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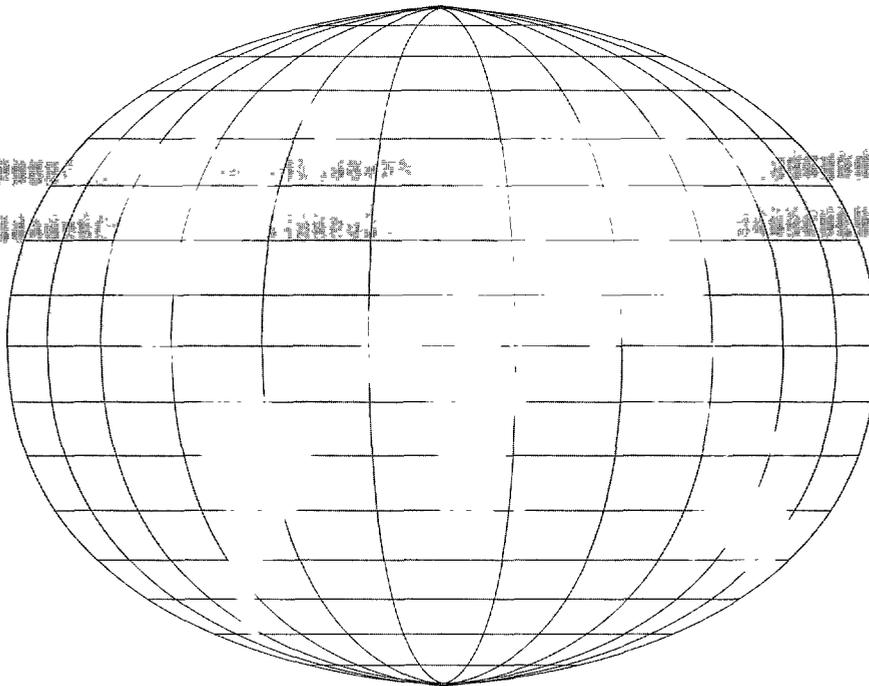
# Report of Audit

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**Financial Audit of KPMG Hazem Hassan & Co.'s  
Indefinite Quantity Contracts  
Nos. 263-0000-I-00-3063-00 and 263-0000-I-00-3122-00**

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**Report No. 6-263-98-027-N  
July 15, 1998**



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**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.**

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

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



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

CAIRO, EGYPT

**Report No. 6-263-98-027-N**  
July 15, 1998

**MEMORANDUM**

**TO :** DIRECTOR USAID/Egypt, Richard M.. Brown

**FROM:** RIG/A/Cairo, Lou Mundy *Bruce M. Boye*  
for

**SUBJECT:** Financial Audit of KPMG Hazem Hassan & Co.'s Indefinite Quantity Contracts Nos. 263-0000-I-00-3063-00 and 263-0000-I-00-3122-00

The attached report, transmitted on July 22, 1997 by Talal Abu-Ghazaleh & Co., presents the results of a financial audit of two Indefinite Quantity Contracts (IQCs) between KPMG Hazem Hassan & Co. and USAID/Egypt (IQC Nos. 263-0000-I-00-3063-00 and 263-0000-I-00-3122-00). These IQCs were established to provide 1) short term fast response audit technical services in the area of financial auditing, and 2) financial management reviews, financial management services of contracts, grants, cooperative agreements, host country agreements, and other operations or activities related to USAID/Egypt programs.

We engaged Talal Abu-Ghazaleh & Co. to perform a financial audit of KPMG's billings in accordance with the above-mentioned IQCs for the period March 1, 1993 through September 30, 1996. The purpose of the audit was to evaluate the propriety of costs reported as incurred under the IQCs during this period. We also engaged Talal Abu-Ghazaleh & Co. to audit KPMG's fixed multiplier for the year ended December 31, 1996. In addition, the auditors evaluated KPMG's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statements.

The audit report questions \$179,083 (equivalent to LE608,883) in costs billed to USAID/Egypt by KPMG. The questioned costs represent the cumulative effect of differences between professional salaries reported to USAID/Egypt in Biographical Data Sheets and actual salaries paid to employees for the years in question. The auditors reported the same issue as an instance of material noncompliance with contract terms. The auditors did not identify any reportable conditions with regard to KPMG's internal control structure

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as it relates to the Fund Accountability Statements or any reportable conditions with regard to the fixed multiplier.

In response to the draft report, KPMG provided additional explanations with regard to the draft report findings. Talal Abu-Ghazaleh & Co. reviewed KPMG's response to the findings and, where applicable, provided further clarification of their position (see Appendices 1 and 2).

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

**Recommendation No. 1:** We recommend that USAID/Egypt make a management decision on the questioned costs of \$179,083 (ineligible) detailed on pages 8 through 12 of the Talal Abu-Ghazaleh & Co. audit report, and recover from KPMG Hazem Hassan & Co. the amounts determined to be unallowable.

**Recommendation No. 2:** We recommend that USAID/Egypt obtain evidence that KPMG Hazem Hassan & Co. has addressed the material noncompliance issue (not billing USAID/Egypt based on actual salaries paid to employees) detailed on pages 15 and 16 of the Talal Abu-Ghazaleh & Co. report.

In response to Recommendation No. 1, USAID/Egypt determined that the entire questioned amount of \$179,083 was allowable. As no further action is required, we consider Recommendation No. 1 to be closed upon report issuance. In response to Recommendation No. 2, USAID/Egypt indicated that KPMG Hazem Hassan agreed to disclose additional salary information on all biographical data sheets in the future. Further, USAID/Egypt indicated that the IQC contract with KPMG Hazem Hassan may need to be adjusted. Based on the Mission's response, we consider Recommendation No. 2 closed upon report issuance.

Thank you for the cooperation and assistance extended to the auditors on this engagement and your continued support of the financial audit program in Egypt.

Attachment: a/s

**Audit of KPMG Hazem Hassan & Co.**  
**Indefinite Quantity Contracts**  
**#263-0000-I-00-3063-00 & 263-0000-I-00-3122-00**

**Talal Abu-Ghazaleh & Co.**

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

July 22, 1997

Dear Mr. Mundy,

This report represents the results of our financial audit of KPMG Hazem Hassan & Co. Indefinite Quantity Contracts (IQC) Nos. 263-0000-I-3063-00 & 263-0000-I-3122-00, for the period March 1, 1993 through September 30, 1996. The fixed multiplier was audited for the year ended December 31, 1996 (Last fiscal year).

#### **I) Background**

KPMG Hazem Hassan & Co. signed IQC No. 263-0000-I-00-3063-00 with United States Agency for International Development/Egypt (USAID/Egypt) on April 3, 1993 and IQC No. 263-0000-I-3122-00 on October 13, 1993 Under IQC No. 263-0000-I-00-3063-00, KPMG Hazem Hassan & Co. was to provide short term quick response technical services in the area of financial auditing, and under IQC No. 263-0000-I-00-3122-00 KPMG Hazem Hassan & Co was to provide financial management reviews for USAID/Office of the Regional Inspector General for Audits/Cairo (RIG/A/C) and the office of the Regional Inspector General for Audits/Nairobi (RIG/A/N). Services provided by KPMG Hazem Hassan & Co. included auditing and financial management services of contracts, grants, cooperative agreements, host country agreements and other operations or activities related to USAID/Egypt Programs Contract # 263-0000-I-00-3063-00 was amended three times the last of which was on March 1, 1995, and contract # 263-0000-I-00-3122-00 was amended four times the last of which was on October 31, 1996

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

The objectives of this engagement was to conduct a financial audit of KPMG, Hazem Hassan & Co. billings in accordance with the above mentioned contracts for the period March 1, 1993 through September 30, 1996 and carry out an audit of the fixed multiplier for the year ended December 31, 1996 The audit included an examination of KPMG Hazem Hassan & Co. billing invoices, expenses, compliance with contract terms and conditions, and applicable USAID/Egypt rules and regulations, review of internal controls and the calculation of the fixed multiplier. The specific objectives of our audit were to.

- 1) Express an opinion on whether the fund accountability statements present fairly, in all material respects, delivery/task order revenues received and costs incurred for the periods under audit in conformity with generally accepted accounting principles
- 2) Determine if the costs reported as incurred under the contracts are in fact allowable, allocable and reasonable in accordance with the terms of the contracts
- 3) Evaluate and obtain sufficient understanding of the internal control structure, assess control risk and identify reportable conditions, including material internal control weaknesses
- 4) Perform tests to determine whether KPMG Hazem Hassan & Co complied, in all material respects, with Indefinite Quantity Contracts' terms, extensions, amendments, and applicable laws and regulations
- 5) Perform an audit of the fixed multiplier to determine if the approved rate is appropriate or should be modified at the next contract renewal or new contract award.

The scope of our work included:

- 1) Auditing all invoices billed by KPMG Hazem Hassan & Co. to and reimbursed by USAID/Egypt for technical audit services rendered under above-mentioned IQCs for the period March 1, 1993 through September 30, 1996. Our approach was focused on substantive audit testing of invoice details traced to job summary records, employee time sheets and payroll, and personnel records. Actual hours billed were traced to supporting audit work papers to assess the reasonableness of the hours spent.
- 2) Auditing costs incurred by KPMG Hazem Hassan & Co. for the period January 1, 1996 through December 31, 1996 in order to verify the reasonableness of the calculated fixed multiplier. Our audit approach was focused on substantive audit testing of the various cost items to supporting documents, and payroll records when applicable, and testing whether costs incurred and incorporated in the fixed multiplier calculation are supported, reasonable, allowable, allocable, and eligible. We recalculated the fixed multiplier to ensure reasonableness.
- 3) Reviewing delivery orders issued by USAID/Egypt for services to ensure that invoices billed by KPMG Hazem Hassan & Co. agree with delivery orders' terms.
- 4) Evaluating the control environment, accounting system, and control procedures.

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

We used judgmental sampling techniques to test whether or not the records referred to above properly support invoices billed by KPMG Hazem Hassan & Co.

Preliminary planning began with our pre-audit survey on March 18, 1997. Our preliminary planning consisted of:

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

We started our field audit with an entrance conference on June 22, 1997 attended by members of the audit team, USAID/Egypt personnel and management and members of KPMG Hazem Hassan & Co.

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

- Reviewing direct and indirect costs billed to and reimbursed by USAID, identifying and quantifying questionable costs.
- Reviewing direct salary charges to determine whether salary rates are reasonable for the position billed, in accordance with rates approved by USAID, and supported by appropriate payroll records.

- Reviewing other direct costs to determine whether they are supported by adequate documentation.
- Reviewing printouts of the accounting ledgers to determine proper recording of revenues and expenditures.
- Determining whether contract revenues received are presented fairly, in all material respects, in the fund accountability statements.
- Reviewing the fixed multiplier cost pool and ensuring it includes only costs authorized by the USAID contracts and applicable cost principles.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of GAS, because no such quality control review program is offered by professional organizations in Jordan. We believe that the effect of this departure from the financial audit requirements of GAS is not material because the firm is a participant in the Talal Abu-Ghazaleh International (TAGI) worldwide internal quality control program. This program requires our office to be subjected, every year, to an extensive quality control review by partners and managers from the Regional Office or other TAGI offices.

### **III) Results of Audit**

#### **Fund Accountability Statements**

- A) The audit of IQC No. 263-0000-I-00-3063-00 identified US\$ 154,480 (L.E. 525,234) in ineligible questioned costs. These costs represent the cumulative effect of differences between professional salaries reported to USAID Contracting Officer in Biographical Data Sheets (Forms AID 1420 - 17) (box 16) for various delivery orders, and actual salaries paid to employees for the years in question. These differences cause the direct daily rate charged to USAID to be in excess of the actual daily rates paid to those employees. Details of the costs in question are included in the notes to the fund accountability statements of this report.
- B) The audit of IQC No. 263-0000-I-00-3122-00 identified 24,603 US\$(L.E. 83,649) in ineligible questioned costs. These costs represent the cumulative effect of differences between professional salaries reported to USAID Contracting Officer in Biographical Data Sheets (Forms AID 1420 - 17) (box 16) for various delivery orders, and actual salaries paid to employees for the years in question. These differences cause the direct rate charged to USAID to be in excess of the actual direct rate paid to those employees. Details of the costs in question are included in the notes to the fund accountability statements of this report.

#### **Fixed Multiplier**

There are no reportable conditions or material misstatement findings in auditing the fixed multiplier as mentioned in the report on the audit of the fixed multiplier.

#### **Compliance with applicable laws and regulations**

We have identified an instance of noncompliance with applicable laws and regulations under both IQC No. 263-0000-I-00-3063-00 and No 263-0000-I-00-3122-00. The instance of noncompliance represent differences between professional salaries reported to USAID Contracting Officer in Biographical Data Sheets (Forms AID 1420 - 17) (box 16) for various delivery orders, and actual salaries paid to employees for the years in question. These

Audit of KPMG Hazem Hassan & Co. under  
IQC No. 263-0000-I-00-3063-00 & 263-0000-I-00-3122-00  
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Talal Abu-Ghazaleh & Co.  
August 31, 1997

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differences cause the direct rate charged to USAID to be in excess of the actual direct rate paid to those employees.

**Internal Control**

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

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

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

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

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

We have audited the accompanying fund accountability statements of funds received and costs incurred by KPMG Hazem Hassan & Co related to expenditures under contracts Nos. 263-0000-1-00-3063-00 & 263-0000-1-00-3122-00 for the period March 1, 1993 through September 30, 1996 and audit of the fixed multiplier, for the year ended December 31, 1996. The fund accountability statements are the responsibility of KPMG Hazem Hassan & Co management. Our responsibility is to express an opinion on these fund accountability statements based upon our audit.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Jordan. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we are a participant in the Talal Abu-Ghazaleh International (TAGI) internal quality control program. This program requires our office to be subjected, every year, to an extensive quality control review by partners and managers from the Regional Office or other TAGI offices.

As detailed in the fund accountability statements and more fully described in note 5 thereto, the results of our tests disclosed US\$ 179,083 (L.E. 608,883) of questionable contract costs. These amounts are comprised of ineligible costs of US\$ 154,480 (L.E. 525,234) for IQC No. 263-0000-1-00-3063-00 and US\$24,603 (L.E. 83,649) for IQC No. 263-0000-1-00-3122-00. Ineligible costs are those that are not program related or are prohibited by the contract or applicable laws and regulations.

In our opinion, except for the effects of the questioned costs referred to in the preceding paragraph, the fund accountability statements referred to above present fairly, in all material respects, the amounts received and the costs incurred pursuant to contracts Nos. 263-0000-1-00-3063-00 & 263-0000-1-00-3122-00 and their amendments for the period March 1, 1993 through September 30, 1996 in conformity with the generally accepted accounting principles.

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

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

Audit of KPMG Hazem Hassan

Fund Accountability Statement on IQC No. 263-0000-I-003063-00  
For the period March 1, 1993 through September 30, 1996

	<u>Budget</u> <u>US\$</u>	<u>Actual</u> <u>US\$</u>	<u>Questioned Costs</u>		<u>Notes</u>
			<u>Ineligible</u> <u>US\$</u>	<u>Unsupported</u> <u>US\$</u>	
USAID / Egypt Funds Received	<u>396,767</u>	<u>394,491</u>			
<b><u>Expenditures</u></b>					
Fees	353,951	353,928	154,480		Note 5
Pre - Audit Surveys	28,235	28,235			
Other Expenses	14,581	12,328			
<b><u>Total</u></b> <b><u>Expenditures</u></b>	<b><u>396,767</u></b>	<b><u>394,491</u></b>	<b><u>154,480</u></b>		

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

**Audit KPMG Hazem Hassan**

**Fund Accountability Statement on IOC No. 263-0000-I-00-3122-00**  
**For the period March 1, 1993 through September 30, 1996**

	<u>Budget</u> <u>US\$</u>	<u>Actual</u> <u>US\$</u>	<u>Questioned Costs</u>		<u>Notes</u>
			<u>Ineligible</u> <u>US\$</u>	<u>Unsupported</u> <u>US\$</u>	
USAID / Egypt Funds Received	<u>70,396</u>	<u>69,862</u>			
<u>Expenditures</u>					
Fees	66,386	66,386	24,603		Note 5
Other Expenses	4,010	3,476			
<u>Total</u> <u>Expenditures</u>	<u>70,396</u>	<u>69,862</u>	<u>24,603</u>		

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

**Audit of KPMG Hazem Hassan**  
**Fund Accountability Statements**  
**On IQCs Nos. 263-0000-1-00-3063-00 & 263-0000-1-00-3122-00**  
**For the period March 1, 1993 through September 30, 1996**

**Notes to Fund Accountability Statements**

**Note 1:**            **Accounting Basis**

The fund accountability statements were prepared on the accrual basis.

**Note 2:**            **Source of Data**

The column labeled "actual" is the responsibility KPMG Hazem Hassan and presents cumulative invoices billed to USAID/Egypt from March 1, 1993 through September 30, 1996.

**Note 3:**            **Budget**

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

**Note 4:**            **Exchange Rate**

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

**Note 5:**            **Questioned Costs**

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

**A)**                    **Rate billed to USAID**

We noted that the rates billed to USAID of some professional staff do not agree with rates calculated from payroll records these differences are caused by discrepancies between professional salaries reported to USAID Contracting Officer in Biographical Data Sheets (Forms AID 1420 - 17) (box 16) for various delivery orders, and actual salaries paid to employees for the years in question. Federal Acquisition Regulation subsection 15.406-2 requires the contractor to certify that cost of pricing data submitted to the contracting officer be accurate, complete, and current as of the date of signing of the IQC.

Staff rates per payroll records were calculated as follows:

1. Total annual compensation paid to the staff, includes salaries and wages, representation allowance and other allowances.
2. Divided totals in 1 by 260 days.
3. Multiplied the resultant rate by the Fixed Multiplier.

These differences cause the direct daily rate charged to USAID to be in excess of the actual daily rates paid to those employees.

- Ineligible costs for IQC # 263-0000-I-00-3063-00: US\$ 154,480 (L.E.525,234).
- Ineligible costs for IQC # 263-0000-I-00-3122-00: US\$ 24,603(L.E.83,649).

These costs represent the cumulative effect of differences between professional salaries reported to USAID Contracting Officer in Biographical Data Sheets (Forms AID 1420 - 17) (box 16) for various delivery orders, and actual salaries paid to employees for the years in question. These differences cause the direct daily rate charged to USAID to be in excess of the actual daily rates paid to those employees. Details of the costs in question are included in the notes to the fund accountability statements of this report.

The following table lays out the ineligible questioned costs for IQC # 263-0000-I-00-3063-00:

Delivery Order #/ Personnel Level	Rate Billed to USAID Per Invoice (Man Day) US\$	Staff Rate as Calculated From Payroll Records (Man Day) US\$	Number of Days Billed	Value of the Difference  US\$
D.O. No 1				
Partner	456.18	273.50	2.00	365.30
Project Manager	304.40	274.40	10.00	300.00
Ref. Manager	227.90	107.90	4.00	480.00
Audit Manager	227.90	177.10	49.00	2,493.20
Senior Auditor	152.00	38.47	40.00	4,541.10
Heavy Staff	95.00	16.76	35.00	2,738.20
Heavy Staff	95.00	21.17	35.00	2,583.80
Light Staff	91.20	17.40	35.00	2,583.80
Light Staff	91.20	28.27	35.00	2,202.90
D.O. No. 2				
Partner	456.20	273.50	2.00	365.30
Project Manager	304.10	274.40	6.50	193.10
Ref. Manager	227.90	126.20	3.00	305.30
Audit Manager	227.90	177.05	46.50	2,366.00
Senior Auditor	152.06	85.88	39.00	2,580.90
Heavy staff	95.00	46.17	37.00	1,806.50
Light Staff	68.20	11.47	37.00	2,100.30
D.O. No.3				
Partner	501.70	311.50	3.00	570.70
Eng. Partner	334.48	273.82	11.00	667.18
Ref. Manager	228.05	155.00	4.00	292.21
Senior Auditor	152.04	60.88	40.00	3,646.35
Senior Auditor	152.04	60.88	32.00	2,917.08
Heavy Staff	95.00	11.76	30.00	2,497.06
Heavy Staff	95.00	20.29	30.00	2,241.18
Heavy Staff	95.00	14.70	23.00	1,846.76
Light Staff	91.22	19.80	30.00	2,142.70
Light Staff	91.22	20.30	23.00	1,631.40
Light Staff	91.22	6.76	23.00	1,942.50
D.O. No. 4				
Partner	501.76	311.76	1.00	190.00
Eng. Partner	334.40	274.12	5.00	301.50
Senior Auditor	167.35	50.59	35.00	4,086.80
Heavy Staff	89.40	14.70	22.00	1,643.53
Light Staff	68.53	13.26	23.00	1,271.80

D.O. No. 5				
Lead Partner	501.76	311.76	1 50	285.00
Eng. Partner	334.40	274.12	9.00	542.65
Senior Auditor	167.35	21.18	61.00	8,916.76
Heavy Staff	104.40	14.70	96.00	8,611.80
Heavy Staff	95.00	12.35	38.00	3,140.60
Light Staff	75.30	13.26	32.00	1,985.90
Light Staff	62.65	10.59	28.00	1,457.65
D.O. No. 6				
Partner	551.76	311.76	1.00	240.00
Eng. Partner	367.90	274.12	6 50	609.85
Audit Manager	292.65	258.80	16 00	541.18
Senior Auditor	183.82	21.18	22.00	3,578.24
Heavy Staff	104.40	14.70	30.00	2,691.20
Light Staff	75.29	24.70	30.00	1,517.65
D.O. No. 7				
Lead Partner	551.76	311.76	1.00	240.00
Eng. Partner	367.94	274.12	22.00	2,064.12
Eng. Manager	292.65	258.82	43.00	1,454.40
Field Manager	292.65	93.23	22.00	4,387.00
Senior Auditor	183.80	58.53	25.00	3,132.40
Senior Auditor	183.80	47.90	25.00	3,397.00
D.O. No. 8				
Lead Partner	551.76	319.40	1.00	232.40
Eng. Partner	367.94	266.76	4.00	404.70
Ref. Manager	292.65	138.26	1.00	154.40
Senior Auditor	183.80	69.70	24.00	2,738.80
Heavy Staff	117.06	45.30	54.00	3,875.30
D.O. No. 9				
Lead Partner	551.76	421.76	1.00	130.00
Eng. Partner	367.94	364.70	7.00	22.65
Ref. Manager	292.65	138.26	2.00	308.80
Senior Auditor	152.06	104.70	26.00	1,231.20
Light Staff	68.53	38.53	36.00	1,080.00
Light Staff	124.12	19.12	5.00	525.00
Light Staff	124.12	72.35	15.00	776.50
D.O. No. 10				
Lead Partner	551.76	319.40	1.00	232.40
Eng. Partner	367.94	266.76	4.00	404.70
Ref. Manager	292.65	138.26	1.00	154.40
Senior Auditor	152.06	109.12	10.00	429.40
Heavy Staff	68.53	19.40	9.50	466.62
Light Staff	136.76	19.40	9.50	1,114.85
D.O. No. 11				
Lead Partner	551.76	319.41	1.00	232.35
Eng. Partner	367.94	266.76	5.00	505.88
Ref. Manager	292.64	138.23	2.00	308.82
Senior Auditor	183.82	69.70	18.00	2,054.11
Heavy Staff	124.11	34.70	22.50	2,011.76
Light Staff	68.52	10.00	22.50	1,316.91
D.O. No. 12				
Lead Partner	551.76	319.41	1.00	232.35
Eng. Partner	367.94	266.76	5.00	505.88
Audit Manager	292.64	138.23	1.00	154.40
Senior Auditor	183.82	109.11	20.00	1,494.11
Heavy Staff	124.11	71.76	20.00	1,047.00
Heavy Staff	68.52	19.41	20.00	982.35

<b>D.O. No. 13</b>				
Partner	551.76	421.76	1.00	130.00
Lead Partner	404.70	364.88	5.00	199.11
Eng. Manager	1,380.58	931.13	13.00	5,842.94
Senior Auditor	1,167.05	135.04	23.00	736.47
Heavy Staff	68.52	38.57	27.00	808.82
<b>D.O. No. 14</b>				
Lead Partner	551.76	421.76	.50	65.00
Eng. Partner	404.70	365.00	1.00	39.70
Audit Manager	1,380.58	931.17	6.00	2,696.47
Senior Auditor	167.05	104.70	10.00	623.52
<b>D.O. No. 15</b>				
Partner	551.76	422.05	1.00	129.41
Eng. Partner	502.05	364.85	4.00	548.82
Audit Manager	1,380.58	931.13	19.50	8,764.40
Senior Auditor	167.05	104.72	35.00	2,181.76
Heavy Staff	68.23	14.00	35.00	1,898.23
<b>Total</b>				<b>154,480.54</b>

Staff rates per payroll records were calculated as follows:

1. Total annual compensation paid to the staff, includes salaries and wages, representation allowance and other allowances.
2. Divide totals in 1 by 260 days.
3. Multiply the resultant rate by the Fixed Multiplier

The following table lays out the ineligible questioned costs for IQC # 263-0000-1-00-3122-00:

<b>Delivery Order #/ Personnel Level</b>	<b>Rate Billed to USAID Per Invoice (Man Day) US\$</b>	<b>Staff Rate as Calculated From Payroll Records (Man Day) US\$</b>	<b>Number of Days Billed</b>	<b>Value of the Difference  US\$</b>
<b>D.O. No. 1</b>				
Partner	334.41	274.12	2.00	120.59
Audit Manager	266.18	258.82	6.00	44.12
Senior Auditor	166.76	50.59	24.00	2,788.24
Heavy Staff	91.18	24.71	16.00	1,063.52
<b>D.O. No. 2</b>				
Lead Partner	501.76	311.76	2.00	380.00
Eng. Partner	334.41	274.12	21.00	1,266.18
Audit Manager	266.18	258.82	25.00	183.82
Senior Auditor	167.35	64.41	38.00	3,911.76
Heavy Staff	159.71	84.41	24.00	1,807.06
Light Staff	167.35	58.53	50.00	5,441.18
<b>D.O. No. 3</b>				
Partner	367.94	266.76	1.00	101.18
Senior Auditor	183.82	109.12	1.00	101.18
<b>D.O. No. 4</b>				
Partner	404.12	365.00	1.00	39.12
Project Manager	1,380.60	931.14	7.50	3,370.88
Senior Auditor	210.60	135.01	22.00	1,662.35
Senior Auditor	167.06	135.04	22.00	704.76
<b>Total</b>				<b>24,603.00</b>

Staff rates per payroll records were calculated as follows.

1. Total annual compensation paid to the staff, includes salaries and wages, representation allowance and other allowances.
2. Divided totals in 1 by 260 days.
3. Multiply the resultant rate by the Fixed Multiplier

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

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

We have audited the accompanying fund accountability statements of funds received and costs incurred by KPMG Hazem Hassan under contracts Nos. 263-0000-I-00-3063-00 & 263-0000-I-00-3122-00 for the period from March 1, 1993 through September 30, 1996, and audit of the fixed multiplier, for the year ended December 31, 1996, and have issued our reports thereon dated July 22, 1997.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Jordan. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because the firm is a participant in the Talal Abu-Ghazaleh International (TAGI) worldwide internal quality control program. This program requires our office to be subjected, every year, to an extensive quality control review by partners and managers from other TAGI offices.

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

In planning and performing our audit of the fund accountability statements of KPMG Hazem Hassan for IQCs Nos. 263-0000-I-00-3063-00 & 263-0000-I-00-3122-00 for the period from March 1, 1993 through September 30, 1996, we obtained an understanding of the internal structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We

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Audit of KPMG Hazem Hassan & Co under  
IQC No. 263-0000-I-00-3063-00 & 263-0000-I-00-3122-00  
Page # 14  
Talal Abu-Ghazaleh & Co.  
August 31, 1997

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noted no matters involving the internal control structure and its operation that we consider material weaknesses as defined above.

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

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

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

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

We have audited the accompanying fund accountability statements of funds received and costs incurred by KPMG Hazem Hassan under contracts Nos. 263-0000-1-00-3063-00 & 263-0000-1-00-3122-00 for the period March 1, 1993 through September 30, 1996, and audit of the fixed multiplier, for the period from September 1, 1995 through August 31, 1996, and have issued our reports thereon dated July 22, 1997.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and 54 by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Jordan. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because the firm is a participant in the Talal Abu-Ghazaleh International (TAGI) worldwide internal quality control program. This program requires our office to be subjected, every year, to an extensive quality control review by partners and managers from other TAGI offices.

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

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

- As described in Note 5 to the fund accountability statements, we noted that the direct portion of the rate billed to USAID of some professional staff does not agree with direct rates as calculated from payroll records due to the differences between professional salaries reported to USAID Contracting Officer in Biographical Data Sheets (Forms AID 1420 - 17) (box 16) for various delivery orders, and actual salaries paid to employees for the years in question. These differences cause the direct daily rate charged to USAID to be in excess of the actual daily rates paid to those employees.
- We have also noted one immaterial instance of noncompliance that we have reported to the management of KPMG Hazem Hassan in a separate letter dated July 16, 1997.

**Recommendation**

We recommend that the Partner/Manager - in- Charge ensures that rates reported to USAID Contracting Officer in the Biographical Data Sheets and billed to USAID are based on actual staff daily rates, in compliance with the contract terms.

Audit of KPMG Hazem Hassan & Co. under  
IQC No. 263-0000-I-00-3063-00 & 263-0000-I-00-3122-00  
Page # 16  
Talal Abu-Ghazaleh & Co.  
August 31, 1997

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

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

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

**Report on the Fixed Multiplier**  
**Independent Auditor's Report**

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

We have audited the accompanying fund accountability statements of funds received and costs incurred by KPMG Hazem Hassan under contracts Nos.263-0000-1-00-3063-00 & 263-0000-1-00-3122-00 for the period March 1, 1993 through September 30, 1996, and audit of the Fixed Multiplier, for the period from January 1, 1996 through December 31, 1996 and have issued our reports thereon dated July 22, 1997.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Jordan. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because the firm is a participant in the Talal Abu-Ghazaleh International (TAGI) worldwide internal quality control program. This program requires our office to be subjected, every year, to an extensive quality control review by partners and managers from other TAGI offices.

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

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

Based on our tests on the fixed multiplier calculation, we believe that the fixed multiplier rate does not need to be modified at the next contract renewal or new contract award.

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

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

**KPMG Hazem Hassan & Co.**  
**Computation of the Fixed Multiplier**  
**For the Year Ended December 31, 1996**  
 (All figures are denominated in L.E. and are  
 rounded to the nearest L.E.)

Items	III Audit L.E	MC. MGT Consulting L.E	HR Human Resources L.E	Total Before Adjustment L.E	Adjustments L.E	Total L.E
<b>Direct Salaries Including Bonuses</b>	3,481,463	1,908,449	190,696	5,580,607		5,580,607
<b>Indirect Salaries Including Professional Staff Annual and Sick Leaves</b>	2,956,248	1,613,267	159,451	4,728,966		4,728,966
<b>Fringe Benefits</b>						
Social Insurance	1,223,691	154,763	12,434	1,390,888		1,390,888
Medical Insurance	337,088	44,729	70	381,887		381,887
Uniform And Food Allowance	37,405			37,405		37,405
<b>Total Fringe Benefits</b>	1,598,184	199,492	12,504	1,810,180		1,810,180
<b>Expenses</b>						
Professional Fees	117,700	2,203	1,000	120,903	(33,700)	87,203
Sub-Contractor		1,888,692	5,933	1,894,625	(1,440,135)	454,490
Rent	768,505	439,307		1,207,812		1,207,812
Water & Electricity	136,696			136,696		136,696
Transportation	685,583	40,960	45	726,588		726,588
Overseas Travel	198,526	486,223	12,348	697,097	(10,000)	687,097
Training	126,481	93,897	582	220,960		220,960
Stationary & Printing	482,767	132,142	4,183	619,092	(30,000)	589,092
Periodicals, Publications, And Advert. & Promotion	50,168	220,935	10,900	282,003	(15,540)	266,463
Telephone And Telex	186,534	110,136	12,412	309,082		309,082
Postage And Stamps	49,089	22,936	4,876	76,901		76,901
Subscriptions	78,572			78,572		78,572
Cleaning & Refreshments	81,742			81,742	(40,871)	40,871
Entertainment	323,452			323,452	(239,083)	84,370
Maintenance & Repairs	179,152			179,152		179,152
Government Related Fees	2,951	3,588	11,301	17,840	(17,840)	
Vehicles Expenses	21,361	27,899		49,260		49,260
KPMG International Head Quarters Expenses	197,960			197,960		197,960
Asset Insurance	25,114	90,066		115,180		115,180
Cleaning & Security	64,889			64,889		64,889
Bank Charges	30,022	10,241	3,339	43,602		43,602
End Of Service Indemnity	22,258	22,827		45,085		45,085
Donations	10,130	501		10,631	(10,631)	
Computer Expenses		43,334	24,765	68,099	(18,000)	50,099
Office Expenses		87,438	4,320	91,758	(9,176)	82,582
Assignment Expenses		42,944		42,944		42,944
<b>Direct Expenses</b>		116,391		116,391		116,391

Client Recharge Expenses		28,903	35,370	64,273		64,273
Expense/Revenue Adjustment		124,596		124,596		124,596
Depreciation	395,132	206,529	33,544	635,205		635,205
<b>Total</b>	<b>4,234,784</b>	<b>4,242,688</b>	<b>164,918</b>	<b>8,642,390</b>	<b>(1,864,975)</b>	<b>6,777,415</b>
Less: Recoverable Expenses	(964,474)	(153,499)	(35,370)	(1,153,343)		(1,153,343)
<b>Total Expenses</b>	<b>3,270,310</b>	<b>4,089,189</b>	<b>129,548</b>	<b>7,489,047</b>	<b>(1,864,975)</b>	<b>5,624,072</b>
<b>Total Indirect Costs</b>	<b>7,824,742</b>	<b>5,901,948</b>	<b>301,503</b>	<b>14,028,193</b>	<b>(1,864,975)</b>	<b>12,163,218</b>

<b>Percentages</b>						
Total Direct Salaries	100.00%	100.00%	100.00%	100.00%		100.00%
Total Indirect Costs As % Of Direct Salaries	224.75%	309.25%	158.11%	251.37%		217.96%
<b>Total</b>	<b>324.75%</b>	<b>409.25%</b>	<b>258.11%</b>	<b>351.37%</b>		<b>317.96%</b>
Direct Salaries	100.00%	100.00%	100.00%	100.00%		100.00%
Fringe Benefits Factors	45.91%	10.45%	6.56%	32.44%		32.44%
Indirect Costs Factor	178.85%	298.80%	151.55%	218.94%		185.52%
<b>Subtotal</b>	<b>324.75%</b>	<b>409.25%</b>	<b>258.11%</b>	<b>351.37%</b>		<b>317.96%</b>
5% Profit	16.24%	20.46%	12.91%	17.57%		15.90%
Fixed Multiplier	340.99%	429.72%	271.01%	368.94%		333.85%

**Note 1 Fixed Multiplier Calculation**

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

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

Indirect Rate = Indirect Cost/Direct Cost

**Note 2 Fixed Multiplier calculation**

Used to Set Fixed Multiplier	Actual for FY'96
2.200	12,163,218/5,580,607=2.1796

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

In Contract	For FY'96 per Actual A.
3.3600	3.3385

**Appendix 1: KPMG Hazem Hassan Management Response**



74 Mohi Eldin Abul Ezz Street  
Mohandseen, Cairo  
Egypt.

Telephone : (202) 3369094 - 3369098  
Telefax : (202) 3497224 - 3487819  
E-Mail : hrassan2@nte.com.

To Mr. Fadi Kawar, Principal In Charge  
Organization Talal Abu-Khazaleh & Co. (TAGCO)  
Fax 962 6 696 284

Page 1 of 6

From Mostafa Kamel, *Partner*  
Organization KPMG - Cairo  
Tel 202 337 74 42 - 202 331 03 41  
Fax 202 349 72 24 - 202 348 78 19

Date 21 December, 1997

Subject **Auditees' Response to the Audit of KPMG Hazem Hassan**

Dear Mr. Kawar,

Please find attached our response to the draft audit report of KPMG Hazem Hassan & Co. (Indefinite Quantity Contracts # 263-0000-I-00-3063-00 & 263-0000-I-00-3122-00).

The original has been dispatched to day by DHL courier.

Best regards.

*M. Kamel*

If not well received please immediately telephone the sender.

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Member firm of Klynveld Peat Marwick Goerdeler.



**Auditees' Response to**  
**the Audit of KPMG Hazem Hassan & Co.**  
**Indefinite Quantity Contracts (IQCs)**  
**Nos. 263-0000-I-00-3063-00& 263-0000-I-00-3122-00**

We would like to thank the auditors for their effort and cooperation throughout the audit. Following is our response to the audit finding in the draft audit report.

1. The auditor considered year end bonuses paid to partners as an unallowable cost and excluded such bonuses from the partners' financial packages which were used to calculate the proposed daily rates. We would like to explain the following:
  - 1.1 The only partners involved in the performance of the aforementioned IQCs are employees of the KPMG Hazem Hassan Management Consulting Firm , which is a joint stock limited liability company. None of them has any shares or equity in this company. The word 'partner' reflects a rank in the hierarchy (authority and responsibility) of the company. They are actually directors and not partners. The title does not reflect ownership or equity.

Please find attached the employees' social security form, which proves that they are employees and not owners or partners.
  - 1.2 All the financial remuneration (including year end bonuses) received by the so called partners is classified in the income statement as "salaries and wages" and represents an expense to the firm.
  - 1.3 The partners' year end bonuses depend on the performance and production of the individuals and are not a return on capital or investment.
  - 1.4 The following criteria are applied to our IQCs:
    - 1.4.1 48 CFR, CH 7 Article 752.7007 (August 1984, which is incorporated in our IQC by reference) defines personnel compensation as:

"Direct compensation of the contractor's personnel will be in accordance with the contractor's established policies, procedures and practices, and the cost principles applicable to this contract."
    - 1.4.2 FAR 31.205-6 (¶ 30,609.06) which is part of the cost principles applicable to this contract defines compensation for personal services as:

"(a) General. Compensation for personal service includes all remuneration paid currently or accrued in whatever form and whether paid immediately or deferred, for services rendered by

employees to the contractor during the period of contract performance..... It includes but is not limited to, salaries; wages; directors' and executive committee members' fees; bonuses (including stock bonuses); incentive awards; employee stock options; stock appreciation rights, employee insurance; fringe benefits; contributions to pension; annuity; and management employee incentive compensation plans; and allowances for off-site pay; incentive pay, location allowances, hardship pay, severance pay, and cost of living differential.

1.4.3 FAR 31.205-6 (¶ 30,609.06) (f)(1)

Incentive compensation for management employees, cash bonuses, suggestion awards, safety awards, and incentive compensation based on production, cost reduction, or efficient performance are allowable provided the awards are paid or accrued under agreement entered into in good faith between the contractor and the employees before the services are rendered or pursuant to an established plan or policy followed by the contractor so consistently as to imply, in effect , an agreement to make such payment and the basis for the award is supported”

The firm's established practice is that all employees' salaries consist of two parts, the first is fixed and paid monthly and the second is variable and paid according to performance. The staff receives the first part of the variable portion, which is 9% of the revenue generated by the individual, at the end of each completed assignment. The managers receive 3% of the revenue generated by the staff under their supervision.

At the end of the year, the staff and the managers receive year end incentives, based on the total year individual performance.

Employees working at the rank of partners(directors) receive all of their variable portion at the end of the year based on the performance of their departments.

This policy was stated in the proposal for the IQC and incorporated in the IQC by reference. Accordingly, the year end incentive or bonus is part of the compensation of the staff and of the partners(directors)of the firm.

1.5 The actual daily rate for partners based on the total financial package (including year end bonuses) is more than what is billed to USAID/Egypt. However, we adhered to the ceiling billing rates stated in our IQC.

**Conclusion:**

Based on the aforementioned reasons, the position of the firm is that, the year end bonus that is distributed to staff and partners(directors) in the management consulting firm is part of their remuneration package and is an allowable cost.

2. The auditor did not consider the payment of a special skills allowance as part of the employee's salary. We would like to explain the following:
  - 2.1 The firm policy is to pay to the skilled personnel who work with international organizations an allowance for the skills required based on the actual working days with such organizations. Accordingly, the firm calculates the proposed daily rate based on the total salary which includes a fixed monthly amount, incentives and the special skills allowance.
  - 2.2 The firm's responsibility is to ensure that its employees receive the daily government approved rate (including the special skills allowance) for each day worked with the international organizations, which is fair and reasonable and according to the salaries structure of the firm, and to ensure that none of its clients subsidizes the employees' salaries.
  - 2.3 The billing daily rates used for USAID assignments are the same rates used for all other international organizations and international companies and USAID does not subsidize the firm employees' salaries. However, in many cases the billing rates used for other clients are higher than rates billed to USAID.
  - 2.4 The auditor did not refer to any FAR criteria that contradict with our firm's policy.

### **Conclusion**

Based on the aforementioned reasons the position of the firm is that there is no difference between the proposed daily rates stated in the Bio Data Sheets and the actual daily rates received by the employees for each working day with USAID assignments.

Accordingly, we request the removal of all the questionable costs in the auditor's report.

3. The Overhead Rate Audit
  - 3.1 The auditor came out with the actual audited overhead rate for the year 1996 of 334% while our current IQC with USAID was based on an estimated overhead rate for the same year of 318%.
  - 3.2 Based on the actual audited overhead rate, our current IQC should include an overhead of 322% rather than 316%. (which represents the average rate for the years 1994 ,1995 and 1996)
  - 3.3 We understand that the overhead rate could not be retroactively corrected. However, we are requesting to adjust the overhead rate upon the renewal of the IQC to be 322%.

**Appendix 2: Auditor's Comments**

Following are our comments on the Auditee's response to the Audit of KPMG Hazem Hassan & Co. of Indefinite Quantity Contracts (IQCs) No. 263-0000-1-00-3063-0 & 263-0000-1-00-3122-00.

- 1. The auditee stated in point # 1 of the response that "the auditor considered year end bonuses paid to partners as an unallowable cost and excluded such bonuses from the partner's financial packages which were used to calculate the proposed daily rates."**

The auditor in this regard, considered the bonuses paid to partners as an unallowable cost. As stated in Biographical Data Sheets (Forms AID 1420 - 17) (box 14), salary definition consists of basic periodic payment for services rendered, excluding bonuses, profit sharing arrangements, commission, consultant fees, extra or over time work payments, overseas differential, or quarters, cost of living or dependent education allowances.

Had we included partner's profit sharing arrangements and special skills allowance, the net questioned cost will be as follows:

- Ineligible costs for IQC # 263-0000-1-00-3063-00: US\$ 107,954.48 (L.E.367,045.22).
- Ineligible costs for IQC # 263-0000-1-00-3122-00: US\$ 20,650.88 (L.E.70,213.01).

- 2. The auditee stated in point # 2 of the response that "the auditor did not consider the payment of special skills allowance as part of the employee's salary."**

Please refer to our response to point # 1 as it includes our response for the special skills allowance issue.

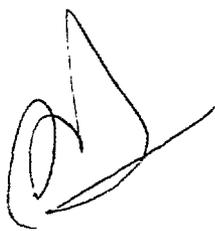
Appendix 3:    Mission's Comments



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

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

**Date** : July 14, 1998  
**To** : Bruce N. Boyer, A/RIG/A  
**From** : Shirley Hunter, Division Chief, FM/FA   
**Subject** : Financial Audit of KPMG Hazem Hassan & Co.'s  
(KPMG/HH) Indefinite Quantity Contracts (IQC) Nos.  
263-0000-I-00-3063-00 and 263-0000-I-00-3122-00

**Final Draft Audit Report Dated May 28, 1998**

Following are the actions taken by the Mission to resolve Recommendations Nos. 1 and 2 under the subject audit.

**Recommendations No. 1:**

We recommend that USAID/Egypt make a management decision on the questioned costs of \$179,083 (ineligible) detailed on pages 8 through 12 of the Talal Abu-Ghazaleh & Co. audit report, and recover from KPMG Hazem Hassan & Co. the amounts determined to be unallowable.

**Mission response:**

- \* The questioned amount represents the cumulative effect of differences between professional salaries reported to the USAID Contracting Officer in Biographical Sheets for various delivery orders, and actual salaries paid to employees for the years in question.
- \* In his Memorandum dated June 8, 1998, the COTR concluded after carefully reviewing the contract terms, and personally examining KPMG/HH's payroll records, that the amount questioned by the auditors was eligible and that KPMG/HH was in compliance with the terms of the IQC with regard to billing rate calculations during the subject audit period. (Attachment A)

In his opinion, the COTR stated that the salary figures included on the Biographical Data Sheets constituted the "individual's government approved annual salary compensation" upon which the IQC billing rates were based. Further, he believes that the year-end "bonuses" and "special skills allowance", which the auditors excluded from

their computations, were, in fact, legitimate variable portions of KPMG/HH's salary structure and should have been included in the computations. Finally, he believes that the amounts of costs questioned in Recommendation No. 1 should not be sustained by USAID/Cairo.

- \* In his Memorandum dated July 8, 1998, the Procurement Office Director (PROC) indicated that KPMG/HH was following its corporate policies incorporated by reference into the contract relating to the establishment of a billing rate. (Attachment B) Further, PROC stated that its billing rate in use by KPMG/HH was lower than competitors in many cases, and was a fair and reasonable rate for the skill demands placed on non-federal auditors.

Therefore, based on the COTR's analysis, and the PROC's determination, Mission believes that \$179,083 in questioned costs are allowable and requests closure of Recommendation No. 1 upon issuance of the final audit report.

Recommendation No. 2:

We recommend that USAID/Egypt obtain evidence that KPMG Hazem Hassan & Co. has addressed the material noncompliance issue (not billing USAID/Egypt based on actual salaries paid to employees) detailed on pages 15 and 16 of the Talal Abu-Ghazaleh & Co. report.

Mission Response:

- \* To clarify future billing rate calculations, the COTR indicated that KPMG/HH agreed to disclose the variable nature of its salary structure on all biographical data sheets submitted with future proposals to conduct USAID audits.
- \* PROC indicated that the biographical form is being filled out consistent with the KPMG/HH billing practice. PROC also indicated that the contract may need to be adjusted to reflect the slightly different salary structure of KPMG.

Therefore, based on the COTR's analysis, and the PROC's determination, Mission believes that KPMG/HH has addressed the material noncompliance issue and requests closure of Recommendation No. 2 upon issuance of the final audit report.

Thank you for your cooperation.