current policy level constraints and target of opportunity for policy change, and provide technical assistance, technology transfer and institutional support to aid implementation and dissemination of policy initiatives of Egyptian institutions. The majority of this work was performed by short-term consultants from IRG members. Additionally, IRG sub-contracted with Environmental Quality International ("EQI"), an Egyptian consulting firm. The task order ended March 31, 1998.

Task Order No 812 issued January 1, 1998, was to provide pre-implementation technical assistance support to the proposed Egyptian Environmental Policy Program. A Policy Management Group ("PMG") of IRG based in Cairo has provided assistance to USAID/Egypt's Office of Environment. The principle task has been assistance to the pilot Environmentally Sustainable Tourism activity on the Red Sea coast. Again, IRG sub-contracted some tasks to EQI. The task order was amended twice, to provide increased funds, provide an Egyptian Pound budget for some costs, and extend the completion date to its current March 31, 1999.

After the expiration of Task Order No 812, it is envisioned that IRG will be provided a new contract specifically for work in Egypt. Negotiations are currently under way with the Government of Egypt and IRG, with an expected signing date in May 1999.



### Audit Objectives and Scope

The objective of this engagement was to perform a financial related audit of USAID/Egypt resources managed by IRG under the Contract for the TOs for the audit periods. The scope of the audit was limited by USAID/Egypt to the period through December 31, 1998, because at the time of our proposal to USAID/Egypt records and billings were only available through that date. However, during the audit, records for January 1999 were received and included in the scope. Specific objectives were to perform and determine the following:

- 1 Express an opinion on whether the fund accountability statement for IRG presents fairly, in all material respects, TO costs incurred during the audit periods in conformity with generally accepted accounting principles or another comprehensive basis of accounting, including the cash receipts and disbursements basis and modifications of the cash basis,
- 2 Determine if the costs reported as incurred by IRG are in fact allowable, allocable, and reasonable in accordance with the terms of the Contract,
- 3 Evaluate and obtain a sufficient understanding of the internal control structure of IRG, assess control risk, and identify reportable conditions, including material internal control weaknesses,
- 4 Perform tests to determine whether IRG complied, in all material respects, with applicable laws and regulations and the terms of the Contract and TOs

Preliminary planning and review procedures began in December 1998. These procedures consisted of discussions with IRG management. Audit fieldwork commenced in January 1999 and was completed in July 1999.

The scope of our audit included a population of \$1,037,733 of expenditures incurred during the audit periods. On a judgmental basis, we selected and tested project costs incurred of \$301,821 (29%).

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

- 1 Testing IRG costs funded by USAID/Egypt for allowability, allocability, reasonableness, and proper support
- 2 Reviewing IRG accounting records to determine whether costs incurred were properly recorded
- 3 Establishing the adequacy of IRG control procedures to safeguard funds and assets, and determining that commodities have been used for their intended purposes
- 4 Determining that salary rates and work days charged under the TOs were in accordance with those approved by USAID/Egypt, and supported by appropriate payroll records
- 5 Determining that sound commercial practices were used, reasonable prices were obtained, and adequate controls exist on quantities received and the quality thereof, in the procurement of goods and services



6 Auditing IRG's sub-contracts using the same audit steps employed in auditing IRG to determine that costs incurred are allowable, allocable, reasonable, and supported

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

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

As part of our examination of IRG, we made a study and evaluation of relevant internal controls We also reviewed IRG s compliance with applicable laws and regulations

### **Results of Audit**

#### **Fund accountability statement**

Our audit procedures identified questionable costs of \$26,893 for TO No 812 These are comprised of unsupported costs of \$45 and ineligible costs of \$26,848 The fund accountability statements, and questionable costs, as incurred in Egyptian Pounds and U S Dollars are included as supplemental schedules to this report

#### **Internal control structure**

Our audit procedures identified two reportable conditions in the internal control structure of IRG One is considered a material weakness The material weakness relates to a lack of segregation of duties The other reportable condition relates to the accounting system used to record and bill costs incurred under the TOs

#### **Compliance with laws, regulations, and contracts**

Our audit procedures identified one instance of noncompliance that is required to be reported in accordance with GAS IRG sub-leased an office from Environmental Quality International contravening the original lease

### **Management's Comments**

Management's comments have been received and included unedited in Appendix A In response to management s comments, we either provided clarification of our position in Appendix B or have adjusted our findings



**Mission Response**

The mission response is included in Appendix C to this report

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

*Price Waterhouse*

*Price Waterhouse*



**REPORT OF INDEPENDENT ACCOUNTANTS  
ON THE FUND ACCOUNTABILITY STATEMENT**

July 14, 1999

Mr Darryl Burris  
Regional Inspector General  
United States Agency for International Development  
Zahraa El Maadi, Maadi  
Cairo, Egypt

Dear Mr Burris

We have audited the fund accountability statement of costs paid in Egypt by the International Resources Group ("IRG") under Task Orders Nos 802 and 812 ("Task Orders") of Contract No PCE-I-00-96-00002-00 ("Contract") issued by the United States Agency for International Development Mission to Egypt ("USAID/Egypt") for the periods March 29, 1997 through March 31, 1998 and January 1, 1998 through January 31, 1999, respectively. The fund accountability statement is the responsibility of IRG management. Our responsibility is to express an opinion on this statement based on our audit.

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

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

As described in Note 3 the fund accountability statement has been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligations are incurred. Accordingly, the fund accountability statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.



We were unable to perform audit procedures on revenues and costs incurred by IRG which were initially recorded and processed in the United States. Had we been able to perform procedures on those revenues and costs, additional audit findings might have been noted. We therefore, do not express an opinion on revenues and costs incurred in the United States.

As detailed in the fund accountability statement, and more fully described in Note 6 thereto, the results of our test disclosed questionable costs of \$26,893 for TO No. 812. These are comprised of unsupported costs of \$45 and ineligible costs of \$26,848. TO costs that are ineligible for USAID/Egypt reimbursement are those that are not program related or are prohibited by the TO, Contract, or applicable laws and regulations. Unsupported costs are those lacking adequate documentation.

In our opinion, except for the effects of the questionable costs discussed in the preceding paragraph, the fund accountability statement referred to in the first paragraph presents fairly, in all material respects, task order costs incurred by IRG in Egypt under the Contract for the periods March 29, 1997 through March 31, 1998 and January 1, 1998 through January 31, 1999, in conformity with the basis of accounting described in Note 3.

In accordance with GAS, we have also issued a report dated July 14, 1999 on our consideration of IRG's internal control structure, and a report dated July 14, 1999 on its compliance with laws, regulations, and contracts.

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

*Price Waterhouse*

**INTERNATIONAL RESOURCES GROUP**

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
CONTRACT NO PCE-I-00-96-00002-00  
TASK ORDERS NOS 802 AND 812**

**FUND ACCOUNTABILITY STATEMENT  
FOR THE PERIODS MARCH 29, 1997 THROUGH MARCH 31, 1998 FOR TO NO 802,  
AND JANUARY 1, 1998 THROUGH JANUARY 31, 1999 FOR TO NO 812**

**EXPRESSED IN US DOLLARS**

Task Order and Budget Line	Actual Expenditures	Questionable Costs		Audit Finding Reference
		Ineligible	Unsupported	
<b>Task Order No 802</b>				
Labor	\$ 65,644	\$ -	\$ -	I A, Page 10
Other Direct Costs	40,433	-	-	
<b>Total Task Order No 802</b>	<b>\$ 106,077</b>	<b>\$ -</b>	<b>\$ -</b>	
<b>Task Order No 812</b>				
Labor	\$ 351,622	\$ -	\$ -	
Travel and Perdiem	81 421	-	45	II A Page 10
Allowances	47 776	-	-	
Other Direct Costs	450 837	26,848	-	II B, Page 10
<b>Total Task Order No 812</b>	<b>\$ 931,656</b>	<b>\$ 26,848</b>	<b>\$ 45</b>	
<b>Total of Task Orders</b>	<b>\$ 1,037,733</b>	<b>\$ 26,848</b>	<b>\$ 45</b>	

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

**INTERNATIONAL RESOURCES GROUP**

**CONTRACT NO PCE-I-00-96-00002-00  
TASK ORDERS NOS 802 AND 812**

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT**

**NOTE 1 - SCOPE OF STATEMENT**

The fund accountability statement of IRG includes costs incurred by IRG in the Arab Republic of Egypt, under Task Orders No 802 and 812 of Contract No PCE-I-00-96-00002-00 ("Contract") for the periods March 29, 1997 through March 31, 1998 and January 1, 1998 through January 31, 1999, respectively (collectively the "audit periods")

**NOTE 2 - SOURCE OF DATA**

"Actual Expenditures" represents cumulative costs incurred and paid by IRG during the audit periods Expenditures in Egyptian Pounds ("LE") have been converted to US Dollars at an average exchange rate as explained in Note 4 below

**NOTE 3 - BASIS OF PRESENTATION**

The fund accountability statement of IRG has been prepared on the basis of cash disbursements Consequently, project costs are recognized when paid rather than when the obligations are incurred

**NOTE 4 - FOREIGN EXCHANGE**

Actual costs incurred in LE have been converted to US Dollars at an exchange rate of 3 4005 LE to one US Dollar The exchange rate has been calculated by averaging the ending monthly exchange rates during the audit periods

**NOTE 5 - TOTAL TASK ORDER COSTS**

Total task order costs billed during the audit periods and the corresponding approved budgets are presented here for informational purposes only We have not performed an audit of the total task order costs billed The amounts from the fund accountability statement are included in the task order costs billed column Also, Egyptian Pound costs and budget have been converted to U S Dollars at the exchange rate of Note 4, and included in the Total TOs amounts

<b>Task Order</b>	<b>Fund Accountability Statement</b>	<b>Task Order Costs Billed</b>	<b>Approved Task Order Budget</b>	<b>(Over) Under Budget</b>
<b>TO No 802</b>				
Labor	65,644	591,822	593,452	1,630
Other Direct Costs	40,433	205,476	290,671	85,195
<b>Total TO No 802</b>	<b>106,077</b>	<b>797,298</b>	<b>884,123</b>	<b>86,825</b>
<b>Percent of TO Costs Billed</b>	<b>13%</b>			
<b>TO No 812</b>				
Labor	295,917	879,460	1,495,755	616,295
Travel and Perdiem	44,818	86,268	349,465	263,197
Allowances	47,219	6,717	129,751	123,034
Other Direct Costs	123,511	447,728	520,685	72,957
<b>Total TO No 812</b>	<b>511,465</b>	<b>1,420,173</b>	<b>2,495,656</b>	<b>1,075,483</b>
<b>Percent of TO Costs Billed</b>	<b>36%</b>			
<b>TO No 812 Egyptian Pounds</b>				
Labor	189,424	-	311,111	311,111
Travel and Perdiem	124,467	-	-	-
Allowances	1,893	-	-	-
Other Direct Costs	1,113,072	565,910	1,104,885	538,975
<b>Total TO Egyptian Pounds</b>	<b>1,428,856</b>	<b>565,910</b>	<b>1,415,996</b>	<b>850,086</b>
<b>Total of TOs in U S Dollars</b>	<b>1,037,733</b>	<b>2,383,891</b>	<b>3,796,187</b>	<b>1,412,297</b>
<b>Percent of Total TO Costs Billed</b>	<b>44%</b>			

#### **NOTE 6 – QUESTIONABLE COSTS**

Questionable costs are presented in two separate categories, ineligible and unsupported. Costs in the columns labeled “Ineligible” are those not TO related or prohibited by the Contracts or applicable laws and regulations. Costs in the columns labeled “Unsupported” are not supported with adequate documentation. Questionable costs have been separated by TO, and further segregated by individual budget line item.

**NOTE 6 – QUESTIONABLE COSTS (CONT'D)**

	Questionable Costs	
	Ineligible	Unsupported
<b>I Task Order No 802</b>		
<b>A Labor</b>		
1 Subsequent to the issuance of our draft report, we were provided support that justifies the removal of this questionable cost. Therefore, it has been removed from our final report.	\$ -	\$ -
<b>Total Questionable Costs for TO No 802</b>	<b>\$ -</b>	<b>\$ -</b>
<b>II Task Order No 812</b>		
<b>A Travel and Perdiem</b>		
1 EQI's documentation for the Travel and Perdiem costs for July 1998 lacked \$45 to the amount invoiced to IRG. Therefore, we have considered the unsupported amount questionable.	-	45
<b>Total Travel and Perdiem Questionable Costs</b>	<b>\$ -</b>	<b>\$ 45</b>
<b>B Other Direct Costs</b>		
1 The original ineligible finding arose by investigating possible unreasonable rent. Subsequent to the issuance of our draft report, we were provided support that justifies the removal of this questionable cost. Therefore, it has been removed from our final report. However, based on management's response and subsequent events, the reasonableness of the rent was reconsidered. Based on our discussion detailed in Appendix B, item II B 1, \$26,848 have been identified as unreasonable lease payments.	\$ 26,848	\$ -
2 Subsequent to the issuance of our draft report, we were provided support that justifies the removal of this questionable cost. Therefore, it has been removed from our final report.	-	-
<b>Total Other Direct Costs Questionable Costs</b>	<b>\$ 26,848</b>	<b>\$ -</b>
<b>Total Questionable Costs for TO No 812</b>	<b>\$ 26,848</b>	<b>\$ 45</b>
<b>Total Questionable Costs for TO Nos 802 and 812</b>	<b>\$ 26,848</b>	<b>\$ 45</b>

*Price Waterhouse*



**REPORT OF INDEPENDENT ACCOUNTANTS  
ON INTERNAL CONTROL STRUCTURE**

July 14, 1999

Mr Darryl Burris  
Regional Inspector General  
United States Agency for International Development  
Zahraa El Maadi, Maadi  
Cairo, Egypt

Dear Mr Burris

We have audited the fund accountability statement of costs paid in Egypt by the International Resources Group ("IRG") under Task Orders Nos 802 and 812 ("Task Orders") of Contract No PCE-I-00-96-00002-00 ("Contract") issued by the United States Agency for International Development Mission to Egypt ("USAID/Egypt") for the periods March 29, 1997 through March 31, 1998 and January 1, 1998 through January 31, 1999, respectively. We have issued our report thereon dated July 14, 1999.

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

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

The management of IRG is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with the terms of the Contract, and the basis of accounting described in Note 3 of the report on the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.



In planning and performing our audit of the fund accountability statement of IRG for the audit periods, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement, and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted the following matter involving the internal control structure and its operation that we considered a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement.

#### **REPORTABLE WEAKNESS**

##### **1 The accounting and reporting of costs incurred is cumbersome and lengthy**

We noted that the process to record transactions using Excel spreadsheets for six bank accounts and over twenty-five TO accounts is cumbersome. Transactions are recorded to each bank account in the currency in which spent. Immediately, Egyptian Pound amounts are converted to U S Dollars at the exchange rate of the last transfer received. Reports in U S Dollars are prepared for consortia member's home offices. This requires significant effort from the Administrative and Financial Manager, without whose effort, there would have been material errors. The process is further complicated by the TO budget requiring costs to be segregated into Egyptian Pounds and U S Dollars. IRG attempted to correct its past billings to USAID for the Egyptian Pounds spent, but the result shows some U S Dollars billed as Egyptian Pounds and vice versa. See Note 5 to the Report on the Fund Accountability Statement which shows Egyptian Pounds spent but not billed, because they were included in the U S Dollar amounts.

##### **Recommendation No 1**

We recommend that the process be simplified. We suggest a single fund accounting system be purchased for the TO. All transactions would be recorded using appropriate codes for the TO budget lines. Appropriate codes would identify the consortia member who initiated the transaction. Thereafter, a single billing would be sent to IRG, that would identify the totals for billing to USAID, separate consortia member's expenditures for payment by IRG to each, and, identify the Egyptian pound transactions. The consortia member's home offices would bill IRG directly for expenditures incurred by them.

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 condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the 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 the following matter involving the internal control structure and its operation that we consider to be a material weakness as defined above. This condition was considered in determining the nature, timing and extent of procedures to be performed in our audit of the fund accountability statement.

## **MATERIAL INTERNAL CONTROL WEAKNESS**

### **2 Segregation of duties and relevant controls are limited**

One of the elements of an internal control structure is to provide control over the identifying, classifying, recording, and reporting of valid transactions. Procedures that assist in this control are proper authorization of transactions and activities, segregation of duties that reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of his duties – assigning different people the responsibilities of authorizing transactions, recording transactions and maintaining custody of assets, independent checks on performance and proper valuation of recorded amounts, such as clerical checks, reconciliations, and comparisons with records, and, adequate safeguards over access to and use of assets and records. The Administrative and Financial Manager has a number of responsibilities that are incompatible with this control objective. For example, he records all transactions, reports them to home offices, reconciles bank accounts, signs checks, prepares journal entries, records custody of assets, and authorizes transactions for purchases up to certain limits. While the home office of one of the IRG consortia performs some control procedures on data sent to it from Egypt, other consortia controls are unknown. We believe controls should exist as close as possible to the place of incidence. While the management of IRG must weigh the economics of internal control policies, we believe that structuring control procedures among available personnel would provide adequate control without increased cost.

### **Recommendation No 2**

We recommend that additional persons become involved with the duties surrounding the T O finances and assets. We believe that a minimum of three persons can adequately segregate the duties, and provide reasonable internal control over finances and assets.

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

*Price Waterhouse*

*Price Waterhouse*



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

July 14, 1999

Mr Darryl Burris  
Regional Inspector General  
United States Agency for International Development  
Zahraa El Maadi, Maadi  
Cairo, Egypt

Dear Mr Burris

We have audited the fund accountability statement of costs paid in Egypt by the International Resources Group ("IRG") under Task Orders Nos 802 and 812 ("Task Orders") of Contract No PCE-I-00-96-00002-00 ("Contract") issued by the United States Agency for International Development Mission to Egypt ("USAID/Egypt") for the periods March 29, 1997 through March 31, 1998 and January 1, 1998 through January 31, 1999, respectively. We have issued our report thereon dated July 14, 1999.

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

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

Compliance with laws, regulations, and contracts applicable to IRG is the responsibility of IRG's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatements, we performed tests of IRG's compliance with certain provisions of laws, regulations, and contracts. However, the objective of our audit of the fund accountability statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. For purposes of this report, we categorized the provisions of laws, regulations, and contracts we tested as part of obtaining such reasonable assurance into the following categories:

- Procurement policies and procedures
- Contract and Task Order budgetary expenditure limits
- Subcontract terms and expenditure limits
- Maintenance of accounting books, records and documents



- Restrictions on billing taxes
- Compensation limitations
- Approved Task Order level of effort limitations
- Travel and allowance limitations

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in laws, regulations, contracts, or agreements that cause us to conclude that the aggregations of the misstatements resulting from those failures or violations are material to the fund accountability statement. The results of our tests of compliance disclosed the following material instance of noncompliance:

#### MATERIAL NONCOMPLIANCE

1. IRG sub-leased an office from Environmental Quality International ("EQI") contravening the original lease.

EQI's lease with the landlord in section 2.4 states (PW translation from Arabic), "It is forbidden for the lessee to let or assign the flat or part of it to a third party for any reason. Violation of this article makes the contract void without prior notification." EQI has put IRG in the serious position of possible sudden eviction from the premises. The costs involved in relocating quickly would be major. Additionally, the disruption to the flow of work under the Task Order may weaken the overall performance by IRG.

#### Recommendation No. 1

We recommend that EQI immediately seek a lease change to allow for sub-leasing to a third party. IRG should immediately seek new premises, so that should EQI fail to obtain the lease change, the down time during a move may be minimized.

We considered this material instance of noncompliance in forming our opinion on whether the fund accountability statement is presented fairly, in all material respects, and this report does not affect our report dated July 14, 1999 on that statement.

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

*PricewaterhouseCoopers*

INTERNATIONAL RESOURCES GROUP

CONTRACT NO PCE-I-00-96-00002-00  
TASK ORDERS NOS 802 AND 812

FOR THE PERIODS  
MARCH 29, 1997 THROUGH MARCH 31, 1998 AND  
JANUARY 1, 1998 THROUGH JANUARY 31, 1999

MANAGEMENT COMMENTS



INTERNATIONAL RESOURCES GROUP

Management consultants in energy environment & natural resources

July 6 1999

Mr Robert Johnson, Supervisor  
Price Waterhouse  
22 El Nasr Street  
New Maadi  
Cairo, Egypt

*Reference* Environmental Policy and Institutional Strengthening IQC (EPIQ) Contract PCE-I-00-96-00002-00, Task Orders 802 & 812 Egypt Environmental Policy Management Group Task Order

*Subject* Management Response to Audit Report on the Fund Accountability Statement

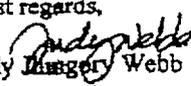
Dear Mr Johnson

International Resources Group (IRG) is in receipt of your audit report dated May 16, 1999 which was presented to our Project staff on June 2, 1999 Attached, please find our response to the issues addressed in this audit

I would like to thank the Price Waterhouse auditors of their fair assessment of the Project's Accounting System and for their thorough review of our expenditures thereunder

Please do not hesitate to let me know if you require any additional information regarding this response

Best regards,

  
Judy Hanger Webb  
Contracts Manager

Attachments

INTERNATIONAL RESOURCES GROUP

CONTRACT NO PCE-I-00-96-00002-00  
TASK ORDERS NOS 802 AND 812

FOR THE PERIODS  
MARCH 29, 1997 THROUGH MARCH 31, 1998 AND  
JANUARY 1, 1998 THROUGH JANUARY 31, 1999

MANAGEMENT COMMENTS

INTERNAL CONTROL STRUCTURE

1 Accounting and reporting of costs

IRG has noted the auditor's comments of our accounting and reporting systems and prepared a detailed proposal which sets out the revised management system which will be put in place to address this issue. We have structured a simple system (see attached Accounting System Flowchart) consistent with the auditor's recommendations, and will implement the Solomon Accounting Software package which has the capability to generate a single report with several codes (e.g. one for each subcontractor and each type of accounting expense). IRG will maintain one set of bank accounts (U.S. dollar and Egyptian Pounds) in each Project Location (Cairo and Hurgada) and will reconcile costs with each of the subcontractors involved.

2 Internal Controls - Segregation of duties and relevant controls

IRG recognizes the lack of Internal Control which prevailed under the current task order, partially due to the limited number of project staff to provide the necessary levels of authority and accountability necessary for such systems to be effective. Consistent with the auditor's recommendations, IRG has developed a tiered system of accountability whereby a junior accountant will be responsible for data entry and requests which will be reviewed by the Senior Accountant for allowability and authorization but final approval will rest with the Project's Team Leader.

COMPLIANCE WITH LAWS, REGULATIONS, AND CONTRACTS

MATERIAL NONCOMPLIANCE

1 IRG obtained from EQI (see attached) an amendment to their lease which allowed EQI to sublease the offices to IRG for the use of the PMG Project team. EQI has assured us that the inclusion of the stated term was an oversight and that the Landlord was cognizant that EQI was leasing the space with the intent of sub-leasing to IRG.

INTERNATIONAL RESOURCES GROUP

CONTRACT NO PCE-I-00-96-00002-00  
TASK ORDERS NOS 802 AND 812

FOR THE PERIODS  
MARCH 29, 1997 THROUGH MARCH 31, 1998 AND  
JANUARY 1, 1998 THROUGH JANUARY 31, 1999

MANAGEMENT COMMENTS

FUND ACCOUNTABILITY STATEMENT

International Resources Group (IRG) has reviewed the report of the auditors, Price Waterhouse LLP, and would like to present the following response

I Task Order 802  
A Ineligible Labor costs of \$5,562 00

Please find attached IRG's approval to our subcontractor, EQI, approving the realignment from Other Direct Costs to Labor. This internal approval between IRG and EQI had no material effect on the overall Task Order Budget. Based on the aforementioned facts, it is IRG's contention that the amount of \$5,562 00 should no longer be listed as ineligible.

II Task Order No 812  
A Unsupported Travel and Per Diem Costs of \$45 00

IRG accepts the cost of \$45 00 as questionable cost and will reduce our future billings by this amount.

B Ineligible Other Direct Costs of \$41,427 00

The costs associated with the Project Lease have been calculated as follows

Lease	\$2,400 x 10 5 months	\$ 25,200 00
Improvements		
Furniture	LE 85,588 67	
Telephone/fax lines	LE 17,000 00	
Electric Upgrades	LE 8,250 00	
Fax and telephones	LE 17,555 00	\$ 37,763 00
Utilities (approx )	LE 1,000 x 10 5 months	\$ 3,088 24
	TOTAL LEASE COSTS	\$66,051 24

Please note that the lease costs were intended to cover all the above items as set for in the lease agreement between IRG and EQI. Based on the above calculations, it is IRG's contention that the lease costs for ten months of \$59,777 00 is less than the actual amounts incurred to provide the space for use by the EPIQ PMG Project.

INTERNATIONAL RESOURCES GROUP

CONTRACT NO PCE-I-00-96-00002-00  
TASK ORDERS NOS 802 AND 812

FOR THE PERIODS  
MARCH 29, 1997 THROUGH MARCH 31, 1998 AND  
JANUARY 1, 1998 THROUGH JANUARY 31, 1999

ACCOUNTANT'S RESPONSE

Management of the International Resources Group ("IRG") provided comments to our draft report on the audit of Task Orders ("T O ") Nos 802 and 812, presented at the exit conference held on June 2, 1999. These comments have been included, unedited, in Appendix A of this report. We have reviewed management's comments and have either adjusted our final report or clarified our position. Our response below parallels the audit report findings and management's comments.

RESPONSE TO IRG'S COMMENTS TO QUESTIONABLE COSTS AS DETAILED IN  
SUPPLEMENTAL SCHEDULE NO 2

**I Task Order No 802**

A Labor

- 1 IRG has approved the budget transfer. Therefore, the finding has been removed from the final report.

**II Task Order No 812**

A Travel and Perdiem

- 1 IRG accepts the finding as stated.

B Other Direct Costs

- 1 Our original finding against IRG's sub-contractor EQI was based on the elements of allowability and reasonableness. During our examination, we noted that the rent paid by IRG appeared to be high and perhaps unreasonable. On further examination, we noted that EQI's sub-contract required that other direct costs be limited to actual costs incurred without profit, recovery of indirect costs or any other burden. Based on this stronger element and criteria, the original finding was questioned as unallowable.

IRG has subsequently provided support that the direct costs of the lease have increased. The direct cost incurred by EQI is \$66,051, compared to actual rent paid by IRG of \$59,777. The \$66,051 comprises leasehold improvements \$9,471, rent \$25,200, utilities 3,088, and furniture and equipment \$28,292. We have reviewed the invoices and supporting documents of these direct costs and concur that they are directly incurred for the office leased from EQI. This information is based on EQI and IRG agreeing to adjust and transfer these costs from EQI's budget to that of IRG, thereby transferring the burden of costs and budget to IRG. Subject to that adjustment being confirmed, we consider this element of the finding closed, and have adjusted our report accordingly.

Having one element resolved, the issue, we believe, now reverts to one of reasonableness. As this is a subjective area, we believe the Contracting Officer ("C O ") would be in the best position to provide a definitive conclusion. The reasonableness of IRG's payments for the lease is the issue requiring resolution. In February 1999, subsequent to our audit, IRG and EQI agreed to transfer the lease costs to a separate agreement (See No 2, below). This effectively transfers the lease cost to IRG as a miscellaneous direct cost under T O No 812. As a miscellaneous direct

## INTERNATIONAL RESOURCES GROUP

CONTRACT NO PCE-I-00-96-00002-00  
TASK ORDERS NOS 802 AND 812FOR THE PERIODS  
MARCH 29, 1997 THROUGH MARCH 31, 1998 AND  
JANUARY 1, 1998 THROUGH JANUARY 31, 1999ACCOUNTANT'S RESPONSE

cost, the cost is measured against the same elements of allocation, allowability and reasonableness IRG has properly allocated this cost to T O No 812 It is eligible because rent is not disallowed by the T O , and IRG has paid the rent as confirmed by EQI The rent is reasonable if a prudent person would pay a similar amount for the premises used We believe that IRG's payment of \$5,693 per month is unreasonable compared to a prudent person's payment for similar premises IRG relied upon the counsel of their sub-contractor, EQI, without surveying the rent market We have performed a calculation of what we believe are key factors in determining whether the amount is reasonable Again we reiterate that reasonableness is subjective and that a definitive determination can only be made by the C O

Having an advantage of knowing EQI's actual costs, we have calculated a basis of rent in the table below The actual costs, per month, differs if IRG will carry the burden of renovating and supplying the office (Burden IRG), or whether they would require the landlord to provide this (Burden Landlord) We have presented both scenarios below IRG's contract with USAID does not limit agreements for rent to actual costs of the landlord Therefore, we believe profit is allowable for the landlord For purposes of discussion, we have allowed for using a profit factor of 15% Again, the exact percentage would need to be agreed by the C O In 1998, Egypt had an interest rate on three month T-bills of 8 8%

	<u>Burden Landlord</u>	<u>Burden IRG</u>
Leasehold Improvements		
Telephone Lines	LE 17,000	
Customized Partitions	15,200	
Shelving	4,000	LE 4,000
Total Improvements	<u>LE 36,200</u>	<u>LE 4,000</u>
Divided by 36 months of lease	LE 1,006	LE 111
Utilities per month	1,000	1,000
Depreciation of		
Fax / Telephone	219	17,555 x 15 (rate) / 12 month
Electric Wiring	172	8,250 x 25 / 12 month
Furniture	587	70,387 x 10 / 12 month
Total LE costs per month	<u>LE 2,984</u>	<u>LE 1,111</u>
Divided by 3 4005 LE/US \$	\$878	\$327
EQI lease payment per month	2,400	2,400
Total cost per month	<u>\$3,278</u>	<u>\$2,727</u>
Estimated allowable profit 15%	\$492	\$409
Reasonable lease value	<u>\$3,770</u>	<u>\$3,136</u>

INTERNATIONAL RESOURCES GROUP

CONTRACT NO PCE-I-00-96-00002-00  
TASK ORDERS NOS 802 AND 812

FOR THE PERIODS  
MARCH 29, 1997 THROUGH MARCH 31, 1998 AND  
JANUARY 1, 1998 THROUGH JANUARY 31, 1999

ACCOUNTANT'S RESPONSE

Therefore, we calculate a rental amount between \$3,136 and \$3,770 per month. The payments through December 31, 1998 were \$5,693 per month, for an unreasonable rent between \$1,923 and \$2,557 per month. Our questionable cost has been determined on this basis. However, final determination would need to be made by the USAID/Egypt responsible C O. The estimated unreasonable rent for the 10½ months would be between \$20,191 or \$26,848. USAID/Egypt's Contracting Officer, in discussion with IRG management, will determine the reasonable rent and any unallowable portion.

- 2 IRG did not respond to the over budget finding amount. However, in an event subsequent to our audit period, IRG and EQI agreed to transfer lease costs of \$45,673 to a separate agreement. We do not know the details of amounts composing this \$45,673. EQI's costs under the sub-contract have, therefore, been reduced from \$115,732 to \$70,059. This is less than the approved budget. The over budget finding is, therefore, removed from the report.

RESPONSE TO IRG'S COMMENTS TO REPORTABLE CONDITIONS AS DETAILED IN  
THE REPORT ON INTERNAL CONTROL STRUCTURE

REPORTABLE CONDITION

- 1 IRG concurred with our finding, and has proposed a revised management system.
- 2 IRG concurred with our finding, and has developed a new internal control system, with segregation of duties, approvals and authorizations.

RESPONSE TO IRG'S COMMENTS TO NON-COMPLIANCE ISSUES AS DETAILED IN  
THE REPORT ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS AND  
GRANTS

MATERIAL NON-COMPLIANCE

- 1 A lease amendment allowing sub-leasing was obtained from EQI. It states, "This is to acknowledge that the Company EQI with whom the above references rental contract was signed may sub-lease the apartment under only one condition namely that EQI is part of this project and is involved in it as well." Based on EQI's continued involvement with the project the sub-lease is valid. However, immediately upon EQI's completion of their subcontract, the sub-lease becomes void, and IRG is subject to immediate eviction. In spite of the laxity of Egyptian landlords to pursue eviction when they are receiving sufficient money for the rent, we believe our finding should remain. This is because of the expectation that IRG will be given a new task order which may not include EQI as a sub-contractor. Additionally, EQI may also desire eviction of IRG at that time in order to use the apartment for other purposes.

**INTERNATIONAL RESOURCES GROUP**

**CONTRACT NO PCE-I-00-96-00002-00  
TASK ORDERS NOS 802 AND 812**

**FOR THE PERIODS  
MARCH 29, 1997 THROUGH MARCH 31, 1998 AND  
JANUARY 1, 1998 THROUGH JANUARY 31, 1999**

**MISSION COMMENTS**



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO EGYPT

**MEMORANDUM**

**DATE** September 13, 1999

**TO** Thomas Asmus, A/RIG/A/C

**FROM** *Mary Eileen Devitt*  
Mary Eileen Devitt, Division Chief, FM/FA

**SUBJECT** Financial Audit of the International Resources Group (IRG), Costs Incurred Under Contract No PCE-I-00-96-00002-00, Task Order Nos 802 and 812 – Draft Report Dated August 5, 1999

Following is Mission response to the subject audit (draft) report recommendations

**Recommendation No 1**

**We recommend that USAID/Egypt make a management decision on the questioned costs of \$26,893 (ineligible costs of \$26,848 and unsupported costs of \$45) detailed on page 10 of the Price Waterhouse report, and recover from the International Resources Group the amount determined to be unallowable**

**Mission Response**

In a letter dated September 7, 1999 to IRG, the Contracting Officer (C O ) determined that the total \$29,253 should be recovered from IRG, **(Attachment A)** The \$29,253 is determined at the \$2,786 excess billed (\$5,693 billed - \$2,907 acceptable) for ten and a half months (\$2,786X10 5) for the period February 1998 through December 1998 As an initial settlement, Mission deducted the \$26,893 questioned from the June 1999 invoice, **(Attachment B)**

Further, the C O advised IRG that the acceptable \$2,907 rent should also be applied to the remaining months (January through August 1999) of Task Order 812

In a memo dated September 8, 1999, IRG advised that the period of the office space rental was for 17 50 months and requested that the LE62,005 (leasehold improvements, utilities, and other depreciation) be distributed over 17 5 months not 36 months, thus, resulting to LE3,543 14 (\$1,042) (rounded) per month, **(Attachment C)**

In a response dated September 9, 1999 the C O provided explanation for applying 36 months as basis for determining the acceptable actual rate per month The C O accepted the use of 17 50 months due to the fact that IRG terminated the lease agreement at the same date (July 31, 1999), **(Attachment D)** Thus, \$3,442 was determined to be the acceptable monthly rent and resulted to \$41,235 due to USAID over the life of the 20-month Task Order 812 Since \$26,893 was already deducted

as part of the Task Order June 1999 invoice, the remaining \$14,342 rental costs was deducted from July 1999, **(Attachment E)** The \$45 of unsupported costs has also been collected from July 1999 invoice

**In view of the above, Mission requests closure of Recommendation No 1 upon the final report issuance**

**Recommendation No 2**

**We recommend that USAID/Egypt (a) require the management of the International Resources Group to prepare a decision paper on what action it plans to take on its lease of office space and (b) make a management decision of this issue**

**Mission Response**

The IRG made a management decision to terminate the office space rental situation, by both moving out of the space in question and to stop making rent payments, effective July 31, 1999

**In view of the above, Mission requests closure of Recommendation No 2 upon the final report issuance**

**CC**

M Silverman, AD/EI  
A Davis, OD/EI/EE  
A Patterson, EI/EE  
S Wahba, EI/EE  
P Tresch, PROC