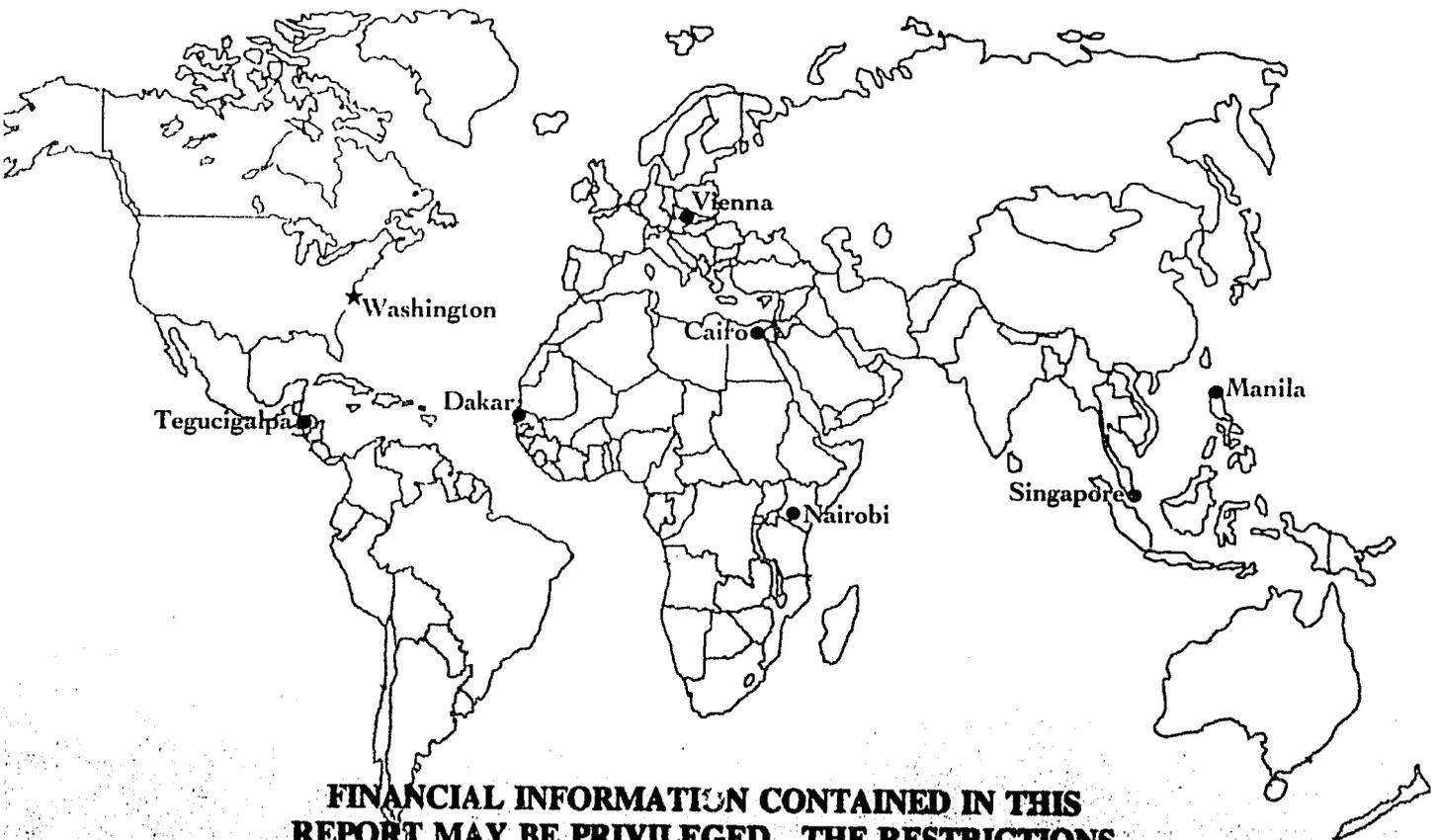


Regional Inspector General for Audit
Cairo, Egypt

Audit of The United Engineering and
Marketing Incurred Expenditures under
Direct Contract No. 263-CSO-C-00-0008-00

Report No. 6-263-95-017-N
March 16, 1995



**FINANCIAL INFORMATION CONTAINED IN THIS
REPORT MAY BE PRIVILEGED. THE RESTRICTIONS
OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE
ANY INFORMATION IS RELEASED TO THE PUBLIC.**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



PD-ABK-747

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

March 16, 1995

MEMORANDUM FOR D/USAID/Egypt, John R. Westley

FROM : A/RIG/A/Cairo, Bruce Boyer *Bruce Boyer*

SUBJECT : United Engineering and Marketing Audit of
USAID/Egypt Resources Managed Under Direct Contract
No. 263-CSO-C-00-0008-00.

The attached report transmitted on October 30, 1994, by Price Waterhouse presents the results of a financial audit of United Engineering and Marketing (UEM) Expenditures Incurred Pursuant to Direct Contract No. 263-CSO-C-00-0008-00. In 1989, USAID/Egypt selected UEM, a maintenance contractor to replace the Joint Administrative Organization (JAO) of the U.S. Embassy in Cairo in maintaining USAID/Egypt office and residential space.

We engaged Price Waterhouse to perform a financial audit of UEM's incurred expenditures of \$301,928 (equivalent to LE948,054) for the fiscal year ended October 31, 1991 and \$692,039 (equivalent to LE2,304,487) for the fiscal years ended October 31, 1992 and 1993. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Price Waterhouse also evaluated UEM's internal controls and compliance with applicable laws, regulations and grant terms as necessary in forming an opinion regarding the Fund Accountability Statements.

Price Waterhouse disclaimed an opinion on the fund accountability statement for the fiscal year ended October 31, 1991 because UEM's accounting records did not provide sufficient evidence to support the fund accountability statement, to allow the production of schedules supporting the indirect cost and fringe benefit rates computations, or to permit the application of adequate auditing procedures. Due to the implementation of prior audit recommendations, the auditors issued a qualified opinion for the fiscal years ended October 31, 1992 and 1993.

U.S. Mailing Address
USAID-RIG/A/C Unit 64902
APO AE 09839-4902

Tel. Country Code (202)
357-3909
Fax # (202) 355-4318

#106, Kasr El Aini St.
Cairo Center Building
Garden City, Egypt

Price Waterhouse questioned \$263,127 in unsupported costs for the fiscal year ended October 31, 1991, as well as, \$10,892 in incurred costs billed to USAID by UEM (including \$203 in unsupported costs) for the fiscal years ended October 31, 1992 and 1993. The questioned costs included management salaries, worker' wages, overtime, fringe benefits, intermittent wages, direct costs, subcontracts, overheads, parts and supplies, and the related fixed fees. These costs were included within the overhead pool and as such, have the effect of increasing the overhead rate applied to direct labor. Price Waterhouse noted four material weaknesses in UEM's internal controls relating to lack of adequate training of employees, inadequate support of expenditures, misclassification of direct and indirect costs, and inadequate controls over access to UEM's computerized system and stored data. Additionally, they noted one instance of material non-compliance related to UEM's failure to maintain proper books and records.

In response to the draft report, UEM provided documentation and/or gave more explanation to the questioned costs, and disagreed with most of the internal control and compliance findings. Price Waterhouse reviewed UEM's response to the findings. Where applicable, they made adjustments to the report or provided further clarification of their position.

The following recommendations are included in the Office of the Inspector General's recommendation follow-up system.

Recommendation No. 1.1: We recommend that USAID/Egypt resolve questioned costs of \$263,127 in questioned unsupported costs for the fiscal year ended October 31, 1991 as detailed on pages 5 and 6, as well as, \$10,892 (including \$203 unsupported costs) for the fiscal years ended October 31, 1992 and 1993 as detailed on pages 11 through 13 of the audit reports.

Recommendation No. 1.2: We recommend that USAID/Egypt determine UEM's final overhead and fringe benefits rates for the audited years.

This recommendation is considered unresolved and can be resolved when RIG/A/C receives the Mission's final determination as to the amounts sustained or not sustained. The recommendation can be closed when any amounts determined to be owed to USAID/Egypt are paid by UEM.

Recommendation No. 2: We recommend that USAID/Egypt require UEM to address the material internal control weaknesses as detailed on pages 17 through 19 of the audit report.

This recommendation is considered unresolved and can be resolved when the Mission provides our office with a copy of its request that UEM address its material internal control weaknesses. The recommendation can be closed when RIG/A/C has assessed UEM's response and USAID/Egypt's follow-up for adequacy. With regard to the non-material internal control weaknesses, they can be handled directly between the Mission and the grantee.

Recommendation No. 3: We recommend that USAID/Egypt require UEM to address the material non-compliance issue as detailed on page 24 of the audit report.

This recommendation is considered unresolved and may be resolved when the Mission provides our office with copies of its request that UEM address its material noncompliance issue. The recommendation can be closed when RIG/A/C has assessed UEM's response and USAID/Egypt's follow-up for adequacy.

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.

**UNITED ENGINEERING AND MARKETING
AUDIT OF USAID/EGYPT RESOURCES MANAGED
UNDER DIRECT CONTRACT NO. 263-CSO-C-00-0008-00**

**FUND ACCOUNTABILITY STATEMENT
SCHEDULES OF COMPUTATION OF INDIRECT
COST RATE AND FRINGE BENEFIT RATE
AND ADDITIONAL INFORMATION**

**FOR THE PERIOD FROM NOVEMBER 1, 1991
THROUGH OCTOBER 31, 1993
AND
FOR THE PERIOD FROM NOVEMBER 1, 1990
THROUGH OCTOBER 31, 1991**

**UNITED ENGINEERING AND MARKETING
AUDIT OF USAID/EGYPT RESOURCES MANAGED
UNDER DIRECT CONTRACT NO. 263-CSO-C-00-0008-00**

**FUND ACCOUNTABILITY STATEMENT
SCHEDULES OF COMPUTATION OF INDIRECT
COST RATE AND FRINGE BENEFIT RATE
AND ADDITIONAL INFORMATION**

**FOR THE PERIOD FROM NOVEMBER 1, 1991
THROUGH OCTOBER 31, 1993**

5

**UNITED ENGINEERING AND MARKETING
AUDIT OF USAID/EGYPT RESOURCES MANAGED
UNDER DIRECT CONTRACT NO. 263-CSO-C-00-0008-00**

**FUND ACCOUNTABILITY STATEMENT
SCHEDULES OF COMPUTATION OF INDIRECT
COST RATE AND FRINGE BENEFIT RATE
AND ADDITIONAL INFORMATION**

**FOR THE PERIOD FROM NOVEMBER 1, 1991
THROUGH OCTOBER 31, 1993**

TABLE OF CONTENTS

<u>INTRODUCTION</u>	<u>PAGE</u>
Background	1
Audit objectives and scope	2
Results of audit	3
Management comments	5
<u>FINANCIAL STATEMENTS</u>	
Report of independent accountants	6
Fund accountability statement, schedules of computations of indirect costs and fringe benefit rates and notes to the fund accountability statement	8
<u>INTERNAL CONTROL STRUCTURE</u>	
Report of independent accountants	16
<u>COMPLIANCE WITH LAWS AND REGULATIONS</u>	
Report of independent accountants	23
<u>APPENDICES</u>	
Appendix A: Fund accountability statement and schedules of computations of indirect cost and fringe benefit rates detail of amounts as incurred in Egyptian pounds	
Appendix B: Questioned costs detail of amounts as incurred in Egyptian pounds	
Appendix C: Management comments on the financial-related audit	
Appendix D: Independent accountants' response	
Appendix E: Mission Response	

4 Road 26*
Nasr Maad
Cairo Egypt

TELEPHONE 3520 121 3530 833
FAX (02) 3530 914
TELEX 2012 PW UN
23432 PW UN
TELEGRAPH PRICEWATER
CAIRO C R 226786

Price Waterhouse



October 30, 1994

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 related audit of United States Agency for International Development/Egypt ("USAID/Egypt") resources managed by United Engineering and Marketing ("UEM") under USAID/Egypt direct contract No. 263-CSO-C-00-0008-00 for the fiscal years ended October 31, 1992 and 1993.

Background

In 1989, USAID/Egypt selected UEM, a maintenance contractor, under USAID/Egypt direct cost-plus-fixed-fee contract No. 263-CSO-C-00-0008-00 for the period from November 1, 1989 to October 31, 1990. UEM was selected to replace the Joint Administrative Organization (JAO) of the U.S. Embassy in Cairo. JAO had previously maintained USAID/Egypt office and residential space. The contract was extended four times with a completion date of October 31, 1994. The total estimated cost-plus-fixed-fee of this contract is estimated at LE 5,254,561.

In 1991 and 1994, we were engaged to perform an audit of UEM for the fiscal year ended October 31, 1990, and for the three fiscal years ended October 31, 1993, respectively. During this period we performed a financial related audit of USAID/Egypt resources managed by UEM under direct contract No. 263-CSO-C-00-0008-00 for the periods from November 1, 1989 to October 31, 1990 and November 1, 1990 to October 31, 1991 and issued our disclaimer reports thereon dated March 7, 1991 and September 27, 1994, respectively. In each report we disclaimed an opinion on the fund accountability statement because UEM did not maintain adequate accounting records including the retention of source documents to provide sufficient evidence supporting the fund accountability statement nor were we able to apply other auditing procedures to satisfy ourselves that the fund accountability statement was fairly stated. Furthermore, the scope of our work was not sufficient to express an opinion. As a result of our audits, UEM engaged their auditors to design and



install an accounting system sufficient to control and account for resources managed under the USAID/Egypt direct contract. This system was installed in the Spring of 1992, and included transactions from November 1, 1991 onwards. Furthermore, as discussed in more detail in the next section of this report, we performed a financial related audit for the two fiscal years ended October 31, 1993 and issued our qualified report thereon dated September 27, 1994.

Audit Objectives and Scope

The principle objective of our engagement for the fiscal years ended October 31, 1992 and 1993 was to perform a financial audit of USAID/Egypt resources managed by UEM under direct contract No. 263-CSO-C-00-0008-00 for maintenance services provided to USAID/Egypt offices and residences. Preliminary planning and review procedures began in May, 1994 and consisted of discussions with RIG/A/C personnel and UEM officials and a review of the contract and prior audit report. Fieldwork commenced in July and was completed in September, 1994. During our fieldwork it was agreed with RIG/A/C that we would disclaim an opinion on the fiscal year ended October 31, 1991 because the new accounting system installed was not effective until November 1, 1991. This year has been dealt with separately, and our disclaimer report dated September 27, 1994 is included in the back section of this bound report.

Specific objectives were to:

1. Express an opinion on whether the fund accountability statement for UEM presents fairly, in all material respects, project revenues received and costs incurred and reimbursed for the period under audit in conformity with generally accepted accounting principles or any other comprehensive basis of accounting, including the cash basis or a modification of the cash basis;
2. Determine whether the costs reported as incurred under this contract are in fact allowable, allocable, and in accordance with the terms of the contract;
3. Evaluate and obtain a sufficient understanding of the internal control structure of UEM; assess control risk; and identify reportable conditions, including material weaknesses;
4. Determine whether UEM is in compliance, in all material respects, with contract terms and applicable laws and regulations;
5. Perform an audit of the indirect cost rate; and
6. Determine whether UEM has taken adequate corrective action on prior audit report recommendations.



The scope of the financial-related audit included; all expenditures billed as direct costs under the direct contract; expenditures included in the calculation of the indirect cost and fringe benefit rates; and other costs of a direct nature not allocable to the direct contract.

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

1. Reconciling UEM's accounting records to invoices submitted to USAID/Egypt and testing of expenditures for allowability, allocability, and appropriate support;
2. Determining the propriety of indirect cost and fringe benefit rates, and the items included therein; and
3. Establishing the adequacy of UEM's internal controls over USAID/Egypt funded expenditures.

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 financial statements are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 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 and firms.

As part of our examination, we obtained an understanding of and assessed the internal control structure and reviewed UEM's compliance with applicable laws and regulations.

Results of Audit

Fund accountability statement and schedule of computations of indirect cost and fringe benefit rates:

Fiscal year ended October 31, 1991:

The scope of our engagement for the fiscal year ended October 31, 1991, was not sufficient to enable us to express an opinion on the accompanying fund accountability statement or assess its related



indirect cost and fringe benefit rates because UEM's accounting records did not provide sufficient evidence to support the fund accountability statement, to allow the production of schedules supporting the indirect cost and fringe benefit rates computations, or to permit the application of adequate auditing procedures. As a result of the aforementioned matters, we were unable to, and did not express an opinion on the October 31, 1991 fund accountability statement. Our procedures identified \$ 263,127 converted at applicable exchange rates, in questionable costs, all of which were unsupported.

Fiscal years ended October 31, 1992 and 1993:

Our audit identified \$ 10,892 of questionable costs for the two fiscal years ended October 31, 1993, including \$ 10,689 of ineligible costs and \$ 203 of unsupported costs. We also identified \$ 1,515 relating to an adjustment of the indirect cost rate and \$ 21,515 relating to an adjustment of the fringe benefit rate.

We determined UEM's indirect cost and fringe benefit rates for the fiscal years ended October 31, 1992 and 1993 to be 26.37% and 12.39%, respectively.

Internal control structure

We noted four material weaknesses related to: (1) UEM's control environment lacks control effectiveness due to employees not being adequately trained; (2) inadequate support of expenditures; (3) misclassification of direct and indirect costs in the contract, its amendments and UEM's billings to USAID/Egypt; and (4) inadequate controls over access to UEM's computerized system and stored data. We also noted seven reportable conditions related to: (1) inadequate controls over fixed assets; (2) preparation and approval of timesheets; (3) recording of parts and supplies used on work orders; (4) inadequate controls over petty cash; (5) two general ledger systems being used; (6) use of prenumbered vouchers; and (7) lack of an organization chart or a policies and procedures manual.

Compliance with contract terms and applicable laws and regulations

We noted one material instance of non-compliance with applicable laws and regulations related to UEM's failure to maintain proper books and records.

Prior Audit Report Recommendations:

Our engagement procedures, for the fiscal year ended October 31, 1991, revealed that UEM had not implemented the recommendations of our audit for the fiscal year ended October 31, 1990. The fiscal year October 31, 1990 recommendations principally related to UEM's lack of procedures to account



for and control funds under the direct contract, and to maintain adequate books and records. For both fiscal years ended October 31, 1990 and 1991, we issued a disclaimer of opinion thereon dated March 7, 1991 and September 27, 1994, respectively. However, as previously stated, during the Spring of 1992, UEM engaged their auditors to design and install a new accounting system that included transactions from November 1, 1991 onwards.

Management Comments

UEM management comments have been obtained and are included in Appendix C of this report.

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

Pricewaterhouse

1 Road 26*
New Maad.
Cairo, Egypt

TELEPHONE 3520 123 3530 837
FAX (02) 3530 915
TELEX 26121 PW UN
23432 PW UN
TELEGRAPH PRICEWATER
CAIRO C R 226786

Price Waterhouse



REPORT OF INDEPENDENT ACCOUNTANTS

September 27, 1994

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

We have audited the accompanying fund accountability statement and schedule of computations of indirect cost and fringe benefit rates of United Engineering and Marketing ("UEM") relating to expenditures under direct contract No. 263-CSO-C-00-0008-00 with the United States Agency for International Development/Egypt ("USAID/Egypt") for the period from November 1, 1991 through October 31, 1993. The fund accountability statement and schedule of computations of indirect cost and fringe benefit rates are the responsibility of UEM's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 fund accountability statement and the schedule of computations of indirect cost and fringe benefit rates are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement and schedule of computations of indirect costs and fringe benefit rates. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the fund accountability statement and schedule of computations of indirect cost and fringe benefit rates. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 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 and firms.



As described in Note 3, the accompanying fund accountability statement and schedule of computations of indirect cost and fringe benefit rates 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 fund accountability statement and schedule of computations of indirect cost and fringe benefit rates are not intended to present results in accordance with accounting principles generally accepted in the United States of America.

As more fully described in Notes 6 and 7 to the fund accountability statement, the results of our tests disclosed the following questioned costs as detailed in the fund accountability statement: \$ 10,689 of ineligible costs; \$ 203 in costs that are not supported by adequate documentation or did not have the required prior approvals or authorizations; \$ 21,515 resulting from our adjustment to the fringe benefit rate; and \$ 1,515 resulting from our adjustment to the overhead rate.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in all material respects, costs incurred under direct contract No. 263-CSO-C-00-0008-00 for the period from November 1, 1991 through October 31, 1993 in conformity with the terms of the contract and its amendments and with the basis of accounting as described in Note 3.

Our audit was made for the purpose of forming an opinion on the fund accountability statement described in the first paragraph. The supplemental information included in Appendix A is presented for purposes of additional analysis and is not required as part of the fund accountability statement of UEM. Such information has been subjected to the auditing procedures applied in the audit of the fund accountability statement and, in our opinion, is fairly stated in all material respects in relation to the fund accountability statement taken as a whole.

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

Paul Witherhouse

UNITED ENGINEERING AND MARKETING
FUND ACCOUNTABILITY STATEMENT
CASH DISBURSEMENT BASIS
DIRECT CONTRACT NO. 263-CSO-C-00-0008-00
FOR THE PERIOD FROM NOVEMBER 1, 1991 THROUGH OCTOBER 31, 1993

	Budget (Note 1)	Actual (Note 2)	Questionable Costs		Overhead/Fringe Benefit Rate Adjustment (Notes 6 and 7)	Audit Finding Reference
			Ineligible (Note 6)	Unsupported (Note 6)		
Management Salaries	\$ 126,146	\$ 123,513	808	\$ -	\$ -	Item A, Page 11
Workers' Wages	106,487	88,963	2,012	-	-	Item B, Page 11
Overtime	<u>45,646</u>	<u>43,693</u>	6,869	-	-	Item C, Page 11
	278,279	256,169				
Fringe Benefits	56,546	52,054	-	-	21,515	
Bonus Pool	46,300	46,582	-	-	-	
Intermittent Wages	51,952	33,827	1,000	-	-	Item D, Page 12
Direct Costs	33,565	29,092	-	203	-	Item E, Page 12
Subcontracts	<u>25,826</u>	<u>17,355</u>	-	-	-	Item F, Page 12
	492,468	435,079				
Overhead	119,477	107,694	-	-	1,515	
Parts and Supplies	106,518	92,298	-	-	-	
Fixed Fee	<u>57,847</u>	<u>56,968</u>	-	-	-	
Totals	\$ <u>776,310</u>	\$ <u>692,039</u>	\$ <u>10,689</u>	\$ <u>203</u>	\$ <u>23,030</u>	

The accompanying notes are an integral part of this fund accountability statement.

SCHEDULE OF COMPUTATION OF INDIRECT COST & FRINGE BENEFIT RATES
DIRECT CONTRACT NO. 263-CS0-C-00-0008-00
FOR THE PERIOD FROM NOV. 1, 1991 THROUGH OCT. 31, 1993

LINE ITEMS	TOTAL EXPENDITURES	RECLASSIFICATION	TOTAL EXPENDITURES AFTER RECLASS.	QUESTIONABLE COSTS		CLIENTS		CORRECT POOL
				INELIGIBLE	UNSUPPORTED	ESSO	OTHERS	
OVERHEAD COSTS:								
Office Cleaning	\$1,037	\$	\$1,037	\$	\$	\$	\$	\$1,037
Office Supplies	2,668		2,668					2,668
Stationery	5,633		5,633					5,633
Fuel & Maintenance *	7,434	(1,815)	5,619					5,616
Communication	5,900	(297)	5,603			102		5,501
Transportation	1,945		1,945	72		36		1,837
Cars Compensation	6,859	(6,859)	0					0
Maintenance Office	6,201		6,201					6,201
Renovation Office	2,355		2,355					2,355
Electricity & Gas	1,967		1,967					1,967
Tools & Running Parts	6,804		6,804			155		6,649
Assets Depreciation	23,779		23,779					23,779
Legal Consultancy *	405		405					405
Auditors Fees *	3,003		3,003			1,899		1,104
Commercial Licenses *	240		240					240
Cleaning & Waste *	827		827					827
General Expenses	4,453		4,453	2,623		248		1,581
Reserve Under Taxes *	6,739		6,739					6,739
Office Rent (11)	19,860		19,860					19,860
Miscellaneous Expenses	1,532		1,532	1,314				219
Travel Expenses	4,435		4,435	4,435				0
Office Rent (13)		7,135	7,135					7,135
Warehouse Rent		4,004	4,004					4,004
Total Indirect Costs	<u>114,076</u>	<u>2,168</u>	<u>116,244</u>	<u>8,444</u>	<u>2,440</u>			<u>105,358</u>
DIRECT COSTS:								
Management Salaries *	235,258		235,258					235,258
Workforce Wages								
Overtime	47,272		47,272					47,272
Total Compensation	282,530		282,530					282,530
Fringe Benefits *	34,999		34,999					34,999
Intermittent Wages	33,168		33,168					33,168
Subcontractors *	17,356		17,356			3,739		21,095
OTHER DIRECT COSTS								
Office Rent (13)	7,135	(7,135)	0					
Warehouse Rent	4,004	(4,004)	0					
Medical Examination	1,245		1,245					1,245
Uniforms	2,334		2,334					2,334
Beep System	1,768	297	2,065					2,065
Pick up License	165	801	966					966
Pick up Insurance	781	1,014	1,795			203		1,592
Software Packages	721		721					721
Property Damage Res.	30		30					30
Drop Cloth	2,901		2,901					2,901
Drop Cloth Washing	1,275		1,275					1,275
Cars Compensation	7,777	6,859	14,636					14,636
Subtotal (ODC)	30,136	(2,168)	27,968			203		27,765
Total Direct Costs	<u>\$398,189</u>	<u>\$0</u>	<u>\$396,022</u>	<u>\$0</u>	<u>\$203</u>	<u>\$3,739</u>	<u>\$0</u>	<u>\$399,557</u>
Indirect Cost Calculation:								
Total Indirect Costs		105,358 =		26.37%				
Total Direct Costs		399,557						
Fringe Benefit Rate Calculation:								
Total Fringe Benefits		34,999 =		12.39%				
Total Compensation		282,530						

* Original finding changed. See Appendix D.

15

UNITED ENGINEERING AND MARKETING

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
AND SCHEDULE OF COMPUTATIONS OF FRINGE BENEFIT
AND INDIRECT COST RATES**

NOTE 1 - BUDGET:

The column labeled "Budget" includes USAID/Egypt approved costs for UEM under direct contract No. 263-CSO-C-00-0008-00 through the audit period end. These amounts are based on the most recent budget amendment dated September 23, 1993 and are presented for informational purposes only.

NOTE 2 - SOURCE OF DATA:

The column labeled "Actual" is the responsibility of UEM and represents the cumulative expenditures billed to and reimbursed by USAID/Egypt from November 1, 1991 through October 31, 1993. The column labeled "Total Expenditures" on the schedule of computations of fringe benefit and indirect cost rates is the responsibility of UEM and represents cumulative expenditures for the period from November 1, 1991 through October 31, 1993 as obtained from UEM's accounting records.

NOTE 3 - BASIS OF PRESENTATION:

The fund accountability statement has been prepared on the basis of cash disbursements. Consequently, disbursements are recognized when paid rather than when the obligation is incurred.

NOTE 4 - EXCHANGE RATE:

Expenditures incurred in Egyptian pounds have been converted to U.S. dollars at the average monthly exchange rate for the period from November 1, 1991 through October 31, 1993 at 3.33 Egyptian pounds to 1 U.S. dollar.

NOTE 5 - RECLASSIFICATION:

Certain expenditures included in the fund accountability statement, and schedule of computations of indirect cost and fringe benefit rates, have been reclassified to reflect the proper classification of costs incurred.

NOTE 6 - QUESTIONABLE COSTS:

Questionable costs are presented in four separate categories, indirect cost and fringe benefit rate adjustments (ineligible or unsupported) and billing adjustments (ineligible or unsupported), and consist of audit findings proposed on the basis of the cost principles set forth in the contract. Costs in the columns labeled "Ineligible" are ineligible for reimbursement because they are not program-related or prohibited by the contract, its amendments or applicable laws and regulations. Costs in the columns labeled "Unsupported" relate to costs that are not supported with adequate documentation or did not have the required prior USAID/Egypt approvals or authorization.

Some questionable costs affect the calculation of fringe benefit and indirect cost rates only, some affect the billings to USAID/Egypt directly and some affect both. The effects of changes in the fringe benefit and indirect cost rates have been calculated in Note 7 - Indirect Cost and Fringe Benefit Rates.

	Questionable Costs			
	Overhead/ Fringe Benefit Rate		Billing	
	<u>Ineligible</u>	<u>Unsupported</u>	<u>Ineligible</u>	<u>Unsupported</u>
A. Management Salaries				
1. For three employees, whose names are available upon request, an amount exceeding that actually paid to them was billed to USAID/Egypt for the period November 1991 through July 1992.	\$ -	\$ -	\$ 808	\$ -
Total Management Salaries	<u>-</u>	<u>-</u>	<u>808</u>	<u>-</u>
B. Workforce Wages				
1. For a number of employees, the hourly rate used in calculating the billing to USAID/Egypt was based on a wage higher than that which was received.	-	-	2,012	-
Total Workforce Wages	<u>-</u>	<u>-</u>	<u>2,012</u>	<u>-</u>
C. Overtime				
1. For a number of employees, the hourly rate used in calculating the billing to USAID/Egypt was based on a wage higher than that which was received.	-	-	732	-

NOTE 6 - QUESTIONABLE COSTS (CONT.)

	<u>Questionable Costs</u>			
	<u>Overhead/ Fringe Benefit Rate</u>		<u>Billing</u>	
	<u>Ineligible</u>	<u>Unsupported</u>	<u>Ineligible</u>	<u>Unsupported</u>
C. Overtime (Cont.)				
2. We noted that UEM pays overtime to its employees at time and a half. Overtime is billed to USAID/Egypt at time and three quarters, an amount exceeding that actually paid.	\$ -	\$ -	\$ <u>6,137</u>	\$ -
Total Overtime	<u>-</u>	<u>-</u>	<u>6,869</u>	<u>-</u>
D. Intermittent Wages				
1. The excess of intermittent wages billed to USAID/Egypt over that recorded in UEM's general ledger has been questioned as ineligible.	-	-	<u>1,000</u>	-
Total Intermittent Wages	<u>-</u>	<u>-</u>	<u>1,000</u>	<u>-</u>
E. Other Direct Costs				
1. An amount related to car compensation was billed to USAID/Egypt without any supporting documentation (invoices, receipts, approvals, vouchers), preventing us from assessing allocability and allowability.	-	<u>203</u>	-	<u>203</u>
Total Other Direct Costs	<u>-</u>	<u>203</u>	<u>-</u>	<u>203</u>
F. Subcontracts				
1. Based on UEM management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-	-	-
Total Subcontracts	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

NOTE 6 - QUESTIONABLE COSTS (CONT.)

	<u>Questionable Costs</u>			
	<u>Overhead/ Fringe Benefit Rate</u>		<u>Billing</u>	
	<u>Ineligible</u>	<u>Unsupported</u>	<u>Ineligible</u>	<u>Unsupported</u>
G. Overhead Costs				
1. Based on UEM management's comments received subsequent to the issuance of the draft report, this finding has been removed.	\$ -	\$ -	\$ -	\$ -
2. Amounts were lacking any supporting documentation (invoices, receipts, approvals, vouchers), preventing us from assessing allocability and allowability.	-	2,440	-	-
3. We found a number of general expenses that related to entertainment. Federal Acquisition Regulation 31-205-14 states that "costs of amusement, diversion, social activities, and any directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable."	<u>8,444</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Overhead Costs	<u>8,444</u>	<u>2,440</u>	<u>-</u>	<u>-</u>
TOTAL QUESTIONABLE COSTS	\$ <u>8,444</u>	\$ <u>2,643</u>	\$ <u>10,689</u>	\$ <u>203</u>

NOTE 7 - INDIRECT COST AND FRINGE BENEFIT RATES:

As calculated in the schedule of computations of indirect cost and fringe benefit rates, we have determined that indirect costs represent 26.37% of total direct costs and that fringe benefits represent 12.39% of total compensation for the two fiscal years ended October, 31, 1993. The application of the audited rates for the period, results in excess billings to USAID/Egypt under the direct contract of \$ 21,515 for fringe benefits and \$ 1,515 for indirect costs. These calculations are as follows:

Fringe Benefit Rate Adjustment:

Compensation Costs billed (Fund Accountability Statement)	\$ 256,169
Compensation Costs questionable:	
Management Salaries (Note 6)	(808)
Workforce Wages (Note 6)	(2,012)
Overtime (Note 6)	<u>(6,869)</u>
	246,480
Actual Fringe Benefit Rate (Schedule of Computations of Indirect Cost and Fringe Benefit Rates)	12.39%
Correct Fringe Benefits to be billed	30,539
Fringe Benefits billed (Fund Accountability Statement)	<u>52,054</u>
Questionable amount	\$ <u>21,515</u>
The adjustment to the fringe benefit is explained as follows:	
Rate used by UEM to bill fringe benefits = Fringe Benefit billed/Total compensation	
From fund accountability statement	\$ <u>52,054</u>
	\$ 256,169
UEM's Fringe Benefit Rate	20.32%
Our audit determined that fringe benefits represent 12.39% of total compensation. In our audit we questioned \$ 9,689 of compensation costs.	
Questioned cost adjustment (20.32% X \$ 9,689)	\$ 1,969
Rate adjustment [(20.32% - 12.39%) X \$ 246,480]	<u>19,546</u>
Questionable amount	\$ <u>21,515</u>

NOTE 7 - INDIRECT COST AND FRINGE BENEFIT RATES (CONT.):

Indirect Cost Rate Adjustment:

Total Direct Costs billed (Fund Accountability Statement)	\$ 435,079
Direct Costs questionable:	
Unsupported questioned costs (Note 6)	(10,892)
Fringe benefit rate adjustment (above)	<u>(21,515)</u>
	402,672
Actual Indirect Cost Rate (Schedule of Computations of Indirect Cost and Fringe Benefit Rates)	26.37%
Correct Indirect Costs to be billed	106,179
Indirect Costs billed (Fund Accountability Statement)	<u>107,694</u>
Questionable Amount	\$ <u>1,515</u>
The adjustment to overhead is explained as follows:	
Rate used by UEM to bill overhead = Overhead billed/Total direct cost	
From fund accountability statement	\$ <u>107,694</u>
	\$ 435,079
UEM's Indirect Cost Rate	24.75%
Our audit determined that overheads represent 26.37% of total direct costs. In our audit we questioned \$ 32,407 of direct costs.	
Questioned cost adjustment (24.75% X \$ 32,407)	\$ 8,022
Rate adjustment [(24.75% - 26.37%) X \$ 402,672]	<u>(6,507)</u>
Questionable Amount	\$ <u>1,515</u>

21

4 Road 26*
New Maadi
Cairo Egypt

TELEPHONE 3520 123 3531 857
FAX 3520 3530 914
TELEX 20121 PW UN
23432 PW UN
TELEGRAPH PRICEWATER
CAIRO C R 226786

Price Waterhouse



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

September 27, 1994

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

We have audited the fund accountability statement and schedule of computations of indirect cost and fringe benefit rates of United Engineering and Marketing ("UEM") relating to expenditures under direct contract No. 263-CSO-C-00-0008-00 with the United States Agency for International Development/Egypt ("USAID/Egypt") for the period from November 1, 1991 through October 31, 1993 and have issued our report thereon dated September 27, 1994.

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 financial statements are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 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 and firms.

In planning and performing our audit of UEM, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements, and not to provide assurance on the internal control structure.

The management of UEM 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 cash receipts and disbursements, general accounting, and compliance with applicable contract terms and regulations. 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might constitute material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the designed 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 statement and schedules of computations of indirect cost and fringe benefit rates being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit disclosed the following conditions which we believe constitute material weaknesses:

Material Weaknesses

- 1. UEM's control environment lacks control effectiveness due to employees not being adequately trained.**

Throughout our audit work we noted that UEM staff were not adequately trained for and unfamiliar with the specialized accounting aspects of USAID/Egypt direct contracts, particularly direct and indirect cost accounting. In addition, UEM's management did not appear to place adequate emphasis on internal controls and certain duties were not properly segregated.

Statement on Accounting Standards No. 55, *Consideration of the Internal Control Structure in a Financial Statement Audit* states that for the purpose of an audit of financial statements, a major element of an entity's control structure is the control environment. The control environment is defined as "the collective effect of various factors in establishing, enhancing or mitigating the effectiveness of specific policies and procedures. Such factors include: management philosophy and operating style; organizational structure; the function of the board of directors and its committees; methods of assigning authority and responsibility; management control methods; the internal audit function; personnel policies and practices; and external influences concerning the entity."

The control environment reflects the overall attitude, awareness and actions of management and others concerning the importance of control and its emphasis in the entity, and has a pervasive effect on the entity's internal control structure (see our report on compliance with applicable laws and regulations for related point addressing this issue).

Recommendation 1

We recommend that UEM establish a comprehensive training program for all staff involved in accounting for the USAID/Egypt direct contract.



2. We found that many expenditures were not supported with adequate invoices or other documents.

Transportation expenses were not supported with receipts, tickets or other proof that the money was actually spent on travel. There was no summary describing the type of travel, reason for travel, date of travel, distance travelled and mileage rate used.

As discussed in our prior disclaimer report on direct contract No. 263-CSO-C-00-0008-00 dated March 7, 1991 there is no documentation from the landlord supporting the rent expense for the office space in Dokki.

Fees paid to UEM's statutory auditors were completely unsupported by details of work performed, receipts or invoices to support that the money was spent as claimed.

Lack of supporting documentation can lead to errors being made when transactions are entered into the accounting system. Subsequent identification and rectification of such errors is also made more difficult and time consuming (see our report on compliance with applicable laws and regulations for related point addressing this issue).

Recommendation 2

We recommend that UEM ensure all its expenditures are adequately documented and supported with appropriate invoices.

* * * * *

3. Expenses were misclassified between direct and indirect costs in the direct contract No. 263-CSO-C-00-0008-00, its amendments and UEM's billings to USAID/Egypt. Accounting staff were not adequately informed of applicable accounting regulations.

We found rental expenditures classified as direct costs even though they were not wholly allocable to the direct contract. We also found fuel, maintenance, communication and cars compensation expenditure classified as indirect even though they were wholly allocable to the contract.

Cost Accounting Standards are incorporated into the direct contract in Section I. These standards are set out in FAR 30.3. This regulation states that direct cost means "...any cost which is identified specifically with a particular final cost objective ... Costs identified specifically with a contract are direct costs of that contract." Indirect costs means "...any cost not directly identified with a single final cost objective, but identified with two or more final cost objectives or with at least one intermediate cost objective." Indirect cost pool means "... a grouping of incurred costs identified with two or more objectives but not identified specifically with any final cost objective."

Such misclassifications will lead to misstatements of direct costs, the indirect cost pool, and the indirect cost rate, and thus to misstatements in UEM's billing to USAID/Egypt. To date, the effect has not been material, but changes in expenditures may lead to a material misstatement of the indirect cost rate. Lack of knowledge of applicable accounting regulations can lead to misclassifications and misstatements of amounts, and unallowable costs being billed to USAID/Egypt.



Recommendation 3

We recommend that UEM and USAID/Egypt meet to clarify how UEM will allocate costs in their contract with USAID/Egypt. This will ensure that the correct indirect cost rate is established for the year in question, based on UEM's budgeted expenditures. We also recommend that UEM adequately train its accounting staff in all aspects of accounting as they apply to the direct contract.

* * * * *

4. Controls over access to UEM's computer and data stored on it or on other media are not in place to ensure adequate data security.

We found no controls in existence to ensure the proper entry of data to UEM's on-line system. In particular, we found no access controls (keyboard locks, passwords, physical controls over data stored on disk), no systems documentation or application program documentation.

Statement on Auditing Standards No. 55, *Consideration of the Internal Control Structure in a Financial Statement Audit* identifies the control environment as a key element of an entity's internal control structure. Key elements of the control environment are identified as "methods of assigning authority and responsibility, including consideration of ... computer systems documentation indicating the procedure for authorizing transactions and approving systems changes" and "consideration of ... policies for developing and modifying accounting systems and control procedures, including the development, modification, and use of any related computer programs and data files".

Without proper controls over computerized systems, incorrect or inappropriate data can be easily entered and data already stored can be easily changed.

Recommendation 4

We recommend that UEM design and implement adequate controls for its computerized system. Such a control system would ensure that only complete and accurate data is entered, only authorized personnel have access to the system and that data entered is adequately monitored and appropriately reviewed.

* * * * *

We also noted certain matters involving the internal 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, or summarize, and report financial data consistent with the assertions of management in the fund accountability statement. Our audit disclosed the following reportable conditions:



Reportable Conditions

1. Inadequate controls exist over fixed assets.

During our audit we found that fixed assets were not properly labeled with serial numbers. There was also no fixed asset register and there was no periodic count of fixed assets.

A sound internal control system would ensure that assets are properly accounted for and safeguarded against loss from unauthorized use or disposition.

Recommendation 1

We recommend that UEM implement procedures to ensure that its assets are properly accounted for. UEM should identify all their assets, number and tag them and maintain a record of their location in a fixed asset register. Physical counts of assets should be performed periodically, by persons independent of the custody of the assets, to ensure that items listed at each location are properly maintained and safeguarded.

* * * * *

2. Supervisors prepare and authorize timesheets of employees under their control.

Supervisors prepare timesheets of employees under their control in addition to authorizing them.

Timesheets are the responsibility of each employee, and should be completed by each employee. The role of the supervisor is to review the worker's timesheet and then approve it. This enables the supervisor to identify possible errors and, in consultation with the worker, to correct the timesheet if necessary.

One of the purposes of a review and approval control over timesheets is to identify and correct any errors that may have occurred in its preparation. Timesheets being prepared and approved by the supervisor suggests that no real checking of employee timesheets is being done and that errors can easily go undetected.

Recommendation 2

We recommend that each employee prepare their own timesheets and that their supervisor review and approve them.

* * * * *

3. Parts and supplies were not properly recorded on work orders.

During our audit we noted that UEM's work orders did not always include all parts and supplies used.



Such improper recording of parts and supplies does not allow for amounts billed to USAID/Egypt under the direct contract to be reconciled to amounts used on work orders. Such a reconciliation would enhance the prevention of parts and supplies not used on jobs being billed to USAID/Egypt. It would also assist UEM in identifying lost or stolen parts and supplies.

Recommendation 3

We recommend that UEM record all parts used on jobs on applicable work orders and, on a regular periodic basis, reconcile expenses on parts and supplies to the appropriate work orders.

* * * * *

4. UEM did not have adequate controls over petty cash.

UEM does not maintain adequate controls over petty cash. UEM has not established minimum and maximum levels over petty cash. In addition, the cashier is not insured, periodic counts are not performed and no reconciliation is made of cash on hand to UEM's accounting records.

UEM's business is largely done on a cash basis and significant cash balances are held at its Dokki office. Cash flow problems would be created if cash were misappropriated from the cashier on his return from the bank.

Recommendation 4

We recommend that UEM implement proper petty cash procedures including the establishment of maximum and minimum levels, insuring the cashier and performing periodic counts of petty cash by persons independent of its custody.

* * * * *

5. UEM has in effect two general ledger systems -- one maintained by its Accountant and the other by the Chairman. The line items in the ledgers did not correspond to those used in UEM's billings.

During our audit we found that UEM was operating in effect two general ledgers. One, which was maintained by the Chairman, was computerized and useful for our audit purposes. The other, installed by UEM's statutory auditors in spring 1992, was manual, maintained by the Accountant and of very little use to us since expenses were not properly categorized.

The computerized system maintained by the Chairman, although useful, was not categorized in the same way as USAID/Egypt billings in the area of salaries and wages. Since UEM performs substantially all of its work for USAID/Egypt, using exactly the same categories of expenditures as those in the billings would improve UEM management's ability to monitor performance.

Entries onto the two general ledger systems were not reviewed by appropriate independent personnel, therefore, mistakes could easily be made and go undetected.



Recommendation 5

We recommend that UEM use just the Chairman's general ledger system and adjust it so that categories within the general ledger correspond exactly to those in the USAID/Egypt billings. This system should be maintained by the Accountant after suitable training, and his work thoroughly reviewed by the Chairman or appropriate designated personnel.

6. This finding has been removed. See Appendix D.

7. UEM did not use prenumbered vouchers for their transactions.

We found that UEM did not use prenumbered vouchers to record transactions in its general ledger. The use of prenumbered vouchers provides control over completeness of entries to the general ledger. A sequence check can then be performed periodically, and any missing vouchers followed up.

Recommendation 7

We recommend that UEM use prenumbered vouchers to record transactions in the general ledger.

8. UEM did not have an organization chart or a policies and procedures manual.

We found that UEM's work was not subject to written procedures, they had no set of written policies and procedures and no organization chart.

Establishment and use of an organization chart and written policies and procedures manual would help to ensure that UEM's accounting and reporting is done in a systematic and efficient manner, and would lead to more accurate accounting records being produced.

Recommendation 8

We recommend that UEM develop an organization chart and a written policies and procedures manual.

9. This finding has been removed. See Appendix D.

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

Pricewaterhouse

4, Road 261
New Maadi
Cairo, Egypt

TELEPHONE 3521 123 3521 831
FAX (02) 3533 811
TELEX 20121 PW UN
23432 PW UN
TELEGRAPH PRICEWATER
CAIRO C R 226786

Price Waterhouse



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

September 27, 1994

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

We have audited the fund accountability statement and schedule of computations of indirect cost and fringe benefit rates of United Engineering and Marketing ("UEM") relating to expenditures under direct contract No. 263-CSO-C-00-0008-00 with the United States Agency for International Development/Egypt ("USAID/Egypt") for the period from November 1, 1991 through October 31, 1993 and have issued our report thereon dated September 27, 1994.

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 financial statements are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 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 and firms.

Compliance with laws, regulations, the contract agreements and applicable laws and regulations is the responsibility of UEM's management. As part of our audit, we performed tests of UEM's compliance with certain provisions of laws, regulations, the contract agreements and applicable laws and regulations. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the fund accountability statement and schedule of computations of indirect cost and fringe benefit rates are free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in law, regulations, contracts or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The result of our tests of compliance disclosed the following material instance of noncompliance:



1. UEM's internal controls, accounting system and management practices in place did not allow the direct contract to be accounted for in accordance with USAID/Egypt agreements. We also found that UEM did not maintain original documentation, proper personnel files or other employee documentation.

Federal Acquisition Regulation (FAR) 52.215-2 (Audit-Negotiation) states that "...the Contractor shall maintain-and the Contracting Officer or representative of the Contracting Officer shall have the right to examine and audit-books, records, documents, and other evidence and accounting procedures and practices, regardless of form or type sufficient to reflect properly all costs claimed to have been incurred or anticipated to be incurred in performing the contract". Section I of the direct contract between USAID/Egypt and UEM states that FAR 52.215-2 is incorporated into the contract by reference. Section H.12 (a) of the direct contract states that "... the contractor shall be responsible for complying with all Egyptian National Laws, Rules, Regulations and Decrees pertinent to its operations under this contract".

Recommendation 1

We recommend that UEM comply with the terms of the USAID/Egypt direct contract and implement and maintain accounting records sufficient to reflect properly all costs claimed to have been incurred or anticipated to be incurred in performing the contract. We also recommend that UEM comply with Egyptian Law in all its aspects and ensure that full, accurate and up-to-date information is kept on all employees in separate personnel files. This compliance point should be read in conjunction with the material weakness concerning UEM's accounting system included in our report on internal control structure.

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

Price Waterhouse

UNITED ENGINEERING AND MARKETING
FUND ACCOUNTABILITY STATEMENT
CASH DISBURSEMENT BASIS
AS EXPRESSED IN EGYPTIAN POUNDS
DIRECT CONTRACT NO. 263-CSO-C-00-0008-00
FOR THE PERIOD FROM NOVEMBER 1, 1991 THROUGH OCTOBER 31, 1993

	<u>Budget</u>	<u>Actual</u>	<u>Questionable Costs</u>		<u>Overhead/Fringe Benefit Rate Adjustment</u>	<u>Appendix B Reference</u>
			<u>Ineligible</u>	<u>Unsupported</u>		
Management Salaries	LE 420,065	LE 411,297	LE 2,691	LE -	LE -	Item A, Page 1
Workers' Wages	354,601	296,248	6,699	-	-	Item B, Page 1
Overtime	<u>152,000</u>	<u>145,498</u>	22,874	-	-	Item C, Page 1
	926,666	853,043			-	
Fringe Benefits	188,298	173,339	-	-	71,645	
Bonus Pool	154,180	155,117	-	-	-	
Intermittent Wages	173,000	112,645	3,331	-	-	Item D, Page 2
Direct Costs	111,770	96,876	-	675	-	Item E, Page 2
Subcontracts	<u>86,000</u>	<u>57,791</u>	-	-	-	Item F, Page 2
	1,639,914	1,448,811				
Overhead	397,860	358,622	-	-	5,045	
Parts and Supplies	354,704	307,351	-	-	-	
Fixed Fee	<u>192,630</u>	<u>189,703</u>	-	-	-	
Totals	LE <u>2,585,108</u>	LE <u>2,304,487</u>	LE <u>35,595</u>	LE <u>675</u>	LE <u>76,690</u>	

SCHEDULE OF COMPUTATION OF INDIRECT COST & FRINGE BENEFIT RATES
 (EXPRESSED IN EGYPTIAN POUNDS)
 DIRECT CONTRACT NO. 263-CS0-C-00-0008-00
 FOR THE PERIOD FROM NOV. 1, 1991 THROUGH OCT. 31, 1993

	<u>YTAL</u> <u>EXPENDITURES</u>	<u>RECLASSIFICATIONS</u>	<u>TOTAL</u> <u>EXPENDITURES</u> <u>AFTER RECLASS.</u>	<u>QUESTIONABLE COSTS</u>		<u>CLIENTS</u>		<u>CORRECT POOL</u>
				<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>	<u>ESSO</u>	<u>OTHERS</u>	
	\$3,452	LE	\$3,452	LE	LE	LE	LE	\$3,452
	8,886		8,886					8,886
	18,759		18,759					18,759
	24,754	(6,045)	18,709					18,709
	19,647	(990)	18,657		340			18,317
	6,476		6,476	240	120			6,116
	22,840	(22,840)	0					0
	20,650		20,650					20,650
	7,841		7,841					7,841
	6,550		6,550					6,550
	22,657		22,657		515			22,142
	79,184		79,184					79,184
	1,350		1,350					1,350
	10,000		10,000		6,325			3,675
	798		798					798
	2,753		2,753					2,753
	4,827		4,827	8,736	826			5,265
	2,440		2,440					22,440
	6,135		66,135					66,135
	5,102		5,102	4,374				728
	1,770		14,770	14,770				0
		23,760	23,760					23,760
		13,334	13,334					13,334
Total Indirect Costs	<u>379,871</u>	<u>7,219</u>	<u>387,090</u>	<u>28,120</u>	<u>8,126</u>			<u>350,844</u>
DIRECT COSTS:								
Management Salaries *	783,410		783,410					783,410
Workforce Wages								
Overtime	157,416		157,416					157,416
Total Compensation	<u>940,826</u>		<u>940,826</u>					<u>940,826</u>
Fringe Benefits *	116,547		116,547					116,547
Intermittent Wages	110,450		110,450					110,450
Subcontractors *	57,795		57,795			12,451		70,246
OTHER DIRECT COSTS								
Office Rent (13)	23,760	(23,760)	0					0
Warehouse Rent	13,334	(13,334)	0					0
Medical Examination	4,145		4,145					4,145
Uniforms	7,772		7,772					7,772
Beep System	5,886	990	6,876					6,876
Pick up License	551	2,667	3,218					3,218
Pick up Insurance	2,601	3,378	5,979		675			5,304
Software Packages	2,400		2,400					2,400
Property Damage Res.	100		100					100
Drop Cloth	9,660		9,660					9,660
Drop Cloth Washing	4,245		4,245					4,245
Cars Compensation	25,899	22,840	48,739					48,739
Subtotal (ODC)	100,353	(7,219)	93,134		675			92,459
Total Direct Costs	<u>\$1,325,971</u>	<u>\$0</u>	<u>\$1,318,752</u>	<u>\$0</u>	<u>\$675</u>	<u>\$12,451</u>	<u>\$0</u>	<u>\$1,330,528</u>
Indirect Cost Calculation:								
Total Indirect Costs		350,844 =		26.37%				
Total Direct Costs		1,330,528						
Fringe Benefit Rate Calculation:								
Total Fringe Benefits		116,547 =		12.39%				
Total Compensation		940,826						

* Original finding changed. See Appendix D.

	Questionable Costs				
	Amount In \$	Overhead/ Fringe Benefit Rate		Billing	
		<u>Ineligible</u>	<u>Unsupported</u>	<u>Ineligible</u>	<u>Unsupported</u>
A. Management Salaries					
1. For three employees (whose names are available on request) an amount exceeding the amount actually paid to them was billed to USAID/Egypt for the period November 1991 through July 1992. The total overbilling was LE 299 per month for nine months.	<u>\$ 808</u>	LE -	LE -	LE <u>2,691</u>	LE -
Total Management Salaries	<u>808</u>	-	-	<u>2,691</u>	-
B. Workforce Wages					
1. For a number of employees, the hourly rate used in calculating the billing to USAID/Egypt was based on a wage higher than that which was received. Details explaining our calculations have not been included within this report, but are available upon request.	<u>2,012</u>	-	-	<u>6,699</u>	-
Total Workforce Wages	<u>2,012</u>	-	-	<u>6,699</u>	-
C. Overtime					
1. For a number of employees, the hourly rate used in calculating the billing to USAID/Egypt was based on a wage higher than that which was received. Details explaining our calculations have not been included within this report, but are available upon request.	732	-	-	2,437	-
2. We noted that UEM pays overtime to its employees at time and a half. Overtime is billed to USAID/Egypt at time and three quarters, an amount exceeding that actually paid. We have questioned 25/175 of the amount not already questioned as unsupported.					

	Amount In \$	Questionable Costs			
		Overhead/ Fringe Benefit Rate		Billing	
		Ineligible	Unsupported	Ineligible	Unsupported
C. Overtime (Cont.)					
Amount billed to USAID/Egypt	LE 145,498				
Amount previously questioned	<u>2,437</u>				
	143,061				
Amount questioned(25/175)	20,437	\$ <u>6,137</u>	LE -	LE -	LE <u>20,437</u>
Total Overtime		<u>6,869</u>	-	-	<u>22,874</u>
D. Intermittent Wages					
1. Total billings for intermittent wages were LE 112,645, but total expenditure on UEM's general ledger was LE 109,314. The difference of LE 3,331 has been questioned as ineligible.		<u>1,000</u>	-	-	<u>3,331</u>
Total Intermittent Wages		<u>1,000</u>	-	-	<u>3,331</u>
E. Other Direct Costs					
1. Amount related to car compensation and lacked supporting documentation (invoices, receipts, approvals, vouchers), preventing us from assessing allocability and allowability; therefore, this amount is considered as unsupported.		<u>203</u>	-	<u>675</u>	-
Total Other Direct Costs		<u>203</u>	-	<u>675</u>	<u>675</u>
F. Subcontracts					
1. Amounts were lacking supporting documentation (invoices, receipts, approvals, vouchers), preventing us from assessing allocability and allowability.					
	<u>Date</u>	<u>Voucher #</u>	<u>Work order #</u>	<u>Amount LE</u>	
*	11/14/91	-	48138	-	
*	03/12/92	2299	5815	-	
*	03/19/92	2318156	57941	-	
*	06/04/92		6437	-	
*	07/12/92		6108	-	

* Finding removed/amended. Adequate support provided.

Amount In \$	Questionable Costs			
	Overhead/ Fringe Benefit Rate		Billing	
	Ineligible	Unsupported	Ineligible	Unsupported

F. Subcontracts (Cont.)

* 07/13/92	6106	-			
* 07/13/92	6107	-			
* 12/26/92	4772	-			
* 11/12/92	743	-			
* 10/19/92	7536	-			
* 05/03/93	1120/1158	-			
		-			
		-			
		\$ -	LE -	LE -	LE -

Total Subcontracts

-	-	-	-	-
---	---	---	---	---

G. Overhead Costs

1. Finding removed. Accrued income taxes allowed.

-	-	-	-	-
---	---	---	---	---

2. Amounts were lacking supporting documentation (invoices, receipts, approvals, vouchers), preventing us from assessing allocability and allowability.

Date	Voucher #	Amount LE	Description
05/24/92	182	340	Comm
05/05/92	118	120	Trans
* 08/27/92	480	-	Trans
05/31/92	219	500	Tools
08/01/92	493	15	Tools
01/14/92	2150	750	Audit
02/12/92	2233	400	Audit
07/29/92	395	500	Audit
10/19/92	623	500	Audit
02/26/92	2259	450	Audit
* 06/21/92	263	-	Audit
* 06/11/92	248	-	Cleaning
09/30/92	579	826	General
* 05/10/92	132	-	Audit
* 09/03/92	502	-	Audit
10/28/92	650	225	Audit
* 10/14/93	1633	-	Fuel
* 09/09/93	1524	-	Comm
* 04/05/93	1064	-	Legal
* 03/02/93	996	-	Legal
09/28/93		3,500	Audit
		8,126	

2,440	-	8,126	-	-
-------	---	-------	---	---

* Finding removed. Adequate support provided.

Amount In \$	Questionable Costs			
	Overhead/ Fringe Benefit Rate		Billing	
	Ineligible	Unsupported	Ineligible	Unsupported

6. Overhead Costs (Cont.)

3. We found a number of general expenses that related to entertainment. Federal Acquisition Regulation 31-205-14 states that "costs of amusement, diversion, social activities, and any directly associated costs such as tickets to shows or sports events, meals, lodging, rentals, transportation, and gratuities are unallowable."

Date	Voucher #	Amount LE	Type				
04/21/92	59	424	Lunch				
07/09/92	321	410	Advert				
09/30/92	579	435	Dinner				
04/21/92	59	177	Dinner				
06/22/92	264	345	Dinner				
12/30/92	2103	335	Dinner				
12/30/92	2121	150	Trip				
09/31/92	492	265	Dinner				
04/20/92	54	250	Flowers				
03/24/92	2322	190	Dinner				
09/17/92	533	190	Lunch				
04/12/92	28	200	Flowers				
09/13/92	523	240	Trans				
11/16/92	726	1,000	Tickets				
04/21/93	1112	360	Flowers				
04/22/92	1114	420	Trip				
04/29/93	1147	340	Tickets				
12/15/92	799	110	Flowers				
12/24/92	814	45	Flowers				
01/12/93	863	100	Flowers				
05/09/93	1166	100	Flowers				
05/30/93	1225	89	Flowers				
11/16/92	726	83	Flowers				
11/29/92	759	60	Flowers				
		14,770	Trips				
* 04/12/93	1088	-	License				
11/29/92	759	1,667	Misc				
		5,035	Lunch				
12/30/91	2103	330					
		<u>28,120</u>					
				\$ 8,444	LE 28,120	LE -	LE - LE -
Total Overhead				<u>10,884</u>	<u>28,120</u>	<u>8,126</u>	<u>-</u> <u>-</u>
TOTAL QUESTIONED COSTS				<u>\$ 21,776</u>	<u>LE 28,120</u>	<u>LE 8,801</u>	<u>LE 35,595</u> <u>LE 675</u>

* Finding removed. Adequate support provided.

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS



UNITED ENGINEERING AND MARKETING CO.

1, EL SAD EL ALI ST. KOSRI EL GALAA SQUARE - DOKKI - GIZA EGYPT
P.O.BOX: 258 EL ORMAN - GIZA - EGYPT
TEL: 715104 - 3615117
FAX: (202) 3497893

Date : February 27, 1995

Our Ref. : C460

Messrs.
Price Waterhouse
4, Road 261,
New Maadi, Cairo,
Egypt

Dear Sirs,

Reference is made to Messrs. United States Agency for International Development request to send you a reprint of our audit response in a condensed form, please find enclosed the above mentioned reprint; however we have not included the attachments, as we were requested to send only the response.

Thanking you in anticipation for your cooperation.

Sincerely,

Eng. Fouad Fahmy
President.

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS

 United Engineering And Marketing Co.

I N D E X

	<u>Page no.</u>
<u>RESUME OF RESPONSE</u>	1
<u>SECTION 1</u> : Response and documentation to all questionable costs as detailed and presented in APPENDIX A, page 2.	2 - 14
<u>SECTION 2</u> : Response to remaining questionable costs in APPENDIX B.	15 - 17
<u>SECTION 3</u> : Cost factors that have not been taken into consideration in this draft.	18 - 21
<u>SECTION 4</u> : Estimated future costs attributable to the audited period.	22 - 23
<u>SECTION 5</u> : Our response to your findings and recommendations about material weaknesses and reportable conditions.	24 - 31

RESPONSE TO DRAFT NFA REPORT ON CONTRACT
NO. 263-CSO-C-00-0008-00

Our response as presented thereafter is based on two main sources, our proposals to AID for the relevant years and the report of audit costs incurred No. 6-263-92-01-N dated October 31st, 1991, which were both given to the auditors during the auditing process.

You will find our response divided in five sections some of them may be interrelated, as follows. However, we have not responded to the reclassification of expenditures, as they are not in agreement with our discussion during the preaudit conference dated July 18, 1994 in the presence of RIG and Price Waterhouse representatives where it has been agreed that no reclassification will be made.

- SECTION 1 : Response and documentation to all questionable costs as detailed and presented in APPENDIX A, page 2.
- SECTION 2 : Response to remaining questionable costs in APPENDIX B.
- SECTION 3 : Cost factors that have not been taken into consideration in this draft although explicitly stated in our proposals and confirmed in audit report No. 6-263-92-01-N.
- SECTION 4 : Estimated future costs attributable to the audited period as per our proposals and confirmed in audit report No. 6-263-92-01-N.
- SECTION 5 : Our response to your findings and recommendations about material weaknesses and reportable conditions.

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS



SECTION 1

RESPONSE AND DOCUMENTATION TO ALL QUESTIONABLE COSTS
AS DETAILED AND PRESENTED IN APPENDIX A, PAGE 2.

1. OVERHEAD COSTS : CARS EXPENSES 60 LE UNSUPPORTED

Please find attachment photocopy of the receipt for the month of October, 1993 garage fee for the company car (Attachment 1). This fee is paid monthly. Therefore we request that you consider this cost supported and necessary adjustments be made.

2. OVERHEAD COSTS : COMMUNICATION 813 LE UNSUPPORTED

The amount is broken down in two amounts:

2.1 340 LE (ATTACHMENT 2)

This expense has been paid to the telecommunication workers for the supply and installation of necessary cables and accessories for the Company's new telephone line. The work was to install cables from the basement to the 11th floor (Registered Office) and bring it back to the 1st floor where the telephone system is installed, and making the necessary operating connections for the line between the office and the main telephone station.

Part of this cost was the supply of cables and fixtures (not covered by the PTT contract) estimated by our engineers for over 200 LE, 4 persons have worked for 4 consecutive days after hours.

The whole purpose of installing an immediate new telephone line, a cost of over 5000 LE was to eliminate AID's complaint of our telephone lines being always busy. The normal procedure of installation would have taken many weeks, we had this line operative in less than 5 days.

This expense should be considered a "FEE FOR SERVICE" for which we could not get a third party signature, and this type of expense occurs also on work orders when we have to deal and expedite solution with telecommunication, electricity, gas, water and water waste authorities, when we have to use their technicians after hours. The principle had been accepted as per audit report No. 6-263-92-01-N Appendix C, page 2, to the minimum possible which we have done.

2.2 473.90 LE (ATTACHMENT 3)

Please find attached the photocopy of receipt from the PTT. which was misplaced by error. Therefore, we request that you consider this cost justified and supported and necessary adjustments be made.

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS



United Engineering And Marketing Co.

3. OVERHEAD COSTS : TRANSPORTATION 240 LE INELIGIBLE
160 LE UNSUPPORTED

3.1 240 LE INELIGIBLE : We confirm acceptance

3.2 160 LE UNSUPPORTED :

3.2.A) 120 LE should be considered unallowable.

3.2.B) 40 LE (30 LE + 10 LE) (Attachment 4)

These amounts were paid by two company employees to pick up drivers for the transportation of drop cloth and stairs from our stores to working sites, in urgent response to supervisors' requests when the company pick up was used for other work orders deliveries, a situation that happens quite often. The expense was found very reasonable and signed and approved by the Project Manager and the President and should be considered a "Fee for Service" accepted as per audit report 6-263-92-01-N. Therefore, we request that you consider this cost justified and supported and necessary adjustments be made.

4. OVERHEADS COSTS : TOOLS AND RUNNING PARTS 515 LE UNSUPPORTED
15 LE + 500 LE

15 LE : is a tool part purchased by a supervisor who signed the receipt, approved by the Project Manager and the President (Att. 5).

500 LE : is a down payment for the purchase of tools bags for the technicians. The total purchase is for 1100 LE, and the pay off balance was paid by our cheque No. 826056 and the invoice for the total amount is attached to debit no. 254 dated 06/15/92 (Att. 6)

I do not see the reason for these expenses to be considered unsupported.

Therefore, we request that you consider this cost justified and supported and necessary adjustments be made.

5. OVERHEAD COSTS : LEGAL CONSULTANCY AND AUDITORS FEES

Reference is made to audit report no. 6-263-92-01-N Appendix C page 2, (Attachment 11)

" The auditee has been cautioned to do its utmost to obtain receipts from all parties to whom it makes payments, large or small. When this is simply not possible, the auditee must document the payment in detail in its own records, in order to allow USAID to determine the allowability, allocability, and reasonableness of the expense."

Inspite the fact that we have done our best without success to obtain invoices, we have made payments by cheques and have documented these expenses as described hereunder. These expenses have been drawn on our bank account, and are clear in our bank statements and our monthly bank reconciliations which were presented during the audit process.

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS

 UNITED ENGINEERING AND MARKETING CO.

5.A OVERHEAD COSTS : LEGAL CONSULTANCY
1000 LE NO SUPPORT AT ALL NOT EVEN A COPY
OF CHEQUES (300 LE + 700 LE)

5.A.1. 300 LE

The services of the lawyer were for the purpose of discussing the possibility of documenting our lease with our, then, landlord for apartment 12 in compliance with the audit report to reach an agreement acceptable to the landlord and AID's requirements. (Att. 7) is a photocopy of our cheque 855993 in the name of the lawyer, with the signature of his representative acknowledging receipt.

5.A.2. 700 LE

For services to discuss lease contracts with several landlords for the replacement office space (apt. 12) until we finalised the contract for flat 133 our existing office space. (Att. 8) is a photocopy of our cheque 856000 in the name of the lawyer, with his signature acknowledging receipt.

It has not been possible to obtain an invoice from the lawyer the best we could do is to pay the fees by cheque as an evidence of payment.

The second alternative would have been to deal with large legal consultancy firms who would charge by the man/hour at a very high rate comparatively, we would have paid at least triple the amount for the same results, and furthermore I am sure that for the size and type of legal consultancy UEMCO needs, none of the large firms would be interested in dealing with us.

I believe that the fees paid for the services done are extremely low, and the other alternative would have been an extra expense not in the benefit of the contract for no advantage, specially that we have managed to pay by cheques.

Therefore we request that you consider this cost supported and necessary adjustments be made.

5.B OVERHEAD COSTS : AUDITORS FEES (7275 LE UNSUPPORTED)

I have to bring to your attention that the fees agreement with our auditing firm started back in 1980 with the establishment of UEMCO. We agree at the beginning of each year for an amount for the specific year, (5000 LE yearly for the years under audit). They are paid an amount monthly and a lump sum being the remaining of the year's budget after the settlement of all our taxes, commercial, employee taxes, tax deduction at source etc... with the tax authorities for the relevant year.

They are paid either monthly or for accumulated months. All cheques payments are photocopied and fully documented, we deduct from each payment 10% being "Taxes deductible at source" which we pay on their behalf quarterly to the Tax Authority.

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS



UNITED ENGINEERING AND MARKETING CO.

I am including (attachment 9) as a sample and evidence for the payment of fees and taxes process for three months of the year 11/91 - 10/92. Documents are available for the rest of the year.

I am also including (attachment 10) as a sample and evidence for the payment of fees and taxes process for three months of the year 11/92 - 10/93. Documents are available for the rest of the year.

For your guidance the fee paid to the auditing firm is by all standards extremely low and is far below the regular fees for the same work, and is definitely a saving to this cost factor. We have compared prices for accountancy work on tender basis, based on AID's instructions, and have found our auditing firm's cost less than one third of other bidders.

We therefore request that you consider this cost supported and necessary adjustments be made.

Furthermore the balance between the paid 7275 LE auditors fees and the budget as per our proposals for 10,000 LE being 2725 LE should be considered as accrued acceptable future expense as per audit report no. 6-263-92-01-N, and will be delt with in a later stage of this response.

6. OVERHEAD COSTS : COMMERCIAL LICENCES (25 LE INELIGIBLE)

This amount is the cost of issuance of an original copy of UEMCO's commercial register that was used to apply for the installation of a 3 phase supply in the Company's workshop (Attachment 12 for 24.80 LE). It is an allowable and supported cost.

We therefore request that you consider this cost supported and necessary adjustments be made.

**7. OVERHEAD COST : CLEANING AND WASTE DISPOSAL 69 LE
NO SUPPORTING DOCUMENTS AT ALL.**

This expense has been paid as follows:

- 7.1 A sum of 33.5 LE for cleaning and waste disposal (att. 13)
- 7.2 A sum of 35LE that should have been classified under building services instead of cleaning and waste disposal (Att. 14). Therefore we request that you consider this cost supported and necessary adjustments be made.

8. OVERHEAD COSTS : RESERVE UNDER TAXES 22440 LE INELIGIBLE

Reference is made to audit report No. 6-263-92-01-N the reserve under tax is considered an estimated future cost attributable to the audited period and accepted by the AID contracting officer. Attachment 15 is a photocopy of the related clauses of the audit report.

Therefore, we request that this expense be considered allowable as per the audit report and necessary adjustments be made.

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS

U UNITED ENGINEERING AND MARKETING CO.

9. OVERHEAD COSTS : GENERAL EXPENSES
(8736 LE INELIGIBLE + 826 LE UNSUPPORTED)
AND MISCELLANEOUS EXPENSES 4374 LE INELIGIBLE

Totalling 13110 ineligible + 826 LE unsupported.
We have the following clarifications :

9.1 Advertisement 410.00 LE

The purpose of this advert was to sell the old company pick up which we had to replace. It was impossible (due to its condition) to have it sold without an ad. We believe that this expense does not fall under FAR 31-205-14, as described by yourself in Appendix B. page 4 of 4 and therefore is an allowable cost.

9.2 Plants and flowers (ineligible) 1397.00 LE

This cost factor also does not fall under the description of FAR 31-205-14.

Reference also is made to audit report 6-263-92-01-N Part III overhead costs. This expense was accepted as part of our miscellaneous expenses for better working environment and therefore is allowable.

1807.00 LE

9.3 826 LE unsupported. Please consider this expense unallowable. Therefore we request that you consider unallowable the amount of 12129 LE and allowable 1807 LE and necessary adjustments be made.

10. OVERHEAD COST TRAVEL EXPENSES 14770 LE (INELIGIBLE)
We confirm acceptance.

10. DIRECT COST SUBCONTRACTORS FOR THE AMOUNT OF 2808.- LE
QUESTIONABLE UNSUPPORTED
Please find attached the necessary documents:

L.E.	AMOUNT	WORK ORDER NO.	DEBIT NO.	ATTACHMENT NO.	
*1	125.00	4813 B		2131	SUB 1.
	35.00	5815		56	SUB 2.
	254.00	5794 A		2318/56	SUB 4.
	233.00	6437		390	SUB 5.
	167.00	6108		474	SUB 6.
	166.00	6106		474	SUB 6.
	167.00	6107		474	SUB 6.
	208.00	7536		743	SUB 7.
*2	850.00	4772		2131	SUB 8.
	190.00	7758		743	SUB 10.
	222.50	8991		1120/1158	SUB 11.

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS

U UNITED ENGINEERING AND MARKETING CO.

- *¹ Work order 5815 has been charged to AID for a value of 35 LE only not 225.00 LE. Find attachment (SUB 3.) being a print from our computer records for the costing on that work order.
- *² The date on the auditors document states that the charge was made on 12.26.92, the correct date is 12.26.91. The work order was closed on 02.09.92. Attached is a print from our computer records for this work order (Attachment SUB 9.)

Therefore, we request that this cost is considered supported and necessary adjustments be made.
Attachment Sub. 1. thru 11.

11. OTHER DIRECT COST : CARS COMPENSATION 675 LE (UNSUPPORTED)

This expense is a part of the engineers' monthly cars compensation for the month of November, 1991 which is about a week after we took delivery of audit report 6-263-92-01-N, at that time our records were still not organized.

The amount is broken down as 400 LE for Eng. Mamdouh but the receipt not signed and 275 LE with signed receipts but undated. These amounts are paid monthly with the payroll, and is documented for the month of November, 1991 for all other engineers, and for all engineers for all months after this exceptional month.

Although we admit the fact that it is not properly documented, we believe it would be unfair to disregard it.

We leave it to the good judgement of the Contracting Officer.

SECTION 2
RESPONSE TO REMAINING QUESTIONABLE COSTS IN
APPENDIX B.

- A1. MANAGEMENT SALARIES (INELIGIBLE 2691 LE)
We confirm acceptance, although unable to check amount.
- B1. WORKFORCE WAGES (INELIGIBLE 6699 LE)
We confirm acceptance, although unable to check amount.

Reference is made to the Management Salaries and Workforce wages, as explained to the auditor's representative, we have accepted these differences based on the fact that we propose the salaries budgets to AID and during the course of performance of the contract we start with a salary for any new recruit according to the budget proposed, when after a few weeks of performance the person is evaluated some adjustments are made, and as you are aware according to the billing procedures, starting from day one we must set a man hour/rate, since the billing is based on a daily man power charge.

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS

U UNITED ENGINEERING AND MARKETING CO.

C. OVERTIME (22874 LE INELIGIBLE)

The principle of paying overtime applies to all individuals working on the contract, but the billing system as requested by AID and developed accordingly accepts overtime charges only based on specific work order number, which is good enough for 95% of the work force overtime work and administrative support working on a specific work order number, the remaining 5% of work force overtime work would be for example when at the instruction of the project manager a supervisor to check in the market for good quality tools available, for stock parts of good quality etc.. at the end these tools and parts will be used on the project but cannot be attributed to a specific work order number.

This is not the case with the administrative staff, if the project manager or the quality control manager are working on any administrative work related to AID in general, or the accountant paying salaries always after hours etc., or any of the people listed under management support are working on the project, the overtime spent cannot be attributed to a specific work order number.

Therefore, we have used this factor of 1.75 to give us a budget to cover for the overtime hours worked on the project in general and that cannot be charged to a specific work order number. The purpose of this factor, although not documented in writing, was discussed with the then Contracting Officer Mr. Will and Contracting Officer's technical representative, and was accepted, as it was not possible to ask people to work after hours without being paid overtime.

The exception, at the instructions of the Contracting officer, was the President who should not be allowed any overtime since he would be approving it for himself.

The limitation from the Contracting Officer applied for overtime and bonus also for the President and his limitation was accepted and honoured.

This has been also discussed during our first audit and the audit report No. 6-263-92-01-N has not raised any objection or recommendation for contract modification. Furthermore, during the period under audit UEMCO has paid a total overtime amount of 157,415.55 LE, all covered by receipts signed by individuals to whom the monthly overtime was paid, while we have been paid by AID only 145,497.93 LE as per the ongoing billing system and factor which proves that the factor of 1.75 does not even cover the actual overtime cost to UEMCO.

In response to the auditor's support documents for part of the overtime being ineligible, I believe that the criteria as stated in the report that "as per USAID regulations, all amounts should be properly supported with evidence of payment and receipts", is not accurate, since all these amounts are covered with receipts. The number of receipts is in hundreds and can be all photocopied at your request.

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS

U UNITED ENGINEERING AND MARKETING Co.

Also the auditor's statement that "Administrative staff are hardly paid any overtime" is incorrect, since the project manager has been paid during the period under audit the amount of 13043.39 LE (all documented), the quality control manager since November 1992 to October 1993 has been paid the amount of 2034.87 LE (all documented). For all the rest of administrative staff the same figures can be produced at your request given time and are all documented.

For the purpose of a fair audit we would ask you to take into consideration all the amount paid being 157,415.55 LE which is fully documented with receipts, not the ineligibility of the 22,874.00 LE.

D. INTERMITTENT PAGES (SSSI - INELIGIBLE)

We confirm acceptance, although unable to check amount.

SECTION 3.

COST FACTORS THAT HAVE NOT BEEN TAKEN INTO CONSIDERATION IN THIS DRAFT ALTHOUGH EXPLICITLY STATED IN OUR PROPOSALS AND CONFIRMED IN AUDIT REPORT NO. 6-263-92-01-N.

1. DIRECT COST : FRINGE BENEFIT 70577 LE

The present audit has not taken into consideration the contents of our proposals and the audit report No. 6-263-92-01-N results page 8 photocopy attached (attachment 16) to which I refer. Since all man/hour are calculated based on 1960 man/hour per year, this base is equivalent to all the work days of the year, and therefore the paid leaves and sick leaves are considered a part of the fringe benefit and have been approved in the above mentioned audit report. The following amounts have to be included in the Fringe Benefits Expenditures:

1.1 Fringe benefit (Paid + Sick leaves) not included

	Amount Paid as per proposal	Balance for	Adjustment in audit
Paid leave 91/92	23,473.87	1,783.12	21,690.75
Sick leave 91/92	9,177.37	-	9,177.37
Paid leave 92/93	28,291.27	987.88	27,303.39
Sick leave 92/93	11,118.24	-	11,118.24
	<u>72,060.75</u>	<u>2,771.00</u>	<u>69,289.75 LE</u>

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS

U UNITED ENGINEERING AND MARKETING CO.

1.2 Fringe Benefit values for severance/termination not included

Please find attached our (attachment 17) in which severance/termination is an approved estimated future cost.

	Amount as per proposal	Paid	Balance to estimated future cost approved by 1st audit.
Severance/ Termination 91/92	26,047.99	4,403.06	21,644.93
Severance/ Termination 92/93	30,630.76	6,305.58	24,325.18
			<u>45,970.11</u> LE
Total adjustment in fringe			115,259.86 LE
Therefore, total fringe benefit			185,836.83 LE

Therefore, we request that these allowable expenses be included in the fringe benefit calculations and that necessary adjustments be made.

2. PAYROLL INCOME TAX AS FUTURE COSTS ATTRIBUTABLE TO THE AUDITED PERIOD.

Reference is made to audit report No. 6-263-92-01-N attachment 18, the present audit has not taken into consideration the accruals for employee taxes being 18000 LE for each year under audit, totalling 36000 LE. The payrolls and payroll income tax calculations were checked by the auditors. Therefore, we request that these costs be included and necessary adjustments be made.

3. BONUS (UNDER DIRECT COSTS)

Total amount 157,668.80 LE fully documented.
We request that this cost be included and necessary adjustments be made.

SECTION 4.

ESTIMATED FUTURE COSTS ATTRIBUTABLE TO THE AUDITED PERIOD
AS PER OUR PROPOSALS AND CONFIRMED IN AUDIT REPORT NO. 6-263-92-01-N

ESTIMATED FUTURE COSTS

The purpose of this section is to include the following expenses in our total cost pool as future costs approved by audit report No. 6-263-91-01-N as per attachment 19. as follows :

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS

 UNITED ENGINEERING AND MARKETING CO.

1) TERMINATION As explained in SECTION 3. under direct cost fringe benefit clause 1.2	45,970.11 LE
2) ACCRUED PAYROLL INCOME TAX As explained in SECTION 3. under payroll income tax clause 2.	36,000.00 LE
3) TAX RESERVE As explained in SECTION 1. under overhead cost reserve under tax clause 8.	22,440.00 LE
4) AUDIT FEE As explained in SECTION 1. under overhead cost clause 5.B	2,725.00 LE
TOTAL	<u>107,135.00 LE</u>

SECTION 5.

OUR RESPONSE TO YOUR FINDINGS AND RECOMMENDATIONS
ABOUT MATERIAL WEAKNESSES AND REPORTABLE CONDITIONS.

RESPONSE TO YOUR LETTER DATED OCTOBER 30TH, 1994

Reference is made to your letter dated October 30th, 1994 concerning the results of audit about our non compliance with the contract terms with regard of UEMCO's failure to maintain proper books and records for the fiscal years end in October 31st, 1992 and October 31st, 1993.

I would like to bring to your attention that the books are in accordance with an AID designed system for the purpose of this contract and that the system used now has been according to their requirements, which have been issued on a bid basis. The system developed and used has been approved by AID prior its implementation, and therefore we have complied with AID's request.

About the issue of our failure to maintain records, we have supplied you with all the necessary records in compliance with our proposals and audit report No. 6-263-92-01-N, and all have been responded to in the previous sections.

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS



RESPONSE TO MATERIAL WEAKNESSES

1. The issue of direct and indirect cost as per our proposals is fully documented for the years under audit and evidence is that all information were given to the auditors. The segregation between direct and indirect cost is based on our proposals. If the contracting officer choses to reclassify them during contract negotiations we would also have been able to cope with his reclassification.

Direct costs are limited to about 12 cost items, most of them are spent once or a few times a year, and some of them once a month, and one or two as and when they occur and are documented from our computer system, backed up by the original documents.

In raising the issue of board of directors function and committees, you must have noticed that there is no board of directors, the management consists of the President of Company and the Project Manager, the rest of the man power are either technical staff or management support.

The management style and operating style, policies and procedures, are very well described in our proposal (the basis of contract) and are implemented as approved by the contracting officer.

2. EXPENDITURES SUPPORTING DOCUMENTS

- 2.1 Transportation

The transportation applying to the contract are usually fees for taxis, which you cannot obtain receipts for, reason for travel is always workers to go to work orders or shuttle between work orders locations, and rarely a messenger delivering or bringing documents. The order of magnitude of this expense is a few pounds, and a receipt is signed by the person who has done the travel. Mileage rate does not apply to this expense.

- 2.2 The office space in Dokki was not documented till Ju. of 1993, and this is why we have changed the office location to respond to the contracting officer's requirements. Ever since all our rents are documented.

- 2.3 Has been clarified and documented under Section 1. Overheads.

3. CLASSIFICATION OF COSTS BETWEEN DIRECT AND INDIRECT.

The classification of direct and indirect costs are exactly as per our proposals. However, if the contracting officer would like to make reclassification during contract negotiations, we would definitely follow his requirements.

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS

U UNITED ENGINEERING AND MARKETING CO.

4. ACCESS TO COMPUTER DATA

For your information only three people in UEMCO have the technical ability to work on a computer, all the others do not have any computer background to be more precise are computer illiterate, namely:

- 1- The President.
- 2- The System Engineer, who develops necessary software and handles all the processing of data required.
- 3- The President's Secretary, who handles all the AID data entries, which are then all checked by the President.

The computer system is installed in the management office to which no one has access after the office hours unless the President or the Project Manager are in office, and therefore no outsider can access the system, and therefore no incorrect or inappropriate data can be entered or changed. Furthermore, all data related to AID are sent on floppy biweekly with our invoice.

RESPONSE TO REPORTABLE CONDITIONS

1. CONTROL OF FIXED ASSETS:

There is a fixed asset register documented on computer with all the necessary information. They are not tagged however, can be very easily counted, due to the limited number of assets.

2. SUPERVISORS PREPARE AND AUTHORIZE TIME SHEETS OF WORK FORCE

The time sheets are all related to work order numbers. Any work order number that is written wrong on a time sheet would result in a situation where we cannot trace its origin. The work order numbers are in five digits, and therefore it is for the sake of documentation related also to the resident's name, also time sheets are done while work is in process, otherwise it would be impossible to compile the working times.

You do not expect a technician to cover the working area and then do the physical work and then clean the area and collect his tools to rush to another location and ask him to get the work order number from his supervisor and write it and also write the name of the resident in English as all are American names. Furthermore, work is given to supervisors all thru the day by phone many times without work order numbers at the instructions of the contracting officers then work order numbers follow, and therefore the supervisor will have to put an indication about the work related to.

To recommend documentation procedures, for work orders, the complete physical work in the field procedures and follow up must be taken into consideration. What about intermittent workers who do not write??

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS

U UNITED ENGINEERING AND MARKETING CO.

3. PARTS AND SUPPLIES NOT PROPERLY RECORDED ON WORK ORDERS

Again this issue has to be considered with the type of work order. Straight forward cases where the supervisor buys the part and installs it he writes its value systematically on the work order form. If he uses parts ex stock UEMCO he fills the necessary stock form and this is then handled by the store keeper for pricing and therefore he has no access to it.

Other work orders where the supervisors give instructions to management for parts purchase like all non standard work, it is the project manager that administratively handles all these details and therefore the supervisor does not put prices on Work order forms. He only signs the invoices acknowledging receipts of material. Same applies to subcontractors, they are usually paid by the office and therefore the supervisor cannot put the cost on the work order form.

The controls of stolen and lost parts are done differently, not on paper. They are done by the Quality Control Manager who must physically take the used part and check it is defective before approving the purchase invoice, and making spot checks.

About reconciliation, the auditors will have to admit that for all parts checks they have done, we have shown the original documents.

Furthermore the contracting officer get an exact costing of parts for each work order, and photocopy of invoices, and he also discusses them with the project manager.

4. CONTROLS OVER PETTY CASH

We have set up a limit for petty cash, during the course of the month, the amount is weekly set depending on the type of work orders to be performed. Two different limits are set for the end of the month payroll and on the 10th of the month for the Company overtime.

As for misappropriation from the cashier on his return from the bank, the transaction is handled by two persons together who anyway have our trust, and since all our expenses are on cash basis, we have no other solution but to bring cash. Cash flow problems however will be always the responsibility of UEMCO, and AID is not a part of it.

5. UEMCO HAS TWO GENERAL LEDGERS

I would like to reconfirm to you that the general ledger maintained by the accountant is the ledger designed for our use by AID and issued on tender basis, and approved before its usage by AID and therefore is the formal ledger. As an outcome of the first audit it has been discussed to implement a fully computerized system, however due to its very high direct cost to AID of about 50,000 LE, the idea was rejected.

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS

U UNITED ENGINEERING AND MARKETING CO.

What you consider the second ledger, is in effect an internal system developed by UEMCO to fulfill our requirements in following up our budgets, and is not to be considered an accountancy package, and cannot be developed any further to be a complete commercial package. Bear in mind that we are not an accountancy specialised firm and do not have the resources to develop such a software

6. PAYMENT VOUCHERS ARE NOT STAMPED PAID OR BILLED

Since our expenses are mostly on a cash basis, almost all our invoices are paid in cash and the signature of the project manager has the indication of a paid stamp.

All necessary parts and subcontractors invoices are then photocopied to be sent to AID with our billing and originals are presented to the president. Once the original invoices are signed by the president they are never again photocopied. The signature of the president after photocopying is a billed to USAID evidence, and will not be charged again. Any signed invoice by the president cannot be photocopied.

7. USE OF PRENUMBERED VOUCHERS

Vouchers are numbered sequentially, although not prenumbered. At the advise of our auditors, the purpose of not prenumbering is that in case of any error be it writing, adding or description of expense, the sequence will be discontinued. This may be misjudged during audit checks by local authorities.

8. UEMCO DID NOT HAVE AN ORGANIZATION CHART, POLICIES, PROCEDURE MANUALS.

I do not think it is expected for a Company of UEMCO's size of personnel and management to have procedure manuals. However, our organization and procedures are explained in our original proposal and its modifications and our correspondence with the contracting officer. All our working procedures are discussed and adjusted as and when needed in conjunction with the contracting officer's recommendations.

9. UEMCO'S TIME BILLING SYSTEM COULD BE BETTER UTILIZED

The contracting officer receives from our computer records for each person on the work force for each day of the year a producing time report.

RESPONSE ON COMPLIANCE WITH LAWS AND REGULATIONS

Reference is made to Section H.12 a.

The contractor is indeed responsible to comply with Egyptian law, and UEMCO is in full compliance with Section H.12a.

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT
NO. 263-CSO-C-00-0008-00
MANAGEMENT COMMENTS

U United Engineering And Marketing Co.

It is our responsibility to respond and have our documentation presented in a way acceptable to local authorities. We are constantly checked by social insurance, workers union, medical insurance, employee payroll tax, tax deduction at source etc..., all types of governmental institutions and have had no problems during the period of audit.

The contractor's responsibility prime target is to have a smooth performance of the work described in the contract. As you must be aware any irregularity with the local authorities is automatically fined, and I believe you have not found any fines during the period under audit.

UNITED ENGINEERING AND MARKETING
USAID/EGYPT DIRECT CONTRACT NO. 263-CSO-C-00-0008-00

Independent Accountant's Response

United Engineering and Marketing (UEM) management provided comments to the draft audit report which covered the period November 1, 1991 through October 31, 1993. UEM management did not provide comments to the draft audit report which covered the period November 1, 1990 through October 31, 1991 in which we disclaimed an opinion. UEM management indicated they would resolve the findings in this latter report directly with USAID/Egypt.

The comments to the former report are included, unedited, in Appendix C to this report. We have reviewed these comments and additional supporting documentation provided by UEM. Where applicable, we either adjusted the final report or clarified our positions. Our response below parallels our audit report findings and management's comments.

Response to Management Comments to Questionable Costs
Detailed in Appendix A, Page 2 (UEM Section 1):

Overhead Costs:

Item No. 1:

LE 60 of fuel and maintenance costs are adequately supported. This amount has been removed from our final report.

Item No. 2:

UEM management disagrees with our finding questioning LE 813 (broken down into LE 340 and LE 473) of communication costs as unsupported. We agree with management about the support provided for the LE 473. Accordingly, this amount has been removed from our final report. However, our position remains unchanged regarding support for the LE 340.

Item No. 3.1:

UEM management agrees with our finding regarding the ineligibility of LE 240 of transportation costs. Accordingly, our position remains unchanged.

Item No. 3.2:

UEM management disagrees with our finding questioning LE 160 (broken down into LE 120 and LE 40) of transportation costs as unsupported. We agree with management concerning the support provided for the LE 40. Accordingly, this amount has been removed from our final report. Our position remains unchanged regarding the amount of LE 120.

Item No. 4:

UEM management disagrees with our finding questioning LE 515 of tool costs as unsupported. The support provided by management for this amount is inadequate. Accordingly, it remains an unsupported questionable cost in our final report.

Item No. 5A:

UEM management disagrees with our finding questioning LE 1,000 of legal fees as unsupported. Support provided by management for this amount is adequate. Accordingly, this amount has been removed from our final report.

Item No. 5B:

UEM management disagrees with our finding questioning LE 7,275 of auditor fees as unsupported. Support provided by management is adequate for the amount of LE 950 (broken down into LE 450, LE 250 and LE 250). Accordingly, the amount of LE 950 will be removed from our final report. However, our position remains unchanged for the remaining LE 6,325.

Item No. 6:

We agree with management's response. LE 25 for commercial licenses has been removed as an ineligible cost from our final report.

Item No. 7:

UEM management disagrees with our finding questioning LE 69 of cleaning and waste costs as unsupported. We agree with management about the support provided. The amount has been removed from our final report.

Item No. 8:

UEM management disagrees with our finding that accrued, unpaid tax expense is an ineligible cost billed to USAID.

The contract requires that liabilities incurred be paid within 30 days (90 days for some employee benefits) after the contractor receives payment for such expenses. However, contract amendment No. 7 states the following:

"The Contractor will be allowed to accrue expenses reasonable and necessary to cover contingent liabilities and depreciation in accordance with established operating procedures at his place of business. These accruals shall be specifically allowed for severance pay, depreciation of fixed assets, and a reasonable amount of future tax liability related to the current year of operations."

In addition, USAID allowed tax accruals questioned during our audit of UEM contract costs incurred during November 1, 1989 - October 31, 1990. Accordingly, we have amended our report to allow LE 22,440 of accrued tax expense.

Item No. 9.1:

UEM management disagrees with our finding questioning LE 410 of advertising costs as ineligible. However, management's rationale for allowance is inadequate. Our position remains unchanged.

Item No. 9.2:

UEM management disagrees with our finding questioning LE 1,397 of plant and flower costs as ineligible. However, management's rationale for allowance is inadequate. Our position remains unchanged.

Item No. 9.3:

UEM management requests that LE 826 of general expense be classified as ineligible instead of unsupported. However, no reasoning was provided for this change. Accordingly, our position remains unchanged.

Item No. 10:

UEM management agrees with our finding regarding the ineligibility of LE 14,770 of travel expenses. Accordingly, our final report remains unchanged.

Direct Costs:

Item No. 10:

UEM management provided adequate support of the LE 2,808 in our finding. Therefore the entire amount has been removed from our final report.

Other Direct Costs:

Item No. 11:

UEM management disagrees with our finding questioning LE 675 of car compensation as unsupported. However, no adequate support was provided. Our position remains unchanged.

**Response to Management Comments to Questionable Costs Detailed
in Appendix B (UEM Section 2):**

A. Management Salaries:

Item No. 1:

UEM management agrees with our finding. Accordingly, it remains unamended in our final report.

B. Workforce Wages:

Item No. 1:

UEM management agrees with our finding. Accordingly, it remains unamended in our final report.

C. Overtime:

Item No. 1:

UEM management did not respond to the two overtime findings separately. Rather, it responded to the overtime line item questioned costs in total. Based on the rationale provided, our position remains unchanged. Our position is further supported as UEM management has agreed to finding B, Item No. 1, which is conceptually the same and relates to the same employees.

Item No. 2:

UEM management disagrees with our finding stating that a higher billing overtime factor is used to compensate for work performed and cannot be directly attributable to a specific work order. Even though UEM management argues that this has been previously approved by the Contracting Officer, no official documentation of such approval was provided. Our position remains unchanged, in accordance with the terms of the contract and proposals.

D. Intermittent Wages:

Item No. 1:

UEM agrees with our finding. Accordingly, it remains unamended in our final report.

**Response to Management Comments to Cost
Factors not Considered (UEM Section 3):**

UEM management asserts that several cost factors were improperly excluded from our draft report. Our response follows.

Item 1.1 and 1.2:

UEM management asserts that LE 69,290 of accrued paid/sick leave benefits and LE 45,970 of accrued severance/termination benefits were improperly excluded from fringe benefit costs.

The contract requires that liabilities incurred be paid within 30 days (90 days for some employee benefits) after the contractor receives payment for such expenses. However, contract amendment No. 7 provides additional clarification:

"The Contractor will be allowed to accrue expenses reasonable and necessary to cover contingent liabilities and depreciation in accordance with established operating procedures at his place of business. These accruals shall be specifically allowed for severance pay, depreciation of fixed assets, and a reasonable amount of future tax liability related to the current year of operations."

Paid leave and sick leave are not specifically allowed in contract amendment No. 7. In addition, no USAID precedent for the allowability of these specific accrued costs has been established in previous audits. Finally, paid leave and sick leave benefits are inherently short-term; only LE 2,771 of paid and sick leave was actually paid during the two year audit period, versus an established budget of LE 72,061. Accordingly, our final report remains unchanged as to the disallowance of the additional LE 69,290 of paid and sick leave costs.

Contract amendment No. 7 specifically allows for the accrual of severance/termination benefits. In addition, USAID allowed termination benefit accruals questioned during our audit of UEM contract costs incurred during November 1, 1989 - October 31, 1990. Accordingly, we have amended our report to allow the additional LE 45,970 of severance/termination benefits as a current period cost to be paid in the future.

Item No. 2:

UEM management asserts that LE 36,000 of payroll tax accruals were improperly excluded from our draft report.

The contract requires that liabilities incurred be paid within 30 days (90 days for some employee benefits) after the contractor receives payment for such expenses. However, contract amendment No. 7 states the following:

"The contractor will be allowed to accrue expenses reasonable and necessary to cover contingent liabilities and depreciation in accordance with established operating procedures at this place of business. These accruals shall be specifically allowed for severance pay, depreciation of fixed assets, and a reasonable amount of future tax liability related to the current year of operations."

In addition, USAID allowed payroll income tax accruals questioned during our audit of UEM contract costs incurred during November 1, 1989 - October 31, 1990. Accordingly, we have amended our report to allow the additional LE 36,000 as a current period cost to be paid in the future.

Item No. 3:

UEM management asserts that bonus costs of LE 157,668 were improperly excluded from our draft report. We have included bonus costs billed to USAID in our fund accountability statement. However, contract amendment No. 8, Page 3, states that the provisional overhead rate is calculated exclusive of bonus costs. Accordingly, we have not included this cost in Appendix A, Page 2, as it would cause the calculated provisional overhead rate to be inaccurate. Our position remains unchanged.

Response to Management Comments to Estimated
Future Costs (UEM Section 4)

UEM management states that certain estimated future costs should have been included in the total cost pool. The form of management's assertion is incorrect. Future costs should not be included in the current November 1, 1991 - October 31, 1993 audit period. However, certain costs incurred during this period to be expended in future periods should be. Our response follows:

Item No. 1:

With regard to future termination benefits, see "Response to Management Comments to Cost Factors not Considered, " Item No. 1.2.

Item No. 2:

With regard to payroll income taxes, see "Response to Management Comments to Cost Factors not Considered," Item No. 2.

Item No. 3:

With regard to tax reserves, see "Response to Management Comments to Questionable Costs detailed in Appendix A," Item No. 8.

Item No. 4:

UEM management asserts that LE 2,752 of accrued audit fees were improperly excluded from our draft report:

The contract requires that liabilities incurred be paid within 30 days (90 days for some employee benefits) after the contractor receives payment for such expenses. However, amendment No. 7 states the following:

"The contractor will be allowed to accrue expenses reasonable and necessary to cover contingent liabilities and depreciation in accordance with established operating procedures at his place of business. These accruals shall be specifically allowed for severance pay, depreciation of fixed assets, and a reasonable amount of future tax liability related to the current year of operations."

In addition, USAID allowed accrued audit fees that arose during our audit of UEM contract costs incurred during November 1, 1989 - October 31, 1990. Accordingly, we have amended our report to allow the additional LE 2,725 of accrued audit fees. This amount represents the remainder of current period audit services to be paid.

Response to Management Comments to our Draft Reports on the Internal Control Structure and Compliance with Laws and Regulations (UEM Section 5):

Internal Control Material Weaknesses:

Recommendation No. 1:

UEM management has not touched on the core of the recommendation in its response. Data is provided on management philosophy and policies, and the division of direct and indirect costs. However, no mention is made of the recommended comprehensive staff training program. Accordingly, our position remains unchanged.

Recommendation No. 2:

Item No. 2.1: Management asserts that transportation expenses, due to their frequency, distance and means of travel used, could be regarded as immaterial, and therefore, not necessarily require detailed support. However, we believe that the total amount spent on transportation is material, and should be properly monitored. In cases where receipts are difficult to obtain, at least travel details of each trip should be documented, in order to eliminate misappropriation. Our recommendation, therefore, remains unchanged.

Item No. 2.2: As for rent expense, management asserts that starting July 1993, all rent expense was fully documented. Our testing revealed otherwise, and therefore, our recommendation remains unchanged.

Item No. 2.3: Please see "Response to Management Comments to Questionable Costs detailed in Appendix A," Item No. 5B.

Recommendation No. 3:

UEM management does not object to being informed by the Contracting Officer of the necessity of reclassifying certain items within their direct and indirect cost pools. Accordingly, our recommendation remains unchanged.

Recommendation No. 4:

UEM management disagrees with our recommendation stating that the computer environment is restricted to those who are computer literate, and these being only three individuals. We believe that even though the environment is limited, the existence of more than one individual who can access the system's various software, sustains a risk. Accordingly, our position remains unchanged.

Internal Control Reportable Conditions:

Recommendation No. 1:

UEM management states that it has a fixed asset register on the computer. However, this was not provided or evidenced during our audit. Furthermore, other issues mentioned in our recommendation have not been responded to. Accordingly, our position remains unchanged.

Recommendation No. 2:

UEM management disagrees with our recommendation stating that accurate and complete information is only available to supervisors, and that the busy working environment may not permit employees to fill in the time sheets, accurately and on time. However, we believe that it is the supervisors' role to check on the accuracy and correctness of the time sheets of their staff. Allowing workers to personally fill in their time sheets provides for more control over their accuracy. Furthermore, work order numbers that are not made immediately available to staff could be postponed, and entered by the supervisors upon their receipt.

UEM management has a valid point regarding the preparation of time sheets by supervisors for the illiterate daily workers. Otherwise, our position remains unchanged.

Recommendation No. 3:

UEM management does not touch on the core of our recommendation. Namely, that since parts and supplies are not documented on work orders, no reconciliation with total expenses for a particular work order can be done. UEM management simply presents ways in which to ensure that purchased parts are received and put to use. We believe that if more coordination between supervisors, management and the project manager exist, this would allow for proper recording of supplies, and hence reconciliation. Accordingly, our final report remains unchanged in this concern.

Recommendation No. 4:

UEM management states that minimum and maximum levels have been set for petty cash. However, this information was not provided to us during the course of our audit. UEM management has failed to address the importance and effects of other issues raised in our recommendation (cashier insurance, periodic cash counts and reconciliations). Therefore, our position remains unchanged.

Recommendation No. 5:

UEM management disagrees with our assertion. However, in so doing, UEM indirectly asserts that none of its systems could be relied upon separately. Rather, each must be considered in relation to the other (at least for AID purposes). Our position therefore, remains unchanged.

Recommendation No. 6:

UEM's mitigating control is reasonable. Our final report is amended to exclude this item.

Recommendation No. 7:

UEM management states that pre-numbered vouchers are not used, in order to eliminate the risk of misunderstandings by local authorities, if some vouchers are removed due to errors in them. Nevertheless, our recommendation stands, for the reasons previously mentioned in our draft report.

Recommendation No. 8:

UEM management does not see the importance of a properly documented policies and procedures manual, and does not touch on the issue of the non-existence of an organizational chart. Our recommendation remains unchanged.

Recommendation No. 9:

Reports on an employee by employee basis were furnished to us, albeit with much effort, during the course of our audit. That is, they are not an integral part of UEM's system. However, given UEM's response, and their being aware of this issue, we agree to remove this recommendation from our final report.

Compliance with Laws and Regulations Material Weakness:

Recommendation No. 1:

UEM management considers itself in full compliance with laws and regulations. However during the course of our audit we noted that some records were not properly maintained, particularly personnel files. Our recommendation is therefore, unchanged.

(2

**UNITED ENGINEERING AND MARKETING
AUDIT OF USAID/EGYPT RESOURCES MANAGED
UNDER DIRECT CONTRACT NO. 263-CSO-C-00-0008-00**

**FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION**

**FOR THE PERIOD FROM NOVEMBER 1, 1990
THROUGH OCTOBER 31, 1991**

**UNITED ENGINEERING AND MARKETING
USAID/EGYPT
AUDIT OF RESOURCES MANAGED
UNDER DIRECT CONTRACT NO. 263-CSO-C-00-0008-00**

**FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION**

**FOR THE PERIOD FROM NOVEMBER 1, 1990
THROUGH OCTOBER 31, 1991**

TABLE OF CONTENTS

FINANCIAL STATEMENTS

Report of independent accountants	1
Fund accountability statement and notes to the fund accountability statement	3

APPENDICES

Appendix A:

Fund accountability statement detail of amounts
as incurred in Egyptian pounds

Appendix B:

Questioned costs detail of amounts
as incurred in Egyptian pounds

Appendix C:

Management comments on the financial-related
audit

Appendix D:

Auditor's response

Appendix E:

Mission response

4 Road 26*
New Maad.
Cairo, Egypt

TELEPHONE 3521 123 3530 811
FAX (02) 3530 911
TELEFAX 20121 PW UN
23432 PW UN
TELEGRAPH PRICEWATER
CAIRO C R 226786

Price Waterhouse



REPORT OF INDEPENDENT ACCOUNTANTS

September 27, 1994

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

We were engaged to audit the accompanying fund accountability statement and schedules of computations of indirect cost and fringe benefit rates of United Engineering and Marketing ("UEM") relating to expenditures incurred under direct contract No. 263-CSO-C-00-0008-00 for the period from November 1, 1990 through October 31, 1991. The fund accountability statement and schedules of computations of indirect cost and fringe benefit rates are the responsibility of UEM management.

The scope of our work was not sufficient to enable us to express an opinion on the accompanying fund accountability statement or assess its related indirect cost and fringe benefit rates because UEM's accounting records did not provide sufficient evidence to support the fund accountability statement, to allow the production of schedules supporting the indirect cost and fringe benefit rates computations, or to permit the application of adequate auditing procedures. UEM's internal control structure also contained weaknesses that presented the risk that errors in amounts that could be material in relation to the fund accountability statement may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 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 and firms.



As described in Note 2, the accompanying fund accountability statement has been prepared on a cash disbursements basis. Consequently, expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying fund accountability statement is not intended to present results in accordance with accounting principles accepted in the United States of America.

Included in the fund accountability statement are questioned costs of \$ 263,127. The basis for questioning these costs is more fully described in Note 4 of the fund accountability statement.

As a result of the matters referred to in the second paragraph of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the fund accountability statement.

Our engagement was conducted for the purpose of forming an opinion on the fund accountability statement described in the first paragraph of this report. The supplemental information included in Appendix A is presented for purposes of additional analysis and is not required as part of the fund accountability statement. This information has been subjected to the procedures applied to the information contained in the fund accountability statement for which we disclaimed an opinion as noted in the second paragraph of this report. Accordingly, we express no opinion on the supplemental information.

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

Price Waterhouse

UNITED ENGINEERING AND MARKETING
FUND ACCOUNTABILITY STATEMENT
CASH DISBURSEMENT BASIS
DIRECT CONTRACT NO. 263-CSO-C-00-0008-00
FOR THE PERIOD NOVEMBER 1, 1990 THROUGH OCTOBER 31, 1991

	<u>Budget</u> <u>(Note 1)</u>	<u>Actual</u> <u>(Note 1)</u>	<u>Questionable Costs</u> <u>Unsupported</u> <u>(Note 4)</u>	<u>Audit</u> <u>Finding</u> <u>Reference</u>
Management Salaries	\$ 46,163	\$ 46,164	\$ 46,164	
Workers' Wages	43,074	43,078	43,078	Item A, Page 5
Overtime	<u>17,857</u>	<u>17,857</u>	17,857	Item B, Page 5
	107,094	107,099		Item C, Page 5
Fringe Benefits	45,922	45,923	26,128	
Bonus Pool	-	-		Item D, Page 5
Intermittent Wages	18,018	18,018	18,018	
Direct Costs	7,852	7,877	7,877	Item E, Page 5
Subcontracts	<u>9,375</u>	<u>9,375</u>	9,375	Item F, Page 5
	188,261	188,292		Item G, Page 6
Overheads	42,999	43,006	24,000	
Parts and Supplies	49,498	49,341	49,341	Item H, Page 6
Fixed Fee	<u>21,289</u>	<u>21,289</u>	<u>21,289</u>	Item I, Page 6
Totals	\$ <u>302,047</u>	\$ <u>301,928</u>	\$ <u>263,127</u>	Item J, Page 6

The accompanying notes are an integral part of this fund accountability statement.

UNITED ENGINEERING AND MARKETING
NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SOURCE OF DATA:

The column labeled "Budget" includes USAID/Egypt approved costs for UEM under the direct contract No. 263-CSO-C-00-0008-00 through the audit period end. These amounts are based on the most recent budget amendment dated September 25, 1991.

The column labeled "Actual" is the responsibility of UEM and represents the cumulative expenditures for the period from November 1, 1990 through October 31, 1991.

NOTE 2 - BASIS OF PRESENTATION:

The fund accountability statement has been prepared on the basis of cash disbursements. Consequently, disbursements are recognized when paid rather than when the obligation is incurred.

NOTE 3 - EXCHANGE RATE:

Expenditures incurred in Egyptian pounds have been converted to US dollars at the average monthly exchange rate for the period from November 1, 1990 through October 31, 1991 at 3.14 Egyptian pounds to 1 U.S. dollar.

NOTE 4 - QUESTIONABLE COSTS:

Questionable costs are presented in two separate categories, Ineligible and Unsupported, and consist of audit findings proposed as the basis of the cost principles set forth in the contract. Costs in the column labeled "Ineligible" are ineligible for reimbursement because they are not program-related, are unreasonable, or prohibited by the contract, its amendments or applicable laws and regulations. Costs in the column labeled "Unsupported" relate to costs that are not supported with adequate documentation or did not have the required prior USAID/Egypt approvals or authorization. Our audit procedures identified the following costs billed to USAID/Egypt that are ineligible or unsupported:

NOTE 4 - QUESTIONABLE COSTS (CONT.)

	<u>Questionable Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
A. Management Salaries		
1. UEM's accounting records did not provide sufficient documentation at the time of our audit to support or audit the amount billed to USAID. The whole line item is unsupported and considered as questionable costs.	\$ -	\$ 46,164
B. Workforce Wages		
1. No timesheets or other appropriate records were available at the time of our audit to support the amounts billed to USAID/Egypt. The whole line item is unsupported and considered as questionable costs.	-	43,078
C. Overtime		
1. No timesheets or other appropriate records were available at the time of our audit to support the amounts billed to USAID/Egypt. The whole line item is unsupported and considered as questionable costs.	-	17,857
D. Fringe Benefits		
1. We have questioned the fringe benefits billed relating to the unsupported amounts identified in findings A (1) and B (1) above as unsupported. The fringe benefit rate was set at 42.88% in contract modification No. 6 dated September 25, 1991, so we have questioned an amount of 42.88% X (\$ 43,078 + \$ 17,857) = \$ 26,128.	-	26,128
E. Intermittent Wages		
1. No timesheets or other appropriate records were available at the time of our audit to support the amounts billed to USAID/Egypt. The whole line item is unsupported and considered as questionable costs.	-	18,018
F. Direct Costs		
1. UEM's accounting records did not provide sufficient documentation to support or audit the amount billed to USAID. The whole line item is unsupported and considered as questionable costs.	-	7,877

NOTE 4 - QUESTIONABLE COSTS (CONT.)

		<u>Questionable Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
G. Subcontracts			
1.	UEM's accounting records did not provide sufficient documentation to support or audit the amount billed to USAID. The whole line item is unsupported and considered as questionable costs.	\$ -	\$ 9,375
H. Overhead			
1.	We have questioned the overhead billed relating to the unsupported amounts identified in findings A(1), B(1), C(1) and D(1) as unsupported. FAR 31.203 (c) states that "...all items that would properly be part of the cost input base, whether allowable or unallowable, shall be included in the base and bear their prorated share of ... costs." As the amounts above are unsupported, we consider their associated overhead to be unsupported. The overhead rate was set at 22.84% in contract modification No. 6 dated September 25, 1991, so we have questioned an amount of 22.84% x (\$ 43,078 + \$ 17,857 + \$ 26,128 + \$ 18,018) = \$ 24,000.	-	24,000
I. Parts and Supplies			
1.	UEM's accounting records did not provide sufficient documentation to support or audit the amount billed to USAID. The whole line item is unsupported and considered as questionable costs.	-	49,341
J. Fixed Fee			
1.	UEM's accounting records did not provide sufficient documentation to support or audit the amount billed to USAID. The whole line item is unsupported and considered as questionable costs.	-	<u>21,289</u>
Total Questionable Costs		\$ -	\$ <u>263,127</u>

UNITED ENGINEERING AND MARKETING
FUND ACCOUNTABILITY STATEMENT
CASH DISBURSEMENT BASIS
STATED IN EGYPTIAN POUNDS
DIRECT CONTRACT NO. 263-CSO-C-00-0008-00
FOR THE PERIOD FROM NOVEMBER 1, 1990 THROUGH OCTOBER 31, 1991

	<u>Budget</u>	<u>Actual</u>	<u>Questionable Costs Unsupported</u>	<u>Appendix B Reference</u>
Management Salaries	LE 144,953	LE 144,954	LE 144,954	
Workers' Wages	135,253	135,264	135,264	Item A, Page 1
Overtime	<u>56,070</u>	<u>56,070</u>	56,070	Item B, Page 1
	336,276	336,288		Item C, Page 1
Fringe Benefits	144,196	144,198	82,044	Item D, Page 1
Bonus Pool	-	-		
Intermittent Wages	56,577	56,577	56,577	Item E, Page 2
Direct Costs	24,654	24,734	24,734	Item F, Page 2
Subcontracts	<u>29,439</u>	<u>29,439</u>	29,439	Item G, Page 2
	591,142	591,236		
Overheads	135,017	135,039	75,362	Item H, Page 2
Parts and Supplies	155,422	154,930	154,930	Item I, Page 2
Fixed Fee	<u>66,849</u>	<u>66,849</u>	<u>66,849</u>	Item J, Page 3
Totals	LE <u>948,430</u>	LE <u>948,054</u>	LE <u>826,223</u>	

**UNITED ENGINEERING AND MARKETING
UNDER DIRECT CONTRACT NO. 263-CSO-C-00-0008-00
ADDITIONAL INFORMATION
QUESTIONABLE COSTS DETAIL OF
AMOUNTS AS INCURRED IN EGYPTIAN POUNDS
FOR THE PERIOD FROM NOVEMBER 1, 1990
THROUGH OCTOBER 30, 1991**

<u>Item Description</u>	<u>Questionable Costs</u>		
	<u>Ineligible</u>	<u>Unsupported</u>	<u>As incurred in \$</u>
A. Management Salaries			
1. UEM's accounting records did not provide sufficient documentation to support or audit the amount billed to USAID. The whole line item is unsupported and considered as questionable costs.	LE -	LE 144,954	\$ 46,164
B. Workforce Wages			
1. No timesheets or other appropriate records were available at the time of our audit to support the amounts billed to USAID/Egypt. The whole line item is unsupported and considered as questionable costs.	-	135,264	43,078
C. Overtime			
1. No timesheets or other appropriate records were available at the time of our audit to support the amounts billed to USAID/Egypt. The whole line item is unsupported and considered as questionable costs.	-	56,070	17,857
D. Fringe Benefits			
1. We have questioned the fringe benefits billed relating to the unsupported amounts identified in findings A (1) and B (1) above as unsupported. The fringe benefit rate was set at 42.88% in contract modification No. 6 dated September 25, 1991, so we have questioned an amount of 42.88% X (LE 135,264 + LE 56,070) = LE 82,044.	-	82,044	26,128

12

		<u>Questionable Costs</u>		
		<u>Ineligible</u>	<u>Unsupported</u>	<u>As incurred in \$</u>
E. Intermittent Wages				
1.	No timesheets or other appropriate records were available at the time of our audit to support the amounts billed to USAID/Egypt. The whole line item is unsupported and considered as questionable costs.	LE -	LE 56,577	\$ 18,018
F. Direct Costs				
1.	UEM's accounting records did not provide sufficient documentation to support or audit the amount billed to USAID. The whole line item is unsupported and considered as questionable costs.	-	24,734	7,877
G. Subcontracts				
1.	UEM's accounting records did not provide sufficient documentation to support or audit the amount billed to USAID. The whole line item is unsupported and considered as questionable costs.	-	29,439	9,375
H. Overhead				
1.	We have questioned the overhead billed relating to the amounts identified in finding A(1), B(1), C(1) and D(1) as unsupported. FAR 31.203 (C) states that "...all items that would properly be part of the cost input base, whether allowable or unallowable, shall be included in the base and bear their prorated share of... costs." As the amounts above are unsupported, we consider their associated overhead to be unsupported. The overhead rate was set at 22.84% in contract modification No. 6 dated September 25, 1991, so we have questioned an amount of 22.84% X (LE 135,264 + LE 56,070 + LE 82,044 + LE 56,577) = LE 75,362.	-	75,362	24,000
I. Parts and Supplies				
1.	UEM's accounting records did not provide sufficient documentation to support or audit the amount billed to USAID. The whole line item is unsupported and considered as questionable costs.	-	154,930	49,341

12

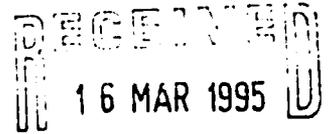
	<u>Questionable Costs</u>		
	<u>Ineligible</u>	<u>Unsupported</u>	<u>As incurred in \$</u>
J. Fixed Fee			
1. UEM's accounting records did not provide sufficient documentation to support or audit the amount billed to USAID. The whole line item is unsupported and considered as questionable costs.	<u>-</u>	<u>66,849</u>	<u>21,289</u>
Total Questionable Costs	LE <u>-</u>	LE <u>826,223</u>	\$ <u>263,127</u>



CAIRO, EGYPT

APPENDIX C
UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

March 16, 1995



MEMORANDUM

TO : Philippe Darcy, RIG/A/C

FROM : James Redder, OD/FM/FA *James Redder*

SUBJECT : United Engineering and Marketing Audit of
USAID/Egypt Resource Managed Under Direct Contract
No. 263-CSO-C-00-0008-00. Draft Report dated
February 27, 1995.

Mission is working with the implementing agency to resolve and close the open recommendations under the subject report, and has no comments to offer at this time. Please issue the final report.