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THE AMERICAN UNIVERSITY IN CAIRO
REVIEW OF INDIRECT COST RATE COMPUTATION

Audit Report No. 6-263-82-8

August 24, 1982

A previous audit to establish AUC's overhead rate could not be completed because AUC's accounting system improperly distributed and classified costs. The audit work was suspended in April 1980 until AUC's accounting and reporting system became auditable.

Our current audit of AUC's overhead rate proposals for the fiscal years 1978 through 1981 should provide USAID a basis for negotiating a final indirect cost rate with AUC.

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THE AMERICAN UNIVERSITY IN CAIRO
REVIEW OF INDIRECT COST RATE COMPUTATION

Introduction

The American University in Cairo (AUC) is a private institution devoted to teaching and research in the arts and sciences and to service in the Egyptian community. Current enrollment is more than 9,000 students in degree programs, language classes and adult education courses. Tuition and fees cover only twelve percent of the total operating cost of AUC, and the majority of its support comes from the U.S. government, private foundations, corporations and alumni. Grants from the USAID have supported operating expenses, Egyptian scholarships, and financed construction.

Background

The establishment of an overhead rate for AUC has been an outstanding issue for the AID Mission in Egypt for several years. In October 1979, AUC submitted an overhead proposal to USAID/E for the fiscal year ended August 31, 1978. USAID/E requested the Regional Inspector General for Audit in Cairo (RIG/A/C) to perform an audit of the proposal. RIG/A/C attempted to audit the proposal in April 1980. However, the audit could not be completed because AUC's accounting system was not adequate for proper distribution and classification of costs. Moreover, costs included in the proposal could not be reconciled to the accounting records. RIG/A/C therefore suspended the audit until such time as AUC's accounting records and reporting system became auditable.

In June 1981, AUC officials advised USAID/E and RIG/A/C that AUC accounting records for the past four years had been reconstructed and were auditable. Accordingly, RIG/A/C included an audit of AUC's overhead costs for the fiscal years 1978 through 1981 in its FY 1982 work plan.

Purpose and Scope

The purpose of the audit was to determine AUC's overhead rates for the fiscal years 1978 through 1981. Our examination was made in accordance with prescribed standards for government audits and included a review of AUC's accounting system, internal control system, administrative policies and procedures, and tests of transactions and documentation supporting the AUC cost proposals to the extent considered necessary. Our determination of the eligibility of the AUC costs was based on the principles established by the Office of Management and Budget (OMB) in their Circular No. A-21 issued on February 26, 1979.

The results of our audit were discussed with USAID/E and AUC officials whose comments were taken into consideration in the preparation of this report.

FINDING, CONCLUSION AND RECOMMENDATION

USAID/Egypt Should Establish A Final Indirect Cost Rate

We reviewed the overhead rate proposals submitted by AUC to USAID/E for the fiscal years 1978 through 1981. The results of our audit are summarized below:

<u>Fiscal Year</u> <u>Ended August 31 ...</u>	<u>OVERHEAD RATES</u>			
	<u>Local Currency Costs</u>		<u>U.S. Dollar Costs</u>	
	<u>AUC Rate</u>	<u>Audited Rate</u>	<u>AUC Rate</u>	<u>Audited Rate</u>
1978	198.8 %	None	187.6 %	158.6 %
1979	194.8 %	None	238.6 %	210.8 %
1980	177.0 %	None	156.9 %	77.0 %
1981	177.1 %	None	149.8 %	91.5 %

The above substantial reductions of the AUC overhead rates principally resulted from our offset of federal grants received by AUC from the AID Office of American Schools and Hospitals Abroad (ASHA). Section F.8 of OMB Circular No. A-21 states that reimbursements and other payments from the Federal Government which are made to an institution to support solely, specifically, and directly, in whole or in part, any of its administrative or service activities should be treated as an offset to the indirect expense categories. OMB Circular A-21 describes such indirect cost categories as administration and general expenses, departmental administration expenses and library expenses. We offset the following ASHA grants utilized by AUC for meeting operating expenses for the fiscal years 1978 through 1981:

<u>Fiscal Year</u>	<u>Grant No.</u>	<u>Amount</u>	<u>Purpose</u>
1978	AID/ASHA 2476	LE2,240,000 =====	To meet current operating expenditures of AUC.
1979	AID/ASHA 2476	LE2,650,000 =====	Same as above
1980	AID/ASHA 2476	LE1,772,500	Same as above
	AID/ASHA 210	1,027,500	To meet AUC's local currency operating deficits.
		LE2,800,000 =====	
1980	AID/ASHA 216	\$ 500,000 =====	(i) Payment of salaries and fringe benefits of U.S. faculty and administrative staff of AUC. (ii) Purchase of library books, educational and scientific equipment.

1981	AID/ASHA	210	LE2,800,000 =====	To meet AUC's local currency operating deficits.
1981	AID/ASHA	243	\$ 400,000 =====	Same as AID/ASHA 216 above.

Our computation of the overhead rates and details of our adjustments and reclassifications are presented in Exhibits I to XII of this report.

Conclusion and Recommendation

In our opinion the requirements of OMB Circular A-21, Section F.8 apply to the above ASHA grant amounts. We believe that these amounts should be offset in the indirect expense pool to compute AUC's indirect cost rate. Moreover, in July 1978, the AID Office of Contract Management (SER/CM) advised USAID/E in writing that grants received by AUC from AID or other donors for operating expenses should be credited against the overhead expense pool.

AUC officials disagreed with our offset of the ASHA grants, stating that they do not fall within the scope of the OMB guidelines. We provided a copy of AUC's response to USAID/E, who referred our draft audit report and AUC's comments to SER/CM for a determination on the applicability of Section F.8 of OMB Circular A-21. Since no reply has been received to date by USAID/E from SER/CM, we make the following recommendation:

Recommendation No. 1

USAID/Egypt negotiate a final indirect cost rate with AUC based on the findings of this report.

EXHIBIT I

THE AMERICAN UNIVERSITY IN CAIRO
 COMPUTATION OF OVERHEAD RATES FOR FOUR YEARS
 ENDED AUGUST 31, 1981

	DIRECT LABOR				INDIRECT COSTS					OVERHEAD RATE	
	As Re- ported	Adjustments	Reclassifications	As Audited(A)	As Re- ported	Adjustments	Reclassifications	ASHA Offsets	As Audited(B)	Per Audit (B÷A)	Per AUC
<u>Year Ended 8/31/78</u>											
Local Currency Costs	LE 326,524	97,749	-0-	924,273	1,642,744	(152,134)	(15,932)	(2,240,000)	(765,322)	None	196.8 %
Dollar Costs	\$ 453,920	5,932	-0-	459,852	851,592	(11,931)	(110,257)	-0-	729,404	158.6 %	187.6 %
<u>Year Ended 8/31/79</u>											
Local Currency Costs	LE1,000,165	132,947	-0-	1,133,112	1,948,358	(102,469)	(7,729)	(2,650,000)	(811,840)	None	194.8 %
Dollar Costs	\$ 455,523	10,015	-0-	465,538	1,086,973	(20,720)	(84,746)	-0-	981,507	210.8 %	238.6 %
<u>Year Ended 8/31/80</u>											
Local Currency Costs	LE1,201,332	(9,545)	-0-	1,191,787	2,126,037	(141,003)	(7,025)	(2,800,000)	(821,991)	None	177.0 %
Dollar Costs	\$ 711,613	(1,240)	-0-	710,373	1,116,380	(57,988)	(11,199)	(500,000)	547,193	77.0 %	156.9 %
<u>Year Ended 8/31/81</u>											
Local Currency Costs	LE1,349,530	(11,422)	2,375	1,340,483	2,391,245	(141,579)	(15,447)	(2,800,000)	(565,781)	None	177.1 %
Dollar Costs	\$ 925,687	(1,438)	-0-	924,249	1,387,117	(126,769)	(14,195)	(400,000)	846,153	91.5 %	149.8 %

Note: Adjustments & Reclassifications are explained in EXHIBITS II through XII

ASHA Grant Offsets are explained on Pages 1 and 2.

THE AMERICAN UNIVERSITY IN CAIRO
SUMMARY OF AUDIT ADJUSTMENTS AND RECLASSIFICATIONS--
INDIRECT COSTS (L.E.)
YEAR ENDED AUGUST 31, 1981

<u>Cost Center</u>	<u>Description</u>	<u>Adjustments</u>	<u>Reclassifications</u>
President's Office-	Salaries of Visiting Professors		LE(2,375) <u>5/</u>
Business Office-	Bad Debts	(275)	
Development and Planning -	Newsletter	(1,074)	
	Social Function and Visitors	(1,808)	
	Advertising	(684)	
	Fund Raising	(160)	
General Expenses -	Gifts and Refreshments	(3,447)	
	Commencement	(1,337) <u>1/</u>	
Staff Benefits and Services -	Research Grants		(13,072) <u>2/</u>
Faculty Housing -	Furniture and Equipment	(5,405)	
Plant Operation and Maintenance -	Furniture and Equipment	(13,981)	
	Capital Improvements	(64,526)	
Press	Hospitality	(268)	
	Convention	(1,483)	
	Calendar	(3,150)	
	Book Fair	(2,647)	
	Applicable Credits:		
	Library Fees/Fines	(8,606)	
	Library Xeroxing Services	(19,625)	
	Miscellaneous Income	(13,103) <u>3/</u>	
		LE(141,579)	LE (15,447)
		=====	=====

Note: 1/, 2/, 3/, 5/ - See Exhibit XII for explanation.

THE AMERICAN UNIVERSITY IN CAIRO
 SUMMARY OF AUDIT ADJUSTMENTS AND RECLASSIFICATIONS-
 INDIRECT COSTS (U.S.\$)
YEAR ENDED AUGUST 31, 1981

<u>Cost Center</u>	<u>Description</u>	<u>Adjustments</u>	<u>Reclassifications</u>
President's Office -	Gifts	\$ (220) ↑	
Business Office -	Bad Debts	(1,749)	
New York Office -	Outplacement Fee	(7,500) <u>1/</u>	
	Purchase of Equipment	(3,671)	
Development and Planning -	AUC Film	(7,924)	
	- Fund Raising	(63,001)	
	- Newsletter	(15,349)	
	- Advertising	(3,306) ↓	
Staff Benefits and Services -	Research Grants		(14,195) <u>2/</u>
-	Applicable Credits:		
	- Miscellaneous Income	(24,049) <u>3/</u>	
		<u> </u>	<u> </u>
		\$ (126,769)	\$ (14,195)
		<u> </u>	<u> </u>

Note: 1/, 2/, 3/ - See Exhibit XII for explanation.

THE AMERICAN UNIVERSITY IN CAIRO
 SUMMARY OF AUDIT ADJUSTMENTS AND RECLASSIFICATIONS-
 DIRECT LABOR (L.E. AND U.S. \$)
YEAR ENDED AUGUST 31, 1981

<u>Cost Center</u>	<u>Description</u>	<u>Adjustments</u>	<u>Reclassifications</u>
President's Office -	Salaries of Visiting Professors		LE2,375 <u>2/</u>
Alumni Office -	Staff Salaries	(10,049)↑	
Students Publication -	Staff Salaries	(1,373)	
		----- <u>1/</u>	-----
		LE(11,422)	LE2,375
		=====	=====
Alumni Office -	Staff Salaries	\$ (1,438)	
		=====	

Note: 1/, 2/ - See Exhibit XII for explanation.

EXHIBIT V

THE AMERICAN UNIVERSITY IN CAIRO
 SUMMARY OF AUDIT ADJUSTMENTS AND RECLASSIFICATIONS-
 INDIRECT COSTS (L.E.)
YEAR ENDED AUGUST 31, 1980

<u>Cost Center</u>	<u>Description</u>	<u>Adjustments</u>	<u>Reclassifications</u>
President's Office - Development and Planning	Donations, Social functions etc.	LE(1,634) ↑	
	Hospitality	(648)	
	Social Functions	(2,679)	
	Brochures/Newsletters	(649)	
	Visitors	(343)	
	General Expenses -	Gifts, donations, etc.	(2,676)
Staff Benefits and Services -	Commencement	(1,800)	
	Social Functions-Trustees	(2,263) <u>1/</u>	
Faculty Housing - Library Adminis- tration -	Research Grants		(7,025) <u>2/</u>
	Financial Award to Employees	(7,325)	
Plant Operation and Maintenance -	Furniture & Equipment	(11,991)	
	Hospitality	(113)	
	Furniture and Equipment	(15,548)	
	Capital Improvements	(53,923)	
	AUC Theatre Renovation	(750) ↓	
	Applicable Credits:		
	Library Fees/Fines	(987) ↑	
	Library Xeroxing Fees	(14,138)	
	Miscellaneous Income	(23,536) <u>3/</u>	
		LE(141,003) =====	LE(7,025) =====

Note: 1/, 2/, 3/ - See Exhibit XII for explanation.

THE AMERICAN UNIVERSITY IN CAIRO
 SUMMARY OF AUDIT ADJUSTMENTS AND RECLASSIFICATION-
 INDIRECT COSTS (U.S.\$)
YEAR ENDED AUGUST 31, 1980

<u>Cost Center</u>	<u>Description</u>	<u>Adjustments</u>	<u>Reclassifications</u>
Business Office -	Purchase of Computer Equipment	\$(11,208)	
New York Office -	Promotional Items	(1,260)	
Development and Planning -	Newsletter	(8,947)	
	Advertising	(3,635) <u>1/</u>	
	AUC Film	(3,425)	
Staff Benefits and Services -	Research Grants		(11,199) <u>2/</u>
Plant Operation and Maintenance -	Purchase of automobile	(5,013)	
-	Applicable Credit:		
	Miscellaneous Income	(24,500) <u>3/</u>	
		-----	-----
		\$(57,988)	\$(11,199)
		=====	=====

Note: 1/, 2/, 3/ - See Exhibit XII for explanation.

EXHIBIT VII

THE AMERICAN UNIVERSITY IN CAIRO
SUMMARY OF AUDIT ADJUSTMENTS AND RECLASSIFICATIONS-
DIRECT LABOR (L.E. AND U.S.\$)
YEAR ENDED AUGUST 31, 1980

<u>Cost Center</u>	<u>Description</u>	<u>Adjustments</u>	<u>Reclassifications</u>
Alumni Office -	Staff Salaries	LE(8,421)↑	
Students Publication -	Staff Salaries	(1,124)	
		-----	-----
		LE(9,545)	-
		===== <u>1/</u>	=====
Alumni Office	Staff Salaries	\$(1,240)↓	-
		=====	=====

Note: 1/ - See Exhibit XII for explanation.

EXHIBIT VIII

THE AMERICAN UNIVERSITY IN CAIRO
SUMMARY OF AUDIT ADJUSTMENTS AND RECLASSIFICATIONS-
INDIRECT COSTS (L.E. AND U.S. \$)
YEAR ENDED AUGUST 31, 1979

<u>Cost Center</u>	<u>Description</u>	<u>Adjustments</u>	<u>Reclassifications</u>
President's Office - Development and Planning - General Expenses -	Purchase of Capital Equipment	LE(5,120)	↑
	AUC Film	(1,835)	↑
	Gifts and Refreshments	(2,145)	↑
	- Social Functions	(3,456)	↑
	- Commencement	(3,006)	1/
Staff Benefits and Services - Faculty Housing - Plant Operation and Maintenance -	Research Grants	-	(7,729) 2/
	Furniture and Equipment	(23,020)	↓
	Capital expenditures	(48,065)	↓
-	Applicable Credits:		
	- Library Fines	(531)	↑
	- Library Xeroxing	(12,405)	3/
	- Miscellaneous Income	(5,188)	↓
-	Adjustment of difference between AUC accounting records and overhead proposal	2,302	4/
		LE(102,469)	LE(7,729)
		=====	=====
Development and Planning -	AUC Film	\$(5,990)	1/
Staff Benefits and Services -	Educational and Research Grants	-	(84,746) 2/
	Applicable Credit:		
	- Miscellaneous Income	(18,664)	3/
-	Adjustment of difference between AUC accounting records and overhead proposal	3,934	4/
		\$(20,720)	\$(84,746)
		=====	=====

Note: 1/, 2/, 3/,4/ See Exhibit XII for explanation.

EXHIBIT IX

THE AMERICAN UNIVERSITY IN CAIRO
SUMMARY OF AUDIT ADJUSTMENTS AND RECLASSIFICATIONS-
DIRECT LABOR (L.E. AND U.S. \$)
YEAR ENDED AUGUST 31, 1979

<u>Cost Center</u>	<u>Description</u>	<u>Adjustments</u>	<u>Reclassifications</u>
Alumni Office -	Salaries	LE (7,905) <u>1/</u>	
Students Publication -	Salaries	(719) <u>1/</u>	
	Adjustment of difference between AUC accounting records and overhead proposal	141,571 <u>4/</u>	
		-----	-----
		LE132,947	
		=====	=====
	Adjustment of difference between AUC accounting records and overhead proposal	\$ 10,015 <u>4/</u>	
		=====	

Note: 1/, 4/ - See Exhibit XII for explanation.

EXHIBIT X

THE AMERICAN UNIVERSITY IN CAIRO
SUMMARY OF AUDIT ADJUSTMENTS AND RECLASSIFICATIONS-
INDIRECT COSTS (L.E. AND U.S. \$)
YEAR ENDED AUGUST 31, 1978

<u>Cost Center</u>	<u>Description</u>	<u>Adjustments</u>	<u>Reclassifications</u>
Business Office -	Bad Debts	LE(157) ↑	
	Computer Center		(4,553) <u>6/</u>
General Expenses -	Donations, contributions, etc.	(1,848)	
	Ineligible legal costs	(1,332)	
	Commencement	(1,055)	
	Trustees (Social Functions)	(3,627) <u>1/</u>	
Staff Benefits and Services -	Research Grants		(11,379) <u>2/</u>
Faculty Housing -	Furniture and Equipment	(2,569)	
Library Administration -	Hospitality	(111)	
Plant Operation and Maintenance -	Capital expenditures	(117,072) ↓	
	Applicable Credits:		
	- Library Fines	(660) ↑	
	- Library Xeroxing Services	(7,422) <u>3/</u>	
	- Miscellaneous Income	(18,306) ↓	
	Adjustment of difference between AUC accounting records and overhead proposal	2,025 <u>4/</u>	
		LE(152,134) <u>=====</u>	LE(15,932) <u>=====</u>
New York Office -	Gifts	\$(2,042) <u>1/</u>	
Staff Benefits and Services -	Educational and Research Grants		(110,257) <u>2/</u>
Plant Operation and Maintenance -	Capital Expenditures	(11,033) <u>1/</u>	
	Applicable Credits:		
	- Miscellaneous Income	(376) <u>3/</u>	
	Adjustment of difference between AUC accounting records and overhead proposal	1,520 <u>4/</u>	
		\$(11,931) <u>=====</u>	\$(110,257) <u>=====</u>

Note: 1/, 2/, 3/, 4/, 6/ See Exhibit XII for explanation.

EXHIBIT XI

THE AMERICAN UNIVERSITY IN CAIRO
SUMMARY OF AUDIT ADJUSTMENTS AND RECLASSIFICATIONS-
DIRECT LABOR (L.E. AND U.S. \$)
YEAR ENDED AUGUST 31, 1978

<u>Cost Center</u>	<u>Description</u>	<u>Adjustments</u>	<u>Reclassifications</u>
Alumni Office -	Salaries	LE (6,437) <u>1/</u>	
Students Publication -	Salaries	(393) <u>1/</u>	
	Adjustment of difference between AUC accounting records and overhead proposal	104,579 <u>4/</u>	
		-----	-----
		LE 97,749	-
		=====	=====
	Adjustment of difference between AUC accounting records and overhead proposal	\$ 5,932 <u>4/</u>	
		=====	

Note: 1/, 4/ - See Exhibit XII for explanation.

THE AMERICAN UNIVERSITY IN CAIRO
SUMMARY OF AUDIT ADJUSTMENTS AND RECLASSIFICATIONS
EXPLANATORY NOTES 1 THROUGH 6 (SEE EXHIBITS II THROUGH XI)

- 1/ Section J of OMB Circular No. A-21 provides principles to be applied in establishing the allowability of certain items involved in determining cost. These principles should apply irrespective of whether a particular item of cost is direct or indirect. Typical examples of non-allowable costs are: Bad debts, Hospitality, Gifts, Donations, Capital expenditures, Student and Alumni activities, Entertainment, Social functions, etc.
- 2/ AUC made payments of research and educational grants to its faculty members to conduct studies on various educational and cultural topics. Since these expenditures relate to academic activities, they have been reclassified from indirect to direct costs.
- 3/ Section C.5 of OMB Circular No. A-21 refers to receipts or negative expenditures that reduce direct or indirect cost items. Typical examples of such transactions are: purchase discounts, rebates or allowances, recoveries or indemnities on losses.
- 4/ AUC overhead cost proposals for the fiscal years 1978 and 1979 showed certain unexplained differences between the total costs per the proposals and total costs as extracted from AUC's books of account. Consequently, the cost proposals were adjusted so as to agree with the accounting records.
- 5/ Salaries of visiting professors were erroneously included in indirect expense and are therefore reclassified as direct labor.
- 6/ Expenses relating to the computer center are direct costs and are therefore reclassified as such.

LIST OF REPORT RECIPIENTS

Deputy Administrator	1
Assistant Administrator/Bureau For Near East (AA/NE)	5
Director, USAID/Egypt	5
Audit Liaison Office (AA/NE)	1
Office Of Egypt Affairs (NE/E)	1
Assistant To The Administrator For Management (AA/M)	1
Office Of Financial Management (M/FM)	1
Accounting Systems Division (M/FM/ASD)	1
Directorate For Program And Management Services (M/DAA/SER)	6
Director, Contract Management Services (M/SER/CM)	1
Director, Office Of American Schools And Hospitals Abroad (FVA/ASHA)	1
General Counsel (GC)	1
Office Of Legislative Affairs (LEG)	1
Office Of Public Affairs (OPA)	1
Office Of Evaluation (PPC/E)	1
Office Of Development Information And Utilization (S&T/DIU)	4
Inspector General (IG)	1
RIG/A/Abidjan	1
RIG/A/Karachi--New Delhi	2
RIG/A/Latin America/W	1
RIG/A/Manila	1
RIG/A/Nairobi	1
RIG/A/Washington	1
Office Of Policy, Plans And Programs (IG/PPP)	1
Executive Management Staff (IG/EMS)	12
Assistant Inspector General For Investigations And Inspections (AIG/II/W)	1
Regional Inspector General For Investigations And Inspections (RIG/II/Cairo)	1