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AUDIT OF
THE NEW TRANSCENTURY FOUNDATION
TWO COOPERATIVE AGREEMENTS UNDER
USAID/YEMEN'S RURAL WATER SYSTEM
PROJECT NO. 279-004

AUDIT REPORT NO. 3-279-88-01-N
March 7, 1988

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

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March 7, 1988

MEMORANDUM FOR DIRECTOR, USAID/Yemen, Mr. Kenneth Sherper
Richard C. Thabet
FROM: RIG/A/Nairobi, Richard C. Thabet
SUBJECT: Audit Report No. 3-279-88-01-N, "Non-Federal
Audit of The New Transcentury Foundation, Two
Cooperative Agreements, Under Yemen's Rural Water
System Project (No. 279-004)"

Attached is a copy of subject audit report. The report presents the results of a financial and compliance audit of two Cooperative Agreements of the New Transcentury Foundation. Transcentury Foundation is implementing USAID/Yemen's Rural Water System Project (No. 279-004). The Rural Water System Project was designed to assist the Government of the Yemen Arab Republic to improve domestic water supplies to the rural areas and the administrative capabilities of the Rural Water Supply Department.

The audit was requested by USAID/Yemen and was made by the Certified Public Accounting firm of Price Waterhouse under the supervision of the Regional Inspector General for Audit/Nairobi. The audit objectives were to: (a) determine whether the cost claimed by the New Transcentury Foundation under Cooperative Agreements Numbers NEB-0044-A-00-4107-00 and AID/NE-CE-1647 presented fairly costs resulting from program implementation; (b) ensure propriety and reasonableness of costs incurred under the two awards; (c) analyze the potential problems uncovered by the USAID/Yemen and determine their effect on program procedures and costs; and, (d) determine, to the extent of the audit coverage, whether the New Transcentury complied with laws, regulations, and agreement provisions.

Price Waterhouse audited claims amounting to \$15,161,831 which had been submitted by the New Transcentury Foundation, under the Rural Water System Project, during the period July 28, 1980 to December 31, 1986. The first phase of the review emphasized known problem areas. The second phase was a review of the financial claims. In the opinion of Price Waterhouse -- subject to certain costs questioned, recommendation for disallowances,

and/or further observations -- the supporting claims of the New Transcentury Foundation against the two Cooperative Agreements were proper and fair costs of program implementation. The company complied with most, but not all, of the agreement terms and USAID/Yemen regulations.

However, Price Waterhouse found that the New Transcentury Foundation: (a) paid its employees a hardship allowance in contravention of USAID/Yemen Personnel Policies; (b) allowed its locally hired employees 24 days annual leave instead of 13 days authorized for USAID/Yemen employees; (c) permitted its expatriate employees, who might have worked less than 40 hours per week, to record their time incorrectly; (d) recruited Third Country Nationals who did not benefit the project and did so with the authorization of USAID/Yemen; and (e) had not been able to recover all bank guarantees from the International Bank of Yemen.

As a result of the review, Price Waterhouse questioned certain costs and recommended disallowance of other amounts. These include direct costs of \$181,858 overhead costs of \$57,481, fringe benefits of \$19,767, and general and administrative costs of \$30,885 -- which have been computed on the basis of provisional rates. In this connection, the Defense Contract Audit Agency was in process of auditing the indirect costs of the New Transcentury Foundation for the years ending September 30, 1983, 1984, 1985, and 1986. Thus, USAID/Yemen will need to make certain recalculations once the final rates for these years have been negotiated. USAID/Yemen's procedures provide for this automatic recalculation. For this reason, we are not making a recommendation for these items.

We will include the following recommendations in our tracking system:

Recommendation No. 1

We recommend that USAID/Yemen (a) resolve or recover, as appropriate, a total of \$257,172 costs which are questioned; and, (b) disallow a total of \$32,819 in costs explained in the report which are not considered valid, proper, or reasonable under the program.

Recommendation No. 2

We recommend that USAID/Yemen (a) request the New Transcentury Foundation to justify why expatriate employees time sheets were incorrectly prepared and to prove that the expatriate employees

did work a 40 hour week; and, (b) if the New Transcentury Foundation cannot justify, USAID/Yemen take appropriate action to recover the questioned costs -- included as part of Recommendation No. 1 -- of about \$165,609.

Recommendation No. 3

We recommend that USAID/Yemen (a) discontinue the practice of financing three Third Country Nationals who are not benefiting the Rural Water Systems Project of Yemen, and (b) resolve the related costs -- included as part of Recommendation No. 1 -- of about \$85,995 which did not benefit the project.

Recommendation No. 4

We recommend that USAID/Yemen intervene on behalf of the New Transcentury Foundation and assist it to recover bank guarantees not returned by the International Bank of Yemen.

- - -

Prior to the release of this report, the draft of the Price Waterhouse report was reviewed by both USAID/Yemen and the New Transcentury Foundation.

USAID/Yemen concurred with the findings and recommendations and informed RIG/A/Nairobi that the practice of financing Third Country Nationals had been discontinued. Accordingly, we are closing Recommendation Number 3 (a) at the time the final audit report is issued. However, USAID/Yemen should send us documentation confirming this fact.

New Transcentury Foundation disagreed with the findings and recommendations of the report. Appendix 3 shows the contractor's comments and position. USAID/Yemen and the A.I.D. Contracting Officer should evaluate its contents when implementing the recommendations.

Please provide your written comments on this audit report within 30 days. The cooperation and courtesies extended to Price Waterhouse, by you and your staff, are sincerely appreciated.

Price Waterhouse

15 February 1988

Mr Richard Thabet
Director RIG/A/N
USAID
Sonalux House
Moi Avenue
NAIROBI

Dear Sir

We have pleasure in submitting our final report on the
audit of the New Transcentury Foundation in North Yemen.

Yours faithfully

Price Waterhouse

Price Waterhouse

EXECUTIVE SUMMARY

The Rural Water Systems project began on September 29, 1979. The purpose of the project was to assist the Government of the Yemen Arab Republic to improve domestic water supplies to rural areas and the administrative capabilities of the Rural Water Supply Department. The project is covered by two Cooperative Agreements between USAID and New Transcentury Foundation (NTF) and the estimated completion date is August 27, 1989. Our audit covered the period from July 28, 1980 to December 31, 1986. But, as required by the statement of work, we placed emphasis on the second Cooperative Agreement which became effective on August 27, 1984. Our review of the first Cooperative Agreement costs focussed on known problem areas identified by USAID/Yemen in a review carried out in May 1985. The total estimated cost of this project is \$21,335,000. Amounts obligated by USAID to December 31, 1986 total \$18,487,083 and expenditures to the same date total \$ 17,491,221.

The Regional Inspector General for Audit/Nairobi contracted for a non-federal financial and compliance audit. The objectives of the audit were to: (a) determine whether the financial statements and costs claimed by NTF under the grants present fairly costs resulting from program implementation; (b) ensure propriety and reasonableness of costs incurred under the two grants; (c) analyse the potential problems uncovered by the USAID/Yemen limited survey and determine their cause and effect on program procedures and costs; (d) determine whether NTF complied with the laws regulations and agreement provisions which may have a material effect on the financial statements and costs claimed; and (e) prepare a professional audit report.

Costs of \$144,000 were claimed by another contractor under an Initial Limited Scope Grant Agreement. This agreement expired before the first Cooperative Agreement was signed by NTF and consequently was outside the scope of our audit.

In our opinion costs claimed in the period from October 1984 to December 1986 of \$ 8,657,138 (Exhibit 1), as agreed to the financial statements, are fairly stated and resulted from program implementation. Except for the disallowable and questionable costs relating to the first Cooperative Agreement included in our recommendations we found nothing to suggest that these costs of \$8,690,083 (Exhibit 1) were not fairly stated and did not result from program implementation. However, at the time of our audit the Defense Contract Audit Agency (DCAA) had not audited the fringe, overhead and G & A rates applied by NTF for the years ended September 30, 1983 to 1986. Hence, USAID/Yemen

will need to recalculate these costs once final audited rates are available. NTF had invoiced for some costs under the first and second Cooperative Agreements which were not re-imbursable under the terms of the Cooperative Agreements and standard provisions. NTF complied with most, but not all, Cooperative Agreement and USAID regulations.

NTF employees were being paid hardship allowances in contravention of USAID Personnel Policies. We recommend that the relevant costs be recovered.

NTF allowed its employees 24 days leave instead of 13 days as required by USAID Personnel Policies. We recommend that the relevant costs be recovered.

NTF expatriate employees were recording their time incorrectly. We recommend that USAID/Yemen request NTF/Washington to justify this incorrect time recording.

NTF recruited Third Country Nationals who did not benefit the project. We recommend that USAID/Yemen discontinue the practice of financing the Third Country Nationals from project funds. We recommend that USAID/Yemen evaluate reasons why it approved financing of Third Country Nationals and resolve the questioned costs.

Not all bank guarantees have been recovered from the bank. We recommend that USAID/Yemen assist NTF/Yemen in recovering these guarantees.

This report was distributed for comment to both NTF and USAID/Yemen. Specific comments are contained in Appendix 3. NTF do not accept the first three recommendations in the report. USAID/Yemen do not object to any of the recommendations in the report.

NON-FEDERAL AUDIT OF THE YEMEN
RURAL WATER SYSTEMS PROJECT (279-0044)

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NON-FEDERAL AUDIT OF THE YEMEN
RURAL WATER SYSTEMS PROJECT (279-0044)

PART I - INTRODUCTION

A. Background

The Rural Water Systems Project (Project No.279-0044) began on September 29, 1979 with an initial USAID funding of \$144,000 which was granted under a Limited Scope Grant Agreement to another contractor. The purpose of the project was to assist the Government of the Yemen Arab Republic to improve domestic water supplies to rural areas and the administrative capabilities of the Rural Water Supply Department (RWSD).

On July 9, 1980 USAID and the Government of the Yemen Arab Republic (YARG) signed a Memorandum of Understanding. On January 21, 1981 YARG, as represented by the Central Planning Organization and the Ministry of Public Works, and the New Transcentury Foundation (NTF) signed a letter of Agreement. On July 28, 1980 USAID and NTF signed a Cooperative Agreement (No. AID/NE - CE - 1647) which set out the conditions under which NTF were to undertake the project. And on August 30, 1984 USAID and NTF signed a second Cooperative Agreement (No. NEB - 0044 - A -00 - 4107-00) which extended the first Cooperative Agreement through to the anticipated close of the project on August 27, 1989.

The total estimated cost of the project is \$21,335,000. At December 31, 1986 amounts obligated, expended and remaining were:

	Obligated \$	Expended \$	Remaining \$
Initial grant	144,000	144,000	-
Phase I	8,690,083	8,690,083	-
Phase II	9,653,000	8,657,138	995,862
	<u>18,487,083</u>	<u>17,491,221</u>	<u>995,862</u>

B. Audit Objectives and Scope

This assignment was a financial and compliance audit performed at the request of the Regional Inspector General for Audit in Nairobi (RIG/A/N). Our audit was made in accordance with generally accepted government auditing standards. The objectives of the audit were to: (a) determine whether the financial statements and costs claimed by NTF under the grants present fairly costs resulting from program implementation; (b) ensure propriety and reasonableness of costs incurred under the two grants; (c) analyse the potential problems uncovered by the USAID/Yemen limited survey and determine their cause and effect on program procedures and costs; (d) determine whether NTF complied with the laws, regulations and agreement provisions which may have a material effect on the financial statements and costs claimed; and (e) prepare a professional audit report.

The audit work was performed at the NTF offices in Washington from June 22, 1987 to July 10, 1987 and the NTF offices in Sana'a from July 17, 1987 to July 30, 1987. Following the visit to NTF/Sana'a we returned to NTF/Washington from August 7, 1987 to August 12, 1987 to complete our work. The audit covered the activity of the project from the commencement of the first Cooperative Agreement (No.AID/NE-CE-1647) on July 28, 1980 to December 31, 1986. But, as required by the statement of work, we placed emphasis on the second Cooperative Agreement which became effective on August 27, 1984. For the first Cooperative Agreement we focussed our work on known problem areas identified by USAID/Yemen in a review carried out in May 1985.

We held meetings with RIG/A/N officials, USAID/Yemen Project officers, USAID Controller personnel and NTF personnel in Sana'a and Washington. We reviewed the terms and conditions of the Cooperative Agreements, applicable standard provisions, implementation letters, budgets and financial reports in order to gain knowledge and understanding of the (a) goals and objectives of the project and agreements, (b) activities being financed by AID, (c) types of costs intended to be financed, (d) financial procedures and requirements, and (e) results of completed financial reviews.

We reviewed USAID and other US Government authoritative documents to become familiar with cost principles and accounting for non profit organizations. We reviewed USAID's Internal Control Report dated May 30, 1985 and subsequent follow-ups covering the results of the review and planned the required fieldwork to answer the issues raised.

We reviewed and evaluated the project's accounting system, internal controls and capability to properly identify and account for costs in accordance with the Cooperative Agreements, implementation letters and/or applicable standard provisions. We reviewed the financial statements produced by NTF/Washington and produced a data base of project expenditures from October 1, 1984 to December 31, 1986. At the time of our audit the Defense Contract Audit Agency (DCAA) had not audited the fringe, overhead and G & A rates applied by NTF for the years ended September 30, 1983 to 1986. Hence, USAID/Yemen will need to recalculate these costs once final audited rates are available.

We visited a number of water project sites. These included completed projects as well as projects under construction. Our tests were limited to physical verification of the existence of the projects. The sites visited by us are listed on Appendix I. USAID personnel also visited a number of projects. These are listed on Appendix 2.

This report was distributed for comment to both NTF and USAID/Yemen. Specific comments are contained in Appendix 3. NTF do not accept the first three recommendations in the report. USAID/Yemen do not object to any of the recommendations in the report.

NON-FEDERAL AUDIT OF THE YEMEN
RURAL WATER SYSTEMS PROJECT (279-0044)

PART II - RESULTS OF AUDIT

The initial objective of this financial and compliance audit was to determine whether the financial statements and costs claimed by NTF under the grants present fairly costs resulting from program implementation. In our opinion costs claimed to December 31, 1986 of \$ 8,657,138 during phase II (Exhibit 1), as agreed to the financial statements, are fairly stated and resulted from program implementation. Except for the disallowable costs of \$ 21,148 and questionable costs of \$ 142,992 relating to the first Cooperative Agreement included in our recommendations we found nothing to suggest that the costs of \$8,690,083 (Exhibit 1) were not fairly stated and did not result from program implementation. At the time of our audit the Defense Contract Audit Agency (DCAA) had not audited the fringe, overhead and G & A rates applied by NTF for the years ended September 30, 1983 to 1986. Hence, USAID/Yemen will need to recalculate these costs once final audited rates are available.

A further audit objective was to ensure propriety and reasonableness of costs incurred under the two grants and to determine whether NTF complied with the laws, regulations and agreement provisions which may have a material effect on the financial statements and costs claimed. We concluded that NTF had invoiced USAID for some costs which were not reimbursable under the terms of the Cooperative Agreements and standard provisions, but that NTF complied with most, but not all, Cooperative Agreement and USAID regulations.

An additional audit objective was to analyse the potential problems uncovered by the USAID/Yemen limited survey and determine their cause and effect on program procedures and costs. Our review showed that most of the problems identified by this survey had already been remedied prior to our audit.

From our review and testing of the records of NTF/Washington and Sana'a we found that NTF had been improperly paying hardship allowances and that it gave its employees leave in excess of the standard days allowed by USAID policies. We found that the accounting records prior to July/August 1985 were not well maintained. However, since then NTF have introduced a new management team and the accounting records and internal controls are now generally satisfactory.

We recommend that (a)unjustified hardship allowances should be recovered by USAID/Yemen, (b)the costs of granting leave in excess of the days allowed by USAID policies should be recovered by USAID/Yemen, (c)USAID/Yemen request NTF/Washington to justify why expatriate employees in Yemen were recording their time incorrectly, (d)USAID/Yemen discontinue the practice of financing the employment of three Third Country Nationals from project funds, (e)USAID/Yemen evaluate the reasons why it approved the financing of the Third Country nationals and resolve the costs and (f) USAID/Yemen assist NTF/Yemen to recover unrefunded bank guarantees.

In the following findings note that the US dollars equivalent of the Yemen Rial (YR) amounts is given principally for information purposes only. Throughout the period the disallowance arose, the exchange rate of the YR to the US dollar varied considerably. An estimated rate of YR 7.50 to \$1 has been used.

A. Findings and Recommendations

1. NTF employees were paid hardship allowances in contravention of USAID Personnel Policies

The NTF Personnel Policies manual in force until September 1985 allowed for the payment of hardship allowances. USAID Personnel Policies and the Standard Provisions of the Cooperative Agreement do not allow for such payments to be made. But NTF had tacit approval from USAID/Yemen for the payment of hardship allowances in the period October 1983 to September 1984. Consequently NTF paid hardship allowances and recovered such payments from USAID in contravention of governing regulations. These payments, totalling YR 41,762 (\$5,568), should be questioned. Payments made in the period October 1984 to September 1985, totalling YR 49,563 (\$6,608), should be disallowed.

RECOMMENDATION NO 1

We recommend that USAID/Yemen should:

- (a) recover the disallowed costs of YR 44,332 (\$5,911) together with related G & A costs of YR 5,231 (\$ 697); and,
- (b) take appropriate action to resolve, or recover, the questioned costs of YR 36,892 (\$4,919) together with related G & A costs of YR 4,870 (\$ 649).

Discussion

The NTF Personnel Policies manual allowed the payment of hardship allowances to employees who worked away from their normal location for a minimum period of time. But USAID/Yemen never approved this manual. Therefore, under paragraph 5 of the Standard Provisions to the Cooperative Agreement all Cooperating Country National and Third Country National employees are subject to USAID's policy as set forth in Manual Order 1423.7. However, USAID approval of the budget for the period October 1982 to September 1984, which includes hardship allowances as a line item, is tacit approval for such payments and therefore overrides Manual Order 1423.7. But we understand that according to a recent decision from the General Counsel of the Inspector General the terms of the basic agreement take precedence over budget approvals. Therefore we recommend that USAID/Yemen resolve, or recover, the questioned hardship allowances of YR 41,762 (\$ 5,568) paid in the period October 1983 to September 1984. USAID/Yemen had not approved any payments of hardship allowances in the period October 1984 to September 1985. These costs, amounting to YR 49,563 (\$ 6,608) should be disallowed. No hardship allowances were paid after October 1985.

For hardship allowances paid from the commencement of the project to September 1982 the amounts were not separately disclosed in the budgets. We were therefore unable to determine if they had been approved by USAID. We were also unable to quantify the amounts involved because of inadequate documentation that was maintained prior to November 1983.

2. NTF allowed its locally hired employees 24 days leave instead of 13 days as required by USAID policies

For the period from August 1980 to September 1984 NTF followed a leave policy which did not comply with USAID policies. USAID policies state that leave of 13 days per annum should be granted to employees with up to 3 years service and leave of 20 days per annum should be granted to employees with more than 3 years service. From August 1980 to September 1984 NTF allowed its locally hired employees a total of 24 days per annum. We calculated a cost disallowance of YR 196,586 (\$ 26,211).

RECOMMENDATION NO.2

We recommend that USAID/Yemen recover the disallowed costs of YR 175,501 (\$ 23,400) together with the related G & A costs of YR 21,085 (\$ 2,811).

Discussion

From a review of the NTF Personnel Policies manual for locally hired employees which was in force from the commencement of the project to September 1985, and from discussion with NTF personnel, we noted that NTF allowed its locally hired employees leave of 24 days per annum. This does not conform to the USAID policy of granting leave of 13 days per annum for employees with service of up to 3 years and 20 days per annum for employees with service in excess of 3 years. The USAID policy is applicable in these circumstances as the NTF Personnel Policy manual was not approved by USAID and hence, standard provision number 5 of the Cooperative Agreement is applicable. This provision states that to the extent that NTF's policy and practice conflict with 41 CFR 1-15.2, the latter shall prevail.

As a result, NTF has been granting excess leave of 11 days to each locally hired employee and effectively incurring disallowable costs.

We have calculated these disallowable costs to be YR 175,501 (\$ 23,400). We have calculated the related G & A costs to be YR 21,085 (\$ 2,811). Because of the length of the period of disallowance and the time available to us to calculate the disallowable cost we made the following assumptions and performed a global calculation: (a) an insignificant number of employees have been employed for more than three years during the period. Therefore, since most employees were employed for less than three years, we used the base of 13 days of leave which resulted in 11 days disallowed for each employee; (b) the April 1984 payroll was representative of payrolls throughout the period as the staff hires had by then stabilised, and it was well before the staff reductions towards the completion of Phase II of the project. It was therefore used as a base for our calculation.

3. NTF/Yemen expatriate employees incorrectly recorded their work week as Monday to Friday but worked Saturday to Thursday.

To ease production of the payroll, NTF/Yemen expatriate employees prepared time sheets for the same period as employees in NTF/Washington i.e., Monday to Friday, 8 hours a day or 40 hours a week. NTF require that their expatriate employees work a 40 hour week. This is a written policy that is periodically re-issued to expatriate employees. We were unable to find any evidence to suggest that NTF/Yemen expatriate employees did not work a 40 hour week. But the working week in Yemen was from Saturday to Thursday, 6 hours a day or 36 hours a week. USAID policies require that employees work a 40 hour week. Further, a USAID/Yemen official observed in May 1985 that NTF/Yemen expatriate employees were working only a 36 hour week. Hence, NTF/Yemen expatriate employees were recording their time incorrectly. From May 1, 1985 NTF/Yemen expatriate employees recorded their time correctly. The workweek is now 40 hours per week.

RECOMMENDATION NO. 3

We recommend that:

- (a) USAID/Yemen request NTF/Washington to justify why expatriate employees time sheets were incorrectly prepared, and to prove that the expatriate employees did work a 40 hour week, and,
- (b) if NTF/Washington cannot justify, USAID/Yemen take appropriate action to resolve, or recover, the questioned costs of \$165,609.

Discussion

Because the payroll system at NTF/Washington could not handle time recording of a Saturday to Thursday work week NTF/Yemen expatriate employees recorded a standard work week of Monday to Friday from the commencement of the project until April 1985. We were unable to find any evidence to suggest that NTF/Yemen expatriate employees did not work a 40 hour week in accordance with USAID Policies. But they were recording their time incorrectly. From May 1, 1985 timesheets were correctly prepared. The workweek is now 40 hours per week.

If NTF/Washington are unable to justify the incorrect time recording and prove that the expatriate employees did work 40 hours a week then the excess of hours claimed, i.e., 40 hours over the hours observed to have been worked, i.e., 36 hours, must be disallowed. This amounts to \$57,217 of payroll costs and \$13,285 of excess leave taken. Related fringe, overhead and G & A costs amount to \$95,107.

4. NTF/Yemen recruited three Third Country Nationals (TCN's) who did not benefit project 279-0044.

NTF/Yemen recruited three TCN's who are not working on the project. This contradicts the terms of the Cooperative Agreements. But the recruitment of the TCN's was formally approved by the USAID/Yemen Mission Director. This practice should be discontinued. The costs should be questioned. These costs amount to \$85,995 for the period from the commencement of their employment to December 31, 1986.

RECOMMENDATION NO. 4

We recommend that USAID/Yemen discontinue the practice of financing the three Third Country Nationals from project funds.

RECOMMENDATION NO. 5

We recommend that USAID/Yemen:

- (a) evaluate the reasons why it approved financing of the Third Country Nationals who would not benefit this project,
- (b) resolve costs questioned, amounting to \$77,126 of salaries and \$8,869 of G & A.

This resolution should be either to:

- (a) amend the Cooperative Agreement retroactively to cover the erroneously incurred costs, or,
- (b) refund the \$85,995 to the project from other funding sources.

Discussion

NTF/Yemen were requested by the Ministry of Public Works to pick-up and finance under the Cooperative Agreements three TCN's who are not working on the project. However, the terms of the Cooperative Agreements do not allow for this cost. But the recruitment of the TCN's was formally approved by the USAID/Yemen Mission Director in a letter to the Ministry of Public Works dated March 13, 1985.

We have questioned the entire \$85,995. However, NTF financed these costs in good faith and with the approval of USAID/Yemen. Therefore, we do not believe that NTF should be held liable. However, the practice is not within the specific objectives of the Cooperative Agreements and needs to be discontinued for the future. In addition, USAID/Yemen must evaluate reasons leading to the decision to finance these costs from project funds and find a way to either recover or resolve the unauthorized costs.

5. Bank guarantees totalling \$6,653.56 have not been recovered from the bank.

NTF/Yemen was required to provide bank guarantees to clear commodities from port. Once the commodities were cleared the banks should have refunded the guarantees. But guarantees totalling \$6,653.56 have not been refunded. This is despite all the necessary paperwork being completed by NTF.

RECOMMENDATION NO. 6

We recommend that USAID/Yemen intervene on NTF/Yemen's behalf and assist NTF/Yemen to recover the guarantees from the bank.

Discussion

Bank guarantees totalling \$6,653.56 were placed by NTF/Yemen with the International Bank of Yemen. The details are:

Guarantee No.	\$
683/83	5,604.36
909/83	262.51
1276/84	<u>786.69</u>
Total	<u>\$6,653.56</u>

But these guarantees have not been refunded by the bank despite all the necessary paperwork being completed by NTF.

We reviewed correspondence between NTF and the International Bank of Yemen and concluded that NTF have done everything they reasonably can to try to recover these guarantees.

B. Compliance and Internal Control

Compliance

In part II, Results of Audit, Section A - Findings and Recommendations, we identified the items which were not in compliance with the Cooperative Agreements. Other items tested were in compliance with the Cooperative Agreements. Nothing came to our attention as a result of performing the procedures specified in the detailed work program that caused us to believe the untested items were not in compliance with applicable laws and regulations under the Cooperative Agreements.

Internal control

During our audit we tested NTF's internal accounting controls in the following areas

- inventories
- procurement
- equipment
- payroll
- cash and bank - payments and receipts.

Our testing of controls in operation prior to July/August 1985 indicated that these controls were weak. The USAID/Yemen report dated May 30, 1985 also confirmed this. However, following the USAID/Yemen review NTF introduced improvements to its systems of internal accounting control and recruited more experienced personnel to implement them. Consequently, our testing of controls in operation since July/August 1985 indicated that the internal accounting controls are generally adequate and have been operating satisfactorily. We have identified a number of improvements that NTF could introduce to its systems of internal accounting controls. But we do not consider that it would be either cost effective or time effective for NTF to modify its current systems in view of the fact that the project has only a short time left to run.

C. Other Pertinent Matters

During our work on equipment and specifically on motor vehicles we noted that insurance values are far below replacement costs of the vehicles. We recommend that these insurance values be increased.

During our work on payroll we noted that personnel records were kept in unlocked cabinets in an insecure area. We recommended to the NTF team leader at the time of our audit that these cabinets should be kept in a secure place. While we were in Yemen the NTF team leader implemented this recommendation.

The statement of work noted the following issues.

An employee had incorrectly been paid for maternity leave. The amount paid was subsequently recovered from the employee concerned. We traced the receipt through to the project expenditure analysis report. Hence, no cost disallowance arises.

An incorrect severance pay policy was applied by NTF/Yemen. But the NTF policy for employees terminated who had worked less than 36 months is compatible with USAID/Yemen. Our review revealed that no employee had been terminated who had worked for more than 36 months. Hence, no cost disallowance arises.

NTF/Yemen had been "topping off" the salaries of ministry officials. We reviewed minutes of a meeting held on November 20, 1986 between USAID/Yemen, RWSD and NTF. At this meeting all parties agreed that topping off should continue. We also reviewed the AID Worldwide "Policy guidance on criteria for payment of salary supplements to host government employees". These criteria were met by NTF/Yemen. Hence, we concluded that topping off payments are an allowable cost of the project.

NTF/Yemen appeared to have mismanaged its checking accounts. We reviewed supporting documentation and discussed this issue with NTF officials. We concluded that the bank service charges are reasonable and as a result of the banking system in Yemen and not a result of mismanagement of funds.

The NTF/Yemen team leader was incorrectly paid \$1,856 in educational allowances. This amount has been repaid to NTF and properly refunded to USAID through credit to project expenditures.

During the first Cooperative Agreement NTF paid over \$752,000 in equipment and supplies and over \$2.5 million in commodity costs. For each class of expenditure we reviewed all payments made in two selected months. Our review revealed no material unsupported payments.

We reviewed existing controls over usage and maintenance of vehicles. We concluded that these controls are adequate. Insurance proceeds in respect of two stolen vehicles were received while we were in Yemen. We subsequently checked the recording of these proceeds and ensured that the project was credited.

NON-FEDERAL AUDIT OF THE YEMEN
RURAL WATER SYSTEMS PROJECT (279-0044)

PART III - EXHIBITS AND APPENDICES

EXHIBIT

Billings by the NTF under phase I and phase II
of the project, to December 31, 1986.

<u>Cost Category</u>	<u>Phase I</u>	<u>Phase II</u>	<u>Total</u>
	\$	\$	\$
Home Office Salaries	270,242	171,418	441,660
Field Staff Salaries	583,828	668,001	1,251,829
Expatriate & Local Hires	957,269	826,618	1,783,887
Home Office Fringe @ 30%	71,908	51,426	123,334
Field Staff Fringe @ 30%	159,081	200,400	359,481
Sub-total	2,042,328	1,917,863	3,960,191
Home Office Overhead			
FY 79 @ 60%	205,290		205,290
FY 80 @ 57.69	(430)		(430)
FY 81 @ 65.32	3,886		3,886
FY 82 @ 68.2	5,579		5,579
FY 83 @ 63.0	2,531		2,531
FY 84 @ 63.4	3,334		3,334
FY 85 @ 60		133,706	133,706
FY 86 @ 62.2		2,806	2,806
Field Staff Overhead			
FY 79 @ 30%	222,873		222,873
FY 80 @ 28.85	(145)		(145)
FY 81 @ 32.66	3,275		3,275
FY 82 @ 34.1	6,047		6,047
FY 83 @ 31.5	3,360		3,360
FY 84 @ 31.7	4,005		4,005
FY 85 @ 30.0		260,521	260,521
FY 86 @ 31.1		3,082	3,082
Sub-total	459,605	400,115	859,720
Consultant Fees	192,457	179,724	372,181
Travel & Transportation	204,780	241,100	445,880
Per Diem		353,047	353,047
Differential & Allowances	1,001,952	421,446	1,423,398
Equipment & Supplies	752,130		752,130
Vehicle Purchase & Operations		393,083	393,083
Tools, Equipment Commodities		3,126,057	3,126,057
Commodity Costs	2,495,103		2,495,103
Training		356,370	356,371
Other Direct Costs	597,898	366,075	963,973
Sub-total	5,244,320	5,436,903	10,681,223
Total Direct Costs & OH	7,746,253	7,754,880	15,501,133
General & Administrative			
FY 79 @ 10.6	817,770		817,770
FY 80 @ 12.20	2,122		2,122
FY 81 @ 11.74	13,490		13,490
FY 82 @ 11.8	18,891		18,891
FY 83 @ 11.5	21,878		21,878
FY 84 @ 13.2	69,457		69,457
FY 85 @ 11.8	222	10,278	10,500
FY 86 @ 11.5	-	891,980	891,980
Total Costs	8,690,083	8,657,138	17,347,221

NGN-FEDERAL AUDIT OF THE YEMEN RURAL WATER SYSTEMS PROJECT (279-0044)

FIRST COOPERATIVE AGREEMENT NO. AID/NE-CA-1647
SUMMARY OF COSTS CLAIMED, QUESTIONED, DISALLOWED AND ACCEPTED
FOR THE PERIOD FROM AUGUST 27, 1980 THROUGH SEPTEMBER 30, 1982

	-----FISCAL YEAR 1980-----				-----FISCAL YEAR 1981-----				-----FISCAL YEAR 1982-----			
	Contractor's claims \$	Questioned \$	Disallowed \$	Accepted \$	Contractor's claims \$	Questioned \$	Disallowed \$	Accepted \$	Contractor's claims \$	Questioned \$	Disallowed \$	Accepted \$
Home office salaries	15,344	1,042 c		14,302	59,490	10,024 c		49,466	54,788	11,866 c		42,922
Field staff salaries	10,422			10,422	100,241			100,241	118,663			118,663
Expatriate & local hires	883		755 b	128	45,562		4,529	41,033	165,016		4,529 b	160,487
Home office fringe	3,284	223 c		3,061	13,554	2,306 c		11,248	13,250	2,967 c		10,283
Field staff fringe	2,230			2,230	22,909			22,909	28,826			28,826
Home office overhead	10,746	730 c		10,016	47,712	8,054 c		39,658	46,402	10,116 c		36,286
Field staff overhead	3,650			3,650	40,221			40,221	50,294			50,294
Consultant fees	482			482	54,123			54,123	29,838			29,838
Travel & transportation	2,186			2,186	39,994			39,994	50,785			50,785
Differential & allowances	43,512			43,512	99,424			99,424	233,408			233,408
Equipment & supplies	38,344			38,344	83,453			83,453	102,790			102,790
Commodity costs	129			129	445,730			445,730	511,146			511,146
Other direct costs	5,161			5,161	64,352			64,352	66,378			66,378
Total direct costs & overhead	136,373	1,995	755	133,623	1,116,765	20,384	4,529	1,091,852	1,471,584	24,949	4,529	1,442,106
General & administrative	16,637	243 c	92 b	16,302	131,108	2,393 c	532	128,183	173,647	2,944 c	534 b	170,169
Total costs	153,010	2,238	847	149,925	1,247,873	22,777	5,061	1,220,035	1,645,231	27,893	5,063	1,612,275

NOTE: For details of questioned and disallowed costs see EXHIBIT 3

- a questioned/disallowed costs arising from recommendation no. 1
- b questioned/disallowed costs arising from recommendation no. 2
- c questioned/disallowed costs arising from recommendation no. 3
- d questioned/disallowed costs arising from recommendation no. 4

NON-FEDERAL AUDIT OF THE YEMEN RURAL WATER SYSTEMS PROJECT (279-0044)

FIRST COOPERATIVE AGREEMENT NO. AID/NE-CA-1647
SUMMARY OF COSTS CLAIMED, QUESTIONED, DISALLOWED AND ACCEPTED
FOR THE PERIOD FROM OCTOBER 1, 1982 THROUGH SEPTEMBER 30, 1985

	-----FISCAL YEAR 1983-----				-----FISCAL YEAR 1984-----				-----FISCAL YEAR 1985-----			
	Contractor's	costs per auditor			Contractor's	costs per auditor			Contractor's	costs per auditor		
	claims	Questioned	Disallowed	Accepted	claims	Questioned	Disallowed	Accepted	claims	Questioned	Disallowed	Accepted
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Home office salaries	65,188	17,324 c		47,864	75,431	18,126 c		57,305				
Field staff salaries	173,240			173,240	181,262			181,262				0
Expatriate & local hires	347,430		4,529 b	342,901	398,378	4,919 a	4,529	388,930				0
Home office fringe	19,192	5,197 c		13,995	22,629	5,438 c		17,191				0
Field staff fringe	50,736			50,736	54,379			54,379				0
Home office overhead	53,159	14,188 c		38,971	62,171	14,939 c		47,232				0
Field staff overhead	70,552			70,552	74,698			74,698				0
Consultant fees	42,757			42,757	65,256			65,256				0
Travel & transportation	40,641			40,641	71,846			71,846				0
Differential & allowances	283,695			283,695	342,761			342,761				0
Equipment & supplies	148,530			148,530	377,013			379,013				0
Commodity costs	882,399			882,399	655,699			655,699				0
Other direct costs	184,041			184,041	257,786			257,786	18,460			0
Total direct costs & overhead	2,361,562	36,709	4,529	2,320,324	2,641,509	43,422	4,529	2,593,558	18,460	0	0	18,460
General & administrative	271,580	4,222 c	521 b	266,837	348,679	5,082 c 649 a	598	342,799	2,178			2,178
Total costs	2,633,142	40,931	5,050	2,587,161	2,990,188	49,153	5,127	2,936,557	20,638	0	0	20,638

NOTES: 1. For details of questioned and disallowed costs see EXHIBIT 3

- a questioned/disallowed costs arising from recommendation no. 1
- b questioned/disallowed costs arising from recommendation no. 2
- c questioned/disallowed costs arising from recommendation no. 3
- d questioned/disallowed costs arising from recommendation no. 4

2. At the time of our audit the DCAA had not audited the fringe, overhead and G & A rates applied by NTF for the years ended September 30, 1983 through 1986. Hence, provisional rates have been used for these years.

NON-FEDERAL AUDIT OF THE YEMEN RURAL WATER SYSTEMS PROJECT (279-0044)

SECOND COOPERATIVE AGREEMENT NO. NEB-0044-A-00-4107-00
SUMMARY OF COSTS CLAIMED, QUESTIONED, DISALLOWED AND ACCEPTED
FOR THE PERIOD FROM OCTOBER 1, 1984 THROUGH DECEMBER 31, 1986

	-----FISCAL YEAR 1985-----				-----FISCAL YEAR 1986-----				-----OCTOBER 1, 1986 TO DECEMBER 31, 1986-----			
	Contractor's-----costs per auditor-----				Contractor's-----costs per auditor-----				Contractor's-----costs per auditor-----			
	claims	Questioned	Disallowed	Accepted	claims	Questioned	Disallowed	Accepted	claims	Questioned	Disallowed	Accepted
\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	
Home office salaries	98,114	12,120 c		85,994	57,914		57,914	15,390			15,390	
Field staff salaries	215,520			215,520	361,997		361,997	90,565			90,565	
Expatriate & local hires	326,563		5,911 a 4,529 b	316,123	420,621	58,466 d	362,155	79,434	18,660 d		60,774	
Home office fringe	29,433	3,636 c		25,797	17,374		17,374	4,617			4,617	
Field staff fringe	64,656			64,656	108,599		108,599	27,145			27,145	
Home office overhead	76,529	9,454 c		67,075	47,979		47,979	12,005			12,005	
Field staff overhead	84,053			84,053	144,261		144,261	35,289			35,289	
Consultant fees	108,180			108,180	63,476		63,476	11,271			11,271	
Travel & transportation	92,664			92,664	129,429		129,429	19,007			19,007	
Differential & allowances	328,598			328,598	360,794		360,794	58,112			58,112	
Equipment & supplies	85,587			85,587	77,095		77,095	(50)			(50)	
Commodity costs	1,500,235			1,500,235	1,575,841		1,575,841	48,297			48,297	
Other direct costs	466,182			466,182	425,349		425,349	86,757			86,757	
Total direct costs & overhead	3,476,314	25,210	10,440	3,440,664	3,790,729	58,466	0	3,732,263	487,839	18,660	0	469,179
General & administrative	400,622	2,975 c	697 a 534 b	399,391	445,543	6,724 d	438,819	56,092	2,145 d		53,947	
Total costs	3,876,936	28,882	10,974	3,840,055	4,236,272	65,190	0	4,171,082	543,931	20,805	0	523,126

NOTE: For details of questioned and disallowed costs see EXHIBIT 3

- a questioned/disallowed costs arising from recommendation no. 1
- b questioned/disallowed costs arising from recommendation no. 2
- c questioned/disallowed costs arising from recommendation no. 3
- d questioned/disallowed costs arising from recommendation no. 4

2. At the time of our audit the DCAA had not audited the fringe, overhead and G & A rates applied by NTF for the years ended September 30, 1983 through 1986. Hence, provisional rates have been used for these years.

SUMMARY OF COSTS CLAIMED, QUESTIONED, DISALLOWED AND ACCEPTED
FOR THE PERIOD FROM AUGUST 27, 1980 THROUGH DECEMBER 31, 1986

	-----PHASE I-----				-----PHASE II-----				-----TOTAL-----			
	---AUGUST 27, 1980 THROUGH SEPTEMBER 30, 1985---				---OCTOBER 1, 1984 THROUGH DECEMBER 31, 1986---				---AUGUST 27, 1980 THROUGH DECEMBER 31, 1986---			
	Contractor's-----costs per auditor-----				Contractor's-----costs per auditor-----				Contractor's-----costs per auditor-----			
	claims	Questioned	Disallowed	Accepted	claims	Questioned	Disallowed	Accepted	claims	Questioned	Disallowed	Accepted
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Home office salaries	270,241	58,382	0	211,659	171,418	12,120	0	159,296	441,659	70,502	0	371,157
Field staff salaries	583,828	0	0	583,828	668,082	0	0	668,082	1,251,910	0	0	1,251,910
Expatriate & local hires	957,269	4,919	18,871	933,479	826,618	77,126	10,440	739,052	1,783,887	82,045	29,311	1,672,531
Home office fringe	71,909	16,131	0	55,778	51,424	3,636	0	47,788	123,333	19,767	0	103,566
Field staff fringe	159,080	0	0	159,080	200,400	0	0	200,400	359,480	0	0	359,480
Home office overhead	220,190	48,027	0	172,163	136,513	9,454	0	127,059	356,703	57,481	0	299,222
Field staff overhead	239,415	0	0	239,415	263,603	0	0	263,603	503,018	0	0	503,018
Consultant fees	192,458	0	0	192,458	182,927	0	0	182,927	375,385	0	0	375,385
Travel & transportation	205,452	0	0	205,452	241,100	0	0	241,100	446,552	0	0	446,552
Differential & allowances	1,003,000	0	0	1,003,000	747,504	0	0	747,504	1,750,504	0	0	1,750,504
Equipment & supplies	752,130	0	0	752,130	162,632	0	0	162,632	914,762	0	0	914,762
Commodity costs	2,495,103	0	0	2,495,103	3,124,373	0	0	3,124,373	5,619,476	0	0	5,619,476
Other direct costs	596,178	0	0	596,178	978,288	0	0	978,288	1,574,466	0	0	1,574,466
Total direct costs & overhead	7,746,253	127,459	18,871	7,599,923	7,754,682	102,336	10,440	7,642,106	15,501,135	229,795	29,311	15,242,029
General & administrative	943,829	15,533	2,277	926,019	902,257	11,844	1,251	889,182	1,846,086	27,377	3,508	1,815,201
Total costs	8,690,082	142,992	21,148	8,525,942	8,657,139	114,180	11,671	8,531,288	17,347,221	257,172	32,819	17,057,230

NOTE: At the time of our audit the DCAA had not audited the fringe, overhead and G & A rates applied by NTF for the years ended September 30, 1985 through 1986. Hence, provisional rates have been used for these years.

Details of costs questioned and disallowed

RECOMMENDATION NO. 1

Hardship allowances

Questioned costs by Fiscal Year and Cooperative Agreement.

First Cooperative Agreement (No. AID/NE-CA-1647)

	YR	\$
FY 84: Total Questioned	<u>36,892</u>	<u>4,919</u>
Related G & A costs @ 13.2%	<u>4,870</u>	<u>649</u>

Disallowed costs by Fiscal Year and Cooperative Agreement.

Second Cooperative Agreement (NO. NEB-0044-A-00-4107-00)

	YR	\$
FY 85: Total Disallowed	<u>44,332</u>	<u>5,911</u>
Related G & A costs @ 11.8%	<u>5,231</u>	<u>697</u>

RECOMMENDATION NO. 2

Excess leave

Disallowed costs by Fiscal Year and Cooperative Agreement
First Cooperative Agreement (NO. AID/NE-CA-1647)

	YR	\$
FY 80:Total Disallowed	<u>5,661</u>	<u>755</u>
Related G & A costs @ 12.20%	<u>691</u>	<u>92</u>
FY 81:Total Disallowed	<u>33,968</u>	<u>4,529</u>
Related G & A costs @ 11.74%	<u>3,988</u>	<u>532</u>
FY 82:Total Disallowed	<u>33,968</u>	<u>4,529</u>
Related G & A costs @ 11.80%	<u>4,008</u>	<u>534</u>
FY 83:Total Disallowed	<u>33,968</u>	<u>4,529</u>
Related G & A costs @ 11.50%	<u>3,906</u>	<u>521</u>
FY 84:Total Disallowed	<u>33,968</u>	<u>4,529</u>
Related G & A costs @ 13.20%	<u>4,484</u>	<u>598</u>

Second Cooperative Agreement (NO. NEB-0044-A-00-4107-00)

FY 85:Total Disallowed	<u>33,968</u>	<u>4,529</u>
Related G & A costs @ 11.80%	<u>4,008</u>	<u>534</u>

RECOMMENDATION NO. 3

Workweek hours - 36 vs 40.

Questioned costs by Fiscal Year and Cooperative Agreement.

First Cooperative Agreement (NO. AID/NE-CA-1647)

		\$
FY 80:	Total Questioned	1,042
	Related Home Office Fringe @ 21.4%	<u>223</u>
		1,265
	Related Home Office Overhead @ 57.69%	<u>730</u>
		1,995
	Related G & A costs @ 12.20%	<u>243</u>
		<u>2,238</u>
FY 81:	Total Questioned	10,024
	Related Home Office Fringe @ 23%	<u>2,306</u>
		12,330
	Related Home Office Overhead @ 65.32%	<u>8,054</u>
		20,384
	Related G & A costs @ 11.74%	<u>2,393</u>
		<u>22,777</u>
FY 82:	Total Questioned	11,866
	Related Home Office Fringe @ 25%	<u>2,967</u>
		14,833
	Related Home Office Overhead @ 68.20%	<u>10,116</u>
		24,949
	Related G & A costs @ 11.80%	<u>2,944</u>
		<u>27,893</u>

		\$
FY 83:	Total Questioned	17,324
	Related Home Office Fringe @ 30%	<u>5,197</u>
		22,521
	Related Home Office Overhead @ 63%	<u>14,188</u>
		36,709
	Related G & A costs @ 11.50%	<u>4,222</u>
		<u>40,931</u>
FY 84:	Total Questioned	18,126
	Related Home Office Fringe @ 30%	<u>5,438</u>
		23,564
	Related Home Office Overhead @ 63.4%	<u>14,939</u>
		38,503
	Related G & A costs @ 13.20%	<u>5,082</u>
		<u>43,585</u>
 Second Cooperative Agreement (NO. NEB-0044-A-00-4107-00)		
FY 85:	Total Questioned	12,120
	Related Home Office Fringe @ 30%	<u>3,636</u>
		15,756
	Related Home Office Overhead @ 60%	<u>9,454</u>
		25,210
	Related G & A costs @ 11.80%	<u>2,975</u>
		<u>28,185</u>
		<u><u>28,185</u></u>

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RECOMMENDATION NO. 4

Third Country Nationals

Questioned costs by Fiscal Year and Cooperative Agreement.

Second Cooperative Agreement (NO. NEB-0044-A-00-4107-00)

		\$
FY 86:	Total Questioned	58,466
	Related G & A costs @ 11.50%	<u>6,724</u>
FY 87:	Total Questioned	18,660
	Related G & A costs @ 11.50%	<u>2,145</u>

Water projects inspected by Price Waterhouse

Sana'a Region

Al Mamar
Bayt Al-Hawri (East)
Bayt Al-Hawri (West)
Todhan
Maham Klibiin
Bayt Amr
Mahalat Shutbah
Shariah Hajra

Dhamar Region

Ad-Darb I
Yafa
Amed
Suna'ah
Dhamar Al Qarn
Asam Bait-Rashid
Hijrat Mabar
Al-Mawahib

Taiz Region

Hudhlan Sha'ab
Juhaym
Ash-Shabayn
Al-Habeel
Al-Akhmour

Tihama Region

Yafa'a
Al-Mahjeor
Al-Shatt
Al-Dhubayrataan
Al-Hajamah
Al-Hillah
As-Sa'adiyah
Al-Muradifah
Al-Khadhariyah
Unayzlah
Al-Husayah Al- Ulya
Al-Husayah As- Sufla
As-Saulah
Al-Turbah
Mahwah I & II
Al-Jaribah
Kawakirah
Ash-Shuab
As-Sowlah
Ash Sha'b

Water projects inspected by USAID/Yemen

Sana'a Region

Al Darb Al Aswad
Adigrari
Bayt Madrick
Al Madla'h
Dar Al Qadhi
Nub
Bayt Juma'an
Bayt Al-Dhulay

Dhamar Region

Dhawran Anis
Al-Jabjab
Afq
Al-Qa'mah
Hijrat Mangda

Taiz Region

Al- Jur Joor
Han Han
Nibahan
Al-Machaf

Tihama Region

Dyer Kananah
Dyer Anwash
Dyer Kuzabah

NEW TRANSCENTURY FOUNDATION

APPENDIX 3
PAGE 1 OF 4

1724 Kalorama Road, N.W.
Washington, D.C. 20009-2624

WARREN W. WIGGINS
PRESIDENT

January 13, 1988

Mr. Ron Points
Office of Government Services
Price Waterhouse
1801 K Street, NW
Washington, DC 20006

Re: Audit of NTF's AID Proj No. 279-04
Small Rural Water System
Yemen Arab Republic

Dear Ron:

We appreciate the opportunity of responding to your draft audit report of TransCentury's Yemen Rural Water Systems Project before it is published in final form. I am providing a copy of this response to the AID Mission in Sana'a, and hope to be able to discuss the issues with the Mission officials soon.

I will first give some background comments, and then address each of the report's findings and recommendations which are directed at TransCentury.

TransCentury consistently uses its best efforts to conform to terms of all project agreements for its many clients. In so doing, we strive to follow AID's lead in setting operational policies within a particular country, and always to incur costs that benefit and that are within the letter and spirit of the project in that country. As a result, all costs incurred and billed against the Yemen Rural Water Systems Project were in support of that project alone.

The draft report refers in several places to an initial Limited Scope Grant Agreement in the amount of \$144,000. Such references and comments should be deleted from the report, since that agreement (and the corresponding payments) related to someone other than TransCentury. That grant agreement work scope, time period, and the corresponding expenditures all took place before TransCentury signed its first Cooperative Agreement for Phase I of the project, i.e., July 28, 1980. In fact, page 2 of the draft report refers to the audit scope as covering the activity of the TransCentury project from that date forward.

Mr. Ron Points
January 13, 1988
Page 2

Finding 1 - Hardship Allowances for Local Employees

and

Finding 2 - Leave Allowances for Local Employees

These two findings relate mainly to the terms of TransCentury's Local Employees' Personnel Policies Manual. Those policies were developed by TransCentury officials during the initial start-up of the project in 1980 and 1981. Copies of the policies were discussed with and distributed to both AID Mission personnel and the Yemen Ministry of Public Works personnel in August and October of 1981. (We provided copies of the Manual and related correspondence to you during your audit.)

The policies were modeled after those of other parastatal corporations and authorities in Yemen. They were designed to create a legal and operational framework for the Yemeni local hire staff, as required by the country's Labor Law, and they represented a first step toward the creation of a partially autonomous authority for Rural Water under the direction of the Ministry of Public Works. To this day, work is continuing on establishing the Rural Water Authority as an autonomous organization.

This extensive effort was an attempt to conform all aspects of TransCentury's activity to the various provisions and requirements of the original Memorandum of Understanding between the USAID and the Government of Yemen; of the Letter of Agreement between TransCentury, the Yemen Central Planning Organization and the Ministry of Public Works; and the Cooperative Agreement between the USAID and TransCentury. Some of those provisions and requirements were difficult to follow, and were subject to interpretation and many meetings in an attempt to generate complete agreement with all parties involved.

Throughout this start-up period, we kept the USAID and Ministry officials informed of our actions, and solicited their consultation. The subject personnel policies were a topic of numerous meetings among USAID and Ministry staffs, in an attempt to create a workable document for project implementation. Correspondence accompanying the policies, together with our quarterly activity reports transmitted to the USAID and Ministry, refers to the many project issues to be dealt with at the time. Consequently, we do not believe it is a correct statement in your report that "USAID/Yemen never approved this manual," because, in many important ways, the resulting manual was a joint product flowing from those consultations. To say that USAID/Yemen never approved this manual implies that the USAID never contributed to it and took no notice of its implementation in our quarterly activity reports throughout the life of the project. History does not bear this conclusion out. In actuality, USAID/Yemen passively accepted the manual, and the actions based on it.

Mr. Ron Points
January 13, 1988
Page 3

Additionally, your reports' reference to an IG/GC decision that "the terms of the basic agreement take precedence over budget approvals" presents new questions that basically relate to USAID in their responsibilities in carrying out this project. Throughout the seven-year project life, there have been a multitude of budgets prepared, discussed, negotiated and agreed to in writing between TransCentury, AID/W, and the USAID, all directed to the original and the changed purposes of the project as a whole. TransCentury has implemented, and AID has monitored, this project in conformance with AID's approval of those several budgets. To the extent that budget agreements with USAID may have been at variance with some aspect of the basic grant agreement is first and foremost the responsibility of USAID--not the implementing organization.

Regarding the topic of hardship allowances, it should be noted that the USAID's personnel policies did not allow such benefits for its own staff because that staff was never assigned to the field for long periods of time, as was TransCentury's. Thus, it is a natural conclusion that TransCentury's policies were not the same as the USAID's, because the USAID had no need for such a policy. And the USAID did not question the need to pay the benefits when they knew of our policy at the time, and negotiated and approved the budgets to cover the expenditures.

Regarding the issue of leave allowances, our policies conformed to the Yemeni Labor Law and to those of the Ministry of Public Works, because a number of our project employees were seconded to TransCentury from the Ministry in order to help promote the institutionalization of the Ministry's Rural Water Department. Those employees would only work with TransCentury's project if they received the same level of benefits as TransCentury employees.

Therefore, within the context of TransCentury's best efforts at preparing and implementing its local personnel policies, which were approved and effective as a basis for the negotiated budgets, the proposed disallowed and questioned costs for hardship and leave allowances should be considered reasonable and proper project costs, as accepted at the time by the USAID.

Finding 3 - Timekeeping Procedures for Expatriate Employees

Expatriate employees prepared their time sheets to report a standard 40-hour work week in order to conform their time worked with TransCentury's home-office record-keeping and computer payroll production. This procedure was not meant to mislead or produce incorrect information. Contrary to the report finding, our employees would not so obviously and "incorrectly" report their time as 40 hours if in fact they did not work 40 hours.

NTF's U.S. and expatriate employees were assigned full time to this project. Accordingly, they are compensated on the basis of an annual salary, computed and paid monthly, according to the project budgets.

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Our work is with the Ministry of Public Works (MPW), our field office is located in a Ministry building, and local custom at the time was for the office to be open for 36 hours per week. That was the system within which we were required to work, not the system which we established. Because the hours of the MPW office were different from the USAID, the local banks, the business firms, and some of the other government offices, our staff often found it necessary to continue their work after the office closed in order to visit the other people with whom we do business. On the average those full time employees no doubt worked more than 40 hours per week.

In addition, those persons assigned to the isolated village sub-projects often work extraordinary numbers of hours in order to get their tasks done. Because we do not provide for overtime or comp time for these or any other professionals, we rely on their work efforts to accomplish the tasks assigned, regardless of the number of hours or extra effort needed. Otherwise, we could never have completed the number of water systems which we have been able to do.

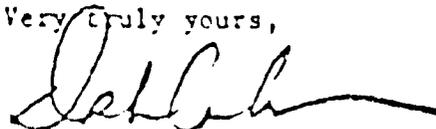
For the reasons stated above, NTF has charged salary costs to the project which are fully allowable under terms of the cooperative agreement.

TransCentury can not really "prove" that its expatriate employees worked a 40-hour week, just as the USAID can not "prove" that its own employees did so six or seven years ago. From a corporate and fiscal perspective we can assure you that they did. If requested, we will attempt to contact each and every employee and ask them to certify that they in fact did work full time and at least a 40 hour week during the period assigned to the project.

We trust that our comments will be included in your final report. In addition, we would hope that the USAID considers our comments sufficient to justify costs which previously have been suggested as subject to question or disallowance as allowable project expenses.

Best regards.

Very truly yours,



Dale Coleman
Controller

DC:w

cc: Mr. Homi Jamshed

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