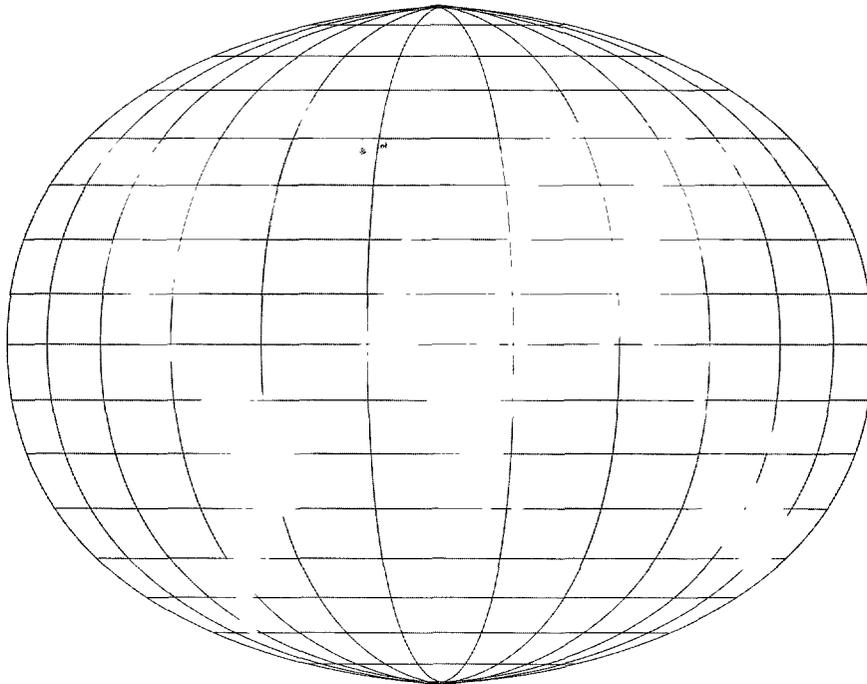


Report of Audit

PD-ABS-907
107496

**Financial Audit of
Environmental Quality International, Costs Incurred
Under USAID/Egypt Contract Nos. 263-0000-C-00-2203-00
and 263-0225-C-00-5078-00**

**Report No. 6-263-98-030-N
September 10, 1998**



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

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

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



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

CAIRO, EGYPT

Report No. 6-263-98-030-N
September 10, 1998

MEMORANDUM

TO : DIRECTOR USAID/Egypt, Richard M. Brown

FROM: RIG/A/Cairo, Lou Mundy *Lou Mundy*

SUBJECT: Financial Audit of Environmental Quality International, Costs Incurred Under USAID/Egypt Contract Nos. 263-0000-C-00-2203-00 and 263-0225-C-00-5078-00

The attached report, transmitted on May 26, 1998, by Price Waterhouse, presents the results of a financial audit of Environmental Quality International (EQI) under two contracts with USAID/Egypt¹. EQI is a management consulting firm engaged in providing environmental and management consulting services to both governmental and private sector institutions in Egypt. The USAID/Egypt Directorate for Human Resources and Development Cooperation (HRDC) entered into Contract No. 263-0000-C-00-2203-00 with EQI to assist in monitoring the end use of non-expendable property. USAID/Egypt's Office of the Environment entered into a Local Environment Services (LES) Contract No. 263-0225-C-00-5078-00 with EQI to provide short-term quick response technical services in the environmental sector.

We engaged Price Waterhouse to perform a financial audit of both the HRDC and LES contracts during the periods specified in the footnote below. The purpose of the audit was to evaluate the propriety of the costs incurred and express an opinion on whether the Fund Accountability Statement for each contract presents fairly, in all material respects, revenues received and costs incurred during their respective audit periods. The auditors evaluated EQI's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming their opinion regarding each Fund Accountability Statement. The

¹The two USAID/Egypt contracts with their respective audit periods are:

- 1) Contract No. 263-0000-C-00-2203-00 (HRDC) during the period January 1, 1996 through May 16, 1997
- 2) Contract No. 263-0225-C-00-5078-00 (LES) during the period May 8, 1995 through June 30, 1997

U.S. Mailing Address
USAID-RIG/A/C Unit 64902
APO AE 09839-4902

Tel. Country Code (202)
357-3909
Fax # (202) 355-4318

*#106 Kasr El Aini St.,
Cairo Center Building,
Garden City, Cairo, Egypt*

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auditors also performed an audit of the indirect and fringe benefit cost rates for the HRDC contract and the fixed multiplier rate for the LES contract for calendar year 1996.

The auditors questioned direct costs of \$135 and \$4,282 for the HRDC and LES contracts, respectively, and \$128,820 charged to EQI's indirect cost pool and \$59 charged to EQI's fringe benefit cost pool for calendar year 1996. Considering these questioned charges, the auditors determined the following rates:

Contract No. 263-0000-C-00-2203-00 (HRDC)

<u>Calendar</u> <u>Year</u>	<u>Indirect</u> <u>Cost</u>	<u>Fringe</u> <u>Benefit</u>
1996	71.77%	33.05%

Contract No. 263-0225-C-00-5078-00 (LES)

<u>Calendar</u> <u>Year</u>	<u>Fixed</u> <u>Multiplier</u>
1996	2.45

The auditors did not identify any reportable conditions concerning EQI's internal control structure or any instances of material noncompliance with the terms of the contracts or applicable laws and regulations.

In response to the draft report, responsible EQI officials provided additional explanation to the report findings. Price Waterhouse reviewed EQI's response to the findings, but did not make any adjustments to the report (see Appendices A and B).

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 \$135 (\$43 ineligible and \$92 unsupported) under Contract No. 263-0000-C-00-2203-00 detailed on page 14 of the Price Waterhouse audit report and recover from Environmental Quality International the amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Egypt make a management decision on the questioned costs of \$4,282 (\$4,222 ineligible and \$60 unsupported) under Contract No. 263-0225-C-00-5078-00 detailed on pages 15 and 16 of the Price Waterhouse audit report and recover from

Environmental Quality International the amounts determined to be unallowable.

Recommendation No. 3: We recommend that USAID/Egypt determine Environmental Quality International's final indirect cost and fringe benefit rates for the period January 1, 1996 through May 16, 1997 for Contract No. 263-0000-C-00-2203-00 based on the consideration of questioned indirect cost and fringe benefit rates detailed on pages 16 through 18 of the Price Waterhouse report, and recover any amounts owed to USAID/Egypt as a result of that determination.

In response to Recommendation No. 1, USAID/Egypt officials obtained a refund of the entire questioned amount of \$135. Based on this action, we consider Recommendation No. 1 closed.

In response to Recommendation No. 2, USAID/Egypt officials obtained a refund of the entire questioned amount of \$4,282. Based on this action, we consider Recommendation No. 2 closed.

In response to Recommendation No. 3, USAID/Egypt officials issued a Negotiated Indirect Cost Rate Agreement (NICRA) which finalized EQI's indirect cost and fringe benefit rates for calendar year 1996 based on the audited rates. The application of those finalized rates did not result in any amounts owed to USAID/Egypt. Based on this management decision and action, we consider Recommendation No. 3 resolved.

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

ENVIRONMENTAL QUALITY INTERNATIONAL

USAID/EGYPT CONTRACT

No. 263-0000-C-00-2203-00 (HRDC) AND

No. 263-0225-C-00-5078-00 ("LES")

FUND ACCOUNTABILITY STATEMENTS AND
ADDITIONAL INFORMATION

FOR THE PERIODS

JANUARY 1, 1996 THROUGH MAY 16, 1997 ("HRDC") AND
MAY 8, 1995 THROUGH JUNE 30, 1997 ("LES")

ENVIRONMENTAL QUALITY INTERNATIONAL

USAID/EGYPT CONTRACT
No. 263-0000-C-00-2203-00 ("HRDC") AND
No. 263-0225-C-00-5078-00 ("LES")

FUND ACCOUNTABILITY STATEMENTS AND
ADDITIONAL INFORMATION

FOR THE PERIODS
JANUARY 1, 1996 THROUGH MAY 16, 1997 ("HRDC") AND
MAY 8, 1995 THROUGH JUNE 30, 1997 ("LES")

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Appendix B	Independent Accountants' Response
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Price Waterhouse



May 26, 1998

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

Dear Mr Mundy

This report presents the results of our financial related audit of project revenues received and costs incurred and the schedules of computations of indirect and fringe benefit cost rates of Environmental Quality International ("EQI") under United States Agency for International Development Mission to Egypt ("USAID/Egypt") Contract No 263-0000-C-00-2203-00 ("HRDC") and Contract No 263-0225-C-00-5078-00 ("LES") (collectively, the "Contracts"), for the periods January 1, 1996 through May 16, 1997 and May 8, 1995 through June 30, 1997 (collectively, the "audit periods"), respectively.

Background:

EQI is a management consulting firm engaged in providing environmental and management consulting services to both governmental and private sector institutions in Egypt. EQI is currently involved with providing USAID/Egypt with a broad range of consulting services under various contracts

The USAID/Egypt Directorate for Human Resources and Development Cooperation contracted EQI to assist it in monitoring the end use of non-expendable property purchased for USAID/Egypt projects. Under the HRDC contract, dated May 17, 1992, EQI was commissioned to examine the adequacy of Government of Egypt ("GOE") internal control systems and monitor the use of non-expendable property provided by USAID/Egypt to GOE entities. The monitoring involves conducting field inspections throughout Egypt.

EQI has also been engaged by USAID/Egypt to provide technical assistance under an indefinite quantity, time and materials contract. The Local Environment Services ("LES") contract was issued on May 8, 1995. The purpose of the contract is to provide short-term quick response technical services in the environmental sector for the USAID/Egypt's Office of the Environment. Broadly, the required services are in the areas of institutional development, environmental analysis and monitoring; assessing, planning and designing environmental activities, and policy formulation. The specific requests will be made via Technical Service Orders ("TSO"). Each TSO identifies the nature of the requested services, the personnel authorized to work, the authorized contract period, and the other direct costs.

Audit Objectives and Scope:

The purpose of this engagement was to perform a financial related audit of project revenues received and costs incurred by EQI, and, EQI's indirect and fringe benefit cost rates approved under the Contracts for the audit periods. 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 EQI presents fairly, in all material respects, project revenues received and costs incurred for the audit periods 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 Contracts are in fact allowable, allocable and reasonable in accordance with the terms of the Contracts,
- 3 Obtain a sufficient understanding of the internal control structure of EQI as it relates to the Contracts, assess control risk, and identify reportable conditions, including material internal control weaknesses,
- 4 Perform tests to determine whether EQI complied, in all material respects, with the Contracts' terms and applicable laws and regulations,
- 5 Perform an audit of the indirect and fringe benefit cost rates and the fixed multiplier rate used by EQI under the Contracts, and
- 6 Determine if EQI has taken corrective action on prior audit report recommendations

Preliminary planning and review procedures began in September 1997. These procedures consisted of discussions with personnel from the Office of the Regional Inspector General for Audit in Cairo and EQI management. Audit fieldwork commenced in October 1997 and was completed in May 1996.

The scope of our audit and percent of judgmental testing were as follows:

	HRDC	LES	Indirect Costs	Fringe Benefits
Population of Costs	\$ 444,055	763,526	903,605	271,700
Amount Tested	\$ 44,668	314,488	406,079	133,323
Percent of Population	10%	41%	45%	49%
Revenue	\$ 489,435	759,082		
Percent Tested	100%	100%		

Our tests of direct, indirect and fringe benefit costs incurred by EQI, included, but were not limited to, the following:

- 1 Reconciling EQI accounting records to billings issued to USAID/Egypt to ensure that project costs were appropriately supported
- 2 Testing a representative sample of project costs funded by USAID/Egypt for allowability and allocability
- 3 Determining if costs related to travel, operational costs and depreciation were appropriate and conformed with the terms of the Contracts and applicable laws and regulations



- 4 Determining if salary costs were properly supported and approved
- 5 Examining support for a sample of items included in the indirect and fringe benefit cost pools, and calculating the actual indirect and fringe benefit cost rates for the audit periods
- 6 Determining if project revenues received are presented fairly, in all material respects, in the fund accountability statements

Except as discussed herein, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards ("GAS") issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material 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 Price Waterhouse worldwide internal quality control program that requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

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

Results of Audit:

Fund Accountability Statement and Schedules of Computations of Indirect and Fringe Benefit Cost Rates

Our audit procedures identified the following questioned costs:

	HRDC	LES	Indirect Costs	Fringe Benefits
Ineligible	\$ 43	\$ 4,222	\$ 128,445	\$ -
Unsupported	92	60	375	59
Total U.S. Dollars	\$ <u>135</u>	\$ <u>4,282</u>	\$ <u>128,820</u>	\$ <u>59</u>

The fund accountability statement, the schedules of computations of indirect and fringe benefit cost rates, and the detail of questioned costs, as incurred in Egyptian pounds, are included in supplemental schedules to this report.



Internal Control Structure

Our audit procedures identified no material weaknesses in the internal control structure of EQI as it relates to the contracts under audit.

Compliance with Laws, Regulations, Contracts, and Grants

Our audit procedures and tests identified no instances of non-compliance with the terms of the Contracts or with Egyptian laws and regulations that are required to be reported.

Follow up on Prior Audit Recommendations

We have reviewed the prior audit report of EQI's HRDC and PMC contracts for the period May 17, 1993 through December 31, 1995 and August 1, 1994 through September 30, 1995, ("the "prior audit"), respectively. Our review revealed the following:

Fund Accountability Statements

The prior audit report identified questioned project costs of \$647 and \$304 of ineligible costs under HRDC and PMC, respectively. These costs were reimbursed to USAID/Egypt.

Internal Control

The prior audit report identified two reportable conditions that were considered to be non-material weaknesses. The findings and related recommendations from the prior audit report have been addressed and implemented.

Compliance with Laws, Regulations and Contracts

The prior audit report identified one material instance of non-compliance as it relates to the Contracts' terms. The finding and its related recommendation has been addressed and implemented.

Management's Comments

EQI management's comments have been obtained and are included in Appendix A to this report. 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 mission response is included in Appendix C to this report.

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

Price Waterhouse

Price Waterhouse



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

May 26, 1998

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

We have audited the fund accountability statements of project revenues received and costs incurred and schedules of computations of indirect and fringe benefit cost rates of Environmental Quality International ("EQI") under United States Agency for International Development Mission to Egypt ("USAID/Egypt") Contract No 263-0000-C-00-2203-00 ("HRDC") and Contract No 263-0225-C-00-5078-00 ("LES") (collectively, the "Contracts"), for the periods January 1, 1996 through May 16, 1997 and May 8, 1995 through June 30, 1997 (collectively, the "audit periods"), respectively. The fund accountability statements and schedules of computations of indirect and fringe benefit cost rates are the responsibility of EQI management. Our responsibility is to express an opinion on these statements and schedules based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards ("GAS") issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements and schedules of computations of indirect and fringe benefit cost rates are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements and schedules of computations of indirect and fringe benefit cost rates. 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 statements and schedules of computations of indirect and fringe benefit 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 Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

The fund accountability statements and schedules of computations of indirect and fringe benefit 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 statements and more fully described in Note 6 thereto, the results of our tests disclosed the following questioned costs

	HRDC	LES	Indirect Costs	Fringe Benefits
Ineligible	\$ 43	\$ 4,222	\$ 128,445	\$ -
Unsupported	92	60	375	59
Total U S. Dollars	\$ <u>135</u>	\$ <u>4,282</u>	\$ <u>128,820</u>	\$ <u>59</u>

Project costs that are ineligible for USAID/Egypt reimbursements are those that are not program related or are prohibited by the Contracts, or applicable laws and regulations. Unsupported project costs are those lacking proper documentation.

In our opinion, except for the effects of the questioned costs discussed in the fifth paragraph, the fund accountability statements and schedules of computations of indirect and fringe benefit cost rates referred to in the first paragraph present fairly, in all material respects, project revenues received and costs incurred, and the indirect and fringe benefit cost rates of EQI under the Contracts during the audit periods, in conformity with the basis of accounting described in Note 2.

In accordance with GAS, we have also issued a report dated May 26, 1998, on our consideration of EQI's internal control structure and a report dated May 26, 1998 on its compliance with laws, regulations, contracts and grants.

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

Price Waterhouse

ENVIRONMENTAL QUALITY INTERNATIONAL "EQI"

USAID/EGYPT

CONTRACT NO. 263-0000-C-00-2203-00 (HRDC)

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD JANUARY 1, 1996 THROUGH MAY 16, 1997

EXPRESSED IN US DOLLARS

	Approved Budget (Note 1)	Actual Expenditures (Note 1)	Project Cost Reclassification (Note 4)	Revised Actual (Note 1)	Questioned Project Costs		Audit Finding Reference
					Ineligible (Note 6)	Unsupported (Note 6)	
HRDC REVENUES		\$ 489,435	\$ -	\$ 489,435	\$ -	\$ -	
Total revenues		<u>\$ 489,435</u>	<u>\$ -</u>	<u>\$ 489,435</u>	<u>\$ -</u>	<u>\$ -</u>	
EXPENDITURES							
HRDC:							
Salaries	\$ 197,410	\$ 160,901	\$ -	\$ 160,901	\$ 28	\$ 92	I 1, Page 14
Range Benefits	34,027	29,629	-	29,629	-	-	
Indirect Costs	200,797	152,101	-	152,101	-	-	
Travel & Perdiem	39,136	36,437	-	36,437	-	-	
Transportation	32,213	23,623	-	23,623	-	-	
Office Support Services	6,169	3,608	-	3,608	-	-	
Fixed Fee	32,196	23,150	-	23,150	-	-	
Computer Rental	15,817	8,078	-	8,078	-	-	
Training Room & Facilities	2,950	723	-	723	-	-	
Training EQI-Staff	9,729	5,805	-	5,805	15	-	I 2, Page 14
Total Expenditures	<u>\$ 570,444</u>	<u>\$ 444,055</u>	<u>\$ -</u>	<u>\$ 444,055</u>	<u>\$ 43</u>	<u>\$ 92</u>	
Outstanding Balance		\$ <u>45,380</u>		\$ <u>45,380</u>			

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

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ENVIRONMENTAL QUALITY INTERNATIONAL "EQI"

USAID/EGYPT

CONTRACT NO. 263-0225-C-00-5078 -00 (LES)

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD MAY 8, 1995 THROUGH JUNE 30, 1997

EXPRESSED IN US DOLLARS

	Approved Budget (Note 1)	Actual Expenditures (Note 1)	Project Cost Reclassification (Note 4)	Revised Actual (Note 1)	Questioned Project Costs		Audit Finding Reference
					Ineligible (Note 6)	Unsupported (Note 6)	
ISO REVENUES		\$ 759,082	\$ -	\$ 759,082	\$ -	\$ -	
Total revenues		\$ 759,082	\$ -	\$ 759,082	\$ -	\$ -	
EXPENDITURES							
ISO 1	\$ 37,293	\$ 34,230	\$ -	\$ 34,230	\$ -	\$ -	
ISO 2	610,439	534,168	(1,198)	532,970	4,222	-	II 1, Page 16
ISO 3	23,213	15,524	-	15,524	-	-	
ISO 4	18,814	10,472	-	10,472	-	60	II 2, Page 16
ISO 5	46,165	26,569	-	26,569	-	-	
ISO 6	76,217	64,128	-	64,128	-	-	
ISO 7	20,422	12,101	-	12,101	-	-	
ISO 8	31,016	23,782	-	23,782	-	-	
ISO 9	13,770	6,878	-	6,878	-	-	
ISO 10	23,583	19,999	-	19,999	-	-	
ISO 11	9,875	4,903	1,198	6,101	-	-	
ISO 12	28,623	3,524	-	3,524	-	-	
ISO 14	19,039	7,248	-	7,248	-	-	
Total Expenditures	\$ 958,469	\$ 763,526	\$ -	\$ 763,526	\$ 4,222	\$ 60	
Outstanding Balance		\$ (4,444)		\$ (4,444)			

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

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ENVIRONMENTAL QUALITY INTERNATIONAL "EQI"
 SCHEDULE OF COMPUTATION OF INDIRECT COST RATE
 FOR CALENDAR YEAR 1996
 EXPRESSED IN US DOLLARS

INDIRECT COST POOL	Total Expenditures	Project Reclassification	Questioned Project costs		Correct Indirect Cost Pool	Audit Finding Reference
			Ineligible	Unsupported		
Indirect Salaries	\$ 394,307	\$ 10,038	\$ -	\$ 375	\$ 403,970	III 1, Page 16
Rent Expenses	76,683	-	-	-	76,683	
Utilities	6,807	-	-	-	6,807	
Repairs & Maintenance	14,096	-	-	-	14,096	
Communication Expenses	30,963	-	-	-	30,963	
Postage & Mailage Expenses	5,368	-	-	-	5,368	
Auto Expenses	6,612	-	56	-	6,556	III 2, Page 17
Local Travel Expenses	5,667	-	30	-	5,637	III 3, Page 17
International Travel Expenses	29,854	-	-	-	29,854	
Office Expenses	7,934	-	-	-	7,934	
Office Supplies	44,797	-	-	-	44,797	
Audit Fees	7,400	-	-	-	7,400	
Legal Fees & Governmental Charges	1,381	-	-	-	1,381	
Depreciation Expenses	85,501	-	1,709	-	83,792	III 4, Page 17
Miscellaneous Expenses	4,160	-	-	-	4,160	
Financial Expenses	5,608	-	-	-	5,608	
Guest Reception	703	-	-	-	703	
Consulting Fees	577	-	-	-	577	
Company Management Expenses	175,187	-	126,650	-	48,537	III 5, Page 18
Total Indirect Costs	\$ 903,605	\$ 10,038	\$ 128,445	\$ 375	\$ 784,823	

DIRECT COST POOL					
Total Direct Salaries	\$ 805,510	\$ 16,513	\$ 28	\$ 92	\$ 821,903
Total Direct Salaries	\$ 805,510	\$ 16,513	\$ 28	\$ 92	\$ 821,903

EQI Indirect Cost Rate For 1996

Total Indirect Costs	784,823	95.49%
Total Direct Salaries	821,903	

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

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ENVIRONMENTAL QUALITY INTERNATIONAL "EQI"

COMPUTATION OF FRINGE BENEFITS RATE

FOR CALENDAR YEAR 1996

EXPRESSED IN US DOLLARS

FRINGE BENEFITS	Total Expenditures	Project Reclassification	Questioned Project costs		Correct Indirect Cost Pool	Audit Finding Reference
			Ineligible	Unsupported		
Vacation	\$ 73,556	\$ -	\$ -	\$ -	\$ 73,556	
Sick Leave	18,768	-	-	-	18,768	
Holidays	47,351	-	-	-	47,351	
Less Time	15,843	-	-	-	15,843	
Framing	1,291	-	-	-	1,291	
Maternity Leave	2,706	-	-	-	2,706	
Emergency Leave	1,283	-	-	-	1,283	
Ramadan	5,531	-	-	-	5,531	
Total Fringe Benefits (1)	\$ 166,329	\$ -	\$ -	\$ -	\$ 166,329	
OTHER FRINGE BENEFITS						
Social Insurance Co Portion	\$ 53,037	\$ -	\$ -	\$ -	\$ 53,037	
Medical Insurance	38,451	-	-	-	38,392	
Language Course	690	-	-	59	690	
Allowance & Uniform for Off Boys	1,018	-	-	-	1,018	
Housing	10,225	-	-	-	10,225	
Company Insurance	48	-	-	-	48	
Monthly Storage (Alvin)	780	-	-	-	780	
Thrift Health (Alvin)	1,122	-	-	-	1,122	
Total Other Fringe Benefits (2)	\$ 105,371	\$ -	\$ -	\$ 59	\$ 105,312	IV 1, Page 18
Fringe Benefits (1+2)	\$ 271,700	\$ -	\$ -	\$ 59	\$ 271,641	
DIRECT COST POOL						
Total Direct Salaries	\$ 805,510	\$ 16,513	\$ 28	\$ 92	\$ 821,903	
EQI Fringe Benefits Rate 1996						
Total Fringe Benefits		271,641	33.05%			
Total Direct Salaries		821,903				

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

16

ENVIRONMENTAL QUALITY INTERNATIONAL "EQI"
 SCHEDULE OF COMPUTATION OF INDIRECT COST RATE
 FOR CONTRACT NO 263-0000-C 00-2203 (HIRDC)
 FOR CALENDAR YEAR 1996
 EXPRESSED IN US DOLLARS

<u>INDIRECT COST POOL</u>	<u>Total Expenditures</u>	<u>Project Reclassification</u>	<u>Questioned Project costs</u>		<u>Correct Indirect Cost Pool</u>	<u>Audit Finding Reference</u>
			<u>Ineligible</u>	<u>Unsupported</u>		
Indirect Salaries	\$ 394,307	\$ 10,038	\$ -	\$ 375	\$ 403,970	III 1, Page 16
Rent Expenses	76,683	-	-	-	76,683	
Utilities	6,807	-	-	-	6,807	
Repairs & Maintenance	14,096	-	-	-	14,096	
Communication Expenses	30,963	-	-	-	30,963	
Postage & Mailage Expenses	5,368	-	-	-	5,368	
Auto Expenses	6,612	-	56	-	6,556	III 2, Page 17
Local Travel Expenses	5,667	-	30	-	5,637	III 3, Page 17
International Travel Expenses	29,854	-	-	-	29,854	
Office Expenses	7,934	-	-	-	7,934	
Office Supplies	44,797	-	-	-	44,797	
Audit Fees	7,400	-	-	-	7,400	
Legal Fees & Governmental Charges	1,381	-	-	-	1,381	
Depreciation Expenses	85,501	-	1,709	-	83,792	III 4, Page 17
Miscellaneous Expenses	4,160	-	-	-	4,160	
Financial Expenses	5,608	-	-	5,608	5,608	
Guest Reception	703	-	-	-	703	
Consulting Fees	577	-	-	-	577	
Company Management Expenses	175,187	-	126,650	-	48,537	III 5, Page 18
Total Indirect Costs	\$ 903,605	\$ 10,038	\$ 128,445	\$ 375	\$ 784,823	
 <u>DIRECT COST POOL</u>						
Total Direct Salaries	\$ 805,510	\$ 16,513	\$ 28	\$ 92	\$ 821,903	
Total Fringe Benefits	271,700	-	-	59	271,641	
Total Direct Salaries & Fringe Benefits	\$ 1,077,210	\$ 16,513	\$ 28	\$ 151	\$ 1,093,544	
 EQI Indirect Cost Rate For 1996:						
<u>Total Indirect Costs</u>	<u>784,823</u>			71.77%		
<u>Total Direct Salaries & Fringe Benefits</u>	<u>1,093,544</u>					

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

17

ENVIRONMENTAL QUALITY INTERNATIONAL

NOTES TO THE FUND ACCOUNTABILITY STATEMENTS
AND SCHEDULES OF COMPUTATIONS OF INDIRECT COST AND FRINGE BENEFIT RATES

NOTE 1 - SCOPE OF STATEMENT:

The fund accountability statements includes project revenues received and costs incurred by EQI under Contract No 263-0000-C-00-2203-00 ("HRDC") and Contract No 263-0225-C-00-5078-00 ("LES") (collectively, the Contracts"), for the periods January 1, 1996 through May 16, 1997 and May 8, 1995 through June 30, 1997 (collectively, the "audit periods"), respectively

Approved "Budget" includes USAID/Egypt approved costs in accordance with the most recent budget modification or amendments of the Contracts within the audit periods, and is presented for informational purposes only Amendment No 6 to the HRDC contract, dated June 26, 1996, approved total project costs of \$1,447,918 or Egyptian pounds ("LE") 4,908,441 from project inception through May 16, 1997 Accordingly, total "Budget", for the HRDC contract, has been calculated, based on annual amendments issued during the audit periods, to be \$570,444 or LE 1,933,805 during the period January 1, 1996 through May 16, 1997 The total of approved budgets for individual orders under the LES contract equal \$958,469 or LE 3,249,212 during the audit period. Budget amounts in Egyptian Pounds ("LE") have been converted to US dollars as explained in Note 3 below

"Actual" represents cumulative project revenues received and costs incurred by EQI under the Contracts during the audit periods "Revised Actual" represents actual project costs adjusted for project cost reclassifications as explained in Note 4 below Expenditures in LE have been converted to US dollars as explained in Note 3 below

Actual revenues for the LES Contract are less than project expenditures due to timing differences between the receipt of funds from USAID/Egypt and project disbursements Accordingly, "Actual" and "Revised Actual" for the LES Contract have outstanding negative balances of \$4,444 or LE 15,063

NOTE 2 - BASIS OF PRESENTATION:

The fund accountability statements and schedules of computations of indirect and fringe benefit cost rates of EQI have been prepared on the basis of cash receipts and disbursements, modified for certain items Project revenues are recognized when received Project costs are recognized when paid rather than when the obligation is incurred However, the indirect cost pools also contain depreciation charges and certain accrued costs

NOTE 3 - FOREIGN EXCHANGE:

Actual and budgeted project revenues and costs in LE have been converted to US dollars at an exchange rate of LE 3.39 to one US Dollar for both Contracts The exchange rate has been calculated by averaging the ending monthly exchange rates during the audit periods

NOTE 4 - PROJECT COST RECLASSIFICATIONS:

Certain project costs associated with various budget line items and the indirect and fringe benefit cost pools were recorded in the project's accounting records in the incorrect budget line or incorrect indirect cost account These costs have been reclassified to facilitate a more appropriate comparison between actual and budgeted project costs In accordance with the terms of the Contracts, individual line item expenditures in excess of 15 percent of the budget line require USAID/Egypt's prior written approval

NOTE 5 - BASIS OF CALCULATION OF INDIRECT AND FRINGE BENEFIT COST RATES AND CALCULATION OF THE FIXED MULTIPLIER RATE:

EQI's Contracts with USAID provide for the recovery of indirect costs incurred by EQI that are not directly associated with, or specifically identifiable to, any particular activity conducted by EQI. Additionally, they also provide for the recovery of fringe benefit costs paid to employees performing under the Contracts. For the HRDC contract, EQI and USAID have established provisional rates for indirect and fringe benefit costs. The LES contract provides for the recovery of indirect costs incurred by EQI through a fixed multiplier applied to direct salaries of personnel assigned to the project.

EQI

EQI has established two Negotiated Indirect Cost Rates ("NICRA") with USAID/Egypt. The NICRA for indirect costs is computed by dividing total indirect costs by the total direct salaries. The fringe benefit NICRA is computed by dividing total fringe benefit costs by total direct salaries.

HRDC

The HRDC contract provides for the recovery of indirect costs based on a rate computed by dividing total indirect costs incurred by EQI by the sum of total direct salaries and total fringe benefit costs incurred by EQI. Indirect costs are reimbursed by USAID/Egypt to EQI through the application of this rate to direct salaries plus fringe benefits incurred under the HRDC contract. Total direct salaries incurred during the fiscal year 1996 were \$822,023, or LE 2,788,658.

Fringe benefit amounts used in the schedules of computations of indirect cost rates have been determined based on the computation of the fringe benefit rate, as discussed below.

Fringe Benefits

The HRDC contract provides for the recovery of fringe benefits paid by EQI to its employees. These costs are recovered based on a rate computed by dividing total fringe benefit costs incurred by EQI by total direct salary costs incurred by EQI, during a fiscal year.

LES

No indirect or fringe benefit cost rates apply to the LES contract. Indirect costs are recovered by applying the fixed multiplier, approved under the contract, to the fixed daily rates of the approved personnel. The fixed multiplier is computed by dividing total indirect costs incurred by EQI by the total direct salaries. To the resulting total, direct salary costs and a fixed fee percentage are added. The computation for calendar year 1996 follows:

Correct Indirect Cost Pool, Page 10	\$ 784,823
Correct Fringe Benefit Pool, Page 11	<u>271,641</u>
Total Indirect Costs	\$ 1,056,464
Divided by Direct Salaries	<u>822,023</u>
Indirect Rate	1.29
Direct Salary Costs	<u>1.00</u>
	2.29
Fixed Fee (7% of 2.29)	<u>0.16</u>
Fixed Multiplier for 1996	<u><u>2.45</u></u>

NOTE 6 - QUESTIONED COSTS:

Questioned 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 Contracts or applicable laws and regulations. Costs in the columns labeled "Unsupported" are not supported with adequate documentation. Questioned project costs have been segregated between direct and indirect costs by each contract. Direct questioned costs have been further segregated by individual budget line item, indirect questioned costs have been segregated by cost pool line item.

NOTE 6 - QUESTIONED COSTS (CONTD.):

	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
I. DIRECT COSTS - HRDC		
1. Salaries		
A. An amount of \$92 relating to employees salaries was billed to USAID/Egypt in excess of the amount recorded in the general ledger. HRDC Contract Clause No G.4 requires expenditures billed to USAID/Egypt to be supported by documentation sufficient to substantiate the expenditure. Management has stated this was an oversight. As such the amount is questioned as unsupported	\$ -	\$ 92
B. During the period under audit, EQI billed USAID/Egypt for an amount of \$28 related to one day of sick leave for an EQI employee. Standard contract clause 52.232-7, "Payments under Time-and-Materials and Labor Hours Contract", stipulates payments must be for actual days worked. Accordingly, sick leave should not be billed. EQI management has stated this was an oversight. As such, the amount of \$28 is questioned as ineligible.	28	-
Total Salaries Questioned Costs	<u>\$ 28</u>	<u>92</u>
2. Training		
A. An amount of \$15, out of a total cost of \$553, was billed to USAID/Egypt relating to tips and gratuities incurred in conjunction with a training program. The Federal Acquisition Regulation 31.205-8, "Contribution or Donations" disallows such expense. EQI management acknowledges the billing of these costs and has stated that they were unaware of the ineligibility of such expense. Accordingly, the amount of \$15 is considered ineligible.	\$ 15	\$ -
Total Training Questioned Costs	<u>\$ 15</u>	<u>-</u>
TOTAL HRDC QUESTIONED DIRECT COSTS	<u>\$ 43</u>	<u>\$ 92</u>

NOTE 6 - QUESTIONED COSTS (CONTD.):

Questioned Costs

Ineligible

Unsupported

II. DIRECT COSTS - LES

1. TSO No. 2

A An amount of \$30 was billed to USAID/Egypt for TSO No 2 relating to an employee's salary that was calculated using a full-time employee fixed multiplier rate of 2.35, rather than the part-time fixed multiplier rate of 2.15 Due to the reason that the employee is non-Egyptian and therefore, not eligible for social insurance coverage, he does not participate in the full benefits of a full-time employee. Accordingly, he should not be billed using the full-time fixed multiplier rate EQI management concurred with this evaluation. Therefore, the amount of \$30 is questioned as ineligible.

\$ 30 \$ -

B Salary increases for two employees exceeded the ten percent limitation stipulated contract clause H 1.a. The Contractor Employee Biographical Data Sheets submitted to USAID/Egypt for approval failed to show the last three years of salary history. Instead they showed the last three employers. The actual last three years of salary history would have shown annual increases. In January 1995 these employees received an annual increase of 18%, then on June 1, 1995 they received additional adjustments of 13 and 17 percent. In June 1995, they began to work on the LES contract. The annual limitation to ten percent increases, therefore, becomes effective June 1. The salary plus ten percent is effective from June 1, 1995 through May 31, 1996. Thereafter, a second increase, again limited to ten percent, has been calculated for the period June 1, 1996 through August 31, 1996 the end of TSO No. 2. The calculated salaries using the ten percent limit results in lower fixed daily rates. Therefore, the amount over billed is \$4,036, which has been questioned as ineligible.

In response, EQI management stated that the salary adjustment was due to superior performance, as stated in EQI's policies, and was not a salary increase. Whether it is an adjustment or salary increase, the results are the employees receive more salary, and higher fixed daily rates are billed to USAID/Egypt. Therefore, the amount of \$4,036 remains an ineligible cost.

4,036 -

NOTE 6 - QUESTIONED COSTS (CONTD.):

	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
C. The February 1996 invoice under TSO No 2 billed an employee when he was absent from work. The employee was replaced for this period and the substitutes' time was billed under the wrong name with its associated fixed daily rate. Applying the correct fixed daily rate to the time worked results in an over billing of \$156. This has been questioned as ineligible.	156	-
Total TSO No. 2 Questioned Direct Costs	\$ 4,222	\$ -
2. TSO No. 4		
A. Per diem calculations for a September 1995 trip under TSO No. 4 were miscalculated. The per diem should have been calculated using the quarter-day system required by USAID/Egypt. EQI management concurred with this finding. The total of \$60 is therefore questioned as unsupported.	\$ -	\$ 60
Total TSO No. 4 Questioned Direct Costs	\$ -	\$ 60
TOTAL LES QUESTIONED DIRECT COSTS	\$ 4,222	\$ 60

III. INDIRECT COSTS

1 Indirect Salaries - Proposals

A A payment of \$375 representing an excess salary payment was included in the indirect cost pool under this account. The employee's contract stipulated a pay equivalent to \$12.9/hr, but the employee was paid the rate of \$15.37/hr HRDC contract Clause No. G.4 requires expenditures included in costs billed to USAID/Egypt be supported by documentation sufficient to substantiate the expenditures. Management stated this was an oversight. As such, the excess of \$375 has been questioned as unsupported for inclusion in the indirect cost pool

	\$ -	\$ 375
Total Indirect Salaries Questioned Costs	\$ -	\$ 375

NOTE 6 - QUESTIONED COSTS (CONTD.):

	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
2. Auto Expenses		
A. Included in the indirect cost pool, under this account, are tips and gratuities paid in connection with auto expenses FAR No 31 205-8, "Contributions and Donations" disallows such costs. Management stated this was an oversight. Accordingly, the amount of \$38 has been questioned as ineligible for inclusion in the indirect cost pools	\$ 38	\$ -
B. This account includes fines and penalties paid for vehicle registration and car licensing totaling \$18 Fines and penalties are disallowed by FAR No. 31 205-15 Management stated this was an oversight As such, the amount of \$18 included in the indirect cost pool is questioned as ineligible	18	-
Total Auto Expenses Questioned Costs	\$ 56	\$ -
3 Local Travel Expense		
A. Included in the indirect cost pool under this account were costs incurred during a trip to Istanbul Breakfast costs were included on the expense report in addition to the authorized per diem. Because per diem covers all meals and incidental expenses, the breakfast charges are considered ineligible Management stated this was an oversight. As such, the amount of \$30 has been questioned as ineligible for inclusion in the indirect cost pool	\$ 30	\$ -
Total Local Travel Questioned Costs	\$ 30	\$ -
4 Depreciation		
A. Depreciation charges for leasehold improvements recorded in the General Ledger differed from the Fixed Asset Register According to management, this was due to different methodologies being erroneously applied in computing and recording depreciation in the Fixed Asset Register and the General Ledger. FAR No 31 205-11 requires equal treatment of depreciation charges under government contracts The Fixed Asset Register is the source document for these charges As such, \$1,709 representing the excess of amounts recorded in the General Ledger over the Fixed Asset Register, is considered ineligible for inclusion in the indirect cost pool	\$ 1,709	\$ -
Total Depreciation Questioned Costs	\$ 1,709	\$ -

NOTE 6 - QUESTIONED COSTS (CONTD.):

	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
5 Company Management Expense		
A Included in the indirect cost pool under this account, is an amount of \$126,650 representing a partner's withdrawals for the year. USAID/Egypt's contracting officer, in a letter dated February 7, 1996, allowed a salary for partners (president) provided it is reasonable, identified as such, and paid regularly, and that it is not a distribution of profit. During our audit, we noted that the amount represented a single entry transferring the partner's withdrawal account (profit account) to the salary account. Therefore, the amount was not paid regularly, and it was a distribution of profit. As such, the amount is considered ineligible for inclusion in the indirect cost pool.	\$ 126,650	\$ -
Total Company Management Questioned Costs	<u>\$ 126,650</u>	<u>\$ -</u>
TOTAL QUESTIONED INDIRECT COSTS	<u><u>\$ 128,445</u></u>	<u><u>\$ 375</u></u>

IV. FRINGE BENEFITS

1 Medical Insurance		
A An amount of \$59 was billed to USAID/Egypt relating to medical insurance that could not be supported by original documentation evidencing payment. HRDC Contract clause No. G.4 requires expenditures included in costs billed to USAID/Egypt, to be supported by documentation sufficient to substantiate the expenditure. Management has stated this support has been inadvertently misplaced. As such, the amount is questioned as unsupported	\$ -	\$ 59
Total Medical Insurance Questioned Costs	<u>\$ -</u>	<u>\$ 59</u>
TOTAL FRINGE BENEFITS QUESTIONED COSTS	<u><u>\$ -</u></u>	<u><u>\$ 59</u></u>

Price Waterhouse



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

May 26, 1998

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

We have audited the fund accountability statements of project revenues received and costs incurred and schedules of computations of indirect and fringe benefit cost rates of the Environmental Quality International ("EQI") under Contract No. 263-0000-C-00-2203-00 ("HRDC") and No 263-0225-C-00-5078-00 ("LES") (collectively, the "Contracts"), for the periods January 1, 1996 through May 16, 1997 and May 8, 1995 through June 30, 1997 (collectively, the "audit periods"), respectively, and have issued our qualified report thereon dated May 26, 1998.

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

The management of EQI 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 statements and schedules of computations of indirect and fringe benefit cost rates in accordance with the terms of the related Contracts and the basis of accounting described in Note 2 of the report on the fund accountability statements. 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.

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In planning and performing our audit of the fund accountability statements and schedules of computations of indirect and fringe benefit cost rates of EQI for the audit periods, we obtained an understanding of the internal control structure as it relates to the Contracts 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 statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

A material weakness is a reportable 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 fund accountability statements and schedules of computations of indirect and fringe benefit cost rates being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. 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 EQI management and others within the organization and USAID/Egypt. However, this report is a matter of public record and its distribution is not limited.

Pricewaterhouse

Price Waterhouse



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

May 26, 1998

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

We have audited the fund accountability statements of project revenues received and costs incurred and schedules of computations of indirect and fringe benefit cost rates of the Environmental Quality International ("EQI") under United States Agency for International Development Mission to Egypt ("USAID/Egypt") Contract No 263-0000-C-00-2203-00 ("HRDC") and No. 263-0225-C-00-5078-00 ("LES") (collectively, the "Contracts"), for the periods January 1, 1996 through May 16, 1997 and May 8, 1995 through June 30, 1997 (collectively, the "audit periods"), respectively, and have issued our qualified report thereon dated May 26, 1998.

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

Compliance with laws, regulations and contracts applicable to EQI is the responsibility of EQI management. As part of obtaining reasonable assurance about whether the fund accountability statements and schedules of computations of indirect and fringe benefit cost rates are free of material misstatement, we performed tests of EQI's compliance with certain provisions of laws, regulations and contracts. However, the objective of our audit of the fund accountability statements and schedules of computations of indirect and fringe benefit 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 and contracts we tested as part of obtaining such reasonable assurance into the following categories

- Procurement policies and procedures
- Restrictions on allowable costs
- Budgetary expenditure limitations
- Maintenance of accounting books, records and documents
- Billing restrictions of indirect cost rates, fringe benefit rates, fixed fee rates and fixed multiplier rates

The results of our tests of compliance disclosed no instances of noncompliance that are required to be reported herein under GAS

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

Price Waterhouse

ENVIRONMENTAL QUALITY INTERNATIONAL
USAID/EGYPT CONTRACT
No. 23-0000-C-00-2203-00 ("HRDC") AND
No. 263-0225-C-00-5078-00 ("LES")

EQI ENVIRONMENTAL
QUALITY
INTERNATIONAL

May 26, 1998

Mr. Mihir Trivedi
Audit Manager
Price WaterHouse
Cairo, Egypt

Dear Mr Trivedi,

Enclosed please find Environmental Quality International (EQI) response to the Draft Audit Report USAID/Egypt contract No. 263-0000-C-00-2203-00 (HRDC) and No. 263-0225-C-5078-00 (LES), for the periods January 1, 1996 through May 16, 1997 (HRDC) and, May 8, 1995 through June 30, 1997 (LES).

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

Sincerely,


Ahmed Bahgat

Vice President for Finance and Administration

ENVIRONMENTAL QUALITY INTERNATIONAL
USAID/EGYPT CONTRACT
No. 23-0000-C-00-2203-00 ("HRDC") AND
No. 263-0225-C-00-5078-00 ("LES")

Environmental Quality International
Auditee's Response To Draft Audit Report

USAID/ EGYPT Contract

No. 263-0000-C-00-2203-00 (HRDC)

And

No 263-0225-C-00-5078-00 (LES)

For the Periods

January 1, 1996 Through May 16 1997 (HRDC)

And May 8,1995 Through June 30 ,1997 (LES)

ENVIRONMENTAL QUALITY INTERNATIONAL
USAID/EGYPT CONTRACT
No. 23-0000-C-00-2203-00 ("HRDC") AND
No. 263-0225-C-00-5078-00 ("LES")

NOTES TO THE FUND ACCOUNTABILITY STATEMENTS
AND SCHEDULES OF COMPUTATIONS OF INDIRECT COST AND
FRINGE BENEFIT RATES

Environmental Quality International (EQI) is pleased to receive the audit report. EQI agrees to all ineligible and unsupported draft questioned costs included in the draft audit report. However we would like to include the following management response to NOTE 6- QUESTIONABLE COSTS:

DIRECT COSTS - LOCAL ENVIRONMENT SERVICES

1. TSO No. 2

B. Salary increases

Though, we feel that the issue of the bio-data sheets is irrelevant to your audit findings, we do agree that they did not include the salary history for the last three years for the two subject employees. Salary history is provided below:

<u>Employee name</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>
	<u>L.E.</u>	<u>L.E.</u>	<u>L.E.</u>
Ahmed Seifelnasr	3,222.40	2999.20	2,662.3
Nihal Sharara	3,010.33	2375.01	2,196.90

As for the increases awarded to the employees, they were made in accordance with EQI's policies and procedures. Salary increases for 1995 were set to range between (10% -20%) and supported by decisions of the EQI's Executive Committee. Both the January 1995 increase and, the June 1995 salary adjustment took place prior to the initiation of TSO No. 2 which was signed on July 17, 1995. We therefore do not agree with your finding and base of calculation and reduction of the salary increase from 18% to 10%.

ENVIRONMENTAL QUALITY INTERNATIONAL

USAID/EGYPT CONTRACT
NO. 23-0000-C-00-2203-00 (HRDC) AND
NO. 263-0225-C-00-5078-00 (LES)

INDEPENDENT ACCOUNTANTS' RESPONSE

Management of Environmental Quality International (EQI) provided comments to our draft report presented at the exit conference held on April 28, 1998. 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 EQI MANAGEMENT'S COMMENTS TO QUESTIONED COSTS
AS DETAILED IN NOTE 6 OF THE FUND ACCOUNTABILITY STATEMENT

The management of EQI agreed with all findings except for finding II 1. B. This finding relates to salary increases received by two employees. EQI stated these increases were made in accordance with EQI's policies and procedures. They also infer that the increase took place prior to the beginning of the LES contract, and therefore, EQI was not yet limited by USAID percentages.

In response, we disagree with EQI's assessment and maintain the finding as stated. EQI's policy manual Section VII, "Compensation", Article B, "Merit Increase", states that "annual increments to salaries" will be made based on merit. "Merit increase in salary .. will be effective January 1 of each calendar year". Article D, "Promotions", allows grade promotions with corresponding increases in salary on the basis of performance and the recommendations of the responsible department head. The January 1995 salary increase is allowed. The EQI memo, dated May 14, 1995, which authorized the adjustment in salary did not state the employees were getting grade promotions, only "salary adjustments". The wording of the memo makes it clear that this adjustment is because of merit and not grade promotion. Therefore, we conclude that the adjustment was not made according to EQI's policies and procedures. Furthermore, the LES contract, which includes the USAID limiting clause on salary increases, was signed May 7, 1995. Therefore, the salary increase limitations became effective before the salary adjustment on May 14, or the effective date of Technical Service Order No. 2. The finding remains as stated.

ENVIRONMENTAL QUALITY INTERNATIONAL
USAID/EGYPT CONTRACT
NO. 23-0000-C-00-2203-00 (HRDC) AND
NO. 263-0225-C-00-5078-00 (LES)

MISSION RESPONSE



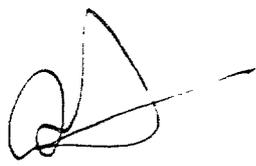
UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO EGYPT

September 8, 1998

MEMORANDUM

TO: Lou Mundy, RIG/A/C

FROM: Shirley A. Hunter, Division Chief, FM/FA 

SUBJECT: Request for Resolution - Audit of Environmental Quality International, Expenditures Incurred under Contract Nos. 263-0000-C-00-2203-00 and CO-263-0225-C-00-5078-00 Draft Report dated August 2, 1998

Following is the Mission response to Recommendations 1, 2, and 3 under the subject audit.

Recommendation No. 1:

We recommend that USAID/Egypt make a management decision on the questioned costs of \$135 (\$43 ineligible and \$92 unsupported) under Contract No. 263-0000-C-00-2203-00 detailed on page 14 of the audit report, and recover from Environmental Quality International the amount determined to be unallowable.

Mission Response:

EQI accepted the recommendation and refunded the entire questioned amount. Attached is a copy of Check No.0609329 dated September 6, 1998 in the amount of LE 457.65 (equivalent of \$135), Receipt No. 18526 dated September 8, 1998 (attachment 1).

Based on the above, Mission requests closure of Recommendation No. 1 upon issuance of the final report.

Recommendation No. 2:

We recommend that USAID/Egypt make a management decision on the questioned costs of \$4,282 (\$4,222 ineligible and \$60 unsupported) under Contract No. 263-0225-C-00-5078-00 detailed on pages 15 and 16 of the audit report, and recover from Environmental Quality International the amount determined to be unallowable.

Mission Response:

EQI accepted the recommendation and refunded the entire questioned amount. Attached is a copy of Check No. 0609330 dated September 6, 1998 in the amount of LE 14,515.98 (equivalent of \$4,282), Receipt No.18526 dated September 8, 1998 (attachment 2).

Based on the above, Mission requests closure of Recommendation No. 2 upon issuance of the final report.

Recommendation No. 3:

We recommend that USAID/Egypt determine Environmental Quality International's final indirect cost and fringe benefit rates for the period January 1, 1996 through May 16, 1997 for Contract No. 263-0000-C-00-2203 based on the consideration of questioned indirect cost and fringe benefit rates detailed on pages 16 through 18 of the audit report, and recover any amounts owed to USAID as a result of that determination.

Mission Response:

Attached is a copy of the Negotiated Indirect Cost Rate Agreement (NICRA), dated September 8, 1998, approving EQI's entity wide calendar year 1996 indirect cost rate of 95.49% for contracts/subcontracts where the base of computation is direct salaries, as well as fringe benefit rate of 33.05% which applies to all contracts/subcontracts (attachment 3).

Furthermore, the NICRA has also approved the indirect cost rate of 71.77% for calendar year 1996 specifically for the audited Contract No. 263-0000-C-00-2203-00, where the base of computation is direct salaries plus fringe benefits.

Accordingly, the final audited rates for the above contract are as follows:

Calendar Year	Indirect Cost Rate	Fringe Benefit Rate
1996	71.77%	33.05%

EQI submitted a computation table of the adjustment amounts resulting from applying the revised indirect cost/fringe benefit rates for calendar years 1996, 1997, and through August 1998. Mission thoroughly reviewed and verified EQI's computation table and agreed to them. Based on the above computation, LE 227,155 is owed to EQI by USAID (attachment 4).

Based on the above, Mission requests resolution of recommendation No. 3. Closure will be requested from M/MPI upon payment of the LE 227,155 due to EQI.

Thank you for your continuing cooperation. Please issue the final report.

Att: a/s



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

NEGOTIATED INDIRECT COST RATE AGREEMENT
USAID/EGYPT

Date: September 8, 1998

SUBJECT: Indirect Cost Rate for Use in cost Reimbursement Type Agreements with U.S. Agency for International Development (USAID/Cairo) as a Prime or as a Subcontractor

REFERENCE: Regional Inspector General for Audit (RIG) Cairo, Egypt, Draft Audit Report dated August 2, 1998

CONTRACTOR: Environmental Quality International (EQI)
OR 38 Bahgat Ali Street
GRANTEE Zamalek, Cairo, Egypt

PART I - NEGOTIATED INDIRECT COST RATE (%)

Type	Effective Period		Overhead	Fringe
	From	To	(a)	b)
Final	01/01/96	12/31/96	95.49%	33.05%
Provisional	01/01/97	Until Amended	95.49%	33.05%

Base of Application:

- (a) Total Direct Salaries
- (b) Total Direct Salaries

Acceptance of the rate(s) agreed to herein is predicated upon the conditions: (1) that no costs other than those incurred by the grantee/contractor were included in its indirect cost rate proposal and that such costs are legal obligations of the grantee/contractor; (2) that the same costs that have been treated as indirect costs have not been claimed as direct costs; (3) that similar types of costs have been accorded consistent treatment; and (4) that the information provided by the grantee/contractor which was used as the basis for acceptance of the rate(s) agreed to herein is not subsequently found to be materially incomplete or inaccurate.

PART II - SPECIAL TERMS AND CONDITIONS

Pursuant to 742.770 of the Agency for International Development Regulations (AIDAR), the negotiated indirect cost rates set forth in Part I of this agreement are incorporated into the USAID agreement(s) shown below. This agreement shall not change any monetary ceiling, obligation, or specific cost allowance or disallowance provided for in the contracts or grants listed below or any other Agreement between the parties.

Contract/Grant Number:

All contracts/subcontracts shall have total salaries as the base of application and this will be the base for all future contracts/subcontracts except as noted below.

Contract No. 263/C-00-92-00203/263-0000-C-00-2203-00 (Field Verification and Monitoring of Human Resources and Development Cooperation Project Inputs): For this contract only, the final overhead rate for calendar year ending December 31, 1996 shall be 71.77% of total direct salaries and fringe benefits. For this contract only, the provisional overhead rate from January 1, 1997 until amended, shall be 71.77% of total direct salaries and fringe benefits.

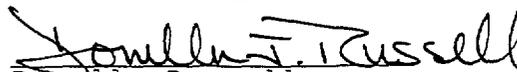
NOTE: The contract ceilings for overhead shall not be exceeded.

ACCEPTED: Environmental Quality International (EQI)

By: _____
Print or Type Name

Title

Date


Donella Russell
Contracting Officer
Office of Procurement
USAID/Cairo