

Regional Inspector General for Audit  
Cairo, Egypt

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**Audit of America-Mideast Educational & Training  
Services, Inc.'s Local Expenditures on Flexibly  
Priced Agreements Relating to USAID/Egypt Projects**

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Report No. 6-263-92-13-N  
March 26, 1992





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

March 26, 1992

**MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford**  
**FROM :** RIG/A/C, *Philip L. Darcy*  
**SUBJECT:** Audit of America-Mideast Educational  
& Training Services, Inc.'s Local  
Expenditures on Flexibly Priced  
Agreements Related to USAID/Egypt  
Projects

The attached report dated February 13, 1992 by Price Waterhouse presents the results of a financial audit of America-Mideast Educational & Training Services, Inc.'s (AMIDEAST's) local expenditures on flexibly priced agreements related to USAID/Egypt projects. AMIDEAST provides academic advising and training services on USAID/Egypt grants, cooperative agreements and subcontracts.

We engaged Price Waterhouse to perform a financial audit of AMIDEAST's local expenditures totaling \$285,372 for the period October 1, 1988 to September 30, 1990. The purpose of the audit was to evaluate the propriety of costs incurred during this period. In performing the audit, Price Waterhouse evaluated AMIDEAST's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statements.

Price Waterhouse questioned \$379 of AMIDEAST's claimed costs. Questioned items include indirect costs which were charged as direct costs, direct costs which were not properly allocated between projects and donations which were made to the Tanka School of Medicine. Price Waterhouse also noted weaknesses in AMIDEAST's accounting system and internal controls, however the auditors did not consider these to be material weaknesses. Finally, Price Waterhouse reported one commodity purchase that violated competitive procurement requirements of the relevant agreement.

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AMIDEAST management generally agreed with the audit findings. However, management did note that AMIDEAST's Egypt-based accounting system is component of AMIDEAST's world-wide accounting system, which has been deemed adequate for Federal Government purposes in previous audits performed at AMIDEAST headquarters.

**Recommendation No. 1:** We recommend that USAID/Egypt resolve the questioned costs of \$158 and \$221 appearing, respectively, on pages 12 and 13 of the audit report.

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 costs, Recommendation No. 1 is considered unresolved. This recommendation can be resolved when we receive the Mission's formal determination as to the amounts sustained or not sustained and can be closed when any amounts determined to be owed to A.I.D. are paid by AMIDEAST.

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.

**AMERICA - MIDEAST EDUCATIONAL  
& TRAINING SERVICES, INC.**

**CONSOLIDATED FUND ACCOUNTABILITY  
STATEMENTS AND ADDITIONAL INFORMATION**

**SEPTEMBER 30, 1989 AND 1990**

**AMERICA - MIDEAST EDUCATIONAL & TRAINING SERVICES, INC.**

**CONSOLIDATED FUND ACCOUNTABILITY STATEMENTS  
AND ADDITIONAL INFORMATION**

**SEPTEMBER 30, 1989 AND 1990**

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## *Price Waterhouse*



February 13, 1992

Mr. Philippe Darcy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

Dear Mr. Darcy:

This report presents the results of our financial cost-incurred audit of all flexibly-priced agreements (grants, cooperative agreements, and subcontracts) that America - Mideast Educational & Training Services, Inc., Egypt Office, (AMIDEAST/Egypt) has directly with USAID and for which AMIDEAST/Egypt is providing services to other entities dealing with USAID. The audit encompassed all local expenditures for the two year period from October 1, 1988 through September 30, 1990.

### Background

AMIDEAST is a private nonprofit organization founded in 1951 to facilitate educational exchanges between the United States of America (U.S.) and the Arab world, to provide academic advising and training to people in the Middle East and to foster a better understanding of the Middle East in the U.S. To accomplish this mission, field offices were established in Egypt, Jordan, Yemen, Tunisia, Morocco, West Bank, Lebanon and Syria.



The office in Egypt was established in 1956 and consists of three centers: the finance and administration office, the Educational Resource Center and Testing Facility, and a satellite office in Alexandria. All financial reporting for these offices is done by the administrative office in Cairo.

AMIDEAST/Egypt is managed by an expatriate Country Director. The office employs approximately 20 persons.

#### Audit Objectives and Scope

The objective of this engagement was to perform a financial cost-incurred audit of USAID funds provided to AMIDEAST/Egypt pursuant to all flexibly-priced grants and agreements with USAID and all flexibly-priced subcontracts with USAID financed contractors. The audit encompassed all local expenditures for the two year period from October 1, 1988 through September 30, 1990. Specific objectives were to determine whether:

1. the consolidated fund accountability statements for AMIDEAST/Egypt present fairly, in all material respects, project revenues and costs incurred and reimbursed for the contracts/agreements in conformity with the applicable accounting principles;
2. the costs reported as incurred under the contracts/agreements are in fact allowable, allocable, and reasonable in accordance with the terms of the contracts/agreements and USAID regulations as well as OMB Circular No. A-122;



3. the internal controls, accounting systems and management practices of AMIDEAST/Egypt are adequate for USAID/Egypt agreements; and
4. AMIDEAST/Egypt is in compliance, in all material respects, with the contract/agreement terms and applicable laws and regulations.

Preliminary planning and review procedures were started in November, 1991 and consisted of discussions with RIG/A/C personnel, AMIDEAST/Egypt officials and review of the applicable flexibly-priced agreements. Fieldwork commenced in November 1991 and was completed in February 1992.

The scope of our work was all flexibly-priced USAID agreements, grants and subcontracts with AMIDEAST/Egypt. Within each contract/agreement, we selected disbursements for testing on a judgmental basis to test a majority of local expenditures. The contracts/agreements and amounts tested are as follows:

#### Direct Grants and Agreement

OPG-A Grant number 263-0026-G-00-7025-00 provided services for Egyptian students wishing to study in the U.S. These services included advising students on preparatory study programs, the admissions process for U.S. colleges and universities and other services.

We tested local expenditures incurred in LE of 36,418 out of total LE expenditures of 42,714.



These costs were incurred from October 1, 1988 through September 30, 1989.

OPG-B Grant number 263-0102-G-00-0054-00 provided support to AMIDEAST/Egypt in expanding its educational advising and information program to focus on training and the human resource needs related to Egypt's development.

We tested local expenditures of LE 61,629 and \$ 7,630 out of total expenditures of LE 64,205 and \$ 7,700, respectively. Tested costs were incurred from February 1, 1990 through September 30, 1990.

Legal Education Training (LET) Cooperative Agreement number 398-0288-A-00-9095-00 was designed to strengthen democratic institutions (i.e. the legislative and judiciary branches) and enhance and encourage basic human rights practices.

We tested local expenditures of LE 30,892 and \$ 2,195 out of total expenditures of LE 33,467 and \$ 2,195, respectively. Tested costs were incurred from October 1, 1989 through September 30, 1990.

### Subcontracts

Harza Engineering (Harza) Harza has contracted with AMIDEAST/Egypt for assistance in preparing and testing participants in Harza's Participant Training Program (PTP) in conjunction with the Ministry of Public Works and Water Resources.



We tested expenditures of LE 724, which represented all local expenditures incurred from July 20, 1990 through September 30, 1990.

Morrison-Knudsen Engineering (MKE) MKE subcontracted AMIDEAST/Egypt to provide short term professional staff to fulfill the training requirements of the Preventive Maintenance and Channel Maintenance Components of USAID/Egypt's Irrigation Management project.

We tested local expenditures of LE 1,086 and \$ 68 out of total expenditures of LE 1,204 and \$ 68 respectively. Tested costs were incurred from March 31, 1990 through September 31, 1990.

Sheladia AMIDEAST/Egypt entered into a cost-reimbursable subcontract with Sheladia under the Professional Development Project (PDP), a component of USAID/Egypt's Irrigation Manager Systems Project. This subcontract required AMIDEAST/Egypt to provide professional services required in implementing a participant training program in accordance with A.I.D. Handbook 10, "Participant Training" and process individuals selected for participant training courses.



We tested local expenditures of LE 402,738 and \$ 28,006 out of total expenditures of LE 404,578 and \$ 67,891, respectively. Tested costs were incurred from December 1, 1988 through September 1990.

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

1. Reconciling AMIDEAST/Egypt's accounting records to invoices issued to USAID, and testing of costs for allowability, allocability, reasonableness, and appropriate support;
2. Determining that personnel costs were appropriate and conformed with the terms of the contracts/agreements and relevant regulations;
3. Determining that travel and transportation charges are adequately supported and approved; and
4. Establishing the adequacy of AMIDEAST/Egypt's control over project equipment.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated fund accountability statements are free of material misstatement.



We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

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

#### Results of Audit

Consolidated fund accountability statements:

Our audit identified LE 981 (converted to \$ 379 at applicable exchange rates) in questionable costs.

Internal control structure:

We recommended that AMIDEAST/Egypt adopt an accounting system which meets U.S. Government standards, develop control procedures to ensure all vouchers are properly approved and tag all assets for proper identification and control.



Compliance with Agreement terms and applicable laws and regulations:

Our audit found one instance of noncompliance relating to the failure of AMIDEAST/Egypt to obtain competitive bids for equipment procurement.

Management Comments

AMIDEAST/Egypt agreed with all of our findings and recommendations except for the reportable condition relating to their accounting system (page 21). Our recommendation was based on observations of their local accounting system and did not include the accounting system at AMIDEAST's headquarters in Washington D.C.

This report is intended solely for use by the United States Agency for International Development and may not be suitable for any other purpose.

*Since not applicable*

*Price Waterhouse*



**REPORT OF INDEPENDENT ACCOUNTANTS**

February 13, 1992

Mr. Philippe Darcy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

We have audited the accompanying consolidated fund accountability statements of America - Mideast Educational & Training Services, Inc., Egypt Office, (AMIDEAST/Egypt) for the periods from October 1, 1988 through September 30, 1989 and from October 1, 1989 through September 30, 1990 relating to local expenditures incurred in Egypt for all flexibly-priced grants and agreements with USAID and all flexibly-priced subcontracts with USAID-financed contractors. These financial statements are the responsibility of AMIDEAST/Egypt's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated fund accountability statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and



disclosures in the consolidated fund accountability statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

As described in Note 3, the accompanying consolidated fund accountability statements have been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying consolidated fund accountability statements are not intended to present results in accordance with accounting principles generally accepted in the United States of America.

Included in the consolidated fund accountability statements are questioned costs of \$ 158 and \$ 221 for the period from October 1, 1988 through September 30, 1989 and from October 1, 1989 through September 30, 1990, respectively. The basis for questioning these costs is



more fully described in the "Consolidated Fund Accountability Statements - Audit Findings" section of this report.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the consolidated fund accountability statements referred to above present fairly, in all material respects, AMIDEAST/Egypt's locally incurred expenditures for all flexibly-priced grants and agreements with USAID and all flexibly-priced subcontracts with USAID-financed contractors for the periods from October 1, 1988 through September 30, 1989 and from October 1, 1989 to September 30, 1990 in conformity with the basis of accounting described in Note 3.

Our audit was conducted for the purpose of forming an opinion on the consolidated fund accountability statements taken as a whole. The individual agreement, grant and subcontract fund accountability statements in Appendix A and summary information in Appendix B are presented for purposes of additional analysis of the consolidated fund accountability statements and are not a required part of the consolidated fund accountability statements of AMIDEAST/Egypt. Such information has been subjected to the auditing procedures applied in the audit of the consolidated fund accountability statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated fund accountability statements taken as a whole.

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**AMERICA - MIDEAST EDUCATIONAL & TRAINING SERVICES, INC.**

**CONSOLIDATED FUND ACCOUNTABILITY STATEMENT**

**FOR THE PERIOD FROM OCTOBER 1, 1988 THROUGH SEPTEMBER 30, 1989**

	<u>Budget</u> <u>(Note 2)</u>	<u>Actual</u> <u>(Note 2)</u>	<u>Questioned Costs</u>		<u>Audit</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Findings</u>
			<u>(Note 4)</u>	<u>(Note 4)</u>	<u>Reference</u>
<b>Salaries</b>					
OPG-A	\$ 26,876	\$ 7,992	-	-	
Sheladia	<u>1,770</u>	<u>1,048</u>	-	-	
	<u>28,646</u>	<u>9,040</u>	-	-	
<b>Other direct costs</b>					
OPG-A	8,024	9,371	\$158	-	
Sheladia	<u>1,607</u>	<u>265</u>	-	-	
	<u>9,631</u>	<u>9,636</u>	<u>158</u>	-	Note A1, Page 16
<b>Participant and program costs</b>					
Sheladia	<u>378,738</u>	<u>50,358</u>	-	-	
<b>Total expenditures</b>	<u>\$417,015</u>	<u>\$69,034</u>	<u>\$158</u>	-	

See accompanying notes to consolidated fund accountability statements.

**AMERICA - MIDEAST EDUCATIONAL & TRAINING SERVICES, INC.**

**CONSOLIDATED FUND ACCOUNTABILITY STATEMENT**

**FOR THE PERIOD FROM OCTOBER 1, 1989 THROUGH SEPTEMBER 30, 1990**

	Budget (wote 2)	Actual (Note 2)	<u>Questioned Costs</u> Ineligible (Note 4)	<u>Unsupported</u> (Note 4)	Audit Findings Reference
<b>Salaries</b>					
OPG-B	\$ 74,638	\$ 10,724	-	-	
LET	10,528	866	-	-	
Harza	Actual Costs	200	-	-	
MKE	4,770	187	-	-	
Sheladia	<u>2,448</u>	<u>2,656</u>	-	-	
	<u>92,384</u>	<u>14,633</u>	-	-	
<b>Other direct costs</b>					
OPG-B	89,600	13,149	\$112	-	Note A2, Page 16
LET	3,690	1,193	-	-	
Harza	Actual Costs	71	-	-	
MKE	1,500	261	-	-	
Sheladia	<u>2,143</u>	<u>1,852</u>	<u>109</u>	-	Note A3, Page 16
	<u>96,933</u>	<u>16,526</u>	<u>221</u>	-	
<b>Participant and program costs</b>					
LET	20,400	12,671	-	-	
MKE	0	68	-	-	
Sheladia	<u>504,984</u>	<u>164,566</u>	-	-	
	<u>525,384</u>	<u>177,305</u>	-	-	
<b>Furniture and equipment</b>					
OPG-B	8,989	7,500	-	-	
<b>Consultants</b>					
OPG-B	<u>21,887</u>	<u>374</u>	-	-	
<b>Total expenditures</b>	<u>\$745,577</u>	<u>\$216,338</u>	<u>\$221</u>	-	

See accompanying notes to consolidated fund accountability statements.

**AMERICA - MIDEAST EDUCATIONAL & TRAINING SERVICES, INC.**  
**NOTES TO CONSOLIDATED FUND ACCOUNTABILITY STATEMENTS**

**NOTE 1 - BASIS OF CONSOLIDATION:**

The consolidated fund accountability statements of AMIDEAST/Egypt include all locally incurred direct cost expenditures for the flexibly-priced grants and agreements with USAID and flexibly-priced subcontracts with USAID financed contractors. All indirect costs are calculated and determined by AMIDEAST headquarters in Washington D.C. based upon USAID-approved Negotiated Indirect Cost Rate Agreements. As such, no portion of these costs are included in the accompanying consolidated fund accountability statements.

**NOTE 2 - SOURCE OF DATA:**

The column, labeled "Actual," is the responsibility of AMIDEAST/Egypt - and represents the cumulative charges billed and reimbursed from USAID for the periods from October 1, 1988 through September 30, 1989 and from October 1, 1989 through September 30, 1990.

Budgeted amounts are determined in each agreement. In those cases where the contractual budgeted amounts relate to time periods differently than those in the consolidated fund accountability statements, budget amounts were imputed assuming equal expenditures over the life of the agreement.

**NOTE 3 - BASIS OF PRESENTATION:**

The consolidated fund accountability statements have been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred.

NOTE 4 - QUESTIONED COSTS:

Questioned costs are presented in two separate categories - ineligible and unsupported costs - and consist of audit findings proposed on the basis of the terms of the agreements, grants and subcontracts and the cost principles set forth in USAID Handbook 11, Chapter 4 and Handbook 13 as well as OMB Circular No. A-122, which prescribe the nature and treatment of reimbursable costs not specifically defined in the agreements, grants or subcontracts. Costs in the column labeled "Ineligible" are supported by vouchers or other documentation but are ineligible for reimbursement because they are not program related, are unreasonable, or prohibited by the agreements or applicable laws and regulations. Costs in the column labeled "Unsupported" are also formally included in the classification of "questioned costs" and relate to costs that are not supported with adequate documentation or did not have the required prior approvals or authorizations. All questioned costs are detailed in the "Consolidated Fund Accountability Statements - Audit Findings" section of this report.

**AMERICA - MIDEAST EDUCATIONAL & TRAINING SERVICES, INC.**

**CONSOLIDATED FUND ACCOUNTABILITY STATEMENTS**

**AUDIT FINDINGS**

Our audit procedures identified the following invoiced direct costs that are ineligible or not supported:

**Questioned Costs**  
**Ineligible    Unsupported**

**A.    OTHER DIRECT COSTS:**

1.    The OPG-A project was charged with direct costs for obtaining work permits and clearing personal items through customs for the country director. These items should be charged as overhead.	\$ 158	-
2.    The OPG-B project was charged for the costs of an accountant learning new accounting software. These charges are considered overhead.	112	-
3.    The Sheladia account was charged for a full month's copy charges that should have been split between two projects. The portion attributable to the other project is considered ineligible.	42	-

Questioned Costs  
Ineligible Unsupported

The Sheladia account was charged for two fans that were donated to the Tanta School of Medicine. According to OMB Circular No. A-122, "Contributions and donations by the organizations to others are unallowable."

	\$	<u>67</u>	<u>-</u>
		<u>109</u>	<u>-</u>
Grand total of U.S. dollar questioned costs	\$	<u>379</u>	<u>-</u>

*Price Waterhouse*



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

February 13, 1992

Mr. Philippe Darcy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

We have audited the consolidated fund accountability statements of America - Mideast Educational and Training Services, Inc., Egypt Office, (AMIDEAST/Egypt) for the periods from October 1, 1988 through September 30, 1989 and from October 1, 1989 through September 30, 1990 relating to local expenditures incurred in Egypt for all flexibly-priced grants and agreements with USAID and all flexibly-priced subcontracts with USAID-financed contractors and have issued our report thereon dated February 13, 1992.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated fund accountability statements are free of material misstatement.



We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

In planning and performing our audit of AMIDEAST/Egypt we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated fund accountability statements and not to provide assurance on the internal control structure.

The management of AMIDEAST/Egypt 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 the 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, projection 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, general and project accounting, and equipment and fixed assets procurement. 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 fund accountability statements. Our audit disclosed the following reportable conditions:



## REPORTABLE CONDITIONS

**The AMIDEAST/Egypt accounting system contains weaknesses related to USAID-funded expenditures.**

AMIDEAST/Egypt utilizes an accounting system containing a number of weaknesses related to its ability to track expenditures relating to the various USAID-financed agreements, grants and subcontracts. In particular, we noted the following:

- Several sources of transactions had to be accumulated to submit billings.
- No accounting or personnel manuals were maintained that would provide instruction on company policy and procedures for employees.
- Accounting records consist of cash-based lists of disbursements and revenues. There is no general ledger system that utilizes double-entry accounting for local expenditures.
- Accounts can be created and deleted by the accountants at any time.
- No reconciliations are performed of costs submitted to AMIDEAST headquarters against reports received from AMIDEAST headquarters.

As a result, auditing and accounting for AMIDEAST/Egypt activity required a labor intensive manual process to



compile and analyze expenditures and prepare the fund accountability statements.

**Recommendation 1**

**AMIDEAST/Egypt should adopt an accounting system which meets U.S. government accounting standards and requirements. Specifically the following objectives should be achieved:**

- Implementation of a local accounting system utilizing double-entry accounting for all AMIDEAST/Egypt transactions.
- Proper segregation of duties.
- Proper controls over the creation and deletion of accounts and project codes with adequate documentation of such changes.
- Performance of reconciliations of costs submitted to headquarters to costs included in job cost sheets prepared by headquarters.
- A complete and detailed accounting manual and personnel manual should be developed detailing how to record, allocate, and obtain approval for costs as well as the job descriptions and delegation of authority for all personnel.

\* \* \* \* \*



**Lack of controls over the processing of vouchers allowed data to enter the accounting system without proper authorization.**

During the course of our audit we found several vouchers that were entered into the accounting records without any approvals documented. We also noted several vouchers that were prepared, reviewed and approved by the same individual.

A proper system of approval should have different persons preparing, reviewing and approving all vouchers prior to entry into the accounting records. This may lower the risk of improper costs being charged to USAID-financed projects.

#### **Recommendation 2**

**AMIDEAST/Egypt should develop control procedures whereby all invoices and vouchers are prepared by project personnel, reviewed by the accountant and approved by the field director.**

\* \* \* \* \*

**Weak controls exist over the safeguarding of assets.**

During the course of our audit we noted that equipment, furniture and other assets are not control-tagged by AMIDEAST/Egypt. In addition, a complete listing of assets is not maintained. The current room-by-room inventory is considered inadequate given the moveable nature of these items.



### Recommendation 3

**AMIDEAST/Egypt should tag each asset with an identification number that corresponds to a current detailed asset inventory listing.**

\* \* \* \* \*

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 fund accountability 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 that the reportable conditions described above are not material weaknesses.

We also noted other matters involving the internal control structure and its operation that we reported to the management of AMIDEAST/Egypt in a separate communication dated February 13, 1992.



This report is intended for the information of AMIDEAST/Egypt's 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.

*rice waterhouse*

*Price Waterhouse*



**REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS**  
**REPORT OF INDEPENDENT ACCOUNTANTS**

February 13, 1992

Mr. Philippe Darcy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

We have audited the consolidated fund accountability statements of America - Mideast Educational & Training Services, Inc., Egypt Office, (AMIDEAST/Egypt) for the period from October 1, 1988 through September 30, 1989 and from October 1, 1989 through September 30, 1990 relating to local expenditures incurred in Egypt for all flexibly-priced grants and agreements with USAID and all flexibly-priced subcontracts with USAID-financed contractors and have issued our report thereon dated February 13, 1992.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated fund accountability statements are free of material misstatement.

We did not have an external quality control review by an



unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

Compliance with laws, regulations, subcontracts, grants agreements, and binding policies and procedures applicable to AMIDEAST/Egypt is the responsibility of AMIDEAST/Egypt's management. As part of our audit we performed tests of AMIDEAST/Egypt's compliance with certain provisions of laws, regulations, subcontracts, grants, agreements, 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 consolidated fund accountability statements are 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 accompanying "Report On Compliance-Audit Findings" section of this report.



The result of our tests indicate that with respect to the items tested AMIDEAST/Egypt complied, in all material respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that AMIDEAST/Egypt had not complied, in all material respects, with those provisions.

This report is intended for the information of AMIDEAST/Egypt's 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 confidential*

**AMERICA - MIDEAST EDUCATIONAL & TRAINING SERVICES, INC.**

**REPORT ON COMPLIANCE**

**AUDIT FINDINGS**

The following instance of noncompliance with laws and regulations and the agreements, grants and subcontracts came to our attention during the audit:

Procurement transactions were not conducted in a manner to provide open and free competition in order to achieve the most advantageous prices and terms.

During the course of our audit we noted the purchase of a computer under the OPG-B grant that did not comply with Standard Provision 6.0 of the Specific Support Grant Number 263-0102-G-00-0054-00. This provision requires that "all procurement transactions shall be conducted in a manner to provide...open and free competition."

AMIDEAST/Egypt did not obtain any competitive bids for this purchase.

**Recommendation 1**

We recommend that AMIDEAST/Egypt comply with the Procurement of Goods and Services provision of the contracts and agreements where applicable.

\* \* \* \* \*

**AMERICA - MIDEAST EDUCATIONAL & TRAINING SERVICES, INC.**

**ADDITIONAL INFORMATION  
OPG-A  
FUND ACCOUNTABILITY STATEMENT**

**FOR THE 12 MONTHS ENDED SEPTEMBER 30, 1989**

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Reimbursable Costs</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
Salaries	\$26,876	\$ 7,992	-	-	\$ 7,992
Other direct costs	<u>8,024</u>	<u>9,371</u>	<u>\$158</u>	<u>-</u>	<u>9,213</u>
Total expenditures	<u>\$34,900</u>	<u>\$17,363</u>	<u>\$158</u>	<u>-</u>	<u>\$17,205</u>

**AMERICA - MIDEAST EDUCATIONAL & TRAINING SERVICES, INC.**

**ADDITIONAL INFORMATION  
SHELADIA  
FUND ACCOUNTABILITY STATEMENT**

**FOR THE PERIOD FROM DECEMBER 1, 1988 THROUGH SEPTEMBER 30, 1989**

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Reimbursable</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Costs</u>
Salaries	\$ 1,770	\$ 1,048	-	-	\$ 1,048
Other direct costs	1,607	265	-	-	265
Participant and program costs	<u>378,738</u>	<u>50,358</u>	<u>-</u>	<u>-</u>	<u>50,358</u>
Total expenditures	<u>\$382,115</u>	<u>\$51,671</u>	<u>-</u>	<u>-</u>	<u>\$51,671</u>

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**AMERICA - MIDEAST EDUCATIONAL & TRAINING SERVICES, INC.**

**ADDITIONAL INFORMATION**

**OPG-B**

**FUND ACCOUNTABILITY STATEMENT**

**FOR THE PERIOD FROM FEBRUARY 1, 1990 THROUGH SEPTEMBER 30, 1990**

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Reimbursabl Costs</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
Salaries	\$ 74,638	\$10,724	-	-	\$10,724
Other direct costs	89,600	13,149	\$112	-	13,037
Furniture and equipment	8,989	7,500	-	-	7,500
Consultants	<u>21,887</u>	<u>374</u>	<u>-</u>	<u>-</u>	<u>374</u>
Total expenditures	<u>\$195,114</u>	<u>\$31,747</u>	<u>\$112</u>	<u>-</u>	<u>\$31,635</u>

**AMERICA - MIDEAST EDUCATIONAL & TRAINING SERVICES, INC.**

**ADDITIONAL INFORMATION  
LEGAL EDUCATION TRAINING  
FUND ACCOUNTABILITY STATEMENT**

**FOR THE 12 MONTHS ENDED SEPTEMBER 30, 1990**

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Reimbursable Costs</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
Salaries	\$10,528	\$ 866	-	-	\$ 866
Other direct costs	3,690	1,193	-	-	1,193
Participant and program costs	<u>20,400</u>	<u>12,671</u>	<u>-</u>	<u>-</u>	<u>12,671</u>
Total expenditures	<u>\$34,618</u>	<u>\$14,730</u>	<u>-</u>	<u>-</u>	<u>\$14,730</u>

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**AMERICA - MIDEAST EDUCATIONAL & TRAINING SERVICES, INC.**

**ADDITIONAL INFORMATION  
HARZA ENGINEERING  
FUND ACCOUNTABILITY STATEMENT**

FOR THE PERIOD FROM JULY 20, 1990 THROUGH SEPTEMBER 30, 1990

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Reimbursable</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Costs</u>
Salaries		Actual costs \$ 200	-	-	\$ 200
Other direct costs		<u>Actual costs</u> 71	<u>-</u>	<u>-</u>	<u>71</u>
Total expenditures		<u>Actual costs</u> \$ 271	<u>-</u>	<u>-</u>	<u>\$271</u>

**AMERICA - MIDEAST EDUCATIONAL & TRAINING SERVICES, INC.**

**ADDITIONAL INFORMATION  
MORRISON-KNUDSEN ENGINEERING  
FUND ACCOUNTABILITY STATEMENT**

**FOR THE PERIOD FROM MARCH 31, 1990 THROUGH SEPTEMBER 30, 1990**

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Reimbursable</u>
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Costs</u>
Salaries	\$ 4,770	\$ 187	-	-	\$ 187
Other direct costs	1,500	261	-	-	261
Participant and program costs	<u>-</u>	<u>68</u>	<u>-</u>	<u>-</u>	<u>68</u>
Total expenditures	\$ <u>6,270</u>	\$ <u>516</u>	<u>-</u>	<u>-</u>	\$ <u>516</u>

**AMERICA - MIDEAST EDUCATIONAL & TRAINING SERVICES, INC.**

**ADDITIONAL INFORMATION  
SHELADIA  
FUND ACCOUNTABILITY STATEMENT**

**FOR THE 12 MONTHS ENDED SEPTEMBER 30, 1990**

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Reimbursable Costs</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
Salaries	\$ 2,448	\$ 2,656	-	-	\$ 2,656
Other direct costs	2,143	1,852	\$109	-	1,743
Participant and program costs	<u>504,984</u>	<u>164,566</u>	<u>-</u>	<u>-</u>	<u>164,566</u>
Total expenditures	<u>\$509,575</u>	<u>\$169,074</u>	<u>\$109</u>	<u>-</u>	<u>\$168,965</u>

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**AMERICA - MIDEAST EDUCATIONAL & TRAINING SERVICES, INC.**  
**ADDITIONAL INFORMATION**  
**QUESTIONED COSTS DETAIL OF AMOUNTS INCURRED**  
**IN EGYPTIAN POUNDS**

**SEPTEMBER 30, 1989 AND 1990**

September 30, 1989

<u>Project and item description</u>	<u>Amount</u> <u>in LE</u>	<u>Converted</u> <u>to US \$</u>
<u>OPG-A</u>		
Obtaining work permits and custom clearing charges for field director. Detailed in transactions: 1332 and 448 on October 30, 1988.	LE 388	\$ 158

September 30, 1990

OPG-B

Cost of computer training course for AMIDEAST accountant. Detailed in transaction no. 9007016 on July 21, 1990	300	112
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Sheladia

Overcharging for photo copy expense. Detailed in transaction no. 9008170 on August 30, 1990	113	42
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Cost of two fans donated to the Tanta School of Medicine. Detailed in transaction no. 8912017 on December 13, 1989	<u>180</u>	<u>67</u>
	<u>293</u>	<u>109</u>
Grand total of questioned costs	LE <u>981</u>	\$ <u>379</u>

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**AMERICA - MIDEAST EDUCATIONAL & TRAINING SERVICES, INC.  
AUDITEE'S COMMENTS**

**SEPTEMBER 30, 1989 AND 1990**



1100 17th Street N.W. • Washington, D.C. 20036-4601 • (202) 785-0020 • Telex 447161 • FAX (202) 462-0560

**MEMORANDUM FOR THE RECORD**

**Date:** March 23, 1992

**From:** William J. Benz  
Sr. Vice President  
Finance & Administration

**Subject:** Management's Comments

The following represents management's response to the items addressed in the audit report covering U.S.A.I.D. contracts, grants, and subcontracts for the period October 1, 1988 through September 30, 1990:

The audit report has three components, the fund accountability statement, internal control structure, and compliance. Each component has conclusions and recommendations. Overall, we believe that the audit was performed in a professional manner, and proper auditing standards were used during the performance of the audit. With one exception, that will be addressed shortly, we agree with the findings cited in the report, and with the recommendations made. We will proceed to implement the recommendations as soon as possible.

The one exception we do have pertains to Reportable Condition #1, which is a part of the Internal Control structure part of the report.

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**AMERICA - MIDEAST EDUCATIONAL & TRAINING SERVICES, INC.  
AUDITRE'S COMMENTS**

**SEPTEMBER 30, 1989 AND 1990**

Reportable Condition #1 -- Project Accounting System

Amideast's accounting system is centered at it's headquarters in Washington, D.C. The financial transactions of the entire organization are entered into the accounting system there, the information is processed there, and certain outputs are produced there. These include general ledger, project ledger, job cost, and labor reports. This system is an accrual based one; it does utilize double-entry accounting. Because of the volume of paper that is generated at our eight field locations, some supporting documentation is stored abroad, thus avoiding the tremendous expense of mailing these records to headquarters. Examples of accounting evidence that remains at our field offices include timesheets, invoices supporting disbursements, and logs supporting allocation of certain costs. Fiscal reports submitted to contract/grant authorities are based on data found in our job cost report. This is a report that identifies all direct costs to specific cost objectives, i.e. job numbers. In order to assure the integrity of the job cost report, these costs, when added to the indirect costs incurred by the organization, tie into the overall general ledger. This system has been audited each of the past five years by the accounting firm of Deloitte & Touche, in the course of an OMB A-133 and before that, OMB A-110 audits. Prior to 1987, the Defense Contract Audit Agency had been engaged to periodically expense our cost accounting system and billings to award granting agencies. In each and every one of these audits, the cost accounting capabilities of Amideast were deemed acceptable.

Recently, a Price Waterhouse audit team was engaged by U.S.A.I.D. to audit grant expenditures incurred by Amideast relating to a project on the West Bank/Gaza. Total expenditures examined were \$\_\_\_\_\_. As a part of that audit, our Jerusalem field office was audited. The scope of the audit was the same as this. The conclusion drawn, however, was different. The report did not contain any statements about deficiencies in our project cost accounting system. Yet, all eight field offices operate the same. Why the difference in audit reports. It could be that the Amideast staff in Cairo did not present our accounting and methodology properly. Perhaps, prior to beginning the audit, representatives of Price Waterhouse could have visited with headquarter officials. Perhaps the Price Waterhouse team could have been in touch with the team that had just finished a comprehensive examination that had taken place over a six-month period.

We do believe that our cost accounting system complies with U.S.A.I.D. requirements. We can support our fiscal reports that are submitted to funding agencies.

We welcome the opportunity to discuss this matter with Price Waterhouse officials.

AGENCY FOR INTERNATIONAL DEVELOPMENT  
OFFICE OF CONTRACT SERVICES/EGYPT  
MEMORANDUM

RECEIVED  
2 MAR 1992

To: Phillippe Darcy, RIG/A/C  
From: Frederick A. Will, OD/DIR/CS  
Date: March 1, 1992  
Subject: AMIDEAST

We reviewed the draft audit report dated 19 Feb 91 and have no comments to make at this time other than to note an addition error on page 17 of the Audit Report.

cc: D. Franklin, AD/FM

40'

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