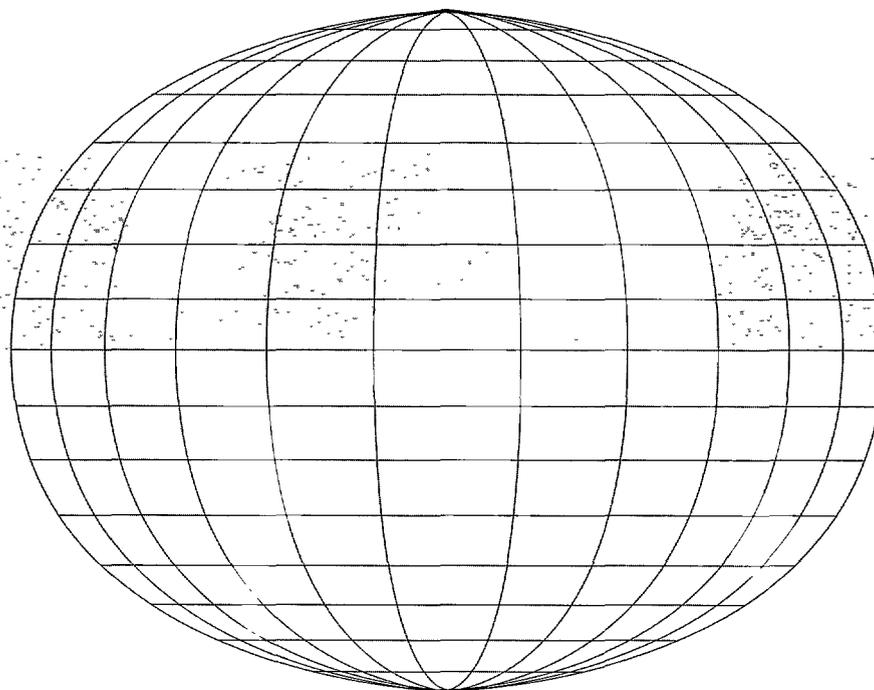


PD-ABS-628

Report of Audit

**Financial Audit of the Binational Fulbright Commission,
Costs Incurred Under USAID/Egypt's Cooperative
Agreement No. 263-0125-A-00-0096-00**

**Report No. 6-263-00-009-N
September 27, 2000**



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.

Cairo, Egypt

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



CAIRO, EGYPT

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

Report No. 6-263-00-009-N
September 27, 2000

MEMORANDUM

TO: USAID/Egypt Director, Willard J. Pearson, Jr.

FROM: RIG/Cairo, Darryl T. Burris *(D. Burris)*

SUBJECT: Financial Audit of the Binational Fulbright Commission, Costs Incurred Under USAID/Egypt's Cooperative Agreement No. 263-0125-A-00-0096-00

The attached report, transmitted on June 4, 2000 by PriceWaterhouseCoopers, presents the results of a financial audit of the Binational Fulbright Commission (BFC) funded under USAID/Egypt's cooperative agreement No. 263-0125-A-00-0096-00. The audit covered direct costs for the period October 1, 1994 through November 30, 1996 and indirect costs for the fiscal years ending September 30, 1995, 1996, and 1997. BFC was established in Egypt in November 1949 to facilitate the administration of an educational and cultural exchange program between the United States and Egypt. Funds received from USAID/Egypt were used to administer the Integrated English Language Program (IELP). Under the IELP, teachers were trained to teach English as a foreign language in Egypt and funds were also provided for a teacher exchange program between the United States and Egypt.

We engaged PriceWaterhouseCoopers to perform a financial audit of project revenues received and costs incurred by BFC under the above-mentioned Cooperative Agreement, as well as the indirect cost rate for each of the three years specified above. The purpose of the audit was to evaluate the propriety of costs incurred during these periods. PriceWaterhouseCoopers also evaluated BFC's internal controls and compliance with applicable laws, regulations and agreement terms, as necessary, in forming an opinion regarding the Fund Accountability Statement.

The auditors identified \$3,209 of ineligible direct costs for the period October 1, 1994 through November 30, 1996 and \$1,676 of ineligible indirect costs for the three-year audit period October 1, 1994 through September 30, 1997. The auditors did not identify any material internal control weaknesses or instances of material noncompliance with applicable laws, regulations, and agreement terms.

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Note 5 on page 13 of the PriceWaterhouseCoopers audit report states that BFC's overhead rate is calculated by dividing the total adjusted indirect cost pool by the adjusted direct cost pool, which excludes subcontract costs. However, BFC applies this indirect cost rate to IELP direct costs, including the subcontract costs. If the audited overhead rates are applied to total IELP direct costs, rather than direct costs less the subcontract costs, then the result will be an over-recovery of overhead costs chargeable to the IELP program amounting to \$119,505.

The following recommendations are included in USAID's Consolidated Audit Tracking System.

Recommendation No. 1: We recommend that USAID/Egypt make a management decision on the questioned costs of \$3,209 (all ineligible) detailed on page 13 of the PriceWaterhouseCoopers audit report, and recover from the Binational Fulbright Commission the amount determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Egypt finalize the Binational Fulbright Commission's indirect cost rate for the period October 1, 1994 through September 30, 1995, taking into consideration the questioned indirect costs of \$1,617 (all ineligible) identified on page 16 of the PriceWaterhouseCoopers audit report, and recover any amounts determined to be owed USAID/Egypt.

Recommendation No. 3: We recommend that USAID/Egypt finalize the Binational Fulbright Commission's indirect cost rate for the period October 1, 1995 through September 30, 1996, taking into consideration the questioned indirect costs of \$59 (all ineligible) identified on page 17 of the PriceWaterhouseCoopers audit report, and recover any amounts determined to be owed USAID/Egypt.

Recommendation No. 4: We recommend that USAID/Egypt finalize the Binational Fulbright Commission's indirect cost rate for the period October 1, 1996 through September 30, 1997.

Recommendation No. 5: We recommend that USAID/Egypt, in finalizing the indirect cost rates for the period October 1, 1994 through September 30, 1997, ensure that the Binational Fulbright Commission does not apply the individual finalized rates to a larger cost base than used in the calculation of that rate.

Regarding Recommendation No. 1, USAID/Egypt's Procurement Officer stated that interest earned in excess of \$250 had to be returned to the Mission. Therefore, the Officer determined \$3,059 (\$3,309 less \$250) is unallowable and will offset this amount from the amount due to BFC as a result of the final negotiated indirect cost rates for the audited period. Therefore, Recommendation No. 1 is considered to have received a management decision. For final action the Mission should provide documentation to M/MPI showing that \$3,059 was offset from the amount paid to BFC. The Procurement Officer stated that the audited indirect cost rates for fiscal years

(FY) ending September 30, 1995, 1996, and 1997 of 9.45%, 12.55%, and 46.81%, respectively, constituted finalized negotiated indirect cost rates. Since the finalized rates for FY1995 and FY1996 take into account the questioned indirect costs per the audit, we consider management decisions have been reached on Recommendation Nos. 2, 3, and 4. Regarding Recommendation No. 5, the Procurement Officer stated that the base of application of the final audited entity wide indirect cost rates is direct costs less subcontracts and BFC will be apprised on this base. Therefore, we consider a management decision has been reached on Recommendation 5. Regarding Recommendation Nos. 2, 3, 4, and 5, for final action, the Mission should provide M/MPI evidence that BFC has not been allowed to recover more than the finalized indirect cost rates times the adjusted direct cost pools associated with the IELP as reflected on pages 8, 9, and 10 of the audit report.

In summary, management decisions have been reached on Recommendation Nos. 1 through 5. The Mission should provide evidence to M/MPI when final actions have been taken. 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

BINATIONAL FULBRIGHT COMMISSION

**USAID/EGYPT
COOPERATIVE AGREEMENT
NO. 263-0125-A-00-0096-00**

**SUPPLEMENTAL SCHEDULES OF
FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD
OCTOBER 1, 1994 THROUGH NOVEMBER 30, 1996
SCHEDULES OF COMPUTATIONS OF INDIRECT
COST RATES AND
ADDITIONAL INFORMATION
FOR THE FISCAL YEARS ENDING SEPTEMBER 30,
1995, 1996 AND 1997**

BINATIONAL FULBRIGHT COMMISSION

**USAID/EGYPT
COOPERATIVE AGREEMENT
NO. 263-0125-A-00-0096-00**

**FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD
OCTOBER 1, 1994 THROUGH NOVEMBER 30, 1996**

**SCHEDULES OF COMPUTATIONS OF INDIRECT COST RATES AND
ADDITIONAL INFORMATION
FOR THE FISCAL YEARS ENDING SEPTEMBER 30, 1995, 1996 AND 1997**

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June 4, 2000

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

Dear Mr. Burris:

This report presents the results of our financial related audit of project revenues received and costs incurred for the period October 1, 1994 through November 30, 1996, and the schedules of computations of indirect cost rates for the fiscal years ending September 30, 1995, 1996 and 1997 of the Binational Fulbright Commission ("BFC") under United States Agency for International Development Mission to Egypt ("USAID/Egypt") Cooperative Agreement No. 263-0125-A-00-0096-00 ("Agreement").

Background:

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

BFC used Agreement funds to administer the Integrated English Language Program ("IELP"). IELP provided funding assistance for the training of teachers of English as a foreign language in Egypt. This was done by designing specific programs within the IELP umbrella to address the needs of educators at various levels of experience. The program also provided for a teacher exchange program between the United States and Egypt that was geared towards the sharing of teaching methodologies in the two countries.

Audit Objectives and Scope:

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

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

2. Determine if the costs reported as incurred under the Agreement are in fact allowable, allocable and reasonable in accordance with the terms of the Agreement;
3. Obtain a sufficient understanding of the internal control structure of BFC as it relates to the Agreement, assess control risk, and identify reportable conditions, including material internal control weaknesses;
4. Perform tests to determine whether BFC complied, in all material respects, with Agreement terms and applicable laws and regulations;
5. Perform an audit of the provisional indirect cost rates used by BFC under the Agreement;
6. Determine if BFC has taken corrective action on prior audit report recommendations; and
7. Submit a copy of BFC's general-purpose financial statements (See Appendix D).

Our preliminary planning and review procedures began in March 1999. These procedures consisted of discussions with personnel from the office of the Regional Inspector General for Audit in Cairo and BFC management. Our audit fieldwork commenced in May 1999 and was completed in June 1999.

The audit population included \$11,929,753 of direct Agreement costs and \$1,252,618 of overhead costs billed during the audit periods. Overhead costs were calculated and billed using provisional indirect cost rates. We did not test \$1,001,901 of subcontractor direct costs included in the audit population. The subcontractor is an US organization, and all work is performed in the US. Supporting documentation for the subcontract costs was not available in Egypt. On a judgmental basis, we selected and tested \$3,329,285 (28%) of direct Agreement costs. We also judgmentally selected and tested \$2,997,678 (45%) of \$6,634,095 of costs included in the indirect cost rate calculations.

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

- Reconciling BFC accounting records to billings issued to USAID/Egypt to ensure that Agreement costs were appropriately supported;
- Testing a representative sample of Agreement costs funded by USAID/Egypt for allowability and allocability;
- Determining if costs related to training, travel, allowances, operational costs, procurement, and renovation were appropriate and conformed with the terms of the Agreement and applicable laws and regulations;
- Determining if salary costs were properly supported and approved;
- Examining support for a sample of items included in the direct and indirect cost pools, and calculating the actual indirect cost rates; and

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

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

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

As part of our examination of BFC, we assessed relevant internal controls as they relate to the Agreements. We also reviewed BFC's compliance with laws, regulations, contracts, and agreements.

Results of our Current Audit:

Fund Accountability Statement and Schedules of Computations of Indirect Cost Rates

Our audit procedures identified \$3,209 of ineligible direct project costs. We also identified the following in the schedules of computations of indirect cost rates.

	Fiscal year ended September 30		
	1995	1996	1997
A. Transfer to indirect cost pool	\$5,112	\$1,502	278
B. Ineligible indirect costs	1,617	59	0
C. Transfer to direct pool	72,736	34,079	1,224
D. Exclusion from direct cost pool	557,383	435,359	32,240

The details of questioned direct and indirect project costs, in the currency in which incurred, are included in supplemental schedules to this report.

Internal Control Structure

Our audit procedures identified no reportable conditions in the internal control structure of BFC.

Compliance with Laws, Regulations, Contracts, and Agreements

Our audit procedures identified no instances of material non-compliance.

Follow up of Prior Audit Report Recommendations:

Report on Fund Accountability Statement

Our previous report for the period from October 1, 1990 to September 30, 1994 included questioned costs of \$4,084, and of these questioned costs \$3,837 was allowed by USAID/Egypt. The remaining \$247 was subsequently refunded to USAID.

Report on Indirect Cost Rates

USAID/Egypt finalized the overhead rates as follows:

1994	11.75%
1993	13.68%
1992	18.34%
1991	12.20%

As a result of the approved overhead rates, BFC was reimbursed \$218,175.

Report on Internal Control Structure

The prior audit report had five reportable internal control weaknesses, of which two were considered material. During our audit, we reviewed systems, procedures and had discussions with management. Based on our work, we consider all five weaknesses closed.

Report on Compliance with Law, Regulations, Contracts, and Grants

There was no reportable compliance issued in the prior audit report.

Management Comments:

BFC management comments have been obtained and are included in Appendix A to this report.

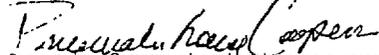
Independent Accountant's Response:

In response to management's comments, we either provided further clarification of our position in Appendix B or have adjusted our findings.

Mission Response:

The USAID/Egypt mission's response is included in Appendix C to this report.

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



PricewaterhouseCoopers is a limited liability company incorporated in Switzerland and is comprised of a global network of professional services firms. PricewaterhouseCoopers is the merger of Coopers & Lybrand L. L. C. and Price Waterhouse.

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**REPORT OF INDEPENDENT ACCOUNTANTS
ON THE FUND ACCOUNTABILITY STATEMENT AND SCHEDULES OF
COMPUTATIONS OF INDIRECT COST RATES**

June 4, 2000

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

We have audited the fund accountability statement of project revenues received and costs incurred for the period October 1, 1994 through November 30, 1996, and the schedules of computations of indirect cost rates for the fiscal years ending September 30, 1995, 1996 and 1997 of the of the Binational Fulbright Commission ("BFC") under United States Agency for International Development Mission to Egypt ("USAID/Egypt") Cooperative Agreement No. 263-0125-A-00-0096-00. The fund accountability statement and schedules of computations of indirect cost rates are the responsibility of BFC management. Our responsibility is to express an opinion on this statement and schedules based on our audit.

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

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

We were unable to audit \$1,001,901 of subcontractor direct costs as supporting documentation for such costs were not available in Egypt. Accordingly, we were unable to determine the effect, if any, of questioned costs on the fund accountability statement and the schedules of

computations of indirect cost rates that may have resulted had we been able to audit the subcontractor direct costs.

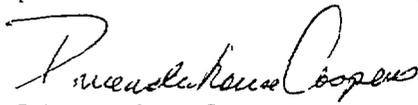
The fund accountability statement and schedules of computations of indirect cost rates have been prepared on the basis of cash receipts and disbursements, modified as described in Note 2, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States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

As detailed in the fund accountability statement and more fully described in Note 4 thereto, the results of our tests disclosed \$3,209 of ineligible direct costs. We also identified \$1,676 of ineligible charges included in the schedules of computations of indirect cost rates. Costs that are ineligible for USAID/Egypt reimbursement are those that are not program related or are prohibited by the agreements, or applicable laws and regulations. Unsupported costs are those lacking proper documentation.

In our opinion, except for the effects of the questioned costs discussed in the sixth paragraph, the fund accountability statement and the schedules of computations of indirect cost rates, referred to in the first paragraph present fairly, in all material respects, revenues received and costs incurred for the period from October 1, 1994 through November 30, 1996, and the indirect cost rates for the fiscal years ending September 30, 1995, 1996 and 1997 of BFC under the Cooperative Agreement, in conformity with the basis of accounting described in Note 2.

In accordance with GAS, we have also issued a report, June 4, 2000 on our consideration of BFC's internal control structure and a report dated June 4, 2000 on its compliance with laws, regulations, contracts, and agreements.

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


PricewaterhouseCoopers
June 4, 2000

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BINATIONAL FULBRIGHT COMMISSION

COOPERATIVE AGREEMENT NO. 263-0125-A-00-0096-00

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD

OCTOBER 1, 1994 THROUGH NOVEMBER 30, 1996

	APPROVED BUDGET (NOTE 1)	ACTUAL (NOTE 1)	QUESTIONABLE COSTS INELIGIBLE (NOTE 4)	UNSUPPORTED (NOTE 4)	AUDIT FINDING REFERENCE
OPENING FUND BALANCE (NOTE 1)	\$ -	\$ 155,770	-	-	
USAID REVENUE	\$ -	\$ 13,345,366	\$ 3,209	\$ -	Note 4, Page 11
EXPENDITURES:					
<u>IELP</u>					
Pre-Service	\$ 2,054,665	\$ 1,830,346	\$ -	\$ -	
In-Service	3,713,268	3,505,482	-	-	
ESP	565,597	503,458	-	-	
Participant Training	3,781,839	3,737,067	-	-	
Other Direct Costs	846,860	835,913	-	-	
CDELT	-	(4,600)	-	-	
Sub-Contractors	2,100,358	1,001,901	-	-	
Overhead	1,342,841	1,197,999	-	-	
Total IELP Expenditures	\$ 14,405,428	\$ 12,607,566	\$ -	\$ -	
<u>FT 800</u>					
Participant Training	\$ 558,255	\$ 520,186			
Overhead	58,617	54,619			
Total FT 800 Expenditures	\$ 616,872	\$ 574,805			
ENDING FUND BALANCE (NOTE 1)		\$ <u>318,765</u>			

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

BINATIONAL FULBRIGHT COMMISSION
Entity Wide Indirect Cost Rate
Schedule of Computation of Indirect Cost Rate
For the Period October 1, 1996 Through September 30, 1997
Expressed in US Dollars

Description	Total Indirect Costs	Transfers To (From) Indirect	Questionable Costs		Adjusted Indirect Cost Pool	Note 5 Ref.
			Ineligible	Unsupported		
Personnel Compensation	362,312				362,312	
Personnel Benefits	43,679				43,679	
Staff Development	1,415				1,415	
Travel Expenses	43,855				43,855	
BFC Meetings and Representations	4,267				4,267	
Property Management	45,963				45,963	
Equipment Maintenance	13,005				13,005	
Communication Services	17,705				17,705	
Printing and Copying	5,929				5,929	
Office Automation	4,315				4,315	
Vehicle Costs	8,349				8,349	
Legal and Auditing Fees	7,242				7,242	
Contractual Services	31,519	(1,224)			30,295	III A 1
Office Supplies and Stationery	5,132				5,132	
Renovation	5,332				5,332	
Orientation	422				422	
Capital Expenditures Depreciation	66,544	1,502			68,046	III A.2
Severance Reserve	5,886				5,886	
Total Indirect Costs	672,871	278	0	0	673,149	

DIRECT COST POOLS

Description	Total Direct Costs	Transfers To (From) Direct	Exclusion From Direct Cost Pool	Adjusted Direct Cost Pool	Note 5 Ref.
IELP	79,277		(32,240)	47,037	III C 1
USIA	786,749	1,224		787,973	III B 1
FFC	577,660			577,660	
ENDOWMENT	25,298			25,298	
Total Direct Costs Pool	1,468,984	1,224	(32,240)	1,437,968	

INDIRECT COST RATE CALCULATION

ADJUSTED INDIRECT COSTS	673,149
ADJUSTED DIRECT COSTS	1,437,968
INDIRECT COST RATE 10/1/96 through 9/30/97	46.81%

BINATIONAL FULBRIGHT COMMISSION
Entity Wide Indirect Cost Rate
Schedule of Computation of Indirect Cost Rate
For the Period October 1, 1995 Through September 30, 1996
Expressed in US Dollars

Description	Total Indirect Costs	Transfers To (From) Indirect	Questionable Costs		Adjusted Indirect Cost Pool	Note 5 Ref.
			Ineligible	Unsupported		
Personnel Compensation	371,950				371,950	
Personnel Benefits	132,707				132,707	
Staff Development	1,765				1,765	
Travel Expenses	3,590				3,590	
BFC Meetings and Representations	7,402		(59)		7,343	II B.1
Property Management	41,040				41,040	
Equipment Maintenance	9,563				9,563	
Communication Services	16,539				16,539	
Printing and Copying	12,988				12,988	
Office Automation	3,926				3,926	
Vehicle Costs	10,557				10,557	
Legal and Auditing Fees	27,222				27,222	
Contractual Services	39,422				39,422	
Office Supplies and Stationery	18,783				18,783	
Renovation	61,973				61,973	
Capital Expenditures Depreciation	63,965	1,502			65,467	II A.1
Severance Reserve	5,535				5,535	
Total Indirect Costs	828,927	1,502	(59)	0	830,370	

DIRECT COST POOLS

Description	Total Direct Costs	Transfers To (From) Direct	Exclusion From Direct Cost Pool	Adjusted Direct Cost Pool	Note 5 Ref.
IELP	5,707,607	34,079	(412,278)	5,314,061	II C.1, II D.2
USIA	948,833		(23,081)	925,752	II D.1
FFC	306,219			306,219	
ENDOWMENT	70,426			70,426	
Total Direct Costs Pool	7,033,085	34,079	(435,359)	6,616,458	

INDIRECT COST RATE CALCULATION:

ADJUSTED INDIRECT COSTS	830,370
ADJUSTED DIRECT COSTS	6,616,458
INDIRECT COST RATE 10/1/95 through 9/30/96	12.55%

BINATIONAL FULBRIGHT
Entity Wide Indirect Cost Rate
Schedule of Computation of Indirect Cost Rate
For the Period October 1, 1994 Through September 30, 1995
Expressed in US Dollars

Description	Total Indirect Costs	Transfers To (From) Indirect	Questionable Costs		Adjusted Indirect Cost Pool	Note 5 Ref.
			Ineligible	Unsupported		
Personnel Compensation	354,551				354,551	
Personnel Benefits	101,061				101,061	
Staff Development	13,223	(5,531)			7,692	IA 1
Travel Expenses	2,306				2,306	
BFC Meetings and Representations	3,793				3,793	
Property Management	43,730				43,730	
Equipment Maintenance	11,533				11,533	
Communication Services	13,164				13,164	
Printing and Copying	11,092				11,092	
Office Automation	14,481				14,481	
Vehicle Costs	19,105				19,105	
Legal and Auditing Fees	15,941				15,941	
Contractual Services	35,037	(5,112)	(1,617)		28,308	IA.3, IB 1
Office Supplies and Stationery	7,838				7,838	
Capital Expenditures Depreciation	37,187	626			37,813	IA.2
Severance Reserve	19,241				19,241	
Total Indirect Costs	703,283	(10,017)	(1,617)	0	691,649	

DIRECT COST POOLS

Description	Total Direct Costs	Transfers To (From) Direct	Exclusion From Direct Cost Pool	Adjusted Direct Cost Pool	Note 5 Ref.
IELP	6,102,908	63,574	(557,383)	5,609,099	IC 1, ID
USIA	1,284,079	(7,511)		1,276,568	IC 2
FFC	341,634			341,634	
ENDOWMENT	64,544	1,651		66,195	IC 3
SPF	23,572			23,572	
Total Direct Costs Pool	7,816,737	57,714	(557,383)	7,317,068	

INDIRECT COST RATE CALCULATION

ADJUSTED INDIRECT COSTS	691,649
ADJUSTED DIRECT COSTS	7,317,068

INDIRECT COST RATE 10/1/94 through 9/30/95 9.45%

BINATIONAL FULBRIGHT COMMISSION

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

NOTE 1 - SCOPE OF STATEMENT:

The fund accountability statement includes revenues received and costs incurred by BFC under Cooperative Agreement No. 263-0125-A-00-0096-00 ("IELP Agreement"), for the period October 1, 1994 through November 30, 1996. The schedules of computations of indirect cost rates are for the fiscal years ending September 30, 1995, 1996, and 1997.

"Opening Fund Balance" represents the ending fund balance from the prior audit. It has been decreased by \$273,622 of overhead on subcontractor costs that had been excluded from subcontractor direct costs in the prior audit report. The reported subcontractor direct costs of \$2,397,563 should have been \$2,671,185. Additionally, the opening fund balance has not been adjusted for the change of the exchange rates from the prior report to this report. Thus, there is a \$766 reporting windfall to the project in funds available for expenditure.

"Approved Budget" includes USAID/Egypt approved costs in accordance with the most recent budget modification or amendment of the IELP and FT-800 Agreements within the audit period, and is presented for informational purposes only. Budget amounts in Egyptian pounds ("LE") have been converted to US dollars as explained in Note 3 below.

"Actual" represents cumulative revenues received and costs incurred under the IELP Agreement during the audit period. Expenditures in LE have been converted to US dollars as explained in Note 3 below.

"Ending Fund Balance" represents unused advances that were refunded to USAID/Egypt after the audit period.

NOTE 2 - BASIS OF PRESENTATION:

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

NOTE 3 - FOREIGN EXCHANGE:

Actual and budgeted revenues and costs in LE have been converted to US dollars at an exchange rate of 3.4 LE to one U.S. dollar. The exchange rate has been calculated by averaging the ending monthly exchange rates during the audit period.

NOTE 4 - QUESTIONED AGREEMENT COSTS:

Questioned agreements costs are presented in two separate categories, ineligible and unsupported. Costs in the columns labeled "Ineligible" are those not program-related or prohibited by the Agreement or applicable laws and regulations. Costs in the columns labeled "Unsupported" are not supported with adequate documentation.

NOTE 4 – QUESTIONED AGREEMENT COSTS (Continued):

	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
DIRECT COSTS – IELP		
A. CASH		
1. Mandatory Standard Provision No. 3, governing the IELP Agreement, requires interest earned in excess of \$100 on funds provided by USAID/Egypt, to be returned to USAID/Egypt quarterly. BFC did not return interest earned of \$3,209 (actual interest of \$3,309 less \$100). This interest was used to credit BFC's endowment account to offset penalty charges incurred for the early termination of a time deposit. The funds from this time deposit were used as an advance to the IELP program to cover shortfalls in USAID/Egypt funding during the 1994/1995 fiscal year. Nevertheless, the amount is considered ineligible.	\$ 3,209	\$ -
Total Cash Questioned Costs	\$ 3,209	\$ -
TOTAL DIRECT QUESTIONED AGREEMENT COSTS	\$ 3,209	\$ -

NOTE 5 – BFC INDIRECT COST RATES:

Indirect Cost Rate

BFC maintains one entity wide indirect cost pool. BFC's overhead rate is calculated by dividing the total adjusted indirect cost pool by the adjusted direct cost pool total, which excludes sub-contractor costs. This indirect cost rate is applied to IELP direct costs, including subcontractor costs. The overhead billed to USAID/Egypt is calculated as the indirect cost rate multiplied by the total direct costs of IELP, including subcontractor costs

Transfers of Costs

Certain costs incurred by BFC, associated with various account line items, were recorded in the incorrect cost pool (indirect or direct). These costs have been transferred to the appropriate cost pool (indirect or direct) to facilitate a more appropriate reflection of total indirect and direct costs. According to OMB A-122, direct costs, represent costs that have been incurred for as single cost objective or that can be readily identified with a particular cost objective. Indirect costs are those costs not easily identified with a particular cost objective, but have been incurred for common cost objectives. Transfers between the indirect and direct cost pools are shown separately below.

NOTE 5 – BFC INDIRECT COST RATES (Continued):

Questioned Overhead Costs

Questioned overhead costs have been segregated between direct and indirect costs of the Agreement. Direct questioned costs have been further segregated by individual budget line item; indirect questioned costs have been segregated by cost pool line item.

NOTE 5 – BFC INDIRECT COST (Continued):

Adjustments to Cost Pools

I. OCTOBER 1, 1994 TO SEPTEMBER 30, 1995

A. Transfers to (from) Indirect

<u>Appropriate Cost Pool</u>	<u>Amount</u> <u>(\$)</u>	<u>Comments</u>
1. Staff Development:		
Direct IELP	<u>(5,531)</u>	This amount represents IELP employee's training costs that have been paid, and recorded as an indirect cost by BFC. Based on the definition of a direct cost, as noted above, the amount has been transferred to the IELP direct cost pool as indicated.
2. Capital Expenditures		
Depreciation:		
Indirect USIA	<u>626</u>	This amount represents the depreciation of a telephone system that was recorded as a direct USIA cost. The system cost of \$7,511 represents an asset. According to OMB A-122 section D.2 (b), "Both the direct costs and the indirect costs shall exclude capital expenditures." Therefore, the previously unrecorded depreciation has been included as an allowable cost, and the asset cost excluded from the direct costs.
3. Contractual Services:		
a. Direct Endowment	<u>(1,651)</u>	A financial assistance payment for a beneficiary to attend a conference abroad was paid and recorded as an indirect cost by BFC. The benefit of this conference is directly related to the activities of the endowment fund. Based on the definition of a direct cost, as noted above, the amount has been transferred to the appropriate direct cost pool as indicated.
b. Direct IELP	<u>(3,461)</u>	This amount represents fidelity insurance for IELP employees that was paid and recorded as an indirect cost by BFC. The amount should be allocated to IELP direct cost. Based on the definition of a direct cost, as noted above, the amount has been transferred to the appropriate cost pool as indicated.
Total	<u>(5,112)</u>	

NOTE 5 – BFC INDIRECT COST (Continued):

B. Questioned Costs – Ineligible

<u>Appropriate Cost Pool</u>	<u>Amount (\$)</u>	<u>Comments</u>
1. Indirect Contractual Services	(1,617)	A farewell party for IELP employees cost \$1,617. OMB A-122 states, "Costs incurred for amusement, social activities, and entertainment are unallowable. Therefore, this amount has been removed from the indirect cost pool as ineligible.

C. Transfers to (from) Direct

<u>Appropriate Cost Pool</u>	<u>Amount (\$)</u>	<u>Comments</u>
1. Direct IELP		
a.	5,531	See comment at I A.1 above
b.	3,461	See comment at I A.3 (b) above
c.	<u>54,582</u>	BFC self adjusted the direct cost pool of IELP. The amount represents several adjustments to reduce the indirect cost pool. Because these costs were not billed to USAID as IELP costs (appropriate), they have been added to the IELP direct cost total.
Total	<u>63,574</u>	
2. Indirect USIA	(7,511)	See comment at I A.2 above.
3. Direct Endowment	1,651	See comments at I A.3 (a) above.

D. Exclusion from Direct Cost Pool

<u>Appropriate Cost Pool</u>	<u>Amount (\$)</u>	<u>Comments</u>
1. Direct IELP	-	See Note 4, questioned agreement cost findings. Reference to our further review, the amount of \$ 3,209 was removed from the adjustments.
2. Direct IELP	<u>(557,383)</u>	According to OMB A-122, Attachment A, Section D.2.b "The distribution base may be total direct costs (excluding capital expenditures and other distorting items such as subcontracts or sub-grants)". Accordingly, the subcontractor costs are excluded from IELP direct costs.
Total	<u>(557,383)</u>	

NOTE 5 – BFC INDIRECT COST (Continued):

II. OCTOBER 1, 1995 TO SEPTEMBER 30, 1996

A. Transfers to (from) Indirect

<u>Appropriate Cost Pool</u>	<u>Amount (\$)</u>	<u>Comments</u>
1. Indirect – Capital Expenditures Depreciation	1,502	This amount represents the depreciation of a telephone system that was paid as a direct cost of USIA in May 1995. It was inadvertently missed in BFC's depreciation calculation. Therefore, it has been included.

B. Questioned Costs - Ineligible

<u>Account</u>	<u>Amount (\$)</u>	<u>Comments</u>
1. Indirect – BFC Meetings and representations	(59)	BFC paid \$59 as tips to waiters during the annual BFC orientation. According to OMB A-122, paragraph 12 "Gratuities are not allowable." It has, therefore, been questioned as ineligible.

C. Transfers to (from) Direct

<u>Appropriate Cost Pool</u>	<u>Amount (\$)</u>	<u>Comments</u>
1. Direct IELP	34,079	BFC self adjusted the direct cost pool of IELP. The amount represents several adjustments to reduce the indirect cost pool. Because these costs were not billed to USAID as IELP costs (appropriate), they have been added to the IELP direct cost total.

NOTE 5 – BFC INDIRECT COST (Continued):

D. Exclusion from Direct Cost Pool

<u>Appropriate Cost Pool</u>	<u>Amount (\$)</u>	<u>Comments</u>
1. Direct USIA	(23,081)	Alumni dinner expense of \$23,081 was charged twice to FFC and USIA. USIA paid for the expense initially and was reimbursed by FFC. The reduction in cost was inadvertently not posted to the correct account. According to the sub-grant agreement, section 7, access to sub-grantee's records "The sub-grantee shall maintain books, records, documents, and other evidence in accordance with the sub-grantee's usual accounting procedures." Therefore, the amount has been removed from the direct cost pool.
2. Direct IELP	(412,278)	According to OMB A-122, Attachment A, Section D.2.b "The distribution base may be total direct costs (excluding capital expenditures and other distorting items such as subcontracts or sub-grants)". Accordingly, the subcontract costs are excluded from IELP direct costs.

III. OCTOBER 1, 1996 TO SEPTEMBER 30, 1997

A. Transfers to (from) Indirect

<u>Appropriate Cost Pool</u>	<u>Amount (\$)</u>	<u>Comments</u>
1. Direct USIA	(1,224)	This amount represents printing costs of applications for the Egyptian Program, which is funded by the USIA. This amount was paid and recorded as an indirect cost by BFC. Based on the definition of a direct cost, as noted above, the amount has been transferred to the appropriate direct cost pool as indicated.
2. Indirect – Capital Expenditures Depreciation	1,502	This amount represents the depreciation of a telephone system that was paid as a direct cost of USIA in May 1995. It was inadvertently missed in BFC's depreciation calculation. Therefore, it has been included.

NOTE 5 – BFC INDIRECT COST (Continued):

B. Transfers to (from) Direct

<u>Appropriate Cost Pool</u>	<u>Amount (\$)</u>	<u>Comments</u>
1. Direct USIA	1,224	See comment at III A.1 above.

C. Exclusion from Direct Cost Pool

<u>Appropriate Cost Pool</u>	<u>Amount (\$)</u>	<u>Comments</u>
1. Direct IELP	(32,240)	According to OMB A-122, Attachment A, Section D.2.b “The distribution base may be total direct costs (excluding capital expenditures and other distorting items such as subcontracts or sub-grants)”. Accordingly, the subcontract costs are excluded from IELP direct costs.

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

June 4, 2000

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

We have audited the fund accountability statement of project revenues received and costs incurred for the period October 1, 1994 through November 30, 1996, and the schedules of computations of indirect cost rates for the fiscal years ending September 30, 1995, 1996 and 1997 of the Binational Fulbright Commission ("BFC") under United States Agency for International Development Mission to Egypt ("USAID/Egypt") Cooperative Agreement No. 263-0125-A-0096-00, and have issued our qualified report thereon dated June 4, 2000.

Except as discussed in paragraphs 3 and 4, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards ("GAS") issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

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

We were unable to audit \$1,001,901 of subcontractor direct costs as supporting documentation for such costs were not available in Egypt. Accordingly, we were unable to determine the effect, if any, of questioned costs on the fund accountability statement and the schedules of computations of indirect cost rates that may have resulted had we been able to audit the subcontractor direct costs. As such, we did not assess the internal control structure of BFC as it relates to these costs.

The management of BFC is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from

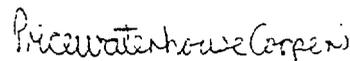
unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement and schedules of computations of indirect cost rates in accordance with the terms of the related Agreements, and the basis of accounting described in Note 2 of the report on the fund accountability statement.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the fund accountability statement and schedules of computations of indirect cost rates of BFC for the audit periods, we obtained an understanding of the internal control structure as it relates to the Cooperative Agreement under audit. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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. 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 BFC management and others within the organization and USAID/Egypt. However, upon release by USAID, this report is a matter of public record and its distribution is not limited.


PricewaterhouseCoopers
June 4, 2000

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

June 4, 2000

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

We have audited the fund accountability statement of project revenues received and costs incurred for the period October 1, 1994 through November 30, 1996, and the schedules of computations of indirect cost rates for the fiscal years ending September 30, 1995, 1996 and 1997 of the Binational Fulbright Commission ("BFC") under United States Agency for International Development Mission to Egypt ("USAID/Egypt") Cooperative Agreement No. 263-0125-A-00-0096-00, and have issued our qualified report thereon dated June 4, 2000.

Except as discussed in paragraphs 3 and 4, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards ("GAS") issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

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

We were unable to audit \$1,001,901 of subcontractor direct costs as supporting documentation for such costs were not available in Egypt. Accordingly, we were unable to determine the effect, if any, of questioned costs on the fund accountability statement and the schedules of computations of indirect cost rates that may have resulted had we been able to audit the subcontractor direct costs. As such, we did not perform tests of BFC's compliance with laws, regulations, contracts and agreements as they relate to these costs.

Compliance with laws, regulations, contracts and agreements applicable to BFC is the responsibility of BFC management. As part of obtaining reasonable assurance about whether the fund accountability statement and schedules of computations of indirect cost rates are free of

material misstatement, we performed tests of BFC's compliance with certain provisions of laws, regulations, contracts and agreements. However, the objective of our audit of the fund accountability statement and schedules of computations of indirect cost rates was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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

- Procurement policies and procedures,
- Restrictions on billing taxes,
- Deposit and investment restrictions,
- Budgetary expenditure limitations,
- Maintenance of accounting books, records and documents, and
- Compensation 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 aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement and schedules of computations of indirect cost rates. The results of our tests of compliance disclosed no instances of non-compliance that are required to be reported under GAS.

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

PricewaterhouseCoopers

PricewaterhouseCoopers

June 4, 2000

BINATIONAL FULBRIGHT COMMISSION

USAID/EGYPT
COOPERATIVE AGREEMENT
NO. 263-0125-A-00-0096-00 (IELP)

Management Comments

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



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

March 12, 2000

Pricewaterhouse Coopers
22 El Nasr Street
New Maadi 11431, Cairo
Egypt

Subject: Close-out Audit of Binational Fulbright Commission,
CA No. 263-0125-A-00-0096-00

Dear Sirs:

Kindly find attached the Binational Fulbright Commission (BFC) management's response to your firm draft audit reports of the direct and indirect costs of the USAID-funded cooperative agreement no. 263-0125-A-00-0096-00.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Ann B. Radwan, Ph. D.
Executive Director

20 Gamal El Din Aboul Mahassen St., Garden City, 11451, Cairo, Egypt.
Tel.: (202) 354 4679 - 354 4799 - 357 2210 - 357 2258
Fax.: (202) 355 7893

٢٠ شارع جمال الدين ابو المحسن - حارة النور - ١١٤٥١ - القاهرة
هاتف: ٣٥٤٤٦٧٩ - ٣٥٤٤٧٩٩ - ٣٥٧٢٢١٠ - ٣٥٧٢٢٥٨
فاكس: ٣٥٥٧٨٩٣

E-MAIL: BFCGEN@BFC.EU/EG

BINATIONAL FULBRIGHT COMMISSION

USAID/EGYPT
COOPERATIVE AGREEMENT
NO. 263-0125-A-00-0096-00 (IELP)

Management Comments

B. BFC SCHEDULES OF
COMPUTATIONS OF INDIRECT COSTS RATES

- d. Exclusion from Direct Cost Pool
1. Direct IELP US\$ 3,209
BFC agrees that this amount should be returned to the USAID. However, this amount was never charged to the IELP direct costs. Accordingly, the amount should not be excluded from the Direct Cost Pool.
2. Direct IELP US\$57,383
BFC agrees with the audit firm's conclusion to exclude this item from the direct cost pool for the purpose of calculating the indirect cost rate.
- II. October 1, 1995 to September 30, 1996
- a. Transfers to (from) Indirect
1. Indirect - Capital Expenditures Depreciation US\$1,502

BFC agrees with the audit firm's conclusion to transfer the above mentioned amount to (from) the indirect pool to the correspondent direct cost pool..
- b. Questionable Costs - Ineligible
1. Indirect - BFC Meeting and representations US\$ 59

BFC agrees to remove the amount from the indirect cost pool.
- c. Transfers to (from) direct
1. Direct IELP US\$34,079

BFC agrees with the audit firm's conclusion to transfer the above-mentioned amount to (from) the direct cost pool.
- d. Exclusion from Direct Cost Pool
1. Direct USIA US\$ 23,081
BFC agrees with the audit firm's conclusion to exclude this item from the direct cost pool.
2. Direct IELP US\$412,278
BFC agrees with the audit firm's conclusion to exclude this item from the direct cost pool for the purpose of calculating the indirect cost rate.

BINATIONAL FULBRIGHT COMMISSION

USAID/EGYPT
COOPERATIVE AGREEMENT
NO. 263-0125-A-00-0096-00 (IELP)

Management Comments

B. BFC SCHEDULES OF
COMPUTATIONS OF INDIRECT COSTS RATES

II. October 1, 1996 to November 30, 1997

a. Transfers to (from) Indirect

- | | |
|---|-------------|
| 1. Direct USIA | (US\$1,224) |
| 2. Indirect Capital Expenditures Depreciation | US\$1,502 |

BFC agrees with the audit firm's conclusion to transfer the above-mentioned amount to (from) the indirect pool to the correspondent direct cost pool.

b. Transfers to (from) Direct

- | | |
|----------------|-----------|
| 1. Direct USIA | US\$1,224 |
|----------------|-----------|

BFC agrees with the audit firm's conclusion to transfer the above-mentioned amount to the correspondent direct cost pool.

c. Exclusion from Direct Cost Pool

- | | |
|----------------|------------|
| 1. Direct IELP | US\$32,240 |
|----------------|------------|

BFC agrees with the audit firm's conclusion to exclude this item from the direct cost pool for the purpose of calculating the indirect cost rate.

BINATIONAL FULBRIGHT COMMISSION

**USAID/EGYPT
COOPERATIVE AGREEMENT
NO. 263-0125-A-00-0096-00 (IELP)**

Independent Accountants Response

Management of Binational Fulbright Commission provided comments to our draft report on the audit of the fund accountability statement of projects and revenues received, costs incurred, and schedules of computations of indirect cost rates of the Binational Fulbright Commission ("BFC"), sent on March 12, 2000. 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 BFC MANAGEMENT COMMENTS TO QUESTIONED COSTS AND
ADJUSTMENTS TO THE COST POOL AS DETAILED IN
SUPPLEMENT SCHEDULE NO. 2**

Management agreed with all the findings except for the adjustment of \$ 3,209. Management agreed to refund the amount to the USAID, however they added that such an amount was never charged to the Direct Cost Pool, therefore, it should not be deducted from the pool. Reference to our further review, we concluded that the amount should be removed from the adjustments, and should not be deducted from the Direct Cost Pool.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

19 SEP 2000

CAIRO, EGYPT

MEMORANDUM

TO: RIG/Cairo, Darryl T. Burris

FROM: Division Chief, FM/FA, Mark Hunter *M*

SUBJECT: Financial Audit of the Binational Fulbright Commission (BFC), Costs Incurred Under USAID/Egypt's Cooperative Agreement No. 263-0125-A-00-0096-00, Final Draft Audit Report dated August 10, 2000

Following is the Mission response to Recommendation Nos. 1 through 5 under the subject audit report:

Recommendation No. 1:

We recommend that USAID/Egypt make a management decision on the questioned costs of \$3,209 (ineligible) detailed on page 13 of the PriceWaterhouseCoopers audit report, and recover from the Binational Fulbright Commission the amount determined to be unallowable.

Mission Response:

Attached is a copy of the Procurement Officer's response dated September 17, 2000 (attachment 1). In 1993, the threshold for retention of interest was increased to \$250 per year. Accordingly, an additional \$150 should be allowed to BFC, bringing the questioned amount from 3,209 is now reduced to \$3,059 which is determined to be unallowable. The unallowable amount will be offset from the amount due to BFC as a result of the final negotiated indirect cost rates for the audited period.

Therefore, it is considered that Mission has reached a management decision, and requests resolution of this recommendation.

Recommendation No. 2:

We recommend that USAID/Egypt finalize the Binational Fulbright Commission's indirect cost rate for the period October 1, 1994 through September 30, 1995, taking into consideration the questioned indirect costs of \$1,617 (all ineligible) identified on page 16 of the PriceWaterhouseCoopers audit report, and recover any amounts determined to be owed USAID/Egypt.

USAID/Egypt
Zahraa El Maadi, Maadi
Cairo, Egypt

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Recommendation No. 3:

We recommend that USAID/Egypt finalize the Binational Fulbright Commission's indirect cost rate for the period October 1, 1995 through September 30, 1996, taking into consideration the questioned indirect costs of \$59 (all ineligible) identified on page 17 of the PriceWaterhouseCoopers audit report, and recover any amounts determined to be owed USAID/Egypt.

Recommendation No. 4:

We recommend that USAID/Egypt finalize the Binational Fulbright Commission's indirect cost rate for the period October 1, 1996 through September 30, 1997.

Mission Response:

Recommendations 2 through 4 recommend that USAID/Egypt finalize the BFC indirect cost rates for the fiscal years 1995, 1996 and 1997. The audited indirect cost rate for BFC fiscal year ending 1995 is 9.45%, for fiscal year ending September 30, 1996 is 12.55%, and for the fiscal year ending September 30, 1997 is 46.81%. The Procurement Officer has stated that these rates constitute finalized negotiated indirect cost rates for the period covered. BFC will be notified of these finalized rates.

Accordingly, it is considered that the Mission has reached a management decision, and requests resolution of Recommendations 2 through 4.

Recommendation No. 5:

We recommend that USAID/Egypt, in finalizing the indirect cost rates for the period October 1, 1994 through September 30, 1997, ensure that the Binational Fulbright Commission does not apply the individual finalized rates to a larger cost base than used in the calculation of that rate.

Mission Response:

The audit report provides audited entity wide indirect cost rates for BFC's fiscal years ending September 30, 1995, 1996 and 1997. The base of application is direct costs less sub-contracts. BFC will be apprised of this base.

Therefore, it is considered that the Mission has reached a management decision, and requests resolution of Recommendation No. 5.

Mission requests issuance of the final report with a management decision on the five recommendations.

Thank you for your cooperation.

Att: a/s

cc: OD/PROC, G. Kinney
PROC, C. Judge
Controller, M. Tanamly
OD/HDD, S. Brent
HDD/ET, S. Patton
OD/LEG, P. Weisenfeld
OD/SCS, D. McCloud
FM/FA, M. G. Matta
FM/FO, S. Zohdi
FM Reading File



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

September 17, 2000

MEMORANDUM

TO: FM/FA, Mark Hunter

FROM: PROC, Gary Kinney *GK*

SUBJECT: 1) PriceWaterhouseCoopers (PWC) Financial Audit of the Binational Fulbright Commission (BFC) USAID/Egypt Cooperative Agreement No. 263-0125-A-00-0096-00 for the period October 1, 1994 through November 30, 1996.

2) RIG/A Draft Report Dated August 20, 2000

Pursuant to the RIG/A draft report dated August 20, 2000 and the 30 day deadline, we offer the following conclusions based on information contained in the draft audit report.

Recommendation No. 1 of the subject 2) report recommends that USAID/Egypt make a management decision on the questioned costs of \$3,209 (actual interest of \$3,309 less \$100) detailed on page 13 of the PriceWaterhouseCoopers audit report, and recover from the Binational Fulbright Commission the amount determined to be unallowable.

Background:

Page 13 of the PWC audit report states that Mandatory Standard Provision No. 3 governing the IELP Agreement requires interest earned in excess of \$100 on funds provided by USAID/Egypt, are to be returned to USAID/Egypt quarterly. BFC did not return interest earned. This interest was used to credit BFC's endowment account to offset penalty charges incurred for the early termination of a time deposit. The funds from this time deposit were used as an advance to the IELP program to cover shortfalls in the USAID funding during the 1994/1995 fiscal year. Nevertheless, the amount is considered ineligible.

In 1993, the threshold for retention of interest earned was increased to \$250 per year. Thus, \$3,059 is unallowable (\$3,309 less \$250) and will be offset from the amount due BFC as a result of the final negotiated indirect cost rates for the audit period stated above.

Recommendation:

Since no funds are owed to USAID by the Binational Fulbright Commission, I hereby recommend that Recommendation No. 1 of the subject audit report be resolved.

Recommendation Nos. 2 through 4 of the subject 2) report recommend that USAID/Egypt finalize the Binational Fulbright Commission's indirect cost rates for the fiscal years ending 30 September 1995, 1996, and 1997.

Background:

Pages 8, 9 and 10 of the PWC audit report provides audited entity wide indirect cost rates for BFC fiscal years ending 30 September 1995, 1996, and 1997. The audited indirect cost rate for fiscal year ending 30 September 1995 is 9.45%. The audited indirect cost rate for fiscal year ending 30 September 1996 is 12.55%. The audited indirect cost rate for fiscal year ending 30 September 1997 is 46.81%.

Recommendation:

The above audited indirect cost rates constitute finalized negotiated indirect cost rates for the periods covered. BFC will be notified of these finalized rates. I hereby recommend that Recommendation Nos. 2-4 of the subject audit report be resolved.

Recommendation No. 5 of the subject 2) report recommends that USAID/Egypt, in finalizing the indirect cost rates for the period October 1, 1994 through September 30, 1997, ensure that the BFC does not apply the individual finalized rates to a larger cost base than used in the calculation of that rate.

Background:

Pages 8, 9, and 10 of the PWC audit report provide audited entity wide indirect cost rates for the BFC fiscal years ending 30 September 1995, 1996, and 1997. The base of application for these audited final indirect cost rates is direct costs less subcontracts.

Recommendation:

The base of application of the final audited entity wide indirect cost rates is direct costs less subcontracts. BFC will be apprised of this base. I hereby recommend that Recommendation No. 5 of the subject audit report be resolved.