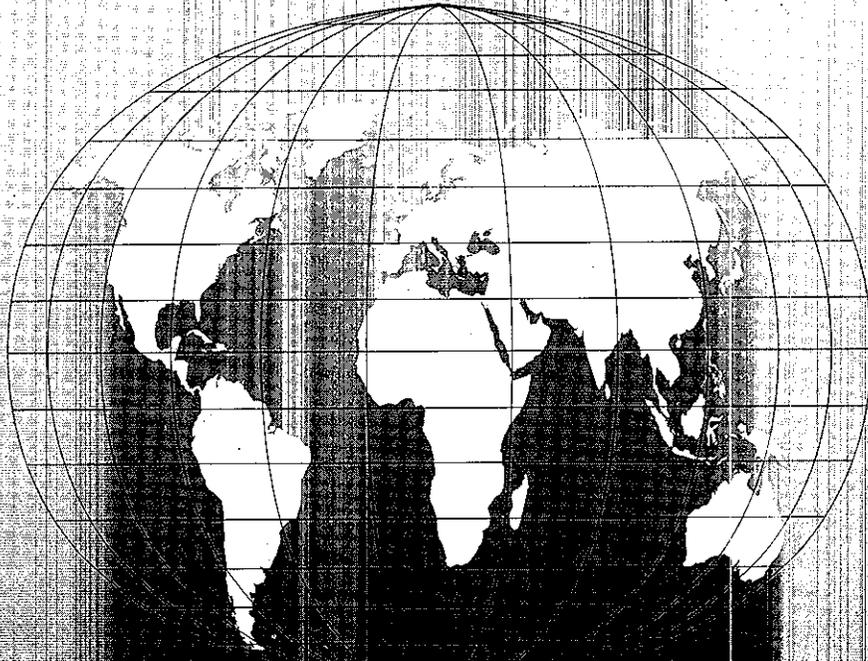


PD-ABT-738

Report of Audit

**Financial Audit of Environmental Quality International,
Costs Incurred Under USAID/Egypt Contract
Nos. 263-C-00-92-00203-00 and
263-C-00-95-00078-00**

**Report No. 6-263-01-006-N
June 27, 2001**



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

CAIRO, EGYPT

Report No. 6-263-01-006-N

June 27, 2001

MEMORANDUM

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

FROM: RIG/Cairo, Darryl T. Burris *DBurris*

SUBJECT: Financial Audit of Environmental Quality International, Costs Incurred Under USAID/Egypt Contract Nos. 263-C-00-92-00203-00 and 263-C-00-95-00078-00

The attached PricewaterhouseCoopers' report presents the results of a financial audit of Environmental Quality International (EQI) under USAID/Egypt Contract Nos. 263-C-00-92-00203-00 and 263-C-00-95-00078-00 for the periods May 17, 1997 through May 16, 1999 and July 1, 1997 through May 7, 1999, respectively. EQI is a management consulting firm engaged in providing environmental and management consulting services to both government and private sector institutions in Egypt. USAID/Egypt contracted EQI (Contract No. 263-C-00-92-00203-00) to assist the Mission's Directorate for Human Resources and Development Cooperation (HRDC) in monitoring the end use of non-expendable property purchased for USAID/Egypt projects. USAID/Egypt engaged EQI to provide short-term quick response technical services in the environmental sector (Local Environment Services (LES) Contract No. 263-C-00-95-00078-00) for the Mission's Office of the Environment.

The Office of Regional Inspector General, Cairo, Egypt (RIG/Cairo) reviewed the audit report and found it to be in accordance with the USAID Office of Inspector General's *Guidelines for Financial Audits Contracted by Foreign Recipients*.

As the EQI contracts have lapsed, PricewaterhouseCoopers did not perform a detailed evaluation of EQI's internal controls, nor its overall compliance with applicable laws and regulations with respect to the contracts under audit.

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

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B

PricewaterhouseCoopers questioned direct costs of \$347 for contract No. 263-C-00-92-00203-00 (HRDC). As regards questioned costs in the indirect cost pools, for calendar year 1997, the auditors questioned \$92,636 (\$92,621 ineligible and \$15 unsupported) and for 1998, they questioned \$69,069 (all ineligible). Lastly, the auditors questioned \$704 (\$645 ineligible and \$59 unsupported) charged to EQI's fringe benefits cost pool for calendar year 1997. Considering the questioned charges, the auditors determined the following rates affecting only Contract No. 263-C-00-92-00203-00 (HRDC):

<u>Calendar Year</u>	<u>Indirect Cost</u>	<u>Fringe Benefit</u>
1997	66.37%	39.21%
1998	55.18%	42.24%

Based on our review of the report, the following audit recommendations are included in USAID's Consolidated Audit Tracking System:

Recommendation No. 1: We recommend that USAID/Egypt make a management decision on the questioned costs of \$347 (unsupported) related to Contract No. 263-C-00-92-00203-00 (HRDC) as detailed on page 20 of the PricewaterhouseCoopers report, and recover from Environmental Quality International any amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Egypt finalize Environmental Quality International's indirect cost and fringe benefit rates for the period January 1, 1997 through May 16, 1999 for Contract No. 263-C-00-92-00203-00 based on the consideration of questioned indirect costs and fringe benefits detailed on pages 20 through 23 of the PricewaterhouseCoopers 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 \$347. Therefore, we consider that USAID/Egypt has taken a final action on Recommendation No. 1 and the recommendation is closed upon report issuance.

In response to Recommendation No. 2, USAID/Egypt officials agreed to finalize the audited indirect cost and fringe benefit rates for the audited period and recover any amounts owed to USAID/Egypt. Therefore, we consider a management decision has been reached on Recommendation No. 2. The Mission should provide M/MPI evidence when final actions have been taken.

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

Attachments: a/s

C

ENVIRONMENTAL QUALITY INTERNATIONAL

**FINANCIAL RELATED AUDIT OF
USAID/EGYPT CONTRACTS**

No. 263-C-00-92-00203-00 ("HRDC")

No. 263-C-00-95-00078-00 ("LES")

**FUND ACCOUNTABILITY STATEMENTS
SCHEDULES OF COMPUTATION OF
INDIRECT COST RATES AND ADDITIONAL INFORMATION**

**FOR THE PERIODS
MAY 17, 1997 THROUGH MAY 16, 1999 ("HRDC") AND
JULY 1, 1997 THROUGH MAY 7, 1999 ("LES")**

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ENVIRONMENTAL QUALITY INTERNATIONAL

FINANCIAL RELATED AUDIT OF
USAID/EGYPT CONTRACTS
No. 263-C-00-92-00203-00 ("HRDC") AND
No. 263-C-00-95-00078-00 ("LES")

FUND ACCOUNTABILITY STATEMENTS
SCHEDULES OF COMPUTATION OF
INDIRECT COST RATES AND
ADDITIONAL INFORMATION

FOR THE PERIODS
MAY 17, 1997 THROUGH MAY 16, 1999 ("HRDC") AND
JULY 1, 1997 THROUGH MAY 7, 1999 ("LES")

INTRODUCTION

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FUND ACCOUNTABILITY STATEMENTS AND SCHEDULES OF
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February 7, 2000

Mr. Darryl Burris
Regional Inspector General/Cairo
United States Agency for
International Development

Dear Mr. Burris:

This report presents the results of our financial related audit of 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-C-00-92-00203-00 ("HRDC") and Contract No. 263-C-00-95-00078-00 ("LES") (collectively, the "Contracts"), for the periods May 17, 1997 through May 16, 1999 and July 1, 1997 through May 7, 1999 (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 was also 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 was 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 were in the areas of institutional development; environmental analysis and monitoring; assessing, planning and designing environmental activities, and policy formulation. The specific requests were made via Technical Service Orders ("TSO"). Each TSO identified the nature of the requested services, the personnel authorized to work, the authorized contract period, and the other direct costs.

The HRDC contract ended May 16, 1999, and the LES contract ended May 7, 1999.

Audit Objectives and Scope:

The purpose of this engagement was to perform a financial related audit of 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 statements for USAID/Egypt funds managed by EQI presents fairly, in all material respects, 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 in order to adequately plan the audit and the nature, extent and timing of audit tests;
4. Perform an audit of the indirect and fringe benefit cost rates and the fixed multiplier rate used by EQI under the Contracts; and
5. Determine if EQI has taken corrective action on prior audit report recommendations.

While we were engaged on the audit, the Contracts approached their completion dates. Therefore, the office of the Regional Inspector General for Audit in Cairo requested an extension of the audit fieldwork to audit through the completion dates, of May 7, 1999 and May 16, 1999. This report is the result of the audit work on the final period of the Contracts.

Preliminary planning and review procedures began in February 1999. 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 April 1999 and was completed in February 7, 2000.

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

		HRDC	LES	Indirect Costs		Fringe Benefits	
				1997	1998	1997	1998
Population of Costs	\$	443,639	90,530	1,959,413	2,177,783	383,329	498,387
Amount Tested	\$	81,998	42,085	601,131	585,122	249,997	295,887
Percent of Population		18%	46%	31%	27%	65%	59%
Revenue	\$	834,372	100,725				
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 Contracts' costs were appropriately supported.
2. Testing a representative sample of Contracts' 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 Contracts' 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 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 PricewaterhouseCoopers worldwide internal quality control program that requires the PricewaterhouseCoopers Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other PricewaterhouseCoopers offices and firms.

USAID/Egypt has requested we not report on EQI's internal control and overall compliance with laws, regulations, and Contracts for the Contracts under audit as required by Chapter 5 of GAS. This is because recommendations to improve weaknesses in the internal control, and Corrective actions to rectify instances of material noncompliance cannot be implemented. The EQI Contract and the activities Conducted under the Contracts, and, consequently the internal control with respect to the Contracts under audit, have ceased with no additional funds being provided by USAID/Egypt.

We believe that the effect of this departure from the financial audit reporting requirements of GAS is not material. This is because in planning and performing our audit of the fund accountability statements of EQI for the audit period, we obtained an understanding of the internal control as it related to the Contracts under audit. With respect to the internal control, we obtained an understanding of the design of relevant policies and procedures. 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. As part of obtaining reasonable assurance about whether the fund accountability statements are free from material misstatements, we performed tests of EQI's compliance with certain provisions of laws, regulations, and Contracts that related to the allowability of revenues received and costs incurred. The objective of our audit of the fund accountability statements was not to provide an opinion on overall compliance with such provisions.

Results of Audit:

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

Our audit procedures identified the following questioned costs.

	Direct Costs		Indirect Costs		Fringe Benefits	
	HRDC	LES	1997	1998	1997	1998
Ineligible	\$ -	\$ -	\$ 92,621	69,069	\$ 645	-
Unsupported	347	-	15	-	59	-
Total U.S. \$	\$ 347	\$ -	\$ 92,636	69,069	\$ 704	-

The fund accountability statements, 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

As stated previously, the EQI Contracts have lapsed. As a result, we did not perform a detailed evaluation of the EQI's internal control with respect to the Contracts under audit.

Compliance with Laws, Regulations, and Contracts

As stated previously, the EQI Contracts have lapsed. As a result, we did not evaluate EQI's overall compliance with applicable laws and regulations with respect to the Contracts under audit.

Follow up on Prior Audit Recommendations

We have reviewed the prior audit report of EQI's HRDC and LES Contracts for the period January 1, 1996 through May 16, 1997 and May 8, 1995 through June 30, 1997, (the "prior audit"), respectively. Our review revealed the following:

Fund Accountability Statements

The prior audit report identified questioned project costs of \$43 and \$4,222 of ineligible costs, and \$92 and \$60 of unsupported costs under HRDC and LES, respectively. These questioned direct costs were reimbursed to USAID/Egypt.

Internal Control

The prior audit report identified no reportable conditions that were considered to be material weaknesses.

Compliance with Laws, Regulations and Contracts

The prior audit report identified no material instance of non-compliance as it relates to the Contracts' terms.

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.

PricewaterhouseCoopers

February 7, 2000

Mr. Darryl Burris
Regional Inspector General/Cairo
United States Agency for
International Development

REPORT OF INDEPENDENT ACCOUNTANTS ON THE FUND ACCOUNTABILITY STATEMENTS

We have audited the fund accountability statements of 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-C-00-92-00203-00 ("HRDC") and Contract No. 263-C-00-95-00078-00 ("LES") (collectively, the "Contracts"), for the periods May 17, 1997 through May 16, 1999 and July 1, 1997 through May 7, 1999 (collectively, the "audit periods"), respectively. The fund accountability statements and schedules of computations of indirect and fringe benefit cost rates ("schedules") 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 following two paragraphs, 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 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. 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 PricewaterhouseCoopers worldwide internal quality control program which requires the PricewaterhouseCoopers Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other PricewaterhouseCoopers offices and firms.

USAID/Egypt has requested we not report on EQI's internal control and overall compliance with laws, regulations, and Contracts for the Contracts under audit as required by Chapter 5 of GAS. This is because recommendations to improve weaknesses in the internal control and Corrective actions to rectify instances of material noncompliance cannot be implemented. The EQI Contracts and the activities conducted under the Contracts, and, consequently the internal control with respect to the Contracts under audit, have ceased with no additional funds being provided by USAID/Egypt. We believe that the effect of this departure from the financial audit reporting requirements of GAS is not material.

This is because in planning and performing our audit of the fund accountability statements of EQI for the audit period, we obtained an understanding of the internal control as it related to the Contracts under audit. With respect to the internal control, we obtained an understanding of the design of relevant policies and procedures. 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. As part of obtaining reasonable assurance about whether the fund accountability statements are free from material misstatements, we performed tests of EQI's compliance with certain provisions of laws, regulations, and Contracts that related to the allowability of revenues received and costs incurred. The objective of our audit of the fund accountability statements was not to provide an opinion on overall compliance with such provisions.

The fund accountability statements and schedules 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. Consequently, revenues are recognized when received and expenditures are recognized when paid, rather than when the obligations are incurred. Accordingly, the fund accountability statements are not intended to present results in accordance with accounting principles generally accepted in the United States of America.

As detailed in the fund accountability statements and the schedules, and more fully described in Note 7 thereto, the results of our audit procedures identified the following questioned costs.

	Direct Costs		Indirect Costs		Fringe Benefits	
	HRDC	LES	1997	1998	1997	1998
Ineligible	\$ -	\$ -	\$ 92,621	69,069	\$ 645	-
Unsupported	347	-	15	-	59	-
Total U.S. Dollars	\$ 347	\$ -	\$ 92,636	69,069	\$ 704	-

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 costs are those lacking proper documentation.

In our opinion, except for the effects of the questioned costs discussed in the seventh 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, 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.

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.

PricewaterhouseCoopers

PricewaterhouseCoopers
February 7, 2000



ENVIRONMENTAL QUALITY INTERNATIONAL "EQI"
 USAID/EGYPT
 CONTRACT No. 263-C-00-92-00203-00 (HRDC)
 FUND ACCOUNTABILITY STATEMENT
 FOR THE PERIOD MAY 17, 1997 THROUGH MAY 16, 1999
 EXPRESSED IN US DOLLARS

	Approved Budget Note 1	Actual Expenditures Note 1	Revised Actual Note 1	Questionable Ineligible Note 7	Direct Costs Unsupported Note 7	Audit Finding Reference
OPENING FUND BALANCE		\$ (43,558)	\$ (43,558)	\$ -	\$ -	
HRDC REVENUES		\$ 834,372	\$ 834,372	\$ -	\$ -	
EXPENDITURES						
Salaries	\$ 366,069	\$ 286,145	\$ 286,145	\$ -	\$ -	
Fringe Benefits	58,319	75,347	75,347	-	-	
Indirect Costs	292,024	250,649	250,649	-	-	
Travel & Perdiem	57,653	58,151	58,151	-	-	
Transportation	35,717	40,563	40,563	-	347	No.A, 1A, Page 20
Office Support Services	7,298	6,909	6,909	-	-	
Fixed Fee	58,706	42,330	42,330	-	-	
Computer Rental	21,589	17,900	17,900	-	-	
Training Room & Facilities	9,020	5,752	5,752	-	-	
Training EQI-Staff	26,335	28,219	28,219	-	-	
Total Expenditures	\$ 932,730	\$ 811,965	\$ 811,965	\$ -	\$ 347	
Outstanding Balance (Note 1)		\$ (21,151)	(21,151)			

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

ENVIRONMENTAL QUALITY INTERNATIONAL "EQI"
 USAID/EGYPT
 CONTRACT No. 263-C-00-95-00078-00 (LES)
 FUND ACCOUNTABILITY STATEMENT
 FOR THE PERIOD JULY 1, 1997 THROUGH MAY 7, 1999
 EXPRESSED IN US DOLLARS

	Approved Budget Note 1	Actual Expenditures Note 1	Revised Actual Note 1	Questionable Direct Costs		Audit Finding Reference
				Ineligible Note 7	Unsupported Note 7	
OPENING FUND BALANCE		\$ (10,195)	\$ (10,195)			
TSO REVENUES		\$ 100,725	\$ 100,725	\$ -	\$ -	
EXPENDITURES						
TSO 10	\$ 8,394	\$ 6,981	\$ 6,981	\$ -	\$ -	
TSO 12	29,184	27,451	27,451	-	-	
TSO 14	11,763	11,633	11,633	-	-	
TSO 15	15,921	14,327	14,327	-	-	
TSO 16	43,154	30,138	30,138	-	-	
Total Expenditures	\$ 108,416	\$ 90,530	\$ 90,530	\$ -	\$ -	
Outstanding Balance		\$ -	\$ -			

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

ENVIRONMENTAL QUALITY INTERNATIONAL "EQI"
 SCHEDULE OF COMPUTATION OF INDIRECT COST RATE
 CONTRACT No. 263-C-00-92-00203-00 (HRDC)
 FOR CALENDAR YEAR 1997
 EXPRESSED IN US DOLLARS

INDIRECT COST POOL	Total Expenditures Note 1	Reclassification Note 4	Adjustment Note 4	Questionable Indirect Costs		Correct Indirect Cost Pool Note 6	Audit Finding Reference
				Ineligible Note 7	Unsupported Note 7		
Indirect Salaries	\$ 456,343	\$ (391)	\$ -	\$ -	\$ 15	\$ 455,937	No.B, 1A, Page 20
Rent Expenses	50,408	-	-	-	-	50,408	
Utilities	6,861	-	-	-	-	6,861	
Repairs & Maintenance	15,311	-	-	-	-	15,311	
Communication Expenses	24,011	-	-	-	-	24,011	
Postage & Mailage Expenses	6,789	-	-	-	-	6,789	
Auto Expenses	26,415	-	-	-	-	26,415	
Local Travel Expenses	3,492	-	-	-	-	3,492	
International Travel Expenses	30,741	-	-	-	-	30,741	
Office Expenses	8,097	-	-	-	-	8,097	
Office Supplies	22,635	-	-	-	-	22,635	
Audit Fees	29,950	-	-	7,967	-	21,983	No.B, 3A, Page 20
Governmental Charges	3,332	-	-	-	-	3,332	
Depreciation Expenses	62,567	-	8,950	-	-	71,517	No.B, 8, page 23
Miscellaneous Expenses	2,452	-	-	332	-	2,120	No.B, 4, Page 21
Financial Expenses	3,672	-	-	-	-	3,672	
Guest Reception	3,253	-	-	3,177	-	76	No.B, 5A, Page 21
Company Tax	81,145	-	-	81,145	-	-	No.B, 6A, Page 21
Company Management Expenses	147,536	-	-	-	-	147,536	
Total Indirect Costs	\$ 985,010	\$ (391)	\$ 8,950	\$ 92,621	\$ 15	\$ 900,933	
DIRECT COST POOL							
Total Direct Salaries	\$ 974,403	\$ 685	\$ -	\$ -	\$ -	\$ 975,088	
Total Fringe Benefits	383,329	(294)	-	645	59	382,331	
Total Direct Salaries & Fringe Benefits	\$ 1,357,732	\$ 391	\$ -	\$ 645	\$ 59	\$ 1,357,419	

HRDC Indirect Cost Rate For 1997:

$$\frac{\text{Total Indirect Costs}}{\text{Total Direct Salaries \& Fringe Benefits}} = \frac{900,933}{1,357,419} = 66.37\%$$

The accompanying notes are an integral part of the this schedule.

ENVIRONMENTAL QUALITY INTERNATIONAL "EQI"

COMPUTATION OF FRINGE BENEFITS RATE

FOR CONTRACT No. 263-C-00-92-00203-00 ("HRDC")

FOR CALENDAR YEAR 1997

EXPRESSED IN US DOLLARS

FRINGE BENEFITS	Total Expenditures Note 1	Reclassification Note 4	Questionable Fringe Benefit Costs		Correct Fringe Benefit Pool Note 6	Audit Finding Reference
			Ineligible Note 7	Unsupported Note 7		
Vacation	\$ 97,102	\$ (294)	\$ -	\$ -	\$ 96,808	
Sick Leave	27,522	-	-	59	27,463	No.D, 1A, Page 22
Holidays	55,832	-	-	-	55,832	
Less Time	15,106	-	-	-	15,106	
Maternity Leave	13,532	-	-	-	13,532	
Emergency Leave	1,858	-	-	-	1,858	
Ramadan	8,672	-	-	-	8,672	
Total Fringe Benefits (1)	\$ 219,624	\$ (294)	\$ -	\$ 59	\$ 219,271	
OTHER FRINGE BENEFITS						
Social Insurance Co. Portion	\$ 58,805	\$ -	\$ -	\$ -	\$ 58,805	
Medical Insurance	39,051	-	-	-	39,051	
Incentives	6,349	-	-	-	6,349	
Allowance & Uniform for Off. Boys	3,546	-	-	-	3,546	
Housing	27,332	-	-	-	27,332	
Company Insurance	1,763	-	-	-	1,763	
Monthly Allowance (Alvin)	19,393	-	-	-	19,393	
Social Insurance / Seconded Staff	1,172	-	-	-	1,172	
Life Insurance	774	-	645	-	129	No.D, 2A, Page 22
Travel Allowance	5,520	-	-	-	5,520	
Total Other Fringe Benefits (2)	\$ 163,705	\$ -	\$ 645	\$ -	\$ 163,060	
Total Fringe Benefits (1+2)	\$ 383,329	\$ (294)	\$ 645	\$ 59	\$ 382,331	
DIRECT COST POOL						
Total Direct Salaries	\$ 974,403	\$ 685	\$ -	\$ -	\$ 975,088	
HRDC Fringe Benefits Rate 1997:						
Total Fringe Benefits		= 382,331	= 39.21%			
Total Direct Salaries		975,088				

The accompanying notes are an integral part of this schedule.

ENVIRONMENTAL QUALITY INTERNATIONAL "EQI"
 SCHEDULE OF COMPUTATION OF INDIRECT COST RATE
 FOR CONTRACT No. 263-0000-C-00-2203 (IIRDC)
 FOR CALENDAR YEAR 1998
 EXPRESSED IN US DOLLARS

INDIRECT COST POOL	Total Expenditures Note 1	Reclassification Note 4	Questionable Indirect Costs		Correct Indirect Cost Pool Note 6	Audit Finding Reference
			Ineligible Note 7	Unsupported Note 7		
Indirect Salaries	\$ 572,738	\$ -	\$ -	\$ -	\$ 572,738	
Rent Expenses	52,456	-	-	-	52,456	
Utilities	8,551	-	-	-	8,551	
Repairs & Maintenance	11,979	-	-	-	11,979	
Communication Expenses	24,948	-	-	-	24,948	
Postage & Mailing Expenses	5,636	-	-	-	5,636	
Auto Expenses	11,430	-	-	-	11,430	
Local Travel Expenses	10,094	-	-	-	10,094	
International Travel Expenses	10,143	-	-	-	10,143	
Office Expenses	8,684	-	-	-	8,684	
Office Supplies	19,472	-	-	-	19,472	
Audit Fees	3,974	-	-	-	3,974	
Legal Fees & Governmental Charges	4,120	-	-	-	4,120	
Depreciation Expenses	28,303	-	-	-	28,303	
Miscellaneous Expenses	3,898	-	-	-	3,898	
Financial Expenses	2,276	-	-	-	2,276	
Guest Reception	4,185	-	2,834	-	1,351	No.E, 1A, Page 22
Company Tax	66,235	-	66,235	-	-	No.E, 2 A, Page 23
Company Management Expenses	147,189	-	-	-	147,189	
Total Indirect Costs	\$ 996,311	\$ -	\$ 69,069	\$ -	\$ 927,242	
DIRECT COST POOL						
Total Direct Salaries	\$ 1,181,472	\$ -	\$ -	\$ -	\$ 1,181,472	
Total Fringe Benefits	498,387	644	-	-	499,031	
Total Direct Salaries & Fringe Benefits	\$ 1,679,859	\$ 644	\$ -	\$ -	\$ 1,680,503	
IIRDC Indirect Cost Rate For 1998:						
<u>Total Indirect Costs</u>			= <u>927,242</u>			= 55.18%
<u>Total Direct Salaries & Fringe Benefits</u>			<u>1,680,503</u>			

The accompanying notes are an integral part of this schedule.

ENVIRONMENTAL QUALITY INTERNATIONAL "EQI"
 COMPUTATION OF FRINGE BENEFITS RATE
 FOR CONTRACT No. 263-C-00-92-00203-00 ("HRDC")
 FOR CALENDAR YEAR 1998
 EXPRESSED IN US DOLLARS

FRINGE BENEFITS	Total Expenditures Note 1	Reclassification Note 4	Questionable Fringe Benefit Costs Ineligible Note 7	Unsupported Note 7	Correct Fringe Benefit Pool Note 6	Audit Finding Reference
Vacation	\$ 130,163	\$ -	\$ -	\$ -	\$ 130,163	
Sick Leave	30,636	-	-	-	30,636	
Holidays	77,408	-	-	-	77,408	
Less Time	21,592	-	-	-	21,592	
Maternity Leave	992	-	-	-	992	
Emergency Leave	882	-	-	-	882	
Ramadan	12,800	-	-	-	12,800	
Training	874	-	-	-	874	
Total Fringe Benefits (1)	\$ 275,347	\$ -	\$ -	\$ -	\$ 275,347	
OTHER FRINGE BENEFITS						
Social Insurance Co. Portion	\$ 64,392	\$ -	\$ -	\$ -	\$ 64,392	
Medical Insurance	47,850	-	-	-	47,850	
Incentives	12,911	-	-	-	12,911	
Allowance & Uniform for Off. Boys	1,390	-	-	-	1,390	
Housing	39,958	-	-	-	39,958	
Company Insurance	48	-	-	-	48	
Monthly Allowance (Alvin)	23,221	-	-	-	23,221	
Monthly Allowance (Duncan)	26,219	-	-	-	26,219	
Social Insurance / Seconded Staff	3,169	-	-	-	3,169	
Life Insurance	111	644	-	-	755	
Travel Allowance	3,493	-	-	-	3,493	
Training Allowance	278	-	-	-	278	
Total Other Fringe Benefits (2)	\$ 223,040	\$ -644	\$ -	\$ -	\$ 223,684	
Total Fringe Benefits (1+2)	\$ 498,387	\$ 644	\$ -	\$ -	\$ 499,031	
DIRECT COST POOL						
Total Direct Salaries	\$ 1,181,472	\$ -	\$ -	\$ -	\$ 1,181,472	
HRDC Fringe Benefits Rate 1998:						
<u>Total Fringe Benefits</u>		=	499,031	=	42.24%	
<u>Total Direct Salaries</u>			1,181,472			

The accompanying notes are an integral part of this schedule.

ENVIRONMENTAL QUALITY INTERNATIONAL "EQI"
 SCHEDULE OF COMPUTATION OF INDIRECT COST RATE
 FOR CALENDAR YEAR 1997
 EXPRESSED IN US DOLLARS

INDIRECT COST POOL	Total Expenditures Note 1	Reclassification Note 4	Adjustment Note 4	Questionable Indirect Costs		Correct Indirect Cost Pool Note 6	Audit Finding Reference
				Ineligible Note 7	Unsupported Note 7		
Indirect Salaries	\$ 456,343	\$ (391)	\$ -	\$ -	\$ 15	\$ 455,937	No. B, 1A, Page 20
Rent Expenses	50,408	-	-	-	-	50,408	
Utilities	6,861	-	-	-	-	6,861	
Repairs & Maintenance	15,311	-	-	-	-	15,311	
Communication Expenses	24,011	-	-	-	-	24,011	
Postage & Mailage Expenses	6,789	-	-	-	-	6,789	
Auto Expenses	26,415	-	-	-	-	26,415	
Local Travel Expenses	3,492	-	-	-	-	3,492	
International Travel Expenses	30,741	-	-	-	-	30,741	
Office Expenses	8,097	-	-	-	-	8,097	
Office Supplies	22,635	-	-	-	-	22,635	
Audit Fees	29,950	-	-	7,967	-	21,983	No. B, 3A, Page 20
Governmental Charges	3,332	-	-	-	-	3,332	
Depreciation Expenses	62,567	-	8,950	-	-	71,517	
Miscellaneous Expenses	2,452	-	-	332	-	2,120	No. B, 4, Page 21
Financial Expenses	3,672	-	-	-	-	3,672	
Guest Reception	3,253	-	-	3,177	-	76	No. B, 5A, Page 21
Company Tax	81,145	-	-	81,145	-	-	No. B, 6A, Page 21
Company Management Expenses	147,536	-	-	-	-	147,536	
Total Indirect Costs	\$ 985,010	\$ (391)	\$ 8,950	\$ 92,621	\$ 15	\$ 900,933	
DIRECT COST POOL							
Total Direct Salaries	\$ 974,403	\$ 685	\$ -	\$ -	\$ -	\$ 975,088	
Total Direct Salaries	\$ 974,403	\$ 685	\$ -	\$ -	\$ -	\$ 975,088	
EQI Indirect Cost Rate For 1997:							
<u>Total Indirect Costs</u>		= 900,933		= 92.40%			
<u>Total Direct Salaries</u>		975,088					

The accompanying notes are an integral part of this schedule.

ENVIRONMENTAL QUALITY INTERNATIONAL "EQI"
 SCHEDULE OF COMPUTATION OF INDIRECT COST RATE
 FOR CALENDAR YEAR 1998
 EXPRESSED IN US DOLLARS

INDIRECT COST POOL	Total Expenditures Note 1	Reclassification Note 4	Questionable Indirect Costs		Correct Indirect Cost Pool Note 6	Audit Finding Reference
			Ineligible Note 7	Unsupported Note 7		
Indirect Salaries	\$ 572,738	\$ -	\$ -	\$ -	\$ 572,738	
Rent Expenses	52,456	-	-	-	52,456	
Utilities	8,551	-	-	-	8,551	
Repairs & Maintenance	11,979	-	-	-	11,979	
Communication Expenses	24,948	-	-	-	24,948	
Postage & Mailage Expenses	5,636	-	-	-	5,636	
Auto Expenses	11,430	-	-	-	11,430	
Local Travel Expenses	10,094	-	-	-	10,094	
International Travel Expenses	10,143	-	-	-	10,143	
Office Expenses	8,684	-	-	-	8,684	
Office Supplies	19,472	-	-	-	19,472	
Audit Fees	3,974	-	-	-	3,974	
Legal Fees & Governmental Charges	4,120	-	-	-	4,120	
Depreciation Expenses	28,303	-	-	-	28,303	
Miscellaneous Expenses	3,898	-	-	-	3,898	
Financial Expenses	2,276	-	-	-	2,276	
Guest Reception	4,185	-	2,834	-	1,351	No.E, 1A, Page 22
Company Tax	66,235	-	66,235	-	-	No.E, 2A, Page 23
Company Management Expenses	147,189	-	-	-	147,189	
Total Indirect Costs	\$ 996,311	\$ -	\$ 69,069	\$ -	\$ 927,242	
DIRECT COST POOL						
Total Direct Salaries	\$ 1,181,472	\$ -	\$ -	\$ -	\$ 1,181,472	
Total Direct Salaries	\$ 1,181,472	\$ -	\$ -	\$ -	\$ 1,181,472	
EQI Indirect Cost Rate For 1998:						
Total Indirect Costs		= 927,242	=	78.48%		
Total Direct Salaries		1,181,472				

The accompanying notes are an integral part of this schedule.

ENVIRONMENTAL QUALITY INTERNATIONAL ("EQI")

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 include revenues received and costs incurred by EQI under Contract No. 263-C-00-92-00203-00 ("HRDC") and Contract No. 263-C-00-95-00078-00 ("LES") (collectively, the "Contracts"), for the periods May 17, 1997 through May 16, 1999 and July 1, 1997 through May 7, 1999 (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. 7 to the HRDC contract, dated May 7, 1998, approved total costs of \$2,393,388 or Egyptian pounds ("LE") 8,132,734 from contract inception, May 17, 1992, through May 16, 1999. Accordingly, total "Budget", for the HRDC contract, has been calculated, to be \$932,730 or LE 3,169,418 during the period May 17, 1997 through May 16, 1999. The total of approved budgets for individual orders under the LES contract equals \$108,416 or LE 368,400 during the audit period. Budget amounts in Egyptian Pounds ("LE") have been converted to US dollars as explained in Note 3 below.

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

The "Outstanding Balance" for the HRDC Contract, represents the net disallowances from billings to USAID. The disallowances have not been adjusted on the monthly invoices.

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. Revenues are recognized when received. Costs are recognized when paid, rather than when the obligations are incurred. However, the indirect cost pools also contain depreciation charges and certain accrued costs.

NOTE 3 - FOREIGN EXCHANGE:

Actual and budgeted Contracts revenues and costs in LE have been converted to US dollars at an exchange rate of LE 3.398 to one U.S. Dollar. The exchange rate has been calculated by averaging the ending monthly exchange rates during the audit periods. Additionally, the exchange rates for calendar years 1997 and 1998 were calculated by averaging the ending monthly exchange rate for the twelve months of each year. The exchange rate for 1997 is 3.389, and 3.397 for 1998. These rates were used to convert the computations of indirect and fringe benefit cost rates from LE to US dollars.

NOTE 4 – RECLASSIFICATIONS:

Certain Contracts costs associated with various budget line items and the indirect and fringe benefit cost pools were recorded in the 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 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 COMPUTATION OF INDIRECT AND FRINGE BENEFIT COST RATES AND CALCULATION OF THE FIXED MULTIPLIER RATE UNDER CONTRACT NOS. 263-C-00-92-00203-00 AND 263-C-00-95-00078-00 :

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. As explained below, each of the Contracts was allowed a different approach for recovering their indirect costs and fringe benefits. For informational purposes, pages 15 and 16 presents EQI's entity-wide indirect cost rate for calendar years 1997 and 1998, respectively, using the NICRA computation.

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. USAID/Egypt reimburses indirect costs 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 1997 and 1998 were \$975,088, or LE 3,304,574 and \$1,181,472 or LE 4,013,459, respectively.

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 calendar year.

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

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 rate, direct salary and a fixed fee percentages are added. The computations for calendar years 1997 and 1998 are as follows:

	1997	1998
Adjusted Indirect Cost Pool, Pages 11 and 13	\$ 900,933	927,242
Adjusted Fringe Benefit Pool, Pages 12 and 14	382,331	499,031
Total Indirect Costs	\$ 1,283,264	1,426,273
Divided by Direct Salaries, Pages 11 and 13	975,088	1,181,472
Indirect Rate	1.32	1.21
Direct Salary Costs	1.00	1.00
	2.32	2.21
Fixed Fee (7%)	0.16	0.15
Fixed Multiplier	2.48	2.36

NOTE 6 - ADJUSTED INDIRECT COST POOL COLUMN:

The "Adjusted Indirect Cost Pool" represents expenditures for each indirect cost pool line item net of reclassifications and questioned costs. These questioned costs are detailed below in Note 7.

NOTE 7 - QUESTIONED PROJECT COSTS:

Questioned costs are presented in two separate categories; ineligible and unsupported. Costs in the columns labeled "Ineligible" are those not program-related or are prohibited by the Contracts or applicable laws and regulations. Costs in the columns labeled "Unsupported" are those lacking adequate documentation. Questioned 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 7 – QUESTIONED PROJECT COSTS (CONT'D.):

		<u>Questioned Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
A. DIRECT COSTS – HRDC			
1. Transportation			
A. An amount of \$347 relating to car depreciation expense, serving the HRDC project, was double billed in the month of May 1997. 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.			
		\$	347
Total Transportation Questioned Costs		<u>\$</u>	<u>347</u>
TOTAL HRDC DIRECT QUESTIONED COSTS		<u>\$</u>	<u>347</u>
B. INDIRECT COSTS – 1997			
1. Indirect Salaries - General & Administrative			
A. An amount of \$15 related to an employee's salary for the month of May 1997 was charged to the indirect cost pool that is not supported by a time sheet showing the hours charged. HRDC contract clause No. G.4 requires expenditures included in costs billed to USAID/Egypt to be supported by documentation sufficient to substantiate the expenditures. Management stated this was an oversight. As such, the amount of \$15 is questioned as unsupported, and excluded from the indirect cost pool.			
		\$	15
Total Indirect Salaries Questioned Costs		<u>\$</u>	<u>15</u>
2. Rent Expenses			
A. Subsequent to the issuance of our draft report, we were provided information that justified the removal of this questioned cost.			
		\$	-
Total Rent Expenses Questioned Costs		<u>\$</u>	<u>-</u>
3. Audit Fees			
A. An amount of \$7,967 was charged to the indirect cost pool as audit fees. The fees relate to the filing of the partners' personal tax returns. Because the expense is not a partnership expense, according to generally accepted accounting principles it should not be recorded as a partnership expense. As such, the amount of \$7,967 is questioned as ineligible for inclusion in the indirect cost pool.			
		\$	7,967
		\$	-

NOTE 7 – QUESTIONED PROJECT COSTS (CONT'D.):

	Questioned Costs	
	Ineligible	Unsupported
Total Audit Fees Questioned Costs	\$ 7,967	\$ -

4. Miscellaneous Expenses

A. Included in the indirect cost pool is an amount of \$159 paid to a person injured in an accident made by an EQI employee. The amount includes a penalty resulting from a lawsuit against EQI, and an amount donated to the injured person. The Federal Acquisition Regulation 31.205-8, "Contribution or Donation" and 31.205-15, "Fines, Penalties,..." disallows such expenses. EQI management stated that they were unaware of the ineligibility of such expenses. Accordingly, the amount of \$159 is questioned as ineligible.

	\$ 159	\$ -
--	--------	------

B. Included in the indirect cost pool under this account is an amount of \$173 representing entertainment expenses related to a Christmas party. The Federal Acquisition Regulation 31.205-14, "Entertainment Costs" states that "Costs of amusement, diversion, social activities, ceremonials, and costs such as meals... are unallowable". EQI management stated that they were unaware of the ineligibility of such an expense. Accordingly, the amount of \$173 is considered ineligible.

	\$ 173	\$ -
--	--------	------

Total Miscellaneous Expenses Questioned Costs

	\$ 332	\$ -
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5. Guest Reception

A. An amount of \$3,177 out of \$3,253 of meals and entertainment were included in the indirect cost pool under this account. The Federal Acquisition Regulations 31.205-14, "Entertainment Costs" states that "Costs of Amusement, diversion, social activities such as meals... are unallowable". EQI management was unaware of the ineligibility of the expense. As such, the amount of \$3,177 is considered ineligible for inclusion of the indirect cost pool.

	\$ 3,177	\$ -
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Total Guest Reception Questioned Costs

	\$ 3,177	\$ -
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6. Company Tax

A. Partner tax for calendar years 1983 – 1997 was expensed. FAR 31.205-41 "Taxes", allows company taxes that are required by law, and for which an exemption cannot be claimed. According to the Egyptian tax law, partnerships are taxed on the individual partners. Therefore, the taxes expensed are the personal taxes of the partners, and should not be expensed through EQI's accounts. Therefore, the amount of \$81,145 has been excluded from the indirect cost pool.

	\$ 81,145	\$ -
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NOTE 7 – QUESTIONED PROJECT COSTS (CONT'D.):

	Questioned Costs	
	Ineligible	Unsupported
Total Company Tax Questioned Costs	\$ 81,145	\$ -
TOTAL QUESTIONED INDIRECT COSTS – 1997	\$ 92,621	\$ 15

D. FRINGE BENEFITS – 1997

1. Sick Leave

A. Total charges recorded in sick leave for an employee exceeded that supported by time sheets. HRDC contract clause No. G.4 requires expenditures included in the costs billed to USAID/Egypt to be supported by documentation sufficient to substantiate the expenditures. EQI's accountants agree with the unsupported amount of \$59. Therefore, this amount is questioned as unsupported, and excluded from the fringe benefit pool.

Total Sick Leave Questioned Costs

\$ -	\$ 59
\$ -	\$ 59

2. Life Insurance

A. Insurance costs of \$645 related to prepaid life insurance were included in the fringe benefit cost pool. This amount represents ten months of insurance for the period ending October 1998. FAR 31.203 (d) requires allocation of indirect costs to be in accordance with generally accepted accounting principles. Therefore, the prepaid amount has been questioned as ineligible for inclusion in the 1997 fringe benefit cost pool, and added to the 1998 pool.

Total Life Insurance Questioned Costs

TOTAL FRINGE BENEFIT QUESTIONED COSTS - 1997

\$ 645	\$ -
\$ 645	\$ -
\$ 645	\$ 59

E. INDIRECT COST – 1998

1. Guest Reception

A. An amount of \$2,834 of meals and entertainment were included in the indirect cost pool. The FAR 31.205-4, "Entertainment Costs" states that "costs of amusement, diversion, social activities, such as meals, are unallowable". EQI management was unaware of the ineligibility of the expense. As such, the amount of \$2,834 is considered ineligible for inclusion in the indirect cost pool.

Total Guest Reception Questioned Costs

\$ 2,834	\$ -
\$ 2,834	\$ -

NOTE 7 - QUESTIONED PROJECT COSTS (CONT'D.):

	Questioned Costs	
	Ineligible	Unsupported
2. Company Tax		
A. Partner tax for calendar years 1983 - 1997 was expensed. FAR 31.205-41 "Taxes", allows company taxes that are required by law, and for which an exemption cannot be claimed. According to the Egyptian tax law, partnerships are taxed on the individual partners. Therefore, the taxes expensed are the personal taxes of the partners, and should not be expensed through EQI's accounts. Therefore, the amount of \$66,235 has been excluded from the indirect cost pool.	\$ 66,235	\$ -
Total Company Tax Questioned Costs	\$ 66,235	\$ -
TOTAL QUESTIONED COSTS INDIRECT COSTS - 1998	\$ 69,069	\$ -

NOTE 8 - ADJUSTMENTS:

The "adjustment" on pages 11 and 15 is for the correction of the depreciation expense. The expense was increased, because the depreciation calculation used a lower vehicles depreciation base than original cost, which understated the indirect cost pool with LE 30,333. Details of the depreciation adjustment is as follow:

Vehicles Depreciation Calculated by EQI (US\$)	Vehicles Adjusted Depreciation (US\$)	Difference (US\$)
28,985	37,935	8,950

ENVIRONMENTAL QUALITY INTERNATIONAL

FINANCIAL RELATED AUDIT OF
USAID/EGYPT CONTRACTS
NO. 263-C-00-92-00203-00 ("HRDC") AND
NO. 263-C-00-95-00078-00 ("LES")

Management's Comments

We have excluded copies of supporting documents written in the Arabic language. These documents are available for review upon request.

FROM : EQI		FAX NO. : 3452036	12-12-98 18:42
		<i>EQI Fax Message</i>	
To :	Mr. Amr Hassan AID	Environmental Quality International Tel # 3452036 - 3452046	
Fax # :	5168169	Fax # :3452036 E-mail : eqi@intouch.com	
Date :	March 9, 2000	3, El Gehad St. Lebanon Square	
From :	Magda El Sayed Finance Director	Mohandessin - Cairo - Egypt	
No. of Pages (including the cover) : 6 pages			
Subject :			
<p>Dear Mr. Johnson</p> <p>Reference to our telephone discussion on January 17, attached please find the documents clarifying the depreciation cost of the fixed asset (Mohandessin premises) that is being utilized by EQI partnership. The two sister companies agreed that the partnership make use of the premises. In return, the partnership will record the depreciation cost in its books, since it is benefiting from the use of the premises. We feel that this finding should be deleted from the audit report.</p> <p>Thank you for your cooperation.</p>			

ENVIRONMENTAL QUALITY INTERNATIONAL

FINANCIAL RELATED AUDIT OF
USAID/EGYPT CONTRACTS
NO. 263-C-00-92-00203-00 ("HRDC") AND
NO. 263-C-00-95-00078-00 ("LES")

Management's Comments

Period 12 1997		M_302			12/07/97
Title: General Ledger Listing					
Account # 113701001		Dept # 30		Balance: 911022.	
Description: MORANGESSIN FLAT					
Date	Reference	Description	Debit	Credit	Balance

* 1997 Period 12 Transactions:					
12/05/96	YEAR-END	Beginning Balance for 12	911022.00		911022.
			911022.00	0.00	911022.

Account # 113801001		Dept # 30		Balance: 1303125.	
Description: MARAKI 1					
Date	Reference	Description	Debit	Credit	Balance

* 1997 Period 01 Transactions:					
12/05/96	YEAR-END	Beginning Balance for 01	1303125.00		1303125.
			1303125.00	0.00	1303125.

Account # 113801002		Dept # 30		Balance: 425500.	
Description: MARAKI 2					
Date	Reference	Description	Debit	Credit	Balance

* 1997 Period 07 Transactions:					
11/07/97		MARAKI 2	425500.00		425500.
			425500.00	0.00	425500.

Account # 113801003		Dept # 30		Balance: 509604.	
Description: SHAAFAR					
Date	Reference	Description	Debit	Credit	Balance

* 1997 Period 07 Transactions:					
12/07/97		SHAAFAR	509604.00		509604.
			509604.00	0.00	509604.

Account # 117401004		Dept # 07		Balance: 159199.	
Description: EL MASSARA					
Date	Reference	Description	Debit	Credit	Balance

* 1997 Period 12 Transactions:					
12/05/96	YEAR-END	Beginning Balance for 12	159199.00		159199.
			159199.00	0.00	159199.

ENVIRONMENTAL QUALITY INTERNATIONAL

FINANCIAL RELATED AUDIT OF
USAID/EGYPT CONTRACTS
NO. 263-C-00-92-00203-00 ("HRDC") AND
NO. 263-C-00-95-00078-00 ("LES")

INDEPENDENT ACCOUNTANTS' RESPONSE

Management of Environmental Quality International (EQI) provided comments to our draft report presented by USAID/Egypt. Attachments, mostly in Arabic have not been included, we have these on file should USAID/Egypt choose to view them. 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 7 OF THE FUND ACCOUNTABILITY STATEMENTS

II. 2.A. INDIRECT COST – Rent Expenses, Questioned Cost of \$12,591.

Management's comments and attachments were reviewed. Additionally, the auditor's initial work was reviewed. The discussion and attachments clearly prove the related party transaction. The cost that may be included in the indirect cost pool is that of ownership – the depreciation of office space. Because the cost that EQI has charged to the indirect cost pool does not exceed the cost of ownership and has been accurately recorded in EQI's accounting records, we have closed the finding. Our final report has removed the finding, and adjusted all schedules accordingly.

Management of EQI did not respond to any other finding, and verbally informed us that they accepted them.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

MEMORANDUM

TO: RIG/A, Darrel Burris

FROM: A/Division Chief, Marisa Parente, FM/FA *Marisa A. Parente*

SUBJECT: Financial Audit of Environmental Quality International, Costs Incurred under USAID/Egypt Contract Nos. 263-C-00-92-00203-00 and 263-C-00-95-00078-00

Following is the Mission's response to Recommendation Nos. 1 and 2 under the subject audit report:

Recommendation No. 1: We recommend that USAID/Egypt make a management decision on the unsupported questioned costs of \$347 detailed on page 20 of the PricewaterhouseCoopers report, and recover from Environmental Quality International any amounts determined to be unallowable.

Mission Response:

The audit report mentioned that the \$347 questioned (all unsupported) represents car depreciation expense double billed in May 1997, (Attachment A).

The questioned amount determined to be sustained. EQI refunded the LE1,179 (equivalent to \$347) to USAID/Egypt via check No. 1302664 Dated 01/25/2000, Receipt No. 19192 dated 01/26/2000, (Attachment B).

As a result, the Mission believes that final action has been taken and requests closure of Recommendation No. 1 upon issuance of the final report.

Recommendation No. 2: We recommend that USAID/Egypt finalize Environmental Quality International's indirect cost and fringe benefit rates for the period January 1, 1997 through May 16, 1999 for Contract No. 263-C-00-92-00203-00 based on the consideration of questioned indirect costs and fringe benefits detailed on pages 20 through 23 of the PricewaterhouseCoopers report, and recover any amounts owed to USAID/Egypt as a result of that determination.

Mission Response:

Mission agrees to finalize the audited indirect cost and fringe benefit rates for the audited period and to recover any amounts owed to USAID/Egypt. Negotiated indirect cost rate agreement is expected to be issued in July 2001.

As a result, the Mission believes that management decision has been made, and requests resolution of Recommendation No. 2. Request for closure will be addressed to M/MPI.

Thank you for your cooperation.

Att: a/s

cc: D/DIR, A. Aarnes,
OD/PROC, G. Kinney
A/AD/HDD, S. Patton
A/OD/LEG, T. Nunn
Controller, H. Jamshed

A/OD/SCS, C. Williams
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FM Reading File