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ISN= 60013

AUDIT OF LOCAL SUPPORT COSTS OF THE
AGRICULTURAL DEVELOPMENT SUPPORT
PROGRAM OF YEMEN PROJECT NO. 279-0052

AUDIT REPORT NO. 3-279-89-09
January 31, 1989

UNITED STATES OF AMERICA

AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL INSPECTOR GENERAL/AUDIT

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January 31, 1989

MEMORANDUM FOR DIRECTOR, USAID/Yemen, Kenneth H. Sherper

FROM: Richard C. Thabet, RIG/A/Nairobi

SUBJECT: Audit of Local Support Costs of the Agricultural Development Support Program of Yemen, Project No. 279-0052

The office of the Regional Inspector General for Audit/Nairobi has completed its audit of local support costs of the Agricultural Development Support Program of Yemen, Project No. 279-0052. Five copies of the audit report are enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to the report. The report contains two recommendations. The recommendations are unresolved. Please advise me within 30 days of any further information you might want us to consider on Recommendation Nos. 1 and 2.

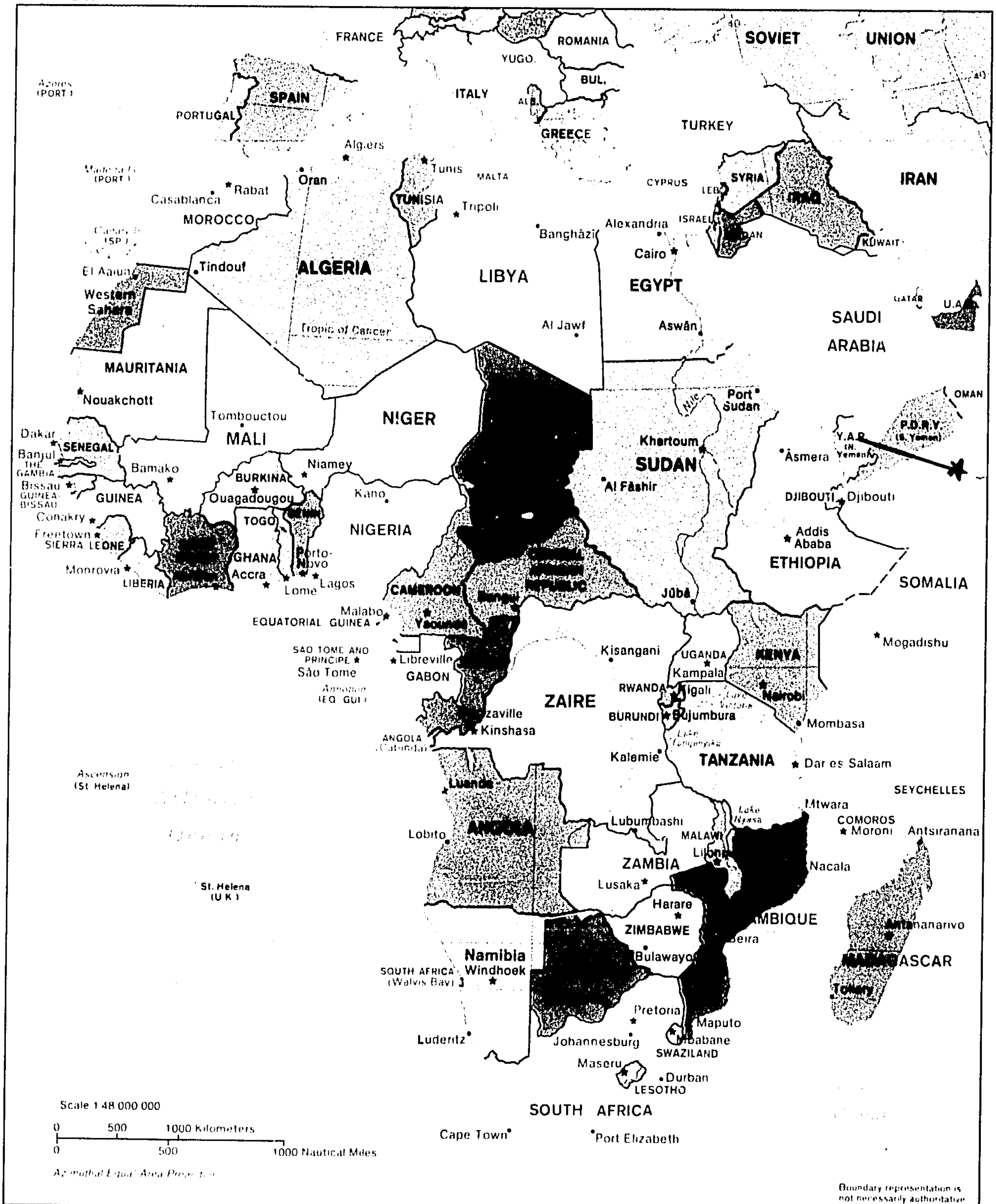
I appreciate the cooperation and courtesy extended to my staff during the audit.

Background

The goal of the Agricultural Development Support Program was to increase income and improve quality of life for rural inhabitants by assisting the Yemen Arab Republic Government to modernize and revitalize its agricultural sector. This was to be achieved through increased agricultural production, natural resource conservation, maintenance of ecological balances, increased farm income, and improved performance of the host government in planning and implementing its agricultural programs.

The project grant agreement was signed on June 14, 1979. It was originally scheduled to terminate on September 30, 1980, but sub-projects were extended to dates ranging from 1987 to 1996. At September 30, 1987 the total planned A.I.D. funding was $135.2 million. Of the $69.9 million obligated at that time, disbursements totalled about $64.8 million.

Africa



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The Consortium for International Development, Yemen (CID/Yemen) was the implementing agency of the program which had five sub-projects. The contract, dated July 10, 1980 was originally scheduled to terminate on July 10, 1985, but was later extended through 1996 in line with extensions to the project grant agreement.

Audit Objectives and Scope

The Regional Inspector General for Audit/Nairobi made a financial and compliance audit of selected aspects of the project's local support costs. The specific audit objectives were to determine whether costs claimed by CID/Yemen were reasonable, allocable, allowable and in accordance with contract provisions and whether internal control procedures over project funds were effective.

To accomplish the audit objectives, the audit staff reviewed a prior audit report, the project contract, the project grant agreement and related correspondence and financial records. Also, responsible USAID/Yemen, CID/Yemen and host government officials were interviewed. The audit was conducted in Sana'a Yemen and included visits to al-Irra, al-Jarouba, Bir El Qhusain and other institutions in Yemen between August 1987 and February 1988.

The audit covered the equivalent of $15.7 million in local currency and $1.5 million in U.S. dollars which made up the $17.2 million in total local support costs incurred from July 1, 1982 through September 30, 1987 (See exhibits 1 and 2). A prior audit by the Regional Inspector General for Audit/Karachi covered expenditures from inception through June 30, 1982. The review of internal controls was limited to the issues presented in this report. The audit was made in accordance with generally accepted government auditing standards.

Results of Audit

Most of the $17.2 million of costs claimed for reimbursement were reasonable, allocable, allowable and in accordance with contract provisions. However, CID/Yemen did not comply with specific contract provisions which resulted in certain disallowed and questioned costs. Further, weaknesses existed in certain internal control procedures.

The audit identified problems in the following areas: al-Jarouba construction program, residential leasing, office space rent, procurement of goods and services, salaries and travel expenses. Additionally, the contractor's system of internal control needed improvement.

The report recommends that USAID/Yemen, in conjunction with the contracting officer, disallow and recover costs totalling $71,568 and determine the allowability of $16,727 in questioned costs. The report also recommends specific actions to correct identified weaknesses in internal control procedures to ensure consistency with A.I.D. regulations.

Certain Costs Claimed by the Consortium for International Development/Yemen should be Either Disallowed or Questioned - The contract between A.I.D. and CID/Yemen set forth the nature of expenditures, and limits allowable when claimed. However, certain costs claimed by the contractor did not conform with the provisions of the contract. This occurred because of weaknesses in internal controls and non-conformity with established regulations. As a result, costs claimed by the contractor amounting to the equivalent of $71,568 should be disallowed and others totalling $16,727 should be set aside (questioned) for the contracting officer's determination for allowability as follows:

	CATEGORY	DISALLOWED $	QUESTIONED $
1.	Other Direct Costs & Other Costs - al-Jarouba Construction Program	43,986	-
2.	Operations - residential leasing	15,839	-
3.	Operations - office space rent	-	8,853
4.	Operations - procurement of goods and services	-	7,874
5.	Salaries	7,000	-
6.	Travel & Per Diem	4,743	-
	Total	$71,568	$16,727

Al-Jarouba construction program - The al-Jarouba Construction Program contract between the Ministry of Agriculture and Fisheries and Electroline Limited required that Electroline execute and complete construction in accordance with contract specifications. Further, the contract between the Ministry of Agriculture and Interconsult required the project engineer to monitor and supervise the construction work, make final inspections with recommendations and issue a certificate of completion accepting the finished project. Specifically, the contract stated that "one-half of the retention money shall become due and will be paid to the contractor when the engineer shall issue a certificate of completion in respect of the works. The second one-half will become due and payable at the end of the Guarantee period."

Nevertheless, the construction work at al-Jarouba was not conducted in accordance with the contract provisions. According to an August 1984 USAID/Yemen trip report, a November 25, 1984 station manager's monthly report and a 1987 CID/Yemen report, the construction was incomplete, defective and abandoned by the contractor. Further, the supervisory engineer's certificate of completion of the project dated December 30, 1984 was rejected by USAID/Yemen for being incomplete and deficient.

In spite of these deficiencies, the audit disclosed that CID/Yemen paid the following costs in local currency either without approval, prematurely or unnecessarily (See Exhibit 3 for details):

Retention and contract funds paid prematurely	-	$25,205
Recontracting to do incomplete and defective work	-	2,242
Unnecessary repairs to air Conditioners and replacement of compressors	-	2,852
Unauthorized design changes	-	4,692
Excessive importation costs	-	8,995
Total		$43,986

This situation occurred because CID/Yemen did not have an adequate and effective monitoring capability. Further, relevant provisions of the contract were not enforced. For example, CID/Yemen did not have formal procedures (based on A.I.D. Handbook 11, Chapter 2 covering host country contracts) defining responsibilities for proper construction monitoring and payment approvals. Further, CID/Yemen did not maintain essential contract records to facilitate proper monitoring and payment approvals in accordance with the terms and conditions of the contracts.

In conclusion, the Director, USAID/Yemen, in conjunction with the contracting officer, should disallow and recover $43,986 in payments and require CID/Yemen to establish proper construction monitoring procedures.

Residential leasing - Several problems were noted in CID/Yemen's residential leasing operations. Some lease provisions were inadequate and valid lease terms were not followed. Auditors reviewed records on residential leasing involving six of the eight houses rented since January 1985 and noted the following problems which resulted in unnecessary costs (see Exhibit 4 for details):

-- Handbook 23 Chapter 5, stated that leases should preferably provide for monthly or quarterly payments. However, due to inadequate lease provisions, advance rent was paid for 12 months ending February 1, 1987 on house No. 7. As a result of local currency devaluation relative to the U.S. dollar, CID/Yemen incurred unnecessary losses of YR 13,340 ($1,647).

-- A.I.D. Handbook 23 Chapter 5 stated that leases shall provide an itemization of initial renovations, alterations and installation to be provided by the lessor as conditions of occupancy. However, poorly worded lease terms resulted in CID/Yemen unnecessarily paying YR 63,500 ($6,263) in renovation costs for house No.7 which were later billed to A.I.D.

-- After the lease on house No. 1 expired, CID/Yemen incurred restoration costs which exceeded a lease restoration limitation provision by YR18,011 ($2,224).

-- Although the lease for house No. 1 restricted advance rent to 6 months, the contractor paid 18 months rent in advance for the period ending June 1987. Consequently, the contractor lost YR19,018 ($2,348) in savings due to the local currency devaluation in relation to the dollar.

-- The Yemen French Decoration Company was paid YR27,200 ($3,357) in January 1986 as an advance for delivery and installation of a kitchen cabinet to renovate house No.6. However, records disclosed that the contractor left the country before delivery and installation of the cabinet.

The cause of these problems was that CID/Yemen did not (1) enforce specific lease provisions and (2) did not use A.I.D. Handbook 23 as a guide to administer its residential leasing operations. As a result, a total of $15,839 (YR141,069) in local currency should be disallowed.

<u>Office space rent</u> - Handbook 23, Chapter 5 stated that leases whose basic terms exceeded one year should include a clause which would provide a unilateral right for the lessee to terminate the lease at any time after the first year, for any reason, with written notice to the lessor. The lack of such a clause in CID/Yemen's office space lease resulted in unnecessary costs.

When its staff increased in 1985, CID/Yemen rented an office annex for YR20,000 ($1,771) per month. An addendum to the lease for CID/Yemen's main office space was drawn effective from September 1, 1985 through October 1, 1989. In October 1986, CID/Yemen terminated the lease addendum because additional office space was no longer needed. Due to the lack of a lease escape clause, CID/Yemen paid a penalty of YR100,000 ($8,853) which represented 5 months rent (see Exhibit 5).

This occurred because CID/Yemen's management personnel did not follow A.I.D. regulations on leasing. USAID/Yemen should question $8,853 in claimed costs and require CID/Yemen to establish adequate leasing procedures.

Procurement of goods and services - Contract provisions required supporting documentation and certifications that costs claimed by the contractor are proper and due. However, the audit staff reviewed payment records and noted that billings from Red Sea packing company for payments totalling YR 35,742 ($5,746) were not supported by required approved time sheets, vehicle daily travel records, ocean bill of lading or container invoices. Further, auditors reviewed payment records and noted that Hyco Trading Company was paid YR19,000 ($2,128) for expediting services without supporting documentation (see Exhibit 6). Consequently, USAID/Yemen should question $7,874 in claimed costs.

Salaries Budget - The contract agreement required that the estimated costs set forth in the budget schedule were not to be exceeded without approval. Specifically, the core budget established three positions for expeditors not to exceed $37,000 in salaries and wages in fiscal year 1987.

The audit noted, however, that budget limitations were exceeded without approval. Although the three positions for expeditors were occupied, CID/Yemen hired a Ministry of Agriculture and Fisheries employee without approval. This person was hired as an expeditor from September 1, 1986 to September 30, 1987 on a part-time basis. The additional expeditor's wages exceeded the budget by YR83,468 ($7,000). (See Exhibit 7).

USAID/Yemen did not approve hiring the employee. Further, CID/Yemen did not submit any justification of the need for additional expediting services. As a result, USAID/Yemen should disallow $7,000 in claimed cost and require CID/Yemen to establish procedures for obtaining Mission approval for increases in budgeted salary costs.

Travel expenses - The general provisions of the contract required that prior written approval by USAID/Yemen be obtained for international travel at least three weeks before travel is planned to commence.

Nevertheless, examination of records disclosed that one Oregon State University employee on tour in Yemen went on unauthorized rest and recuperation leave but was reimbursed for round trip travel expenses. The employee and his family went on leave and returned to Yemen on August 1, 1986 hoping that the host government would extend his contract (which expired on August 21, 1986). Ten days later, the Ministry of Agriculture and Fisheries rejected the employee's contract extension request.

This unnecessary travel expense was incurred because prior approval for travel was not obtained from USAID/Yemen. USAID/Yemen should (1) disallow travel expenses of YR42,685 ($4,743) representing the unauthorized cost of the employee and his family traveling to the U.S. and returning to Yemen (see Exhibit 8).

Recommendation No. 1

We recommend that the Director, USAID/Yemen in conjunction with the contracting officer review costs claimed by Consortium for International Development as reflected on Exhibits 1 and 2 and take appropriate action to:

a. disallow and recover $71,568; and

b. determine the allowability of questioned costs amounting to $16,727.

Recommendation No. 2

We recommend that the Director, USAID/Yemen require Consortium for International Development to establish and implement adequate effective internal control procedures consistent with A.I.D. regulations to cover monitoring of future construction programs, residential leasing operations, rental of office space, procurement of goods and services, salaries and travel expenses.

The Mission concurred with the report findings and suggested specific wording changes, which we made, to correct certain inconsistencies and factual inaccuracies. The Mission also transmitted CID/Yemen's comments on the draft report which are attached to this report. Highlights of CID/Yemen's comments follow.

Regarding the al-Jarouba construction project, CID/Yemen stated that a certificate of completion authorized CID to pay the contractor and provided evidence that the contractor did not abandon the project. Further, CID/Yemen stated that air conditioner repairs were necessitated by adverse environmental conditions rather than by faulty equipment or improper installation by the contractor. They said that housing design changes were made to meet acceptable standards for expatriate staff and that importation costs of building materials were not part of the contract and therefore did not represent payments in excess of the contract price.

In terms of residential and office leasing costs findings, CID/Yemen did not believe they were bound by A.I.D. Handbook 23 provisions and that USAID/Yemen actually caused some of these costs due to various personnel decisions. They further stated that procurement of goods and services costs should not be questioned even though they had no supporting documentation.

CID/Yemen contended that the salary budget excess should be deleted from the report or reclassified as "questioned cost" because it was not previously communicated to them as a finding. Finally, they believed the unauthorized R&R travel costs should be allowed because USAID/Yemen approved the employee's extension even though the host government refused it. Based on the above comments, CID/Yemen believed that virtually all costs recommended for disallowance or questioned should be allowed.

RIG/A/N's position remains unchanged. Since USAID/Yemen concurred with the report findings in the memo used to transmit to us CID/Yemen's comments, we question whether the Mission agreed that some of the excessive costs were the result of Mission decisions.

Further, the certificate of completion identified by CID/Yemen was rejected by USAID/Yemen. Also USAID/Yemen inspection reports showed Electroline Limited's work had not been completed, and the auditor could obtain no evidence that the work was subsequently finished. CID/Yemen provided no evidence which supported unusual adverse environmental conditions leading to air conditioner failures or which authorized unplanned and unbudgeted expenditures for construction, importation costs, or improvements for housing.

Unless the auditee can document specific USAID exemptions from the requirements for residential and office space rentals, RIG/A/N rejects CID/Yemen's arguments that the uniform State/AID/USIA regulations presented in Handbook 23 does not apply. We acknowledge that the language in Handbook 23 alone is not binding in terms of discouraging advance rent payments. However these Handbook provisions, coupled with the fact that housing was available at the Hadda apartment complex, provides the foundation for our recommendation to disallow at least part of the rental payments.

We did not agree with CID/Yemen's request that the salary budget excess be deleted or reclassified as "questioned costs." The draft report put CID/Yemen on notice in a timely manner that they must provide documentation to the contracting officer to support these costs.

CID/Yemen's assertion that USAID/Yemen approved the employee's extension (which was later reversed) did not justify the disallowed travel expenses. The contract clearly required prior travel approval by USAID/Yemen which was not obtained.

Other Pertinent Matters - The audit also identified the following areas needing improvement: travel, administration of University of Sana'a's expenses, billings and collection procedures for personal charges, the property management system, petty cash system at Ibb Secondary School, chart of accounts, and prohibitions of claiming costs resulting from contractor violations.

First, general contract provisions required that prior approval be obtained for international travel and that travel expenses be supported by documentation. However, records examined disclosed that funds were used to finance personal, improper and unauthorized travel costs. For example, employees were granted funds amounting to the equivalent of $6,254 to finance personal and relatives' travel. These costs were repaid by the employees interest free four to eight months later. As a result, travel costs were abused and misused to finance personal activities. USAID/Yemen should require CID/Yemen to establish policies and procedures to ensure effective controls for travel expenses.

Second, general contract provisions required that costs claimed be supported and certified as proper and due. Nevertheless, CID/Yemen's accounts receivable was used to facilitate financing expenses payable by another entity -- the University of Sana'a. For example, CID/Yemen would advance project funds to make payments on behalf of the University, record these costs as accounts receivable, and off-set these receivables at a later date from rental billings on houses leased from the University. Consequently, CID/Yemen's financial statements did not present a fair view of accounts receivable. Also, funds from accounts receivable equivalent to about YR121,800 ($12,180) were used to finance uncleared in-country travel expenses. USAID/Yemen should instruct CID/Yemen to discontinue this practice and require the University of Sana'a to establish a system to manage and finance its program expenses from rental income.

Third, auditors reviewed billings and collection procedures used by CID/Yemen from January 1985 through June 1986 and noted that billings for employees' personal charges involving telephone calls and home to office transportation were either improper, lacked supporting documentation or had many errors. For example, we noted examples of reducing employee telephone bills by reclassifying personal calls from personal to official with no supporting documentation. Further, CID/Yemen charged its employees $20 per month for home to office transportation compared to $25 which USAID charges to its expatriate employees. As a result, personal charges were prone to abuse and waste. CID/Yemen should establish written procedures for billing and collecting personal charges.

Fourth, general contract provisions required maintenance of a property management system to control, preserve, maintain and conduct an annual inventory reconciled to appropriate records. A limited review of the property system disclosed numerous problems including lack of inventory records, control, reconciliation, poor procurement procedures, maintenance and preservation. As a result, inventory valued at about $3.6 million could be abused or wasted. Although a formal recommendation was not made, the Mission should require CID/Yemen to improve the property management system to conform with A.I.D. regulations.

Fifth, an effective petty cash imprest system requires implementing proper procedures to ensure safe custody and control. The audit noted that records, procedures, and surprise counts of the petty cash at Ibb Secondary Agriculture Institute were deficient. For example, the auditors' surprise cash count at the Institute was "over" due to mixing of funds. Further, the petty cash fund lacked adequate records to account for miscellaneous receipts. USAID/Yemen should require CID/Yemen to establish proper imprest procedures.

Sixth, good accounting practices require establishment of a chart of accounts identifying account titles and corresponding numbers to be used consistently from one period to another. A review of CID/Yemen records disclosed that the chart of accounts in use combined program costs for more than one period, and account numbers were frequently eliminated or changed from year to year. This occurred because of constant program evolution and requirements for change by different team leaders. Consequently, generally accepted accounting practices were violated, thus distorting the financial statements of CID/Yemen. USAID/Yemen should require CID/Yemen to establish a chart of accounts to be used consistently from one period to another.

Seventh, A.I.D. regulations prohibit claiming costs resulting from contractor violations. Nevertheless, CID/Yemen paid the landlord $5,523 in local currency as a settlement for fines and violations for damages caused to house No. 5. The damages were caused by a CID/Yemen employee's goats. A CID/Yemen official stated that the payment of $5,523 was not billed to the Mission but was charged to an account receivable. CID/Yemen further stated that it would not collect or claim this cost for at least 10 years. USAID/Yemen should ensure that this amount is not claimed by CID/Yemen for reimbursement in the future.

AUDIT OF
LOCAL SUPPORT COSTS OF THE
AGRICULTURAL DEVELOPMENT SUPPORT
PROGRAM OF YEMEN PROJECT NO. 279-0052

EXHIBITS AND APPENDICES

-12-

Exhibit 1

USAID/Yemen
Local Support Costs
Cumulative from October 1, 1980 to September 30, 1987

I. CID Billings in Riales (Exhibit 2) Converted to U.S. Dollars

	Total Costs Billed, Covered by Prior Audit, Accepted, Disallowed and/or Questioned						
	Billed From Inception	Covered in Prior Audit 1/	Covered in This Audit	Accepted	Disallowed	Questioned	Note
Salaries	$ 5,480,136	$ 780,141	$ 4,699,995	$ 4,692,995	$ 7,000	$ –	2
Operations	4,931,957	988,434	3,943,523	3,910,957	15,839	8,853	3
						7,874	4
Travel & PD	1,581,910	148,343	1,433,567	1,428,824	4,743	–	5
Training	681,318	5,418	675,900	675,900	–	–	
Expendable	1,116,325	233,205	883,120	883,120	–	–	
Non-Expendable	3,232,090	50,461	3,181,629	3,181,629	–	–	
ODC & Other Costs	917,395	369,404	547,991	504,005	43,986	–	6
Contingency	369,989	–	369,989	369,989	–	–	
Subtotal	$18,311,120	$2,575,406	$15,735,714	$15,647,419	$71,568	$16,727	

II. CID Billings in U.S. Dollars

Cost Component	Total						
Salaries	$ 570,300	–	570,300	570,300	–	–	
Operations	48,134	–	48,134	48,134	–	–	
Travel & PD	80,694	–	80,694	80,694	–	–	
Training	345,189	–	345,189	345,189	–	–	
Expendable	72,589	–	72,589	72,589	–	–	
Non-Expendable	351,684	–	351,684	351,684	–	–	
ODC & Other Costs	45,370	–	45,370	45,370	–	–	
Subtotal	$1,513,960	$ –	$ 1,513,960	$ 1,513,960	$ –	$ –	
Grand Total	$19,825,080	$2,575,406	$17,249,674	$17,161,379	$71,568	$16,727	

1/ These costs were previously covered by Audit Report No. 5-279-83-4 issued on January 30, 1983 by RIG/A/Karachi.
2 See Exhibit 7.
3 See Exhibit 4 and 5.
4 See Exhibit 6.
5 See Exhibit 8.
6 See Exhibit 3.

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Exhibit 2

USAID/Yemen
Local Support Costs
Cumulative from October 1, 1980 to September 30, 1987

CID Billings in Yemen Riales

	Billed From Inception	Total Costs Billed, Covered by Audit, Accepted, Disallowed and/or Questioned					
		Covered in Prior Audit 1/	Covered in This Audit	Accepted	Disallowed	Questioned	Note
Salaries	YR36,821,811	YR3,549,643	YR33,272,168	YR 33,188,700	YR 83,468	-	2
Operations	30,946,326	4,497,372	26,448,954	26,153,143	141,069	YR100,000	3
						54,742	4
Travel & PD	11,344,367	674,960	10,669,407	10,626,722	42,685	-	5
Training	4,602,992	24,650	4,578,342	4,578,342	-	-	
Expendable	8,203,085	1,061,084	7,142,001	7,142,001	-	-	
Non-Expendable	17,551,600	229,597	17,322,003	17,322,003	-	-	
ODC & Other Costs	5,247,697	1,680,789	3,566,908	3,241,985	324,923	-	6
Contingency	1,684,814	-	1,684,814	1,684,814	-	-	
Subtotal	YR116,402,692	YR11,718,095	YR104,684,597	YR103,937,710	YR592,145	YR154,742	
U.S.$ Equiv.	$ 18,311,120	$ 2,575,406	$ 15,735,714	15,647,419	$ 71,568	$ 16,727	

1/ These costs were previously covered by Audit Report No. 5-279-83-4 issued on January 30, 1983 by RIG/A/Karachi.
2 See Exhibit 7.
3 See Exhibit 4 and 5.
4 See Exhibit 6.
5 See Exhibit 8.
6 See Exhibit 3.

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USAID/Yemen
Costs of al-Jarouba Construction Program Disallowed
Cumulative from July 1, 1983 to September 30, 1987
(In Yemeni Riales (YR) & U.S. Dollar ($) Equivalent)

Payment Voucher No.	Year	Purpose	Disallowed		Note
Electroline Contract Work of 1984					
5373	1985	Retention funds	YR160,066	$21,927	
5373	1985	Balance of Contract Fund's	23,933	3,278	
		Total final payment of Retention Funds & Contract Funds Paid Prematurely	YR183,999	$25,205	1
Additional Cost to Recontract Work in Excess of Retention			YR 22,196	$ 2,242	2
Work in 1985 to Repair Air Conditioners and Electrical Work					
4463	01/85	Repairs	11,100	$ 1,850	
5963	10/85	Repairs	7,714	1,002	
			18,814	$2,852	3
1985 Additional cost per July 1984 E/Ltd AMF 160/161					
		Unauthorized Design Changes	34,250	$ 4,692	4
		Costs Exceeding Lump Sum Contract	65,664	8,995	5
			99,914	13,687	
		Total Costs disallowed	YR324,923	$43,986	

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NOTES TO EXHIBIT

Note	Description of Costs Disallowed

1 The YR 183,999 ($25,205) of costs disallowed represent the final payment to E/Ltd of retention funds of YR160,066 ($21,927) and the undisbursed balance of contract funds of YR23,933 ($3,278). The contractor abandoned the job without notice while the work was incomplete and defective. The funds were paid without adequate documentation and a final inspection of work by a qualified engineer from USAID/Yemen or CID. Funds should have been held until the contractor completed work and a final inspection certified the work met the approved designs and specifications. The funds were paid in July 1985, about six months before expiration of the guarantee period at December 30, 1985.

2. Additional funds amounting to YR 22,196 ($2,242) were needed to correct incomplete and defective work abandoned by Electroline Limited. This work was recontracted to Yemen Technical Contracting and Maintenance Company and Tehema Trading Company Limited. These funds have been disallowed.

3 Costs disallowed were as follows:

(a) YR11,100 ($1,850) represent costs paid from petty cash for repairs to air conditioners. The repairs were made in January 1985 only several weeks after the engineer issued the "Certificate of Completion" of December 30, 1984; and

(b) YR7,714 ($1,002) of October 1985 represent replacement of 6 compressors and repairs to air-conditioners including condensers.

These costs should have been paid from retention funds or the undisbursed contract funds or corrected by the contractor prior to expiration of the contract guarantee period at December 30, 1985. All retention funds and the balance of contract funds were paid in July 1985 six months before expiration of the guarantee period.

4 CID/Yemen spent YR34,250 ($4,692) for design changes during construction. There was no evidence that the design changes or other costs were approved by CID/Yemen or A.I.D. in advance or that these additional costs were authorized in advance as required under clause 2 of the "Conditions of Contract". Payment was made without inspection of the work and our review of some of the work indicated it was not done. These costs are therefore disallowed.

5 CID/Yemen erroneously paid YR65,664 ($8,995) for costs incidental to importation of the buildings constructed under the contract. Since these costs were incurred by the contractor in performing the "scope of work," these costs exceeded the Fixed Price stated by the contract and should not have been billed or paid. In addition, there was no support for these costs.

USAID/Yemen
Residential Housing Costs Disallowed
Cumulative from July 1, 1983 to September 30, 1987
(In Yemeni Riales (YR) & U.S. Dollar ($) Equivalent)

House Lease Date	Payment Voucher No	Year	Purpose	Disallowed		Note
7-2/86	6474	1986	Rent	YR 13,340	$ 1,647	1
7-2/86	7375	1986	Renovation	25,000	2,747	
7-2/86	7342	1987	Renovation	29,000	2,648	
7-2/86	7891	1987	Renovation	9,500	868	
Subtotal				YR 63,500	$ 6,263	2
1-1/85	6657	1986	Rent	YR 15,000	$ 1,852	
1-1/85	6657	1986	Restoration	13,011	1,606	
Limit allowed per lease agreement				(10,000)	(1,234)	
Subtotal				18,011	2,224	3
1-1/86	6346	1986	Rent	19,018	2,348	4
6-10/85	6462	1986	Renovation	27,200	3,357	5
Total				YR141,069	$15,839	

NOTES TO EXHIBIT

Note	Description of Costs Disallowed
1	The YR13,340 ($1,647) of costs disallowed represents the added cost of one year advance rent, instead of quarterly rent, paid on House No. 7. The lease was premature and questionable at such high cost since adequate housing already existed at the Hadda Complex. The complex was only minutes away from the farm site.

2 The YR83,468 ($6,263) of costs disallowed represents unrecovered renovation and curtain costs for House No. 7, as discussed in Note No. 1. Provisions to recover the costs in the lease were inadequate or non-existent. Moreover, CID/Yemen did not make a reasonable effort to recover these renovation costs.

3. Costs disallowed of YR18,011 ($2,224) represents:

(a) YR28,011 paid to the landlord based on an unsigned handwritten note. The note covered YR13,011 ($1,606) for unsupported restoration costs and YR15,000 ($1,852) for one and one-half month's rent considered excessive time to complete the work after the lease had expired;

(b) minus YR10,000 ($1,234) allowed under the lease as just compensation for restoration costs.

4. The lease for House No. 1 required CID/Yemen to pay 12 months rent in advance. CID/Yemen paid 18 months in advance. The YR 19,018 ($2,348) of costs disallowed represents loss in dollars by paying rent 18 months in advance during a period of depreciating local currency. The last six month's rent could have been paid at YR11.86 instead of YR 8.10. This would have resulted in a savings of $2,348.

5. Although the contract was for YR 54,400 to complete one kitchen cabinet for House 6, CID/Yemen advanced only YR27,200 ($3,357). Although the records were not clear on the cabinet, CID/Yemen officials told us that it had been meant for House No. 6. They also said the cabinet was never delivered because the contractor left the country. The amount is disallowed because CID/Yemen did not make a reasonable effort to recover it by deducting it from a subsequent rental payment of YR48,000 made in April 1986.

Exhibit 5

USAID/Yemen
Office Rent Costs Disallowed
Cumulative from July 1, 1983 to September 30, 1987
(In Yemeni Riales (YR) & U.S. Dollar ($) Equivalent)

Lease Date	Payment Voucher No	FY	Purpose	Questioned		Note
9/85	7759	1987	Office Rent	YR 60,000	$ 5,480	
9/35	8296	1987	Office Rent	40,000	3,373	
			Total	YR100,000	$ 8,853	1

1. CID/Yemen no longer needed the office annex after the first year. The YR 100,000 ($8,853) of questioned costs represents five (5) months rent paid to the landlord as a settlement fee to release CID from the Annex lease. The lease for the Annex, dated September 1, 1985, had been inappropriately tied to the main office lease, of October 1, 1984. This lease was for a period of five years and had no termination clause.

USAID/Yemen
Freight and Shipping Costs Questioned
Cumulative from July 1, 1983 to September 30, 1987
(In Yemeni Riales (YR) & U.S. Dollar ($) Equivalent)

Payment Documentation No.	Date	Purpose	Questioned		Note
VO. 6174)	11/85)	Use of Red Sea			
Red Sea 2401)	11/85)	Trucks on daily hire basis	YR2,949	$ 383	
VO. 5919)	11/85	" " " " "	5,597	746	
Red Sea 2055)	9/85	" " " " "	8,546	$1,129	1
VO. 4062)	11/84	Sea Freight charges on House Hold Effects			
Red Sea#1391)	10/84	Effects for Brussels/U.S.A.	24,436	4,249	2
VO. 5919 023)	10/13/85	Container demurrage to shipowner			
Red Sea#2108)	10/85	For importation of vehicle	2,760	368	3
		Subtotal	YR35,742	$5,746	
T/A Unnumb.)	6/86	Expediting	YR15,000	1,666	
T/A Unnumb.)	5/86	" Services	4,000	462	
VO. 7768)	10/86	" "	YR19,000	$2,128	1
Sub-Total					
		Total	YR54,842	$7,874	

Note

1 Questioned costs of YR8,546 ($1,129) represents Red Sea Packing Co. billings for use of its truck on a daily hire basis. Two 1985 invoices (No's. 2401 and 2055) were not supported by the required approved time sheets and the vehicle daily travel records.

2 Questioned costs of YR24,436 ($4,249) represents sea freight charged on Red Sea Packing Co. invoices No's. 023 and 1891 dated in 1984. The billings did not include an ocean bill of lading or other documentation to support the charges.

3 Questioned costs of YR2,760 ($368) represent demurrage charges for a container by Red Sea Packing Co. invoice No. 2108 of 1985. There was no container invoice from the shipowner to support the charges.

4 The YR19,000 ($2,128) of costs questioned supposedly represent costs for expediting services. The two temporary advances did not itemize invoiced costs or included customs documentation to support expediting costs of Hyco Trading Co. The purpose of the temporary advances was unclear and could not be related to the invoice on an itemized basis.

Exhibit 7

USAID/Yemen
Salaries Disallowed
Cumulative from July 1, 1983 to September 30, 1987
(In Yemeni Riales (YR) & U.S. Dollar ($) Equivalent)

Payment Documentation No.	Purpose	Disallowed		Note
Payrolls	Part-time Services of MAF Expeditor	YR83,468	$7,000	1

Note

1 These disallowed costs represents the salary of a MAF expeditor from September 1, 1986 to September 30, 1987. This expeditor was hired on a part-time basis on September 1, 1986. The expeditor was paid at the rate of YR2,981 for 60 hours per pay period for 13 months or 28 pay periods through September 30, 1987. These costs exceeded the 1987 Core budget by about $7,000. The budget called for a ceiling limitation of three expeditors. The three expeditors had already been hired by CID/Yemen on a full time basis.

Exhibit 8

USAID/Yemen
Travel Costs Disallowed
Cumulative from July 1, 1983 to September 30, 1987
(In Yemeni Riales (YR) & U.S. Dollar ($) Equivalent)

Payment Documentation No.	Date	Purpose	Disallowed		Note
A. Billed in Yemeni Riales					
VO. 7339	7/86	End-of-tour Travel	YR42,685	$4,743	1

Note

1 After an employee was in Yemen for nearly two years, the host-government did not renew his employment permit for an extra year. We have disallowed YR42,685 ($4,743) because the employee and his family were not eligible for advanced end-of-tour travel to the USA. Their return trip to Yemen was unauthorized. This resulted in excess round trip travel costs of $4,743 for the employee and family which was erroneously charged to the main sub-project.

UNITED STATES GOVERNMENT

memorandum

DATE: December 27, 1988

REPLY TO ATTN OF: Kenneth H. Sherper, KHS Director, USAID/Yemen

SUBJECT: Mission's Response to the Draft Audit Report of Local Support Costs of the ADSP in Yemen - Project No. 279-0052

TO: Mr. Richard Thabet, RIG/A/Nairobi

The Mission is pleased to concur with the findings of the subject audit report. However, the following response is provided on certain inconsistencies and factual inaccuracies reflected in the draft audit report.

"Deleted - Relates to matters not included in final report."

2. Other Pertinent Matters

Page	Para	Comments
14	1	USAID/Y Directive on in-country per diem policy does not require submission of receipts for meals. Also, the example cited in the report is inappropriate. The savings to the USG out of usage of guest quarters' cooking facilities cannot be accurately ascertained. Please delete three sentences from " Additionally, receipts for ------------procedures" and reconstruct the paragragh accordingly.
15	1	The sentence " USAID/Yemen should prohibit CID/Yemen from continuing this practice ----------"should be replaced by " USAID/Yemen should instruct CID/Yemen to discontinue this practice -----------"
15	2	The sentence " Further, CID/Yemen charged its employees $20.00 per month for home to office transportation compared to our estimate of $60.00 to $80.00 per month in operating costs" should be replaced by " Further, CID/Yemen charged its employees $20.00 per month for home to office transportation compared to $25.00 which USAID charges to its expatriate employees. The transportation charges should be in accordance with USAID/Y practices." (Home to Office transportation charges are based on current Mission policies, and not on the actual cost of transportation which might vary from contractor to contractor.)
16	1	The sentence " Although a formal recommendation was not made, both the Mission and CID/Yemen should improve ....AID regulations" should be replaced by "Although ....not made, USAID/Y should require CID/Yemen to improve ....AID requlations."

3. Response From CID

CID's response to the draft audit report was received on 12/21/88 and is attached for your necessary action.

CIE COI ...IUM FOR INTERNATION... /EVELOPMENT

Executive Office
5151 E. Broadway, Suite 1500
Tucson, AZ 85711-3766
U.S.A.

Phone: 602/745-0455
Telex: 9109521102
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Fax: 602/745-1404
Easylink: 62020422

FACSIMILE TRANSMISSION

DATE: 12/20/88

TIME: 11:45 am

TO:		PHONE:	FAX:
	Jeffrey Sole	011-967-4-207224	011-967-2-207545

FROM: Eric Vimmerstedt

COMMENTS:

NUMBER OF PAGES, INCLUDING COVER: 12

CONSORTIUM FOR INTERNATIONAL DEVELOPMENT

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December 19, 1988

MEMORANDUM

TO: Homi Jamshed, Controller
USAID/Sana'a

FROM: Eric T. Vimmerstedt, Secretary/Treasurer
Consortium for International Development

RE: Yemen ADSP In-Country Audit Response

This memo is in response to your December 5 memo to Jeffrey Sole requesting a response to draft audit report. CID appreciates this opportunity to provide comments on the disallowed and questioned costs contained in the draft report. It is our intention to substantiate the actions taken by CID/Yemen during the period of the audit by explaining the circumstances and events that necessitated certain actions and costs. Unfortunately, this cannot be done without disagreeing with the position taken by the auditor. Please accept our comments objectively as that is how they are intended to be.

CID looks forward to working with you and/or the Inspector General's Office to bring closure to these matters. A substantial amount of documentation has been gathered and is available for your review.

Best Regards.

ETV/cjp

In response to Audit Report (No. 3-279-89-XX) of the local support costs of the Agricultural Development Support Program of Yemen Project No. 279- 0052 as it relates to Oregon State University, we submit the following comments.

Al-Jarouba construction program:

The Al Jarouba construction effort was controlled by a contract between the Ministry of Agriculture and Fisheries (MAF) and Electroline Limited (EL) and funded by USAID Sana'a. CID's ADSP in-country annual workplan was amended to where as CID/Yemen would act as a facilitator to process the construction funds on behalf of USAID. Because CID is not in the construction business and therefore had no local expertise to properly monitor the construction activities, USAID/Sana'a authorized CID to advertise and hire a qualified engineer. USAID also reviewed the applicants and approved the hiring of Mr. Michael Leget as a qualified and acceptable engineer. CID/Yemen acted upon recommendations of the engineer and made payments in accordance with his approvals. All actions and payments by CID/Yemen were made in good faith and what was believed to be, in accordance with the terms and conditions of the contract.

It should also be mentioned that the prime ADSP contract between CID and USAID was never amended to incorporate this construction responsibility, rather it was handled entirely through the "local currency" funding mechanism. CID/Yemen acted solely as a pass through organization without a fee for services performed nor an opportunity to recover associated CID G&A costs or university overhead costs. Now CID finds itself in a position where it must defend its actions against accusations by auditors or pay, from its own resources disallowed costs of $43,986.

1. The auditor recommends the disallowance of the $21,927 retention payment to the contractor claiming that the funds were paid early and not properly documented. As retention funds are a percentage of earlier progress payments justifiably earned and owed to the contractor, that are retained more or less as a performance guarantee to protect the contracting organization, the payment of these funds to the contractor should not be disallowed. However, should it be determined that costs are incurred that were the responsibility of the contractor and could have been paid out of retention funds, then these costs are subject to disallowance. The disallowance of both the payment of retention funds and the subsequent costs that could have been paid out of retention funds is a duplication of disallowed costs.

The auditor is also questioning a properly approved and proper progress payment in the amount of $3,278.

The following is additional information on these matters:

(a) The auditor contends that $21,927 was paid prematurely or prior to the end of their determined guaranteed period of December 30, 1985. According to the General Conditions of the construction contract clause 60, paragraph 5 (Release of Retention Money), the second one-half of the retention money was due and payable at the end of the "Guarantee Period". The "Guarantee Period" was defined as six months after the issuance of the "Certificate of Practical Completion" was issued.

According to Exhibit 3 (3) of this audit report and our records, the "Certificate of Completion" was dated December 30, 1984. According to the auditor, the retention payment should not have been made until after December 30, 1985.

We contend that we were required by contract to pay the retention by June 30, 1985. We made the payment on July 13, 1985; therefore, we did not prematurely disburse the retention as contended by the auditor. Since we acted in accordance with the terms of the contract, we do not agree with this disallowance.

(b) The auditor recommends for disallowance a contract payment of $3,278 as a "undisbursed balance of contract funds" because, according to the auditor, the contractor abandoned the job. According to the records, this payment represented a regular progress payment for work completed by the contractor and was due and payable.

We do not believe that this cost should be disallowed.

2. The auditor recommends for disallowance amounts totaling $2,242 paid "to correct incomplete and defective work abandoned by Electroline Limited.

There is no evidence in our files to indicate that Electroline Limited abandoned the project and defaulted on their Agreement. We c ntend that the payments to Yemen Technical Contracting and Maintenance Company and Tehema Trading Company Limited were not to duplicate the contractor's effort. Therefore, we believe these costs ($2,242) to be ordinary and necessary to the project and allowable costs.

3. The auditor requests disallowance of $1,850 and $1,002 for repairs to the air conditioners on the assumption that the repairs should have been covered by the Contractor. We would normally agree if the cause for the repairs were faulty equipment or installation. The fact is that the equipment failed primarily because of adverse environmental conditions, not because the Contractor has failed to properly maintain the air conditioners.

We request the allowance of $1,850 and $1,002 as ordinary and necessary project expense.

4. The auditor recommends for disallowance of $4,692 for housing design change during construction because the auditor could find no evidence that the changes were approved in advance as required by clause 2 of the "Conditions of Contract". The auditor also stated in Exhibit 3 (4) that "...our review of some of the work indicated it was not done."

The improvements were made to the prefabricated houses that would improve the living conditions for the expatriates occupying the houses. These improvements were not planned or budgeted for in the construction contract and, accordingly, do not represent payment to the Contractor in excess of the contract. Clause 2 of the "Conditions of Contract" referred to by the auditor as the basis for his recommendation pertains to the responsibilities and duties of the Engineer and does not preclude CID/Yemen from improving housing facilities to meet acceptable standards for staff.

We contest the auditors finding and believe this expenditure to be allowable.

5. The auditor contends that $8,995 for costs incidental to the importation of the buildings and materials were included in the contract costs.

The facts are that these costs were clearly the costs of the Employer. The costs were for the clearance of the buildings and material through customs ($7,329), material insurance ($573), and the cost of the Letter of Credit on the purchase price of the prefabricated buildings ($1,093).

It is apparent that the $8,995 in costs were not part of the construction contract with Electroline Limited and should not have been costs recommended for disallowance. We also disagree that support was lacking.

In conclusion, Oregon State University believes that the auditor failed to adequately obtain all facts relating to the Al-Jarouba construction project, and, as a result, faulty assumptions were made and faulty conclusions were arrived at. Costs were not paid without approval, prematurely, or unnecessarily.

Residential Leasing

1. According to the auditor, Handbook 23 states that leases should preferably provide for payments of rent in monthly or quarterly advance of payments. Because rent was paid for twelve months in advance during a period of currency devaluation, the auditor states that CID/Yemen incurred unnecessary losses of $1,647.

CID/Yemen may look on Handbook 23 as a guideline which sets forth policies for USAID Missions; however, we do not consider it appropriate that Handbook 23 be cited to support disallowed costs when it is not incorporated in the AID/NE-C-1698 contract either directly or indirectly. We also question the auditor's conversion of the word "preferably" into "must" when determining a recommended disallowance. Please keep in mind that the amounts, terms, and conditions of these leases are negotiated with the landlords.

The auditor attempts to justify his stand by stating that the lease was (a) premature, (b) expensive, and (c) not needed because housing was available minutes away from the farm site.

(a) The selection process for the farm manager position was almost completed when the house was leased. The manager's name was submitted to USAID/Yemen for approval in April. Because of the AID Contracting Officer's delays, the approval was not issued until September. This lengthy delay was beyond CID/Yemen's control.

(b) The auditor's comparison of the rent was in US Dollars instead of the currency stated in the lease. If the auditor had bothered to convert the Hadda monthly rent cost in Yemen Rials (YR 10,494) and compared it to the farm manager's house rent (YR 11,065), he would have only found a YR 571 difference.

(c) At the time the farm manager's house was rented, there were no Hadda apartments available. If the AID Contracting Officer had performed his function with dispatch in approving the manager, CID/Yemen would have [illegible] Hadda complex was 30 minutes from the farm. The farm was in the process of being built and no telephone was available. Because of the manager's on site responsibilities, it was CID's management decision that it was necessary to the betterment of the project that the manager be housed at the project.

Therefore, because management believed it necessary to maintain representation on the farm during its formative period; because CID/Yemen did not violate contract provisions in paying rent on an annual basis; and because AID did not act in a timely manner, we contend that the farm house rental was an ordinary and necessary Project expense. We fail to understand how (a), (b), and (c) above relate to a recommended disallowance because of currency devaluation.

It appears that the issue is that the annual rent payment was at a time when Yemen Rials per US Dollar were more expensive than later periods during the year.

We find it strange and one sided that the auditor would recommend a disallowance of a $1,647 loss caused by currency devaluation because we prepaid rent, when USAID/Yemen had already set a precedent by approving the CID office lease (see response under Office Lease below) that provided for prepayment of annual rent. This action by AID provides support that annual lease payments are allowable to CID/Yemen. Because of this, we believe that this finding has no validity.

2. The auditor recommends the disallowance of $6,263 (YR 63,500) as unrecovered and unnecessary renovation for the farm manager's house. Again, the auditor refers to Handbook 23 as allowing for renovations, alterations, and installations. The auditor stated that "...poorly worded lease terms resulted in CID/Yemen unnecessarily paying YR 63,500 ($6,263) in renovation costs ...." The payments of YR 25,000, YR 29,000, and YR 9,500 were made directly to a carpenter. Of the YR 63,500 total, YR 54,000 was for cabinets and YR 9,500 was for shelves.

It was written in the lease agreement that the YR 25,000 was to be recovered by CID/Yemen during the second year of the lease. However, AID Yemen forced CID/Yemen to break the lease at the end of the first year and vacate the house. It is not appropriate that the auditor would recommend this for disallowance against CID since it was AID/Yemen's action that created the loss. The remaining YR 38,500 was deemed by the lessee and lessor to be renovating expenses and not recoverable. It is also a surprise that the auditor is modifying Handbook 23 to contend that renovation costs should be recovered.

In consideration of the above, we object to the auditor's position and believe that the total $6,263 should be an allowed cost.

3. The auditor is proposing a disallowance of $1,852 (YR 15,000) for one and one-half month's rent as excessive time necessary to complete restoration activities to a rental house and $372 (YR 3,011) in restoration costs beyond the amount agreed to in the rental contract (YR 10,000).

It is normal business practice to provide rent until the property has been restored by the landlord to its condition prior to rental. We disagree with the auditor's decision that the period was excessive. The auditor had no knowledge of the condition of the house at the time it was vacated; the availability of the materials necessary to repair the house; or the availability of qualified labor necessary to make the repairs. At the time, Sana'a Yemen was in a rapid construction and expansion mode, and it is conceivable that materials and skilled labor were in greater demand than available. Although we cannot confirm this as being the reason for the repair period of time, we believe that the auditor's assumption is unwarranted without support beyond his unsubstantiated opinion.

A copy of the lease is not available for reference at this time. Therefore, if there is a clause limiting restoration expense to YR 10,000, we believe that the recommended disallowance of $372 (YR 3,011) would be appropriate.

It appears that the auditor is attempting to categorize the one and one-half months of rental during restoration to the house as a restoration cost. We strongly object to this treatment and contend that restoration costs are direct material and labor costs applicable to restore the property to rental condition.

4. Here again the auditor is disallowing $2,348 (YR 19,018) as a currency devaluation resulting from a prepayment of rent for a period greater than the six month guideline stated in Handbook 23. Please refer to #1 above. CID/Yemen, as noted above, had the approval of USAID to prepay a year's rent. It should also be restated that through the approval of the CID office lease, AID/Yemen had established a precedent for lengthy prepayments of rent.

The auditor commented that the lease for house #1 required six month advance lease payments. According to the lease for house #1 under HITS, one year advance rents were required. It is true that an 18 month advance was made. However, the auditor did not consider the possibility of a lower rent being negotiated with the concession of full advance payment of the lease.

We also believe that the auditor is exceeding his authority in applying hindsight to management decisions. The currency had been stable at the time the lease was paid, and it was management's opinion that it would not drastically change during the succeeding 18 months. We protest the usage of the exchange rate variances to create recommended disallowances.

5. The auditor is recommending the disallowance of $3,357 (YR 27,200) paid to a French cabinet maker for building kitchen cabinets. The auditor suggested in the attached Exhibit 4 (5) that the advance paid to a third party should have been deducted from the house rent.

If we had followed the auditor's advice, we would have been sued by the landlord because CID/Yemen contracted with the cabinet maker and not the landlord. CID/Yemen had followed normal industry practice of paying YR 27,200 as a down payment to a cabinet maker for cabinets to be built. Before the cabinet maker could complete his contract with CID/Yemen, the Yemen Government deported him to France. CID/Yemen did not believe that it would be prudent to follow him to France through the courts for collection of the advance. Legal and court costs would have exceeded the amount owed.

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Again, we fail to understand how the auditor could disallow this YR 27,200 because we did not violate the law and withhold it from a payment to another individual. We contend that we followed prudent business practices and object to the recommended disallowance of $3,357.

Office Space Rent

The auditor questions $8,853 (YR 100,000) in costs applicable to terminating an office space lease because CID/Yemen did not comply with Handbook 23 which states that leases whose basic terms exceed one year should include a clause which would provide a (sic) unilateral right for the lessee to terminate the lease at anytime after the first year, for any reason, with written notice to the lessor.

(a) As noted above, CID/Yemen was not required to comply with Handbook 23.

(b) CID/Yemen entered into a lease with AID's full documented concurrence for office space beginning October 1, 1984. The lease was payable in Yemen Rials (YR 360,000 per year) and not tied to currency fluctuations. The lease provided for an option to lease additional space at the same square meter rate over the remaining life of the original lease.

(c) The exchange rate at the onset of the original lease was YR 5.75 per US Dollar as compared to an average of YR 6.4028 for the year ended 9/30/1985, YR 8.0079 for the year ended 9/30/1986, YR 10.7968 for the year ended 9/30/1987, and YR 9.7500 for the five months ended 2/29/1987. The currency devaluations through February 29, 1987 caused the US Dollar cost to decrease, and as a result saved AID and the project $63,988.

(d) The decision to lease additional space was caused by AID proposing an expansion of the project by increasing the staff by 16 additional long term individuals. Because of USAID budget cuts and other factors, the expansion did not materialize and resulted in excess office space.

(e) CID/Yemen relied on USAID's intentions and obtained the additional office space at the low cost per square meter when the exchange rate was YR 5.75 per US Dollar instead of at the going exchange rate and other stipulations that the landlord may so desire.

(f) The decision to lease the additional space was a rational CID/Yemen management decision based on the best information available at the time. When subsequent events and new information dictated that the decision to exercise the additional space option in the original lease was not appropriate, CID/Yemen was able to negotiate a fair and equitable settlement with the landlord.

It is our contention that CID/Yemen acted in the best interests of the project and in accordance with AID's guidelines for future staffing and office requirements and within its allowable authority in leasing the additional space. A subsequent major change in AID's staffing plan where numerous project positions were deleted necessitated CID's actions to negotiate out of the lease for the additional space. Therefore, we do not believe that this is a valid questioned cost.

Procurement of Goods and Services

1. **The two invoices (2401 and 2055) from the Red Sea Packing representing $390 and $739 were missing either the time sheet or daily travel record but not both. The fact that one of the two were available supports the fact that the trucks were used and that services were provided. When there is verification that the truck was used, there had to be a driver. When there is verification that a driver was used, there must have been a truck.**

We believe that the auditor exceeded his authority in questioning the total cost of both invoices. At the very most, he should have only questioned the amount attributed to the missing documents. Although we cannot prove it, we believe that the missing documents became separated after payment of the invoices. This would be consistent with the policy that invoices are only paid if adequate documentation is attached.

2. The two invoices from Red Sea Packing of $1,922 (YR 11,054) and $2,327 (YR 13,381.88) that were paid in November, 1984 were for shipping household goods back to the United States of America. This is an allowance provided to contract employees under the contract and is generally based on weight. The two properly approved invoices for the sea freight charges state the employee's name, the shipment weight, and the routing. We believe that these costs were ordinary and necessary, adequately supported, and should be allowed.

3. The invoice from Red Sea Packing for costs associated with the incoming household effects of an employee itemized the charges that total YR 8,192. The auditor picked out YR 2,760 of this to question because "there were no container invoice from the shipowner to support the charge". In the review of other shipments, we find that the $368 (YR 2,760) for container demurrage is a reasonable amount and should not be questioned.

4. The auditor questioned costs of $2,128 (YR 19,000) simply because he did not agree with the procedure followed. It is a primary function of the Core sub-project to provide administrative and logistical support to the ADSP project and staff. Although the Core sub-project has staff and normal procedures in place to provide such services, there are no restrictions in the contract that would preclude Core from using alternative methods should normal procedures fail to achieve desired results. In this particular instance, the Core expediting staff was unsuccessful in clearing these items through customs in the normal manner and an alternative was initiated. CID/Yemen agreed to pay expediting costs through a "third party" for the successful clearance of the vehicle and storage container through customs. The effort was successful and both items were cleared; demurrage costs were paid; and the items were shipped to Sana'a. The advances were then fully liquidated through an invoice for services rendered.

Since there was an agreement that CID/Yemen would pay the expediting costs, and the procedure was authorized and completely legal, we contend that the costs are allowable in their entirety.

In conclusion, we believe that the above purchasing exceptions noted by the auditor were noted because of technicalities. We believe that the auditor failed to consider the real world encountered by all organizations, including

USAID. We also contend that the auditor failed to take into consideration the fact that CID/Yemen received benefit from the services purchased; that the value paid was reasonable; and that the services were allowable under the contract.

Salaries Budget

The auditor recommends a disallowance of $7,000 (YR 83,468) in salary for a part time expeditor per an attached Exhibit 7.

This issue has not previously been communicated to us. The Exhibit 7 was not attached to the Draft Audit Report.

We are unable to respond to this item and strongly object to it being raised on a last minute basis.

We request that this item be removed from the audit report or transferred to the questioned cost column so that we will have a chance for further discussion. We also request a copy of Exhibit 7.

Travel expenses

The auditor recommends the disallowance of $4,743 (YR 42,685) because, according to him, did not have prior approval from USAID/Yemen for the R&R travel.

The circumstances surrounding this issue have been well documented, and the actions taken at the time were in full accordance with the Ministry, USAID/Yemen, and CID/Yemen. It is unfortunate that prior approvals by USAID/Yemen were subsequently overridden and that the auditor failed to consider all of the facts.

The following sets forth events and documentation that substantiate the allowability of the expense.

(a) May 6, 1986 Employee requested a one-year extension of his current tour to August, 1987.

(b) May 26, 1986 In anticipation of approval, the employee requested authorization for R&R with a June 18th departure. As allowed in AID regulations, this would be the second R&R for the three year tour.

(c) May 28, 1986 Acting Core Team Leader and YARG official initiated Action Memorandum No. 527 requesting USAID/Yemen's approval for the extension.

(d) May 31, 1986 Acting Core Team Leader sent a telex to Oregon State University (OSU) advising that employee's extension had been approved by Ministry and that an Action Memorandum countersigned by MAF had been submitted to USAID/Yemen.

(e) June 1, 1986 Action Memorandum No. 527 was approved by USAID/Yemen.

(f) June 2, 1986 Telex from Acting Core Team Leader to OSU advising of approval by USAID/Yemen of extension.

(g) June 18, 1986 Employee and family departed Sana'a on R&R. Family went to Cyprus and employee went to U.S. to follow-up on his application for U.S. citizenship.

(h) June 23/24, 1986 OSU and employee signed amendment to employment agreement extending tour through August 21, 1987 as agreed to by all parties.

(i) Mid July, 1986 Employee departed U.S. to join his family in Cyprus. Employee and family returned to Sana'a on or about July 31, 1986.

(j) July 26, 1986 OSU received a telex from USAID Acting ADO indicating that employee was not cleared for return to post. This seemed strange since the employee and his family were away from post on approved R&R travel; had the appropriate Yemen, UAR exit and re- entry visas; and had their personal effects in their assigned Yemen quarters.

(k) On or about July 31, 1986 Employee and family arrived in Yemen and was informed by the Core Team Leader that his services were to be terminated. We are not aware of the actions or decisions that led to the termination. Nor do we know whether USAID/Yemen or the Yemen Government made the decision.

(l) August 14, 1986 Telex from OSU to USAID/Yemen Contract Officer (CO) requesting clarification on matter of employee's departure and rule on the status under which he left post. OSU did not receive a response.

(m) August 21, 1986 OSU's notes from telephone conversations with CO:

(1) CO agreed that employee owed some level of post-Yemen support because of the YARG refusal to extend him.

(2) CO agreed that employee would stay on project payroll until a time determined by the CO later.

(3) CO said that he would send documentation regarding his position on the employee.

This was the last action from the CO until a telex dated December 17, 1986.

(n) August 28, 1986 Employee and family departed Yemen for the U.S.

(o) December 17, 1986 Telex to CID/Tucson from Co stating that OSU was not entitled to reimbursement for employee expenditures beyond the term of the original contract. Based on earlier discussions and documentation, it is not understood why the CO had taken this position, nor is it understood why nearly four months passed before this message was sent.

We believe that the Ministry, CID/Yemen, OSU, the employee, and USAID/Yemen all acted properly and responsibly in extending the employee's tour for an additional year. Subsequent actions taken by USAID/Yemen have caused a great deal of confusion. USAID/Yemen's actions after CID/Yemen's compliance with the terms of the contract and USAID rules and subsequent reliance on approvals by all concerned except for USAID/Yemen causes us to have concerns of violations by USAID/Yemen.

Based on the above documented information, CID and the employee acted in full accordance with USAID approval. Therefore, it is not believed that there is any basis for disallowance and the costs should be allowed.

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