

Regional Inspector General for Audit  
Cairo, Egypt

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**Audit of Local Expenditures of National Cooperative  
Business Association Under USAID/Egypt**  
Contract No. 263-0212-C-00-9053-00  
(Project No. 263-0212)

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Report No. 6-263-92-06-N  
December 4, 1991



**INSPECTOR  
GENERAL**

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**

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

December 4, 1991

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford  
FROM : RIG/A/C, *Philippe L. Darcy*  
SUBJECT: Audit of Local Expenditures of  
National Cooperative Business  
Association Under USAID/Egypt  
Contract No. 263-0212-C-00-9053-00  
(Project No. 263-0212 )

The attached audit report dated August 15, 1991 by Price Waterhouse presents the results of a financial audit of National Cooperative Business Association's (NCBA's) local expenditures under Contract No. 263-0212-C-00-9053-00 with USAID/Egypt. NCBA provides technical assistance to the Alexandria Businessmen's Association (ABA) and the Egyptian Small Enterprise Development (ESED) in providing loans to small and micro enterprises.

We engaged Price Waterhouse to perform a financial audit of NCBA's local expenditures for the period April 12, 1989 to December 31, 1990. However, early in the audit, it was learned that supporting documentation for NCBA local expenditures was maintained in the United States rather than in Egypt. As a result, Price Waterhouse's audit tests concentrated on costs billed by NCBA's Egyptian subcontractor, Environmental Quality International (EQI). The purpose of the audit was to evaluate the propriety of costs incurred in this period and in performing the audit, Price Waterhouse evaluated NCBA's and EQI's internal controls and compliance with applicable laws, regulations and contract terms as necessary in forming an opinion regarding the Funds Accountability Statement.

Price Waterhouse questioned \$45,379 in costs (including \$29,539 in unsupported costs) billed to NCBA by EQI and subsequently billed by NCBA to A.I.D. Questioned items include EQI salaries, transportation, per diem, office supplies, office rent and equipment costs. Price Waterhouse also noted certain matters involving the internal control structure of both NCBA and EQI that they considered to be reportable conditions. Conditions observed at NCBA include inadequate review of subcontractor timesheets and the absence of logs for recording vehicle usage. The reportable

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conditions noted at EQI involved inadequacies in EQI's billing system.

Price Waterhouse also identified an area in which EQI was in noncompliance with Egyptian labor law. Some EQI employee timesheets reflected full eight hour days charged to the NCBA project with additional (overtime) hours charged to other jobs. However, these employees were not receiving pay for the additional hours worked.

NCBA management has accepted some of the questioned or unsupported costs identified by Price Waterhouse. Areas of disagreement include questioned MIS salary costs, the impact of a subsequent subcontract amendment in resolving certain questioned costs and the reasonableness of costs for which necessary usage logs were not maintained.

Subsequent to the completion of the auditor's fieldwork, NCBA provided a schedule of EQI's MIS labor that it claimed resolved the questioned labor costs. Our review of this schedule indicated that, while not fully supported by employee timesheets, the adequately supported portions of this schedule resolved the MIS labor costs questioned by the auditors. Similarly, in a post-audit meeting, NCBA provided us with an amendment to EQI's subcontract. In our opinion, this subcontract amendment resolved the questioned per diem cost. However, although NCBA and EQI strongly disagreed with Price Waterhouse's methodology in calculating questioned office rental costs, our review of the auditor's workpapers, which we shared with the Project Officer, led us to conclude that the office rent noted in the report was a questionable cost.

**Recommendation No. 1:** We recommend that USAID/Egypt resolve the questioned and unsupported costs of \$15,840 and \$20,909 appearing on Attachment 1 to this memorandum.

This recommendation will be included in the Inspector General's audit recommendation follow-up system. Until we are advised of USAID/Egypt's determination regarding the questioned and unsupported costs, the recommendation is considered unresolved. The recommendation can be resolved when we receive the Mission's formal determination as to the amounts sustained or not sustained. It can be closed when any amounts determined to be owed to A.I.D. are paid by NCBA.

Since the nature of NCBA's technical support is changing from the use of an in-country technical advisor to periodic short-term TDY consultants, we are not making recommendations regarding NCBA's

local internal control structure. Additionally, recommendations concerning EQI's internal control structure and compliance will be included in an audit report resulting from an organization-wide audit currently being performed by Hazem Hassan & Co.

Please advise this office within 30 days of any actions planned or taken to close the recommendations. We appreciate the courtesies extended to the staff of Price Waterhouse and to our office.

**Non-Federal Audit of  
National Cooperative Business Association  
Schedule of Unresolved Costs**

	<u>Questioned Costs</u>	<u>Unsupported Costs</u>	<u>Audit Report Reference</u>
Questioned Costs	\$ 15,840	\$ 29,539	Page 9
Less Resolved Costs:			
MIS Labor		6,202	Page 11
Per Diem	<u>          </u>	<u>2,428</u>	Page 12
Unresolved Questioned Costs	<u>\$ 15,840</u>	<u>\$ 20,909</u>	

**AUDIT OF**  
**NATIONAL COOPERATIVE BUSINESS ASSOCIATION**  
**SMALL AND MICRO ENTERPRISE PROJECT**  
**CONTRACT NUMBER 263-0212-C-00-9053-00**

**AUDIT OF**  
**NATIONAL COOPERATIVE BUSINESS ASSOCIATION**  
**SMALL AND MICRO ENTERPRISE PROJECT**  
**CONTRACT NUMBER 263-0212-C-00-9053-00**

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## *Price Waterhouse*

August 15, 1991

Mr. Philippe Darcy  
Regional Inspector General for Audit  
United States Agency for  
International Development  
Mission to Egypt  
Cairo, Egypt

Dear Mr. Darcy:

This report presents the results of our financial and compliance, cost-incurred audit of National Cooperative Business Association (NCBA) Direct Contract No. 263-0212-C-00-9053-00 under USAID/Egypt's Small and Micro Enterprise (SME) Project No. 263-0212. The audit encompassed all local expenditures for the period from April 12, 1989 through December 31, 1990.

### Background

The major objective of the SME project is to develop implementing organizations into financially self-sustaining institutions that can deliver credit and technical assistance to small (6-15 employees) and micro (1-5 employees) enterprises. The organizations will administer a collateral fund with right of offset through a local bank or banks; the collateral fund will act as a guarantee for the new borrowers to the bank; the local banks will provide the actual loan funds.

The purpose of this engagement was to audit the SME technical assistance contract which was awarded to the National Cooperative Business Association (NCBA). Their principal sub-contractor is Environmental Quality International (EQI), responsible for approximately 50% of the billed value of the contract through December 31, 1990.

NCBA was organized in New York State in 1916 as the Cooperative League of the USA (which continues to be its corporate name). It is currently a District of Columbia Not-for-Profit Organization. The league serves as a Chamber of Commerce for Cooperative Businesses.

EQI is an Egyptian partnership founded in 1981 to work in urban management and development. They now provide a variety of consulting services to both the private and public sectors.

There are two other organizations involved in the SME project: The Alexandria Businessmen's Association (ABA) and the Egyptian Small Enterprise Development (ESED) in Cairo. Each of these organizations has a direct grant of its own from USAID, and they are the ultimate implementors of the SME project. NCBA has the contract to provide technical assistance to these other two organizations.

NCBA's contract is a 30-month cost-reimbursable plus-fixed-fee contract which was signed on April 12, 1989.

### Audit Objectives and Scope

The objective of this engagement was to perform a financial cost-incurred audit of NCBA pursuant to Contract No. 263-0212-C-00-9053-00 under USAID/Egypt's SME Project No. 263-0212. The audit will encompass all local expenditures for the period April 12, 1989 to December 31, 1990. Specific objectives were to determine whether:

1. The fund accountability statement for NCBA presents fairly, in all material respects, project revenues and costs incurred and reimbursed for this contract in conformity with the applicable accounting principles;
2. The costs reported as incurred under the contract are in fact allowable, allocable, and reasonable in accordance with the terms of the contract and A.I.D. Handbook 14, and Federal Acquisition Regulation (FAR) part 31.2;
3. The internal controls, accounting systems and management practices of NCBA are adequate for USAID/Egypt contracts; and
4. NCBA is in compliance with the contract terms (including standard contract provisions) which may have affected the costs incurred under the contract.

Preliminary planning and review procedures were started in January 1991 and consisted of discussions with RIG/A/C and NCBA personnel. Fieldwork commenced in June 1991 and was completed in August 1991.

We did not have access to records and supporting documentation maintained by NCBA in the United States. Because all supporting documentation, even for local NCBA expenditures, is sent back to NCBA headquarters in the United States, we were unable to test costs incurred directly by NCBA. These costs

accounted for approximately 49% of the billed value of the contract through December 31, 1990. We could therefore perform only a limited review on these amounts, primarily consisting of checking of the arithmetic calculation of indirect costs (based on contractually specified rates).

The emphasis of our audit testing was on those expenditures incurred by the local subcontractor, EQI. Our selection of disbursements to be tested was made on a judgmental basis and was structured to test a majority of expenditures incurred by EQI, with the exception of fringe benefit costs. These costs are charged on a fixed percentage basis. An audit of the underlying fringe benefit costs is included in the overhead audit of EQI being conducted separately.

We tested EQI supporting documentation for direct costs claimed of \$ 185,273. We also tested cost calculations totaling \$ 146,743. The total costs tested were \$ 332,016 of the total amount invoiced to USAID through December 31, 1990 of \$ 652,229.

As noted above, we did not have access to NCBA records and supporting documentation maintained in the United States accounting for approximately 49 percent of total costs invoiced through December 31, 1990. Because of this limitation on the scope of our audit we are unable to express an opinion on the Fund Accountability Statement.

Our tests of expenditures included, but were not limited to, the following:

1. Reconciliation of EQI's accounting records to invoices issued to USAID, and testing of costs for allowability, allocability, and reasonableness;
2. Determining that personnel costs conformed with the terms of the contract;

3. Reviewing that calculated indirect costs were calculated accurately using appropriate base data and percentages;
4. Testing of other direct costs for allowability and appropriate support.

As part of our examination we made a study and evaluation of relevant internal controls and reviewed NCBA's compliance with applicable laws and regulations.

#### Results of Audit

##### Fund accountability statement:

Our examination identified \$ 45,379 in questionable costs, including \$ 29,539 in unsupported costs.

##### Internal control structure:

We recommended improvements in EQI's billing system in the control over vehicle usage, and in control over timesheets.

##### Compliance with contract terms and applicable laws and regulations:

Our audit found one item of noncompliance with the terms of the contract which related to overtime pay.

#### Management Comments

Management has accepted the fact situation relating to our findings. However, their objections were mainly directed at the following matters:

1. In one instance, management arrived at a different dollar valuation of MIS costs which offset unsupported cost against other costs which were not billed.

2. Management mentioned that the project budget was revised on Feb. 13, 1991 to accommodate for the actual needs of the project and to cover various items of the costs we questioned.
3. In cases where we questioned flat rate charges for various administrative support, management believed that the charges were reasonable in relation to the fair market cost.

This report is intended for the information of management and others within the organization and the United States Agency for International Development. The restriction is not intended to limit the distribution of this report which is a matter of public record.

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## *Price Waterhouse*

August 15, 1991

Regional Inspector General for Audit  
United States Agency for  
International Development  
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Cairo, Egypt

### **FUND ACCOUNTABILITY STATEMENT** **REPORT OF INDEPENDENT ACCOUNTANTS**

We were engaged to audit the accompanying Fund Accountability Statement for the period from April 12, 1989 to December 31, 1990 relating to Direct Contract No. 263-0212-C-00-9053-00 between USAID and the National Cooperative Business Association (NCBA) for the Small and Micro Enterprise (SME) Project. The Fund Accountability Statement is the responsibility of NCBA's management.

We did not have access to records and supporting documentation maintained in the United States, and we were therefore unable to test \$ 320,212 of costs or 49% of total costs billed.

As described in Note 2, the accompanying Fund Accountability Statement has been prepared on the basis of cash disbursements, except for indirect costs billed in accordance with contractual provisions. Consequently, costs invoiced are not recognized when the liability is

incurred. Accordingly, the accompanying statement is not intended to present results in accordance with generally accepted accounting principles.

Because of the matter described in the second paragraph above, the scope of our audit work was not sufficient to enable us to express, and we do not express, an opinion on the accompanying Fund Accountability Statement.

*full waterwork*

**AUDIT OF**  
**NATIONAL COOPERATIVE BUSINESS ASSOCIATION**  
**SMALL AND MICRO ENTERPRISE PROJECT**  
**CONTRACT NUMBER 263-0212-C-00-9053-00**  
**FUND ACCOUNTABILITY STATEMENT**  
**FOR THE PERIOD FROM APRIL 12, 1989 THROUGH DECEMBER 31, 1990**

	Fund Accountability Statement (Note 1)	Costs Disallowed by USAID	Questioned Costs (Note 4)	Unsupported Costs (Note 4)	Reimbursable Costs	Audit Findings Reference
Salaries	\$ 75,106				\$ 75,106	
Fringe Benefits	22,389				22,389	
Consultants	7,582	\$ (28)			7,554	
Subcontractor	332,017	(382)	(\$15,840)	(\$29,539)	286,256	Pages 11 through 14
Travel & Transportation	99,627	(855)			98,772	
Other Direct Costs	5,541	(198)			5,343	
Overhead	77,887	(66)			77,821	
G & A	16,172	(231)			15,941	
Fixed Fee	<u>15,908</u>	<u>(19)</u>			<u>15,889</u>	
	<u>\$ 652,229</u>	<u>\$ (1,779)</u>	<u>(\$15,840)</u>	<u>(\$29,539)</u>	<u>\$ 605,071</u>	

See accompanying notes to the fund accountability statement

**AUDIT OF**  
**NATIONAL COOPERATIVE BUSINESS ASSOCIATION**  
**SMALL AND MICRO ENTERPRISE PROJECT**  
**CONTRACT NUMBER 263-0212-C-00-9053-00**

**Note 1 - Source of Data**

The first column, labeled "Fund Accountability Statement", is the responsibility of NCBA management and gives the total of the individual invoices for the period from April 12, 1989 through December 31, 1990. The other columns have been developed for the purpose of this report based on our audit of those figures.

**Note 2 - Organization and Basis of Presentation**

The Fund Accountability Statement has been prepared on the basis of cash disbursements except for indirect costs which are billed in accordance with contractual provisions. Consequently, cost invoices are not recognized when the liability is incurred.

**Note 3 - Description of Contract**

The contract is a cost-reimbursable plus fixed-fee contract between USAID and the NCBA.

**Note 4 - Questioned and Unsupported Costs**

Questioned and unsupported costs consist of audit findings, proposed on the basis of the terms of the contract and the accounting principles described in Note 2, and are detailed in the "Fund Accountability Statement - Audit Findings" section of this report.

**AUDIT OF**  
**NATIONAL COOPERATIVE BUSINESS ASSOCIATION**  
**SMALL AND MICRO ENTERPRISE PROJECT**  
**CONTRACT NUMBER 263-0212-C-00-9053-00**  
**FUND ACCOUNTABILITY STATEMENT**  
**AUDIT FINDINGS**

Our audit procedures identified the following costs billed to the contract which are questionable or not supported:

	<u>Questioned</u>	<u>Unsupported</u>
<b>A. SALARIES</b>		
1. The head of MIS charged 100% of his salary to the job, whereas his timesheets indicated only 9.27 months worked out of the 11 charged. (It has been stated that this arrangement was verbally authorized to cover work done by other individuals. However management authorizations cannot reallocate time spent by specified individuals.)		\$ 6,202
2. Pay raises for employees paid in Egyptian pounds were granted in excess of 10%. (It has been suggested that there was no excess based on US dollar equivalent amounts, but neither the NCBA contract nor the EQI subcontract provides for equivalency calculations, nor does		

Questioned    Unsupported

budgetary availability override these requirements).

\$ 1,757

3. Overtime for subcontractor full-time staff was charged without proper approval.

631

4. Part-time charging rates were calculated on the basis of 252 days per year and not 260 as required.

549

5. One individual was charged at the wrong salary rate for three months.

938

**B. TRANSPORT**

1. The car provided to the NCBA Team Leader was used for personal purposes including home to office commuting. No log was maintained to allow determination of personal usage. The audit estimate is based on one round trip between home and office per workday.

2,430

**C. PER DIEM**

1. Total subcontractual budget was exceeded by more than 15% without NCBA authorization.

\$ 2,428

D. OFFICE EXPENSE AND  
SUPPLIES

1. A bill for LE 80.10 was incorrectly recorded as LE 8010.

\$ 3,070

E. EQUIPMENT AND FACILITIES

1. The amounts charged for photocopier usage was a flat rate corresponding to the budgeted amount, without supporting documentation. Since the facilities specified were also used by EQI in general and not exclusively by NCBA, and since there is no supporting documentation to justify the exact charges made (log sheets, etc), this must be classified as overhead costs and be recovered via the audited overhead rate.

\$ 4,594

2. The amount charged for the secretary's computer was a flat rate corresponding to the budgeted amount, without supporting documentation.

4,782

**F. OFFICE SUPPORT**

1. It is unreasonable that NCBA pays for 5/8 of the total office rent in return for approximately 1/3 of the total space on a dedicated basis. (Fair market value has been cited, but regulations require charging according to actual costs allocated on an equitable basis).

	<u>          </u>	<u>4,744</u>
Subtotals	\$ <u>10,899</u>	\$ <u>21,226</u>

**G. CALCULATED CHARGES**

1. The calculated revisions to claimed costs, based on the above identified questioned and unsupported costs, are:

a. Overhead	\$ 3,410	\$ 5,458
b. General and Administrative	1,145	2,135
c. Fixed fees	<u>386</u>	<u>720</u>
Total	\$ <u>15,840</u>	\$ <u>29,539</u>

Grand total of all questioned costs                    \$ 45,379

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## *Price Waterhouse*

August 15, 1991

Regional Inspector General  
United States Agency for  
International Development  
Mission to Egypt  
RIG/A/C Office  
Cairo, Egypt

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

We were engaged to audit the Fund Accountability Statement for the period from April 12, 1989 to December 31, 1990 relating to Direct Contract No. 263-0212-C-00-9053-00 between USAID and the National Cooperative Business Association (NCBA) for the Small and Micro Enterprise (SME) Project, and have issued our report thereon dated August 15, 1991, in which we disclaimed an opinion due to limitations to the scope of our work.

In planning and performing our audit of the Fund Accountability Statement for costs paid for the period from April 12, 1989 to December 31, 1990, we considered NCBA's control structure for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of NCBA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected

benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial reports and to maintain accountability over the entity's assets. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we determined the significant internal control structure policies and procedures to be in the categories of disbursements and vouchering. For these internal control structure categories cited, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the

organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement.

#### REPORTABLE CONDITIONS

1. Improvements should be made in the billing system used by EQI

##### Discussion

The system EQI uses to bill NCBA for direct costs is not integrated with the general accounting system. Documents are processed in two independent ways: 1) for billing purposes, and 2) for preparing overall accounts, such as for determining indirect rates. There is no reconciliation between the two systems. As a result, amounts may be billed incorrectly which will not be discovered unless someone questions the individual transactions. We discovered several examples of inaccurate charging, both over-charging and under-charging for time spent, and one misrecording of an LE 80.10 cost as LE 8,010. An adequate system should provide checks that the overall time and expenses charged to all projects, plus overhead accounts, reconcile to actual time and expenses. Such a system would also help ensure that costs billed directly to a job could not accidentally be double counted as overhead costs.

Billings are also made on the basis of photocopies of source documents, and not the source documents themselves. This allows the possibility of double claiming of costs, and we have found such an example. An integrated accounting system, with each original

voucher being entered only once, together with its distribution, would avoid this problem.

There is a subsidiary ledger in Arabic for a limited number of direct costs, mostly per diem and office expenses. However this does not have an audit trail reference to the supporting documentation. It also is difficult to reconcile to the billings, because costs are recorded according to the date shown on the receipt, and not when EQI actually repaid the amount and billed it to NCBA. Costs should be recorded when incurred by EQI itself. The cumulative amounts shown on the billings have numerous errors including the omission of one complete month's totals.

The amounts charged for overhead (averaging 91%) is not in accordance with the contract (which specifies 88%). Note, however, that NCBA has not allowed the excess claims.

#### Recommendation

Improvements should be made in the billing system used by EQI. Steps should be taken to ensure that amounts are entered correctly, entered only once, and that calculated amounts (overheads and cumulative totals) are computed correctly. The subsidiary ledgers should provide an audit trail and be clearly reconcilable to the billings.

Preferably, EQI should integrate its billing system into its general accounting system, based on double entry accounting from source documents entered only

once. Alternatively, there should be regular reconciliations of posting to all jobs and overhead accounts with totals incurred.

2. Vehicle use should be properly logged and personal use reimbursed.

#### Discussion

A car and driver are provided by EQI for the exclusive use of the NCBA Team Leader. However no log book exists to substantiate the use which is made of this vehicle, or to provide a basis for assessing the reasonableness of related costs, primarily gasoline.

USAID regulations require, among other things, that the contractor shall maintain records which clearly identify project and personal use, including home to office commuting. The contractor shall reimburse the project for personal use on a monthly basis. (See Contractor Notice 8-90).

#### Recommendation

A log book should be maintained for all use of the vehicle supplied to the NCBA Team Leader. Personal use should be reimbursed by the Team Leader.

3. Timesheets should be adequately reviewed and this review should be evidenced.

#### Findings

Timesheets during the period of our audit do not show any evidence of review or authorization.

Two individuals record at least 100% of a standard work week to NCBA, and additional time to other projects. We find some of the resulting data difficult to accept at face value (e.g. 17 hours worked on one day, with 8 of it being a regular charge to NCBA, and 9 worked on another day which also has "sick" recorded against it.) Furthermore we have been told that the secretary being charged full-time to NCBA does work on non-NCBA jobs when she has nothing else to do, and we have observed this practice ourselves. But the timesheets for this individual for the period under audit never show less than a standard work-day being charged to NCBA, except for two dates when the shortfall was not attributed to any other job. It therefore appears that work is being done for non-NCBA jobs which is not being charged to them. We cannot quantify the extent of this work, but it should not have been charged to NCBA. The appropriate person to review these timesheets was the NCBA team leader. He should have identified this situation and required corrective action.

#### Recommendation

Timesheets or equivalent reports of daily activity should be reviewed and signed off on by the NCBA team leader, at a minimum. The review should consider whether all the hours claimed have actually been worked, and whether all of the hours worked are properly attributable to NCBA.

A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would

be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended for the information of management and others within the organization and the United States Agency for International Development. The restriction is not intended to limit the distribution of this report which is a matter of public record.

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## *Price Waterhouse*

August 15, 1991

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**REPORT OF COMPLIANCE WITH AGREEMENT TERMS  
AND APPLICABLE LAWS AND REGULATIONS  
REPORT OF INDEPENDENT ACCOUNTANTS**

We were engaged to audit the Fund Accountability Statement for the period from April 12, 1989 to December 31, 1990 relating to Direct Contract No. 263-0212-C-00-9053-00 between USAID and the National Cooperative Business Association (NCBA) for the Small and Micro Enterprise (SME) Project, and have issued our report thereon dated August 15, 1991, in which we disclaimed an opinion due to limitations to the scope of our work.

Compliance with laws, regulations, contracts, and billing policies and procedures applicable to NCBA is the responsibility of the management of NCBA. As part of our audit, we performed tests of NCBA's compliance with certain provisions of laws, regulations, contracts, and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement; our objective was not to provide an opinion

on compliance with such provisions. Our testing of transactions and records disclosed one instance of noncompliance with those laws and regulations which is identified in the "Report on Compliance-Audit Findings" Section of this report.

The results of our tests indicated that, with respect to the items tested, NCBA complied, in all material respects, with the provisions referred to in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that NCBA had not complied, in all material respects, with those provisions.

This report is intended for the information of management and others within the organization and the United States Agency for International Development. The restriction is not intended to limit the distribution of this report which is a matter of public record.

*Price Waterhouse*

AUDIT OF  
NATIONAL COOPERATIVE BUSINESS ASSOCIATION  
SMALL AND MICRO ENTERPRISE PROJECT  
CONTRACT NUMBER 263-0212-C-00-9053-00  
REPORT ON COMPLIANCE  
AUDIT FINDINGS

The following instance of noncompliance with laws and regulations and the contract came to our attention during the audit:

1. Overtime should be paid to employees who properly earn it.

Findings

Overtime is recorded by some employees charging time to NCBA, but overtime payments are not made to these employees. This appears to conflict with Egyptian labor law.

A related result is that NCBA picks up a disproportionate level of salary cost for some employees. The entire salary for two employees is reimbursed by NCBA, yet overtime is charged to non-NCBA jobs. A benefit is thereby being obtained by EQI for which it incurs no costs.

Recommendation

Overtime should be paid to employees where required by law.

Also the salary costs directly charged to NCBA should represent its fair share of total salary costs incurred for any individual. If overtime is spent on non-NCBA work, but is not paid for perhaps by reason of job contract exclusions, a reduction in the effective cost per hour of the person's time to EQI results. NCBA should benefit proportionately.

AUDIT OF  
NATIONAL COOPERATIVE BUSINESS ASSOCIATION  
SMALL AND MICRO ENTERPRISE PROJECT  
CONTRACT NUMBER 263-0212-C-00-9053-00

Appendix A: Auditees' response to findings  
Fund Accountability Statement

**A. Salaries**

**1. MIS Charges**

For an insight as to how the MIS component of the SME project was managed as a cost-saving exercise, please see attachment 1. The MIS budget was \$43,000 covering 11 months level of effort. Early on this relatively low level of MIS was determined by myself and AID to be insufficient to cover the SME project needs. Under the revised SME budget (13 Feb. 1991) the MIS line item was increased. In the meantime, it was an internal decision, with AID concurrence, as cost-control exercise, to use Rial Ashan principally as an MIS supervisor over a team of MIS support staff who would carry out the major part of the hands-on programming and training work in Cairo and Alexandria.

**Conclusion:**

- a) Actual costs incurred by EQI for its local MIS support staff input was \$19,147.10.
- b) The MIS manager's time (Rial) was overbilled by \$6202 as a way for compensating for the actual local MIS support costs.

**2. Raises Above 10%**

We agree with the audit finding that \$1,757 was overbilled by EQI.

**3. Overtime Charges**

We agree with the audit finding that \$631 was overbilled by EQI.

**4. 260 versus 252 work days per year.**

We agree with the audit finding that \$549 was overbilled by EQI.

**5. Wrong Salary Rate**

We agree with the audit finding that \$938 was overbilled by EQI.

**B. Transportation**

**1. SME car log and expenses**

We agree, in principle, with the audit recommendation that the NCBA chief of party should be charged for the use of the project vehicle. However, the per home-to-office-to-home costing formula does not accurately represent the usage pattern. Rather, we recommend that the charging procedures be made more straight forward. To this end, we suggest that a flat monthly rate of \$25 be instituted so as to avoid near impossible historical tracking of project vehicle use/user for mileage charges. This is especially the case as it would necessitate taking into account leave days, repair downtime, late-hour returns from the Alexandria to Cairo, plus the multitude of other SME project vehicle users.

**Conclusion:**

- a) We support a recommendation of a flat monthly charge and suggest an amount of \$25 per month be levied to avoid complicated monitoring and recording and potential after-the-fact inaccurate re-adjustments.
- b) We do not agree with the recommendation of a vehicle log as this vehicle is used exclusively for the SME project. A log in this instance would be redundant.

**C. Per Diem**

**1. Per diem cost exceeded budget by more than 15%**

This point was discussed and resolved with the USAID

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with a SME budget revision increase including the "Perdiem" line item in question. Following the revision, costs were no longer over budget.

**Conclusion:**

- a) See the revised SME budget of 13 February 1991 accommodating the need for additional Perdiem funds.
- b) We do not agree with the audit findings and feel this point should be omitted altogether.

**D. Office Expense and Supplies**

**1. Incorrect office supplies billing**

We agree with the audit finding involving the transcription error and overbilling by EQI of \$3,070.

**E. Equipment and Facilities**

**1. Flat rate photocopier charges**

Our estimate is that we use about 3500 copies per month for SME related work chargeable at 20pt per copy being the fair market rate,  $3500 \times .20 = \text{LE } 700$  divide by 2.60 exchange rate = \$269. The budgeted figure is \$250 per month which we feel is a fair and reasonable amount.

**Conclusion:**

We do not agree with this finding and believe this point should be omitted altogether.

**2. Flat rate computer charges**

We agree with the audit finding that \$ 4,782 was overbilled by EQI

**F. Office Support**

**1. Office support charges**

It was agreed that EQI would provide NCBA with a turn-key office facility as a way of minimizing costly office location and renovation costs, an exercise completely

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covered by EQI. The SME office at "old office C" was exactly that. When the NCBA Chief of Party (COP) arrived, the office facility was fully operational, including secretary, communications, filing, copier, computers, etc. Of the 11 unit spaces at office C, 9 units (or approximately 80%) were utilized by the SME project. This included the COP, project coordinator, resident advisor, financial advisor, MIS supervisor, MIS support group, general meeting room receptionist area, kitchen and WC's. With the rental cost at \$800/month, our 80% represents \$640. Presented another way, bare apartment space costs, in 1989 in Zamalek, were available at approximately LE 15-17/m<sup>2</sup>. Office C was 185m<sup>2</sup> of which 80% was SME utilized, therefore 80% X 185 = 148m<sup>2</sup> X LE 15 = LE 2,200 divided by 2.60 = \$853. At the same time one should take into account the fact that SME was a fully furnished office with all services in place. In this instance, we believe that the cost of the office PLUS full facilities at the budgeted \$500 per month is of exceptionally good value. Note also that in the revised budget of 13 February 1991 this line item was increased to reflect real office costs and a better parity in cost covering by the project.

**Conclusion:**

We do not agree with this audit finding and believe this point should be omitted altogether.

**G. Calculated Charges**

**Concern regarding overhead and G&A**

Lastly, I would like to bring your attention to the fact that no reference was made to the revised provisional rates for overhead and G&A as a result of Mr. Fred Will's letter of 5 August 1990. Whereas Mr. Will's letter allows a provisional 122% rate, and the SME contract ceiling rate is 100%, until a final audit-fixed rate is established, NCBA has only been reimbursing EQI using an earlier provisional

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rate of 88%. These various rates for overhead have resulted in an unnecessarily high level of confusion about what is actually reimbursed to EQI as well as how the calculations in the audit are made.

Based on this untenable situation and the need for an immediate resolution to the findings in question, we strongly recommend that;

- a) approved overhead and G&A rates be established immediately by USAID for EQI.
- b) and that the audit findings and the management response from NCBA/AC be reviewed and resolved by USAID at the earliest possible date, allowing for timely reimbursement for costs to EQI.

INTERNAL CONTROL STRUCTURE

1. Improvements should be made in the billing system used by EQI

Generally speaking, we are in agreement with the observations and recommendations of the audit group. We are also supportive, where it is practicable, to have the NCBA and EQI accounting systems merge to meet good basic accounting practices. While this integration of accounting systems is acknowledged, it is, at the same time, important to allow for each company's separate accounting autonomy.

We completely support the need for an improved billing system so that a clear audit trail is maintained. We note and agree with instituting periodic reconciliation of subsidiary job (project) ledgers with the general ledger and the facility of double entry accounting.

**2. Vehicle use should be properly logged and personal use reimbursed**

While we hold that keep a vehicle log is redundant since the vehicle is used exclusively for the SME Project, if this would aid in better cost-center management, we believe the practice should be considered, (or that the transportation cost be shifted altogether under the overhead cost pool and the overhead rate adjusted to reflect this).

**3. Timesheets should be adequately reviewed and this review should be evidenced**

We agree that timesheet recording should reflect the actual time allotted to the various projects and that EQI should be paid for actual staff time worked. We further agree that the SME Coordinator and Chief of Party should review these documents and sign-off on them as part of the checks and balances required in the financial management of the project.

In conclusion, thank you for your interest to speedily conclude and resolve the various outstanding audit findings. We look forward to receiving your report at your earliest convenience.

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UNAUDITED

Attachment 1  
MIS Time Allocation on the  
SME Project

Name	Apr-07		Apr-08		May-08		Jun-08		Jul-08		Aug-08		Sep-08		Oct-08		Nov-08		Dec-08		Total		
	Hours	Cost	Hours	Cost	Hours	Cost	Hours	Cost	Hours	Cost	Hours	Cost	Hours	Cost	Hours	Cost	Hours	Cost	Hours	Cost	Hours	Cost	
1. David English	40.00	0.00	30.00	48.00	2.00	30.00	40.00	0.00	170.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Patrick A. Walsh	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
3. Timothy Anich	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
4. Steve Smith	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
5. Todd East	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
6. Leah Larson	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
7. Andrew Arnes	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Total LE	40.00	0.00	30.00	48.00	2.00	30.00	40.00	0.00	170.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Contract Fee	2.00	0.00	2.00	0.00	2.00	0.00	2.00	0.00	2.00	0.00	2.00	0.00	2.00	0.00	2.00	0.00	2.00	0.00	2.00	0.00	2.00	0.00	
Overhead in US\$	111.00	0.00	140.00	0.00	110.00	0.00	140.00	0.00	110.00	0.00	140.00	0.00	110.00	0.00	140.00	0.00	110.00	0.00	140.00	0.00	110.00	0.00	
Project Results in 2007																							
Total Revenue & Project																							
Overhead in 2007																							
Total Revenue & Subcontract																							
Sub-Total																							
Fee in 2007																							
Project Total																							

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AUDIT OF  
NATIONAL COOPERATIVE BUSINESS ASSOCIATION  
SMALL AND MICRO ENTERPRISE PROJECT  
CONTRACT NUMBER 263-0212-C-00-9053-00

Appendix B: Auditor's comments

Fund Accountability Statement

A. Salaries

1. MIS Charges

Auditee agrees that \$ 6,202 of the unsupported MIS costs were overbilled for the MIS manager time. Yet, the auditee points out that it did not bill local MIS support staff time of \$ 19,147.10 as identified on attachment A. We did not audit attachment A. However, we believe that NCBA is eligible to bill this time.

2. Raises Above 10%

Auditee agrees.

3. Overtime Charges

Auditee agrees.

4. 260 versus 252 work days per year.

Auditee agrees.

5. Wrong Salary Rate

Auditee agrees.

B. Transportation

1. SME car log and expenses

Our calculation of the personal car use questioned cost results from our estimate of car use days net of leave days and weekends multiplied by the estimated distant

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from Mr. P. Parr home in Maadi to his office in Zamalek and back (estimated at 45 kilometers) multiplied by \$ 0.15/kilometer in accordance with Contractor Notice # 8-90 dated April 15, 1990. The auditee suggested monthly rate of \$ 25 appears too low. The \$ 25 only represents 167 kilometers of personal driving during the month. Notwithstanding the above, implementation of a car log will result in an accurate gauge of personal use.

**C. Per Diem**

1. Auditee agrees.

**D. Office Expense and Supplies**

1. **Incorrect office supplies billing**  
Auditee agrees.

**E. Equipment and Facilities**

1. **Flat rate photocopier charges**

We believe that billings to USAID should be based on actual cost incurred and not estimates using fair market values. Therefore, our position on this item remains unchanged.

2. **Flat rate computer charges**

Auditee agrees.

**F. Office Support**

1. **Office support charges**

As mentioned in E-1 above, billings to USAID should be based on actual cost incurred and not fair market value. We believe that office space directly allocable to SME project should be those area exclusively used by personnel who are 100% dedicated to the project. Other common areas are accounted for in the overhead pool.

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Therefore, out of the eleven unit spaces in the office mentioned in the auditee responses, only the units occupied by Mr. P. Parr (COP), his secretary and Mr. S. Hassanien (Financial Advisor) are allocable to SME. Notwithstanding the auditee's comments, our position on this item remains unchanged.



## UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

NOV 21 1991

 RECEIVED  
 21 NOV 1991
MEMORANDUM

TO: Philippe Darcy, RIG/A/C

FROM: George Wachtenheim, D/DIR

SUBJECT: NFA Report on Local Expenditures of NCBA under  
 USAID/Egypt's Project No. 263-0212

Following is the Mission's comments on the subject draft audit report.

The report states on page 3 that the audit team "...did not have access to records and supporting documentation maintained by NCBA in the United States." This statement is incorrect in that copies of documentation supporting expenditures (i.e. telephone bills, plane tickets, invoices for office supplies, etc.) were submitted to the Project Officer as part of the voucher requesting payment. This documentation was reviewed and passed on to FM where it is filed, and was available to the audit team.

The overhead audit of EQI being conducted separately is mentioned on page 4. This is an extremely important exercise which the Project Office had been requesting for quite some time. It would have been helpful if it could have been completed before this audit began, as the findings will clear up the concern that there may have been double counting through the overhead rate in a number of areas covered by this audit: the vehicle, the photocopier, the computers, office rent, utilities, etc.

Item 1. at the bottom of page 4 reads "Reconciliation of EQI's accounting records to invoices issued to USAID..." It should read "issued to NCBA...", as USAID does not receive the subcontractor invoices.

The car discussed in the report (pages 12 and 19) is not a "Project Vehicle" in that it was not financed by project funds. Rather it is an EQI owned vehicle that was made available for use on project related activities. As such, it is not subject to USAID regulations for "Project Vehicles". A log should have been kept to track the actual usage of the vehicle for project activities, and payment should have been made on that basis. The magnitude of non-project use is of no concern, as the vehicle is not a "Project Vehicle", provided that the project was not billed for that non-project use.

**IG Response to USAID/Egypt Comments**

1. Our review of USAID/E Financial Management files indicate that documentation was obtained for select direct costs billed by NCBA for the period March 1990 through December 1990. However, since this is less than half of the audited period, we believe the auditors were justified in limiting the scope of their audit to local subcontract costs.
2. We anticipate a December 1991 release of the draft audit report covering EQI's overhead rates.
3. We agree that EQI submits invoices to NCBA.
4. We agree with the Missions' position that "[a] log should have been kept to track the actual usage of the vehicle for project activities, and payment should have been made on that basis."

**APPENDIX E****Report Distribution**

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