PD-ABN-837

FINANCIAL AND COMPLIANCE AUDIT
OF THE
AMERICAN UNIVERSITY IN CAIRO
OVERHEAD RATE SUBMISSIONS
FOR FISCAL YEARS 1982 THROUGH 1986
Audit Report No. 6-263-88-08-N
June 30, 1988

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UNITED STATES GOVERNMENT

memorandum

DATE: June 30, 1988

REPLY TO ATTN OF: Joseph R. Ferri, RIG/A/Cairo

SUBJECT: Financial and Compliance Audit of the American University in Cairo Overhead Rate Submissions for Fiscal Years 1982 through 1986

TO: Mr. Marshall D. Brown, Director USAID/Egypt

The attached report dated June 6, 1988, by Price Waterhouse of Egypt, presents the results of a financial and compliance audit of the American University in Cairo overhead rate submissions for the fiscal years ended August 31, 1982 to 1986, inclusive.

The American University in Cairo provides higher education and research opportunities for about 13,000 students in undergraduate, graduate and adult education programs. Student tuition accounted for about 35 percent of fiscal year 1986 revenues. Institutional services, donations by private foundations, corporations and alumni, as well as United States Government-sponsored agreements provided the remainder of the revenues. Federally financed agreements included endowments, grants, and fixed price and cost reimbursable contracts. During the fiscal years from 1982 to 1986, the University had seven fixed price contracts valued at about $3.3 million, and seven cost reimbursable contracts valued at about $1.9 million, with U.S. Government agencies. The University used a provisional overhead rate of 139 percent for all cost reimbursable contracts.

In February 1987, the USAID/Contracting Officer requested an audit of the University's overhead rate submissions for the fiscal years 1982 through 1986. The audit, delayed at the request of the University until January 1988, was made to determine whether: (a) overhead rate submissions were reasonable and allowable in accordance with Office of Management and Budget (OMB) Circular A-21; (b) the University complied with U.S. laws, regulations and contract terms; and (c) internal controls, and accounting and management systems were adequate for government contracting purposes.

OPTIONAL FORM NO. 10
(REV. 1-80)
GSA FPMR (41 CFR) 101-11.6
5010-114
☆ U.S.G.P.O.: 1986- 491-248/40111

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Price Waterhouse questioned aspects of the University's accounting methodology and its interpretations of OMB Circular A-21, which resulted in recommendations that would reduce the provisional overhead rate of 139 percent to 85, 84.8, 82.8, 85, and 94.4 percent for the five fiscal years ended August 31, 1986, respectively. The reimbursed overhead costs of $824,066 (5-year total on Federal projects) would be reduced by about $264,381 (see Exhibit 1).

A significant part of the recommended adjustment related to the treatment of American Schools and Hospitals Abroad (ASHA) grant funds. The Regional Inspector General/Cairo Audit Report No. 6-263-82-8, dated August 24, 1982 recommended that ASHA grant funds be credited against the University's indirect costs before computing the University's overhead rates. The University strongly disagreed with this treatment. In 1983 the A.I.D. General Counsel determined that an allocation of ASHA funds to both direct and indirect costs would be appropriate. A method for allocating the grant costs was accepted by the University and was subsequently used to establish the final negotiated overhead rates for fiscal years 1978 through 1981. However, for the fiscal years 1982 through 1986 overhead computations, University representatives again strongly disagreed with a Price Waterhouse recommendation to partially offset ASHA funds against indirect costs in accordance with the previously agreed-on ratio. Price Waterhouse maintained that the precedent established in 1983 should be consistently applied to subsequent years.

Price Waterhouse did not note any reportable financial exceptions during it's examination of the six cost reimbursable contracts and seven fixed price contracts. The University, however, was not considered to be in compliance with minimum labor distribution documentation requirements of OMB Circular A-21.

Price Waterhouse noted that the University had significantly improved its accounting systems and procedures from a prior audit period. Nevertheless, the firm disclaimed an overall opinion about the cost reimbursable contracts or the related overhead rate submission because of the lack of documentation for labor cost distribution to Federally-sponsored projects and because compliance audits had not been made as required by OMB Circular A-110.

The firm observed that overhead rate submissions were not submitted annually and as close to the end of the fiscal year as possible to ensure timely audits and settlements of claimed costs. The auditors further noted that there were no procedures for resolving controversial issues concerning interpretation of OMB Circular A-21 and the settlement of related questioned costs.

The Price Waterhouse report contained 11 recommendations about exceptions taken with respect to the University's methodology and interpretations of OMB Circular A-21 guidelines for determining overhead rates. We have consolidated them into Recommendation No. 1. Price Waterhouse made seven other recommendations concerning the University's compliance with U.S. laws, regulations and contract terms, as well as internal controls. We have consolidated, revised, and restated them into Recommendation Nos. 2, 3 and 4. These four recommendations will be included in the Office of Inspector General's audit recommendation follow-up system.

Recommendation No. 1

We recommend that the USAID/Egypt Office of Contract Services negotiate final overhead rates for the five fiscal years ended August 31, 1982 through 1986, considering the exceptions noted by Price Waterhouse. The related questioned costs of up to $264,381 should then be settled.

Recommendation No. 2

We recommend that the USAID/Egypt Office of Contract Services establish with the American University in Cairo procedures for: (a) identifying and resolving controversial issues concerning the scope, implementation, and interpretation of OMB Circular A-21; (b) ensuring that annual overhead rate submissions are provided to USAID/Egypt as close to the end of each fiscal year as possible; and (c) requesting necessary audits from USAID/Egypt and ensuring that OMB Circular A-110 compliance reviews are made as required.

Recommendation No. 3

We recommend that the USAID/Egypt Office of Contract Services work with the American University in Cairo in establishing procedures that comply with the minimum labor cost distribution documentation requirements of OMB Circular A-21 for current and future Federal grants and contracts.

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Recommendation No. 4

We recommend that USAID/Egypt Office of Contract Services require the American University in Cairo to implement the remaining Price Waterhouse recommendations for strengthening internal controls and the accounting and administrative systems of the University.

The report findings and recommendations were discussed with American University in Cairo representatives, and USAID/Egypt Office of Contract Services staff on May 8, 1988. University management expressed general agreement with 15 out of 20 recommendations, partial agreement with four recommendations, and disagreed with one recommendation. The disagreement centered around the treatment of ASHA grant funds as discussed above. University management comments are summarized at the end of each finding in the attached audit report. Please advise this office within 90 days of any actions planned or taken to close the report recommendations.

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Price Waterhouse

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June 6, 1988

Mr. Joseph R. Ferri
Regional Inspector General
Mr. Leonard Deege
Non-Federal Audit Program Officer
United States Agency for International Development
Mission to Egypt
RIG/A/C Office
Cairo, Egypt

Dear Sirs,

We enclose our report on financial and compliance audits of the American University in Cairo overhead rate submissions and selected sponsored agreements for fiscal years ended August 31, 1982, 1983, 1984, 1985, and 1986. Our report includes twenty (20) financial and control considerations and a recommendation that compliance audits be performed in accordance with Office of Management and Budget Circular A-110.

This report incorporates changes requested by your office on May 26, 1988. We appreciate the courtesies and cooperation extended by your staff during this engagement.

Yours very truly,

Afifi Shahawi

Afifi H. Shahawi

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Encls: As stated.

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Price Waterhouse

EXECUTIVE SUMMARY

The American University in Cairo is an American educational institution, incorporated in Washington, D.C. Approximately thirty-five percent (35%) of fiscal 1986 revenue was related to tuition, with other funding generated from institutional services, private foundations, corporations, alumni, and sponsored agreements with the United States Government. Federally financed agreements included endowments, grants, and both fixed price and cost reimbursable contracts. During the five year audit period, cost reimbursable contracts with provisional overhead rates decreased with a corresponding increase in fixed price contracts and endowments. The objective of this engagement was to perform financial and compliance audits of overhead rate submissions and selected sponsored agreements, with an emphasis on the determination of overhead rates for the five fiscal years ended August 31, 1986. Direct labor costs subject to provisional overhead rates totaled $ 658,163 for the five year period.

The primary objective of our engagement was to determine the reasonableness and allowability of university overhead rates in accordance with Office of Management and Budget Circular A-21. We have questioned significant elements of managements methodology and interpretations of that circular which resulted in recommendations that would reduce provisional overhead rates of one hundred and thirty-nine percent (139%) to 85%, 84.8%, 82.8%, 85%, and 94.4% for the five fiscal years ended August 31, 1986, respectively. Significant exceptions related to the university's inclusion of unallowable costs in indirect cost pools, exclusion of revenue offsets against related indirect costs, omission of direct labor costs from bases, and misclassification of departmental costs. As a result, overhead rates and provisional overhead reimbursements of $ 824,066 (five year total on federal projects) were overstated. Application of previously mentioned rates would reduce total overhead on federal projects to $ 559,685 resulting in a federal reimbursement of $ 264,381.

The second examination objective was to perform financial and compliance audits of selected sponsored agreements. No financial exceptions were noted during our examination of six cost reimbursable contracts and seven fixed price contracts as summarized in Exhibit 4.

The third examination objective was to assess the adequacy of internal accounting controls and federal administrative compliance. Whereas, the university has significantly improved it's accounting systems and procedures from a prior federal audit period when the system was determined to be unauditable by federal auditors, we noted several areas requiring improvement and disclaimed an overall opinion given the lack of university documentation for labor cost distribution to federally sponsored projects. In particular, compliance audits in accordance with Office of Management and Budget Circular A-110 have not been performed.

Our report notes university efforts in applying federal regulations in a difficult environment and the continued allocation of greater resources to university financial and administrative departments as the university grew. Certain sections of our report highlight university difficulties in maintaining documents and records for federal review since related projects dated to late 1981. In summary, management has made significant progress in financial accountability but will be required to develop mutual understandings with representatives of the federal government as to the scope, implementation, and interpretation of Office of Management and Budget Circular A-21. Mutual understandings of Circular requirements are necessary in applying simplified overhead procedures which will result in equitable determinations of overhead cost allocations.

Price Waterhouse

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FINANCIAL AND COMPLIANCE AUDITS

AMERICAN UNIVERSITY IN CAIRO

FIVE FISCAL YEARS ENDED AUGUST 31, 1986

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FINANCIAL AND COMPLIANCE AUDITS

AMERICAN UNIVERSITY IN CAIRO

FIVE FISCAL YEARS ENDED AUGUST 31, 1986

PART I - INTRODUCTION

A. Background

The American University in Cairo is an American educational institution, incorporated in Washington, D.C., devoted to teaching and research in the arts and sciences, and to service in the Egyptian community. The university offers adult education courses, and undergraduate and graduate degree programs to approximately 13,000 students. Tuition and fees represented approximately thirty-five percent (35%) of total revenue for fiscal 1986. Remaining revenue was generated from institutional services, private foundations, corporations, alumni, and sponsored agreements with the United States Government. Federally financed agreements included endowments, grants, and contracts with the United States Agency for International Development and other federal agencies.

Sponsored agreements examined during this engagement are summarized in Exhibit 4 and the related scope of testing is noted in Section I-B. Background information related to total university expenditures, composition of overhead rate costs, exchange rates, and exception summaries are noted in Exhibits 2 and 3. Direct labor costs subject to provisional overhead rates and excess reimbursement of overhead costs are noted in Exhibit 1. As noted in exhibits, the university has experienced significant and uninterrupted growth since fiscal 1981. Federal funding in the form of endowments and fixed price contracts increased during the five year audit period. Generally, cost reimbursable contract activity decreased as a result of high provisional overhead rates which made such agreements unattractive to federal agencies and university departments pursuing federal work.

B. Audit Objectives and Scope

The objective of this engagement was to perform financial and compliance audits of overhead rate submissions and selected sponsored agreements between the United States Agency for International Development and the American University in Cairo for the five fiscal years ended August 31, 1986. Sponsored agreements selected for testing are summarized in Exhibit 4. Specific objectives were to:

(a) determine whether overhead rate submissions were in accordance with applicable government regulations, and costs reflected on submissions were allowable, necessary and reasonable;

(b) ensure propriety and reasonableness of costs incurred under selected sponsored agreements;

(c) determine whether the university complied with the laws, regulations, and agreements which may have a material effect on overhead rate submissions and costs claimed, and address the adequacy of internal accounting controls;

Preliminary planning and review procedures were performed during the period August 16, 1987 through January 17, 1988 as follows:

- Discussions with the Inspector General's staff (Mission to Egypt)

- Discussion with the Financial Controller of the American University in Cairo

- Review of university financial statements, and reports on internal accounting controls for the five fiscal years as issued by other independent auditors

- Walk through of representative payroll, disbursement and general ledger transaction

- Review of current accounting system (records and documents) and discussion of systems utilized in prior periods

- Organization review (internal and external environmental factors and form of organization)

- Review of prior USAID audit reports and workpapers

- Review of applicable government standards with an emphasis on Office of Management and Budget Circular A-21

Audit fieldwork commenced on January 17, 1988 at the university campus in Cairo, Egypt and was completed on April 14, 1988. General audit procedures and tests are summarized as follows:

<u>Overhead Rate Submissions</u>

Overhead rate submissions for the five fiscal years ended August 31, 1986 were discussed with university financial and departmental management and subjected to analytical review procedures, which included but were not limited to variance analysis of total university expenditures, department costs, exchange rate effect on combined overhead rates, and consistent treatment and classifications. Variance analysis was performed concurrent with a review of management's methodology in applying provisions of the simplified method of overhead rate calculation as stated in Office of Management and Budget Circular A-21.

Based on the results of analytical review procedures, departmental costs reflected in overhead rate submissions were agreed to functional expense classifications in general ledgers. Significant or unusual (OMB Circular A-21 criteria) accounts were agreed to transaction listings (manual and on-line computer systems) and underlying documentation (invoices, contracts, etc.) as deemed necessary in the circumstances. Approximately fifty percent (50%) of non-salary university expenditures were agreed to transaction listings and underlying documentation.

Total university expenditures reflected in overhead rate submissions were reconciled to financial statements audited by other independent auditors.

Cost Reimbursable Contracts

Contract files were reviewed (contracts, correspondence, federal reports, etc.) and discussed with the university grant administrator. Final cost submissions were obtained and reconciled to direct expenditures recorded in general ledgers. Approximately seventy-five percent (75%) of non-salary expenditures were agreed to supporting documentation to determine that costs were reasonable, necessary, allowable, and allocable under terms of applicable sponsored agreements. Other audit procedures and tests were performed as considered necessary in the circumstances.

Fixed Price Contracts

Contract files were reviewed (contract, correspondence, federal reports, etc.) and discussed with the university grant administrator. Actual university costs were summarized and compared with fixed price contract proposals and discussed with management. Variances were examined and supported by reference to periods of performance, program changes, and other reasonable considerations without exception.

USAID/ASHA Grants

USAID/ASHA grants are subject to significant oversight by the granting agency, and activity is addressed in financial statement footnotes audited by other independent auditors. Our audit procedures and tests were restricted to a review of sponsored agreements and related correspondence, and the summary of grant funds subject to offset against indirect cost pools of overhead rate submissions.

Internal Accounting Controls and Compliance

Through the use of internal control checklists, discussions with accounting personnel, and following a representative transaction through the accounting records we summarized our understanding of accounting systems by preparing flowcharts and narrative descriptions of the following systems:

- General (Organization Charts and Accounting Manuals)
- Financial Reporting
- Cash, Bank and Disbursements
- Revenue
- Sponsored Programs
- Productive Assets and Inventories
- Purchases and Accounts Payable
- Payroll and Benefits

Internal control compliance testing was performed for key internal accounting controls of the following accounting systems:

Payroll and Benefits - for fiscal year 1986, a representative payroll journal was selected and three employees of each of the thirteen departments were selected for detailed testing. Clerical accuracy, classifications, coding, supervisory approvals and existence attributes were tested to payroll records and underlying documents.

Disbursements - for fiscal year 1986, twenty-four payment vouchers were sequentially selected from the detailed general ledger for testing. Clerical accuracy, classification, coding, supervisory approvals and existence attributes were tested to subsidiary records and underlying documents.

Productive Assets - For fiscal year 1986, twenty disbursement records in building and grounds accounts were selected for testing. Clerical accuracy, classification, coding, supervisory approvals and existence attributes were tested to subsidiary records and underlying documents.

Concurrent with fiscal 1986 internal control compliance testing, we reviewed the audit opinions and reports on accounting procedures and internal controls which were issued by the university's independent auditor for fiscal years 1982 through 1986. Unqualified audit opinions were issued for all years under examination and matters included in internal control reports were not identified as significant weaknesses. Following our review of internal control reports, we contacted the university's independent auditors and engaged our Greek affiliate to review selected internal control compliance testing workpapers of the university's auditor who maintains workpaper files in Athens, Greece.

Additional disbursement attribute testing was performed for documents selected during the overhead rate submission and cost reimbursable contract testing.

Scope restrictions related to the adequacy of labor cost distribution documentation is summarized in Section II-C.

Federal compliance testing was restricted to financial and program results reporting on individual sponsored programs, and items included in Section II-C.

PART II - RESULTS OF AUDIT

The objective of this engagement was to perform financial and compliance audits of overhead rate submissions and selected sponsored agreements, with an emphasis on the determination of overhead rates of the American University in Cairo for the five fiscal years ended August 31, 1986. We have questioned numerous elements of the university's methodology and interpretations of Office of Management and Budget Circular A-21 which establishes principles for determining overhead rates with educational institutions. Recommended adjustments would significantly reduce the overhead rates submitted by the university for the five fiscal years ended August 31, 1986. The overall effect of exceptions would be to reduce provisional overhead reimbursements by $ 264,381 as noted in Exhibits 1 through 3. No reportable financial exceptions were noted during our testing of non-salary direct costs of cost reimbursable contracts. However, the university was not in compliance with minimum labor distribution documentation requirements of OMB Circular A-21. Given the absence of independently verifiable documentation for labor distribution, we have disclaimed an overall opinion.

University management have made significant improvements in certain areas of federal compliance and accounting controls since the earlier federal audits in 1980 and 1982. The 1980 federal audit was suspended after auditors concluded that the accounting and reporting systems were unauditable. The audit was restarted in 1982 and federal auditors appear to have concentrated on the examination of selected unallowable costs. We noted the consistent identification and elimination in subsequent periods for cost treatment discussed during that earlier federal audit.

Significant computerization of accounting systems since those earlier audits has enhanced financial accountability, and the 1988 design and implementation of a new accounting system should provide even greater benefits.

The new system includes a separate grant module which will facilitate sponsored program accountability and reporting. Whereas records and supporting documents were not consistently in good condition, we attribute the situation, in part, to the unusually long interval between federal audits. Records and documents required for our audit had been in storage since late 1981.

Indirect cost pools and direct labor bases of overhead rate submissions for the five fiscal years ended August 31, 1986 were overstated and understated, respectively. That overall condition resulted from the inclusion of unallowable costs in indirect cost pools, exclusion of revenue offets against related indirect costs, omission of direct labor costs from bases, and misclassification of departmental costs. We have questioned treatment of such costs in overhead rate submissions and recommended that submitted overhead rates be adjusted. In certain cases, we have recommended that university management submit department cost analysis which will segregate allowable and unallowable costs which have been comingled. In general, financial exceptions raised in our report have resulted from management's failure to reach mutual understandings with federal authorities on the scope, implementation, and interpretation of cost accounting principles of Office of Management and Budget Circular A-21.

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April 14, 1988

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

We have performed a financial and compliance audit of American University in Cairo cost reimbursable contracts listed in Exhibit 4 and the related overhead rate submissions which are summarized in Exhibit 2 for the five fiscal years ended August 31, 1986. Except as explained in the following paragraph, our examination was made in accordance with generally accepted government auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The University accounting records do not provide minimum evidence in supporting distribution of labor costs as required by Office of Management and Budget Circular A-21. In addition, significant potential exceptions related to cost treatments in overhead rate submissions will be subject to negotiation with the federal government. Specific audit findings and related recommendations are included in Sections B through D of our report.

Because we were unable to apply adequate auditing procedures regarding labor cost distribution, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the listed cost reimbursable contracts or related overhead rate submissions.

Price Waterhouse

B. Findings and Recommendations

1. Restricted fund expenditures were excluded from overhead rate calculations.

Direct labor and other costs related to sponsored programs were classified in University financial statements as restricted fund expenditures and were not reflected in overhead rate submissions. Office of Management and Budget Circular No. A-21 requires that all institution costs be reflected in the "simplified method of overhead rate calculation for small institutions". It would appear that such costs were omitted from overhead rate submissions as a result of management's misinterpretation of federal requirements and their understanding of required methodology. Omission of restricted fund expenditures resulted in the understatement of total university costs in overhead rate submissions as follows:

Omitted Restricted Fund Costs

Fiscal Years	Direct Labor	Other Direct Costs	Total Costs
1982	$ 31,768	$ 267,064	$ 298,832
	LE 133,953	LE 550,177	LE 684,130
1983	$ 114,247	$ 431,898	$ 546,145
	LE 409,851	LE 224,219	LE 634,070
1984	$ 106,537	$ 208,406	$ 314,943
	LE 346,320	LE 280,146	LE 626,466
1985	$ 90,319	$ 245,580	$ 335,899
	LE 527,686	LE 286,045	LE 813,731
1986	$ 114,239	$ 563,261	$ 677,500
	LE 595,129	LE 344,907	LE 940,036

As a result, the direct labor element (Overhead calculation base) of the overhead rate submissions were understated and the overall overhead rates were overstated. The effect of this exception is summarized in Exhibits 1 through 3. Omission of other direct costs (restricted funds) has no effect on overhead rate calculations.

Recommendation No. 1

We recommend that the direct labor element of restricted fund expenditures be reflected in the overhead rate calculations and that future overhead rate submissions of the university be reconciled to, and accompanied by, audited financial statements.

Discussion

University expenses were classified in audited financial statements as unrestricted and restricted funds. Restricted fund expenditures related to sponsored agreements including those with federal agencies. Overhead rate submissions only included unrestricted direct labor costs as the basis for apportioning indirect costs.

Office of Management and Budget Circular No. A-21 states, in part.......

> "Establish the total amount of salaries and wages paid to all employees of the institution."

Federal Management Circular 73-8 provisions incorporate OMB Circular A-21 provisions without significant change with regard to the simplified method of overhead rate calculation and states, in part......

> " (Reflect) total expenditures as reflected in the institutions annual financial statements. The indirect cost rate submission must be accompanied by and reconciled...to the institutions independently audited financial statements."

The intent of OMB Circular A-21 is to establish a single overhead pool of indirect costs which are apportioned to all direct labor costs of the institution.

University management omitted restricted fund costs from the overhead rate submission since the issue was not raised in the prior federal audit and independent consultants who reviewed the university's methodology in 1980 did not address the consideration in their report. Our discussions with management and an analysis of the level of costs classified in restricted funds would indicate that this exception became increasingly significant as the university grew and was not apparant when methodology was last reviewed during fiscal 1981.

The omission of restricted fund direct labor costs from overhead rate calculations resulted in an understatement of the direct labor base as follows:

Fiscal Year	Omitted Restricted Fund Direct labor	Reported Direct Labor Base	%
1982	$ 31,768	$ 1,682,505	1.8
	LE 133,953	LE 4,344,905	3.0
1983	$ 114,247	$ 1,420,760	7.4
	LE 409,851	LE 3,634,970	10.1
1984	$ 106,537	$ 1,275,107	7.7
	LE 346,320	LE 2,839,664	10.9
1985	$ 90,319	$ 1,114,409	7.5
	LE 527,686	LE 2,465,230	17.6
1986	$ 114,239	$ 951,471	10.8
	LE 595,129	LE 1,998,757	22.9

The effect of this exception is summarized in Exhibits 1 through 3.

Management Comments

Management concurred with the adjustment reflected in Exhibit 2, but would reduce the balance for costs associated with its desert development program with Alexandria University (Host County Contract). Such treatment would be inappropriate since university indirect costs (executive and administrative) would not be apportioned to direct labor costs of that project.

2. USAID/ASHA grants were not offset against indirect cost pools of overhead rate submissions.

Operating grants from USAID/ASHA were not offset against indirect costs of overhead rate submissions. Office of Management and Budget Circular A-21 requires that federal funds received to support administrative activities be offset against indirect costs. A determination that such provisions apply to American University ASHA grants was made by USAID Washington during the prior audit period ended in 1981. University officials continue to dispute that determination. The following balances would be offset against indirect costs:

Fiscal Year	Operating Grant Balances
1982	$ 55,600
	LE 599,503
1983	$ 100,276
	LE 580,000
1984	$ 128,580
	LE 580,000
1985	$ 80,000
	LE 640,000
1986	$ 60,000
	LE 677,800

Balances represent twenty percent (20%) of grant funds received each fiscal year.

As a result, indirect costs reflected in overhead rate submissions and the combined overhead rates were overstated. The effect of this exception is summarized in Exhibits 1 through 3.

Recommendation No. 2

We recommend that the current treatment of operating grant funds (i.e. lack of offset) be questioned and that the submitted overhead rates be reduced to reflect the offset of USAID/ASHA grant receipts against indirect cost pools.

Given the significance of the issue and continued disagreement of contractual parties, we recommend that USAID Washington and ASHA recommunicate factors which support conclusions reached during prior audit periods, and which would indicate that the prior determination of the cognizant audit agency were in effect during the five fiscal years ended August 31, 1986.

Discussion

The treatment of USAID/ASHA grants relating to general university support have been the subject of a long standing disagreement between the university and USAID which dates from 1981. At the conclusion of the prior federal audit which covered fiscal years 1978 through 1981, the issue was refered to USAID Washington and resulted in the ultimate offset of indirect costs for those years. Terms and provisions of operating grants which would be subject to indirect cost offset have not changed from the earlier audit period and there have not been any substantive discussions between contractual parties since negotiations in 1983.

Office of Management and Budget Circular A-21 states, in part...

> " The items to be accumulated under this heading (Offset for indirect expenses otherwise provided for by the Government) are the reimbursements and other payments from the Federal Government which are made to the institution to support solely, specifically, and directly, in whole or in part, any of the administrative or service activities described in F1 through 7 (OMB Circular A-21)."

Egyptian Pound grants considered for indirect cost offset treatment specify, in part, the following guidelines and conditions...

"The Egyptian Pounds herein granted...are to be used to meet AUC's pound operating deficits during the 1980's;"

United States Dollar grants considered for indirect cost offset treatment specify, in part, the following guidelines and conditions...

"Except as otherwise approved by AID in writing...(funds) provided by this grant shall be expended only for the following dollar costs:

Salaries of non-Egyptian citizens on Guarantee's faculty and administrative staff in Cairo, including related benefits..."

Whereas the application of OMB Circular A-21 provisions with regard to operating grant offsets had been the subject of lengthy discussions between contractual parties, the final resolution of the issue in 1983 was not agreed upon by university officials. Officials quoted a 1981 communication from the Director of ASHA as supporting their position. That communication stated, in part....

"Assistance provided under Section 214 is to help support the university's regular academic and educational functions, including indirect costs associated with those functions. It is not intended to cover costs, either direct or indirect, associated with grant and contract work which the University performs for the U.S. Government or other entities."

The full text of that correspondance is provided in Attachment 3.

Generally accepted accounting principles and federal cost standards assume consistent interpretation of principles and application of methodology. Whereas federal agencies have made a prior ruling with regard to this matter and no significant subsequent changes or considerations are evident, USAID/ASHA grant funds should be considered for offset consistent with earlier years. The twenty percent (20%) was used for expediency and is the same rate used during the prior audit. An actual rate should be calculated as the percentage of indirect labor to total labor costs after reflecting adjustments of Exhibit 2 which are agreed upon by federal and university officials.

The effect of this exception is summarized in Exhibits 1 through 3.

Management Comments

Management stressed their continued disagreement with the prior federal determination and will oppose any recommendation to offset operating grant funds against indirect costs.

3. <u>Press department costs were classified as indirect costs in overhead rate calculations</u>.

Press department costs were classified as indirect costs in overhead rate submissions. Press activities principally consist of services to third parties which generate significant revenue. In substance, the press department operates as an auxiliary enterprise. The current classification appears to have resulted from management's conclusion that press activities constitute a general university activity. Classification of such departmental costs in indirect cost pools resulted in an overstatement of indirect costs and understatement of direct labor costs. The effect of this exception is summarized in Exhibits 1 through 3.

<u>Recommendation No. 3</u>

We recommend that the current classification of press department costs in overhead pools be questioned. Press department costs should be classified as direct costs consistent with other auxiliary enterprises.

<u>Discussion</u>

The press department operates as an auxiliary enterprise and generates significant revenue from third parties which is not offset against related costs. For example, fiscal 1986 press costs of LE 230,770 are reflected in indirect costs without regard to LE 269,003 in related third party receipts. While the level of third party services varied during the five year period, proportionately greater services were performed for third parties than as internal services. Costs related to other departments, including sponsored agreements, are reflected in direct costs as an internal service charge.

Management classified press department costs in indirect cost pools as a general university expense. Office of Management and Budget Circular A-21 states, in part....

"Establish an indirect cost pool consisting of expenditures which customarily are classified under the following titles or their equivalents:

(1) General administration and general expenses (exclusive of costs of student administration and services, student activities, student aid, and scholarships)

(2) Operation and maintenance of physical plant; and depreciation and use allowances

(3) Library

(4) Department administration expenses"

OMB circular A-21 defines general administration expenses as follows....

"The expenses under this heading (general administration and general expenses) are those that have been incurred for the general executive and administrative offices of educational institutions and other expenses of a general character which do not relate solely to any major function of the institution i.e. (1) instruction (2) organized research (3) other sponsored activities or (4) other institutional activities."

OMB Circular A-21 defines other institutional activities as follows.....

"Other institutional activities include operation of residence halls, dining halls, hospitals and clinics, student unions, intercollegiate athletics, bookstores, faculty housing, student apartments, guest houses, chapels, theaters, public museums, and other similar auxiliary enterprises. This definition also includes any categories of activities costs of which are "unallowable" to sponsored agreements, unless otherwise indicated in the agreements."

The intent of the simplified procedure of OMB Circular A-21 is to establish an overhead pool consisting of departmental costs classified as indirect costs. The general classification of such department costs is therefore a critical element of the procedure. Application of the procedure results in an overhead rate submission consisting of total reported expenditures which are then classified into direct department costs and indirect department costs net of eliminations for unallowable costs and other adjustments necessary to avoid an inequity to the institution or federal government.

In discussing this issue with university management we considered the effect of not reclassifying press department costs from indirect cost pools, but reducing costs by offsetting related revenue. Such treatment was determined to be inappropriate in the circumstances since it would result in labor costs of the department not absorbing a proportionate share of actual general university overhead costs. Given that significantly all press department costs relate to third party services and academic departments which absorbed costs through internal allocations, we determined that reclassification resulted in the only equitable treatment. Management has recommended that a cost study be performed and all press department costs be allocated in accordance with the long form approach of OMB Circular A-21. Such selective treatment of the press department would be inappropriate for a university applying the simplified method of OMB Circular A-21. See related comments in Exception 11.

Current reflection of press department costs in the indirect cost pool results in the understatement of direct labor (i.e. as an auxiliary enterprise actual general university costs would be associated with press department labor costs) and overstatement of the indirect cost pool (i.e. materials and other press costs associated with services to third parties). The financial effect of this exception is summarized in Exhibits 1 through 3.

Management Comments

Management would propose to either perform a cost study in apportioning press department costs to users, or offset revenue against indirect costs. Under the latter approach, indirect costs would be eliminated but press department labor costs associated with third party services would not be reflected in direct labor to absorb proportionate indirect costs.

4. <u>Food service costs were classified as indirect costs in overhead calculations</u>.

Costs associated with providing student and other university personnel with dining facilities were reflected in indirect cost pools. Related revenue was not offset against costs. Office of Management and Budget Circular A-21 specifically excludes such departmental costs from indirect cost treatment. Management interpreted OMB Circular A-21 as allowing indirect cost classification of food service department costs because services are available to all university students and personnel. Management did not offset revenue associated with food service costs because OMB Circular A-21 does not specifically refer to offsets of food service revenue. The current classification results in an overstatement of the indirect cost pool and understatement of direct labor costs. The effect of this exception is summarized in Exhibits 1 through 3.

<u>Recommendation No. 4</u>

We recommend that the classification of food service department costs in overhead pools be questioned and reclassified as noted in Exhibit 2.

<u>Discussion</u>

Costs associated with food service facilities and raw materials are reflected in food service department accounts of the general ledger. Food service department costs were reflected in indirect cost pools net of internal service costs for catering to other departments. However, significant levels of revenue were generated from university users (students and faculty) but were not offset against costs. For example, fiscal 1986 food service costs of LE 299,741 are reflected in indirect costs without regard to LE 294,152 in related third party receipts.

Office of Management and Budget Circular A-21 specifically addresses treatment of food service costs as noted in Exception 3 (i.e. food services are considered "other institutional services").

The U.S. Department of Health, Education, and Welfare issued a guide entitled "Cost Principles and Procedures for Establishing Indirect Cost and Other Rates for Grants and Contracts with the Department of Health, Education, and Welfare". We have included a sample format of that guide (Attachment 1) which reflects dining hall department costs as direct costs thereby including labor costs in the calculation base. Such classification is appropriate for American University since it would result in food service labor costs sharing proportionate general university expenses. See related comments in Exception 3 and 11.

Management Comments

Management has proposed to adjust overhead submissions consistent with statements noted in Exception 3 (management comments).

5. <u>Duplicating and printshop department net credit balances are reflected in indirect cost pools of overhead rate submissions</u>.

During fiscal years 1986 and 1985 the indirect cost pools of overhead rate submissions reflected net credit balances for duplicating and printshop departments. Credit balances resulted from the overallocation of job costs to user departments. In addition, collections from third party users were not offset against related costs which would have increased the net credit balances. Office of Management and Budget Circular A-21 requires the offset of revenue against related indirect costs as noted at Exception 9. The overallocation of duplication and printshop costs (net credits) has resulted in the understatement of indirect cost pools.

<u>Recommendation No. 5</u>

We recommend that management submit a detailed summary of the effect of overallocation on departments whose costs are reflected as direct or indirect departmental costs of overhead rate submissions. Unallocated revenue should be apportioned within that summary.

<u>Discussion</u>

Internal users of duplicating and printshop services are allocated costs on a job order basis. During fiscal years 1986 and 1985 total internal allocations to various departments exceeded actual duplicating and printshop department costs. Whereas various department costs of overhead rate submissions will be overstated, the total cost overstatement of those departments is offset by the credit reflected in indirect cost pools.

To the extent that the net credit balance relates to departments classified as direct cost centers, the indirect cost pools are understated. While the effect of this exception is to understate indirect cost pools we note that revenue was received from external users which was not offset against related department costs and would increase the credit balances.

The effect of this exception is not quantified as noted in Exhibit 2, pending university management preparation of cost summaries.

<u>Management Comments</u>

Management has agreed to perform an analysis of internal service allocations and recommend an appropriate adjustment which would include revenue offsets.

6. <u>Public relations, fundraising, interest, and bad debt costs were reflected in indirect cost pools of overhead rate submissions</u>.

Public relations, fundraising, interest, and bad debt costs were not eliminated from university expenditures in establishing indirect cost pools. Such costs are specifically unallowable under provisions of Office of Management and Budget Circular A-21. As a result, indirect cost pools and overhead rates were overstated. The effect of this exception is summarized in Exhibits 1 through 3.

<u>Recommendation No. 6</u>

We recommend that interest and bad debt costs reflected in Exhibit 2 be questioned and eliminated from indirect cost pools. We recommend that university management be encouraged to segregate unallowable public relations and fundraising costs from allowable expenditures within the public relations and development offices. In the absence of such segregation department balances noted in Exhibit 2 should be questioned, and eliminated from indirect cost pools.

<u>Discussion</u>

Consistent with methodology envisaged under the "simplified method of overhead rate calculation for small institutions" university management classified departmental costs into direct cost or indirect cost categories. The public relations and development departments were classified as indirect cost. The development department is primarily engaged in organized fund raising activities, but also includes the sponsored federal program administration office. The public relations department is primarily engaged in general public relations activities but also conducts activities of a generally allowable nature.

Interest expense (bank overdrafts) accounts and bad debt expenses were reflected in the controllers office accounts and classified as indirect costs.

Office of Management and Budget Circular A-21 states, in part....

"Any losses, whether actual or estimated, arising from uncollectible accounts and other claims, related collection costs, and related legal costs, are unallowable."

"Costs incurred for interest on borrowed capital or temporary use of endowment funds, however represented, are unallowable."

"Costs of organized fund raising including financial campaigns, endowment drives, solicitation of gifts, bequests and similar expenses incurred solely to raise capital or obtain contributions, are unallowable."

"Costs incurred for general public relations, alumni activities, and similar services, are unallowable."

Discussions with management indicate that bad debt and interest expenses were not eliminated by oversight, and public relations and fundraising cost eliminations were not addressed because they were not identified by the grant accountant.

As a result, the indirect cost pools and resulting overhead rates were overstated. In the absence of cost studies, we have questioned the allowabilty of the entire public relations and development office costs. The effect of these exceptions are summarized in Exhibits 1 through 3.

<u>Management Comments</u>

Management concurred with treatment noted in Exhibit 2 subject to their analysis of any allowable department costs which can be identified.

7. <u>Direct labor eliminations of overhead rate submissions should be reversed</u>.

Alumni office direct labor costs were eliminated from the base (direct labor) of overhead rate submissions. Elimination of alumni office direct labor costs results in such costs not absorbing their proportionate share of indirect costs. Management eliminated alumni office direct labor costs without considering the effect on the overhead rate base. As a result, direct labor costs were understated and overhead rates were overstated. The effect of this exception is summarized in Exhibits 1 through 3.

<u>Recommendation No.7</u>

We recommend that alumni office direct labor cost treatment be questioned and the elimination reversed.

<u>Discussion</u>

Management classified alumni office costs as direct costs consistent with general guidance of Office of Management and Budget Circular A-21 and treatment noted for similar costs in Attachment 1 (HEW Sample Format-Abreviated Overhead Method).

Whereas OMB Circular A-21 does not specifically address eliminations of direct labor costs, it states, in part....

"a. Establish the total amount of salaries and wages paid to all employees of the institution."

b. Establish an indirect cost pool consisting of the expenditures which customarily are classified under the following titles (see OMB Circular A-21).

c. Establish a salary and wage distribution base, determined by deducting from the total of salaries and wages as establish in a. above the amount of salaries and wages included under b. above."

Management eliminated labor costs as being unallowable. For purposes of the simplified overhead rate calculation, departmental costs not classified in the indirect cost pool are classified as direct costs and the direct labor element becomes the base for indirect cost distribution. Eliminating direct labor costs results in their not absorbing a proportionate share of indirect costs. The intent of OMB Circular A-21 would appear to be the same as for other federal recipients wherein direct labor would not be removed from an overhead base, even if considered unallowable.

The effect of this financial exception is summarized in Exhibits 1 through 3.

Management Comments

Management concurred with treatment noted in Exhibit 2.

8. Capital expenditures were reflected in indirect cost pools and use allowances were misscalculated.

Certain capital expenditures were not eliminated from indirect cost pools of overhead rate submissions, and for capital expenditures appropriatly treated, a building use allowance rate of twenty percent (20%) was recognized. Office of Management and Budget Circular A-21 identifies capital expenditures as unallowable and establishes a building use allowance rate of two percent (2%). This exception appears to have resulted from classification and clerical errors. As a result, indirect cost pools and resulting overhead rates were overstated. The effect of these exceptions are summarized in Exhibits 1 through 3.

Recommendation No.8

We recommend that capital expenditure treatment be questioned and overhead rate submissions be adjusted by eliminating capital expenditures from indirect cost pools and that use allowances on buildings be reduced to two percent (2%).

Discussion

Minor equipment and construction are not capitalized in university accounts, but are segregated in special accounts (capital expenditures) for elimination in the preparation of overhead rate submissions. Certain expenditures for minor equipment were coded to "other services accounts" and not eliminated in overhead rate submissions. Further, capital expenditure balances were the basis for calculating an annual use allowance of twenty percent (20%) for buildings and construction.

Office of Management and Budget Circular A-21 states, in part....

"Capital expenditures are unallowable as indirect costs.

Capital expenditure means the cost of the asset including the cost to put it in place.

Equipment means an article of nonexpendable tangible personal property having a useful life of more than two years, and an acquisition cost of $ 500 or more per unit."

"The use allowance for buildings and improvements will be computed at an annual rate not exceeding two percent of acquisition cost."

Adjustments noted in Exhibit 2 eliminate capital expenditures from indirect costs and reduce use allowances to two percent (2%) net of use allowances recognized on additional capital expenditures.

The effect of this financial exception is summarized in Exhibits 1 through 3.

<u>Management Comments</u>

Management concurred with treatment noted in Exhibit 2.

9. Rental property and transportation revenue were not offset against related indirect costs in overhead rate submissions.

The indirect cost pool of overhead rate submissions include transportation and rental property costs. Revenue collected from third parties utilizing transportation and rental properties were not offset against related costs. Office of Management and Budget Circular A-21 requires the offset of revenue against related costs. Management had not interpreted OMB Circular A-21 as requiring the offset of all revenue associated with indirect costs and had applied the principle selectively. As a result, indirect cost pools and resulting overhead rates were overstated. The effect of these exceptions are summarized in Exhibits 1 through 3.

Recommendation No. 9

We recommend that the lack of revenue recognition be questioned and overhead rate submissions be adjusted to reflect the offset of rental property and transportation revenue associated with costs included in indirect cost pools.

Discussion

The university collects fees from staff using institution vehicles and visitors or third parties residing in rental apartments. Costs associated with institution vehicles and rental properties were reflected in indirect cost pools of overhead rate submissions. Related revenue collected from users was credited to general ledger cost centers but not included in overhead rate calculations.

OMB Circular A-21 states, in part.....

> "The cost of a sponsored agreement is composed of the allowable direct costs incident to its performance, plus the allocable portion of allowable indirect costs of the institution, less applicable credits.

The term applicable credits refers to those receipts or negative expenditures that operate to offset or reduce direct or indirect cost items."

The intent of this provision would appear to be the same as that applied to other organizations with governmental agreements. Generally, federal regulations do not allow direct or indirect costs which have otherwise been reduced by collections or other negative expenditures.

Management interpreted OMB Circular A-21 as only requiring the offset of revenue against indirect costs if it specifically refered to a particular item. Such a definition of federal requirements would inflate overhead rates for costs which had otherwise been reimbursed or collected. In discussing this particular case, management noted that one rental property is let to a company whose rent exceeds the university's costs. In its guide for colleges and universities the U.S. Department of Health, Education and Welfare states, in part....

"When actual costs can be identified and associated with the collection of fines and fees, and the services rendered, they should be credited in lieu of revenues; when actual costs cannot be identified it will be assumed, for expediency, that the revenue collected equals the cost incurred."

Such treatment has been reflected in our recommendation.

Rental property and transportation revenue subject to offset against related indirect costs were as follows:

Fiscal Years	Rental Property and Transportation Revenue (LE)
1982	13,274
1983	43,169
1984	31,926
1985	21,374
1986	37,238

The effect of this exception and recalculated overhead rates are summarized in Exhibits 1 through 3.

Management Comments

Management concurred with treatment noted in Exhibit 2.

10. <u>New York office fundraising, trustee, and investment counsel costs were reflected in indirect cost pools of overhead rate submissions</u>.

Fundraising, trustee and investment counsel costs were included in indirect cost pools of overhead rate submissions. Office of Management and Budget Circular A-21 states that such expenditures are unallowable. Management did not consider the allowability of those costs in determining accounts subject to elimination. As a result, indirect cost pools and resulting overhead rates were overstated. The effect of these exceptions is summarized in Exhibits 1 through 3.

<u>Recommendation No. 10</u>

We recommend that fundraising, trustee, and investment counsel cost treatment be questioned and eliminated from indirect cost pools.

<u>Discussion</u>

New York office costs related to salaries of staff engaged in organized fundraising activities, investment counsel expenditures, and expenses of trustee meetings were included in indirect cost pools. Whereas trustee meeting expenses constitute allowable general university expenses, entertainment and social activity costs are not separately indentifiable from allowable expenses. Trustee expenses were eliminated from the indirect cost pool for fiscal year 1985 but were not eliminated for fiscal years 1986, 1984, 1983 and 1982.

Office of Management and Budget Circular A-21 states, in part.....

"Costs incurred for amusement, social activities, entertainment, and any items relating thereto, such as meals, lodging, rentals, transportation, and gratuities, are unallowable."

"Costs of organized fund raising, including financial campains, endowment drives, solicitation of gifts and bequests, and similar expenses incurred solely to raise capital or obtain contributions, are unallowable."

"Costs of investment counsel and staff and similar expenses incurred solely to enhance income from investments are unallowable."

The effect of these financial exceptions are summarized in Exhibits 1 through 3.

Management Comments.

Management concurred with eliminations noted in Exhibit 2 but they would provide additional information in segregating social activities from allowable trustee expenses.

11. <u>Faculty housing expenses may be considered for allocation based on cost studies</u>.

Faculty and administrative staff are provided housing, and related costs are included in indirect cost pools. Whereas faculty housing is specifically identified as "other institutional services" and generally classified as a direct departmental cost, we concur with management's classification of such costs in indirect cost pools since the nature of provided housing is an employee fringe benefit. Fringe benefits have consistently been classified in indirect cost pools. The following housing costs were reflected in indirect cost pools:

		Faculty Housing Expenses
1986	$	9,711
	LE	866,178
1985	$	-
	LE	812,147
1984	$	7,669
	LE	678,059
1983	$	2,264
	LE	638,824
1982	$	-
	LE	520,943

<u>Recommendation No. 11</u>

Whereas the simplified method does not envisage cost studies, and is based on a single cost pool developed from financial statements and immediately available documentation, we would recommend that housing costs be allocated to other specific departments if cost studies and specific allocation are performed for other departments (i.e. press, dining hall, public relations and development offices) as recommended by university management.

Discussion

Reflection of faculty housing costs in indirect cost pools is appropriate under the single cost pool concept of OMB Circular A-21, and results in the distribution of such costs on the basis of direct labor costs consistent with other fringe benefits. However, management has recommended that departmental costs reclassified in Exhibit 2 be allocated to specific user departments versus by direct labor costs of a single cost pool. Should USAID consider that approach, faculty housing costs should be similarly treated.

Management Comments

Management did not appear adverse to faculty housing treatment which would be consistent with their recommended approach to other departmental cost analysis.

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C. Compliance and Internal Controls.

April 14, 1988

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

We have examined selected sponsored agreements and overhead rate submissions of the American University in Cairo for the five fiscal years ended August 31, 1986, and have issued our report thereon dated April 14, 1988. As part of our examination, we made a study and evaluation of the University's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards and the standards for financial and compliance audits contained in the U.S. General Accounting Office's Standards for Audit of Governmental Organizations, Programs, Activities and Functions. For the purpose of this report, we have classified the significant internal accounting controls as noted in Section I of this report. The purpose of our study and evaluation was to determine the nature, timing, and extent of the auditing procedures necessary for expressing an opinion on the selected sponsored agreements and overhead rate submissions of the university. Our study and evaluation was more limited than would be necessary to express an opinion on the system of internal accounting control taken as a whole or on any of the categories of controls noted in Section I.

Our study and evaluation, made for the limited purpose described in the first paragraph, would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of internal accounting control of the American University in Cairo taken as a whole or any of the categories of controls noted in Section I.

However, our study and evaluation disclosed the following conditions that we believe result in more than a relatively low risk that errors or irregularities in amounts that would be material in relation to university overhead rate submissions may occur and not be detected within a timely period.

Additionally, in connection with the study and evaluation of the system of internal accounting control, we reviewed methods, procedures and records established by the university to administer and account for Federal awards in accordance with significant administrative requirements of OMB Circular A-110 as noted in Section I of this report. Our review was made for the limited purpose described above and would not necessarily disclose every instance of noncompliance with the numerated administrative requirements of A-110.

The following findings and recommendations represent compliance exceptions, internal control weaknesses and other matters noted during our examiantion:

Price Waterhouse

1. Payroll documentation (Activity Reports) is inadequate.

The university does not document the distribution of labor costs in accordance with Office of Management and Budget Circular A-21 or the stated university policy contained in it's policy manual. As a result, independent verification of sponsored program labor cost distribution is not possible.

Recommendation No. 1

We recommend that activity reports required by the university policy manual (Attachment 2) be maintained for all staff working on federally sponsored programs.

Discussion

Labor costs are recorded in sponsored program accounts based on initial budget estimates. With the exception of the Social Research Center, departments performing sponsored program activities do not prepare any activity reports or use other forms of activity reporting. The Social Research Center report is a partial department listing of staff working on sponsored programs with staff use reflected as a percentage. Given the lack of compliance with university policy, we interviewed the Social Research Center Director to determine procedures in effect during the audit period. The director stated that summary activity reports are prepared periodically to reflect her general knowledge of staff utilization.

While recognizing that OMB Circular A-21 only requires minimal labor cost distribution documentation, independent verification of distribution requires strict compliance with those minimum requirements. Undefined or substantiated verification procedures compounded university noncompliance with regard to reporting requirements covering report periods (monthly for nonprofessional staff), and staff reflection in reports (all employee activity on sponsored programs).

Office of Management and Budget Circular A-21 states, in part...

"a. Activity reports will reflect the distribution of activity expended by employees covered by the system.

b. These reports will reflect an after-the-fact reporting of the percentage distribution of activity of employees.

c. Reports will reasonably reflect the activities for which employees are compensated by the institution. To confirm that the distribution of activity represents a reasonable estimate of the work performed by the employee during the period, the reports will be signed by the employee, principal investigator, or responsible official using suitable means of verification that the work was performed.

d. The system will reflect activity applicable to each sponsored agreement and to each category needed to identify indirect costs and the functions to which they are allocable.

e. For professorial and professional staff, the reports will be prepared each academic term, but no less frequently than every six months. For other employees, unless alternative arrangements are agreed to, the reports will be prepared no less frequently than monthly and will coincide with one or more pay periods."

The lack of appropriate activity reporting or other forms of labor distribution support results in a significant loss of accountability. See related comments in our audit opinion.

Management Comments

The financial controller and grant administrator agreed that minimum labor distribution requirements had not been met and sited several cases where they had become involved in trying to substantiate distribution levels in specific cases. The financial controller noted that department directors had broad discretion in administrating sponsored programs and general administrative staff experienced difficulty in performing oversight functions.

The university president represented that activity report compliance would be implemented.

2. Periodic OMB Circular A-110 audits are not performed.

University financial statements are audited annualy but the related scope of work is less than required by Office of Management and Budget Circular A-110. Management was of the opinion that normal recurring audits fulfilled OMB Circular A-110 requirements. As a result, financial and compliance considerations special to such engagements have not been addressed since the university's inception.

Recommendation No. 2

We recommend that university management be required to engage appropriate auditors with the ability to perform OMB Circular A-110 scope audits at least once every two years.

Discussion

Management were aware of OMB Circular A-110 audit requirements and submitted the audit report on university financial statements when ASHA requested evidence of OMB Circular A-110 audit compliance. Management assumed compliance with federal requirements when the submission was not questioned by ASHA.

We note that federal audit requirements exceed those of a normal recurring audit of financial statements.

Office of Management and Budget Circular A-110 states, in part...

> " Generally examinations (audits) should be conducted on an organization wide basis to test the fiscal integrity of financial transactions, as well as compliance with the terms and conditions of the federal grants and other agreements. Such tests would include an appropriate sampling of federal agreements.

Examinations will be conducted with reasonable frequency on a continuing basis or at scheduled intervals, usually annually, but not less frequently than every two years."

An OMB Circular A-110 audit would include expanded testing of sponsored program activities and compliance with various accounting and administrative requirement of the federal government.

Management Comments

Management represented that they will discuss OMB Circular A-110 audit requirements with USAID and respond accordingly.

3. <u>Custodial control of fixed assets require improvement</u>.

Physical inventories of equipment are not performed bi-annually and records do not identify asset location. Office of Management and Budget Circular A-110 and generally accepted accounting principles require periodic asset inventories and adequate records which would be expected to identify asset location. The lack of such procedures jeopordize custodial control of assets.

<u>Recommendation No. 3</u>

We recommend that management identify and record the location of all university equipment, and perform bi-annual asset inventories.

<u>Discussion</u>

Custodial control weaknesses were noted in internal control reports of the university's independent auditor. Management has been improving fixed asset records and procedures since 1983 when records were first deemed inadequate to calculate use allowances in overhead rate submissions.

<u>Managment Comments</u>

Management acknowledged inadequate asset records of prior years but stressed the general improvement of records in recent years. They represented that bi-annual asset inventories would be performed.

4. <u>Federally financed equipment are not marked with identifying symbols</u>.

USAID/ASHA grant provisions require the marking (clasped hand symbol) of federally financed equipment. We noted at least one case (computer equipment) of non-compliance and management stated that the university policy was to not mark individual equipment. Noncompliance with marking requirements results in a loss of federal financing disclosure and potential public goodwill.

<u>Recommendation No. 4</u>

We recommend that all equipment and construction marking requirements be strictly enforced to insure adequate public disclosure of federally financed programs.

<u>Discussion</u>

Whereas several buildings of the university are marked with brass signs stating that they were financed with federal funds, management was not aware that construction phases require temporary signs, (dormitories) and they were generally unaware of the governments real expectations with regard to individual items of eqiupment.

This exception is mitigated by the marking of buildings which have been financed by the government and represent the significant elements of federal financing.

<u>Management Comments</u>

Management stated that they were in compliance on significant items and would discuss government expectations on marking of less significant equipment.

5. Sponsored agreement documentation and procedures were inadequate.

Accounting documentation and procedures relating to the preparation of sponsored agreement statements (fund balance), establishment of sponsored agreement unallowable cost accounts, and reconciliation of actual expenditures to submitted costs of sponsored agreements were inadequate. General administrative documentation and procedures relating to the maintenance of federally sponsored agreement files and identification of sponsored agreements were inadequate. Office of Management and Budget Circular A-110 requires the establishment and maintenance of management systems which provide reasonable accountability over sponsored agreements. These exceptions appear to have resulted from the use of informal administrative procedures and accounting systems which were not specifically designed for sponsored agreement accounting. Generally, the university's accounting and administrative procedures resulted in acceptable financial and program results reporting as required in individual sponsored program agreements. However, underlying records and documentation were often incomplete and required reconciliation or alternative procedures to determine compliance.

Recommendation No. 5

We recommend that management continue to implement current and planned changes in accounting and administrative systems and procedures as summarized in the following discussion section.

Discussion

Whereas interim financial reports were prepared for individual sponsored programs, annual program statements were not prepared and reconciled to accounting records. Significant university management and auditor efforts were required to summarize annual financial results by individual agreements.

For example, overhead related to cost reimbursable contracts was not recorded by individual agreement and direct labor costs on interim submissions had to be reconciled to annual balances in applying final (recommended) overhead rates. Difficulties in summarizing fiscal year results were compounded by disorganized administration files.

Sponsored agreement files were not consistently organized. Contracts, change orders, and other correspondence were randomly filed and in some cases maintained in other departments. Program summaries were incomplete and did not provide basic information on the type of contract or significant contract provisions. For example, a cost reimbursable contract in effect for over four years was renegotiated as a fixed cost contract during its final year and related costs were comingled in the same general ledger accounts. Neither accounting nor administrative records disclosed that situation. The corresponding grant file contained several hundred contractual documents which were filed in no discernable order.

In planning the engagement we requested a listing of all federally sponsored programs. The final listing was received approximately seven weeks after commencement of fieldwork. Interim listings were either incomplete or did not reflect all program changes in value or performance periods. Sponsored programs were not assigned unique numbers or codes to facilitate indentification and in several cases items were added to listings when we questioned omitted projects. The loss of information resulting from the state of records was compounded by a lack of institutional memory. Several key employees had departed and audited programs dated back to 1981.

As of fieldwork completion, the grant administration department had completed a micro computer spreadsheet of sponsored program activity by year and has agreed to establish multiple part files. Checklists are to be attached to each file which provide all current summary information as well as significant compliance considerations.

Management Comments

Management acknowledged that accounting and administrative systems were inadequate in earlier years but had generally improved in subsequent years as the university grew and greater resources were allocated to sponsored project administration. They represented that the new computer system is to be implemented in fiscal 1989 and will include a specially designed sponsored program module.

6. <u>Overhead rate submissions should be subjected to detailed reviews by independent staff</u>.

Numerous calculation errors and questionable cost treatment have resulted in inaccurate overhead rate submissions. Whereas submissions were reviewed and signed by the financial controller, his review was not in sufficient detail to identify consistent account treatment or identify erroneous underlying assumptions.

<u>Recommendation No. 6</u>

We recommend that the university internal auditor perform a detailed review of overhead rate submissions, supporting calculations, and reconciliations to audited financial statements. His review should include an examination of account transaction listings to determine that appropriate accounts are eliminated in submissions.

<u>Discussion</u>

Overhead rate submissions included numerous basic errors which should have been apparent from a detailed review. Use allowances (buildings) were calculated at twenty percent (20%) versus two percent (2%) , overallocations of internal services were reflected as net credit balances in indirect cost pools, accounts clearly identified as pertaining to unallowable costs were not eliminated (bad debts, interest, etc), and minor equipment expenditures were not capitalized.

Overhead rate submissions were prepared by a local staff accountant who is generally unfamiliar with Office of Management and Budget Circular A-21. His preparation of submissions were based on treatment of similar items in prior years as opposed to an understanding of federal requirements, and whereas unallowable costs are segregated in special accounts, his preparation procedures do not include an examination of accounts which may contain transactions requiring special treatment (i.e. other services, etc.).

Generally, the financial controller has extensive responsibilities and would appear to not have the available time necessary for a detailed review of submissions.

As a result, submissions reflect account treatment consistent with prior experience rather than the nature of underlying transactions, and review procedures would not necessarily identify all exceptions.

Management Comments

Management acknowledged that the grant accountant required greater supervision and would consider use of internal audit resources.

7. Storage of accounting records require improvement.

In prior years, financial records and documents were stored in cardboard boxes in a basement storage room. The basement was subject to periodic flooding which resulted in damage to financial records.

Recommendation No. 7

We recommend that storage facilities be moved to a more suitable location which provides reasonable protection from flooding, dampness, and other environmental factors.

Discussion

Management stated that space constraints necessitated storage of financial records in the basement location. Whereas records had been left in boxes on the floor, they were subsequently filed on shelves to mitigate the effects of further flood damage. We note that records and documents stored on lower shelves could be subjected to further flood damage, and the general dampness of the area causes continual damage to records.

Managment Comments

Management acknowledged that the current storage location is inadequate and they will pursue a more appropriate location.

D. Other Matters

1. Management should develop mutual understandings with USAID concerning provisions of OMB Circular A-21.

University management have not disclosed potential areas of cost principle disagreement to the cognizant audit agency (RIG/A/C, USAID Mission to Cairo). Office of Management and Budget Circular A-21 stresses the need for mutual understandings of cost principle interpretation. University management appear to have relied on outside consultant interpretations of cost principles and in some cases based cost treatment on the lack of prior federal agency inquiry. As a result, numerous areas of potential disagreement may result in significant changes to overhead rate submissions dating back to 1982.

Recommendation

Based on the resolution of matters included in our report, management should develop formal instructions on the preparation of overhead rate submissions by Egyptian staff. These instructions should be comprehensive enough to address major considerations of OMB Circular A-21 and be in sufficient detail to highlight management's interpretations of cost principles. Such detailed instructions appear necessary to facilitate the accurate preparation of overhead rate submissions by local staff, and consistent treatment of costs. Such instructions would also provide a basis for mutual understanding with federal agencies.

Discussion

In 1980, management engaged outside consultants to review the 1978 overhead rate submission. We understand that limited records and documents were sent to consultants in the United States and followed-up by discussions with the controller.

Whereas the consultant's report was issued in 1980 and management continued to have reservations on certain cost treatment, management relied heavily on the earlier advice and did not consider the effect of matters which may not have been addressed in that limited study or the significant changes resulting from university growth during subsequent years.

In addition to the reliance on outside consultants, university management assumed that any matters not identified during prior federal audits provided a basis for subsequent similar treatment.

Office of Management and Budget Circular A-21 states, in part.....

"Responsibilities. The successful application of cost accounting principles requires development of mutual understanding between representatives of educational institutions and of the Federal Government as to their scope, implementation, and interpretation."

Generally, matters noted in Section A of this report appear to have resulted from the foregoing considerations. Additional contributing factors are noted for each exception.

Management Comments

Management agreed with the overall finding and represented that they will consider follow-up with the consulting firm in resolving current issues. They stressed the need for comprehensive discussions with USAID in determining equitable treatment of cost principles for current and subsequent years.

2. USAID should consider a devaluation factor in establishing subsequent provisional overhead rates.

Provisional overhead rates for fiscal years after 1986 will be understated unless the effect of significant local currency devaluations are considered. This situation results from the use of an overall rate composed of U.S. Dollar costs and Egyptian Pound costs converted at devaluing rates. As a result, overhead cost reimbursements based on the provisional rate will be understated.

Recommendation No. 2

We recommend that provisional overhead rates include a devaluation factor which will minimize variances between provisional and final rates resulting from known exchange rate fluctuation.

Discussion

Historically, U.S. Dollar overhead rates exceed Egyptian Pound overhead rates. The combined overhead rate increases with local currency devaluations as U.S. Dollar costs of the combined rate become proportionately greater. In early 1987 the local currency was devalued from approximately $ 1= LE 1.35 to $ 1= LE 2.20. In the absence of local currency costs increasing at the same rate as the devaluation, the 1987 final overhead rate will exceed the provisional rate solely as a result of known exchange rate fluctuation. The 1987 provisional rate will be understated by approximately six percent (6%) before considering increases in local currency costs resulting from the devaluation.

Management Comments

Management concurred with our observation and will pursue the matter during subsequent negotiations.

FINANCIAL AND COMPLIANCE AUDITS

AMERICAN UNIVERSITY IN CAIRO

FIVE FISCAL YEARS ENDED AUGUST 31, 1986

PART III - EXHIBITS

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EXHIBIT 1

FINANCIAL AND COMPLIANCE AUDITS

AMERICAN UNIVERSITY IN CAIRO

FIVE FISCAL YEARS ENDED AUGUST 31, 1986

COST REIMBURSABLE CONTRACT DIRECT LABOR SUMMARY

CONTRACT	DIRECT LABOR INCURRED AND BILLED 1986 ($)	1985 ($)	1984 ($)	1983 ($)	1982 ($)	TOTAL ($)
1. Integrated Social Services - Beni Suef		82,909	102,973	104,048	361	290,291
2. Industrial Quality Improvement Center		1,786	8,904			10,690
3. Clinical Classification of Diarrheal Diseases		2,213	4,572	2,867		9,652
4. Family Planning Project - Menoufiya			29,706	56,977	131,490	218,173
5. Evaluation of Neighborhood Urban Services	48,970	34,692	36,088	9,607		129,357
Annual Direct Labor	48,970	121,600	182,243	173,499	131,851	658,163
Adjusted Overhead Rates (%)	94.4	85.0	82.8	84.8	85.0	
Adjusted Overhead Costs	46,228	103,360	150,897	147,127	112,073	559,685
Billed Overhead Costs (Provisional rate of 139%)						(824,066)
Excess Overhead Billings						264,381

Reference direct labor costs to Exhibit 4 (Page 1 of 2)

Reference adjusted overhead rates to Exhibit 2.

EXHIBIT 2

FINANCIAL AND COMPLIANCE AUDITS

AMERICAN UNIVERSITY IN CAIRO

FIVE FISCAL YEARS ENDED AUGUST 31, 1986

OVERHEAD RATE SUMMARY

		University Submissions			Recommended Adjusted Costs			
Fiscal Year Ended	Overhead Currency	Indirect Costs	Direct Labor	Overhead Rate (%)	Indirect Costs	Direct Labor	Overhead Rate (%)	Conversion Rate
August 31, 1986	LE	5,790,995	4,344,905	133.3	4,143,751	5,231,518	79.2	
	$	2,932,693	1,682,505	174.3	2,331,692	1,845,083	126.4	
	Combined	7,222,319	4,900,953	147.4	5,401,137	5,720,282	94.4	1.35
August 31, 1985	LE	4,343,021	3,634,970	119.5	3,120,408	4,413,979	70.7	
	$	2,630,299	1,420,760	185.1	2,087,924	1,558,650	134.0	
	Combined	7,862,854	5,800,242	135.6	5,847,452	6,876,697	85.0	.83
August 31, 1984	LE	3,509,643	2,839,664	123.6	2,413,204	3,375,561	71.5	
	$	2,156,365	1,275,107	169.1	1,644,587	1,427,962	115.2	
	Combined	6,384,851	4,696,389	136.0	4,552,062	5,494,903	82.8	.83
August 31, 1983	LE	3,323,494	2,465,230	134.8	2,225,080	3,018,896	73.7	
	$	1,920,000	1,114,409	172.3	1,468,701	1,254,022	117.1	
	Combined	5,924,210	4,084,566	145.0	4,149,520	4,891,246	84.8	.83
August 31, 1982	LE	2,560,636	1,998,757	128.1	1,604,668	2,229,328	72.0	
	$	1,541,014	951,471	162.0	1,272,841	1,009,776	126.1	
	Combined	5,199,065	3,806,838	136.6	3,565,224	4,194,530	85.0	.70

Reference indirect cost and direct labor balances to Exhibit 3.

FINANCIAL AND COMPLIANCE AUDITS

AMERICAN UNIVERSITY IN CAIRO

FIVE FISCAL YEARS ENDED AUGUST 31, 1986

FINANCIAL EXCEPTION SUMMARY

Exception Reference (Section B)	Direct Labor 1986 (LE)	Direct Labor 1985 (LE)	Direct Labor 1984 (LE)	Direct Labor 1983 (LE)	Direct Labor 1982 (LE)	Indirect Costs 1986 (LE)	Indirect Costs 1985 (LE)	Indirect Costs 1984 (LE)	Indirect Costs 1983 (LE)	Indirect Costs 1982 (LE)
Submitted Costs	4,344,905	3,634,970	2,839,664	2,465,230	1,998,757	5,790,995	4,343,021	3,509,643	3,323,494	2,560,63
1. Restricted Fund Labor Costs	595,129	527,686	346,320	409,851	133,953	-	-	-	-	-
2. USAID/ASHA Grant Offset	-	-	-	-	-	(677,800)	(640,000)	(580,000)	(580,000)	(599,50
3. Reclassified Press Dept. Costs	102,388	71,620	52,306	32,891	25,116	(230,770)	(128,821)	(137,442)	(113,454)	(61,78
4. Reclassified Dining Hall Costs	151,517	143,634	112,494	91,667	71,502	(296,416)	(248,276)	(219,201)	(264,536)	(225,09
5. Duplicating / Printshop Costs	-	-	-	-	-	-	-	-	-	-
6. Unallowable Costs - Public Relations	-	-	-	-	-	(19,311)	(30,644)	-	-	-
- Fundraising	-	-	-	-	-	(123,133)	(100,311)	(86,809)	(84,779)	(56,31
- Interest	-	-	-	-	-	(174,754)	(5,575)	(5,190)	-	-
- Bad Debts	-	-	-	-	-	(5,384)	-	(785)	-	-
7. Reverse Direct Labor Elimination	37,579	36,069	24,777	19,257	-	-	-	-	-	-
8. Capital Assets - Indirect Costs	-	-	-	-	-	(50,148)	(20,831)	(16,645)	(13,366)	-
- Use Allowance	-	-	-	-	-	(32,290)	(26,781)	(18,441)	890	-
9. Offset Rent Revenue	-	-	-	-	-	(37,238)	(21,374)	(31,926)	(43,169)	(13,27
Recommended Adjusted Costs	5,231,518	4,413,979	3,375,561	3,018,896	2,229,328	4,143,751	3,120,408	2,413,204	2,225,080	1,604,66

Reference indirect costs and direct labor balances to Exhibit 2.

Reference individual exceptions to Section II - B.

FINANCIAL AND COMPLIANCE AUDITS

AMERICAN UNIVERSITY IN CAIRO

FIVE FISCAL YEARS ENDED AUGUST 31, 1986

FINANCIAL EXCEPTION SUMMARY

Exception Reference (Section B)	Direct Labor 1986 ($)	1985 ($)	1984 ($)	1983 ($)	1982 ($)	Indirect Costs 1986 ($)	1985 ($)	1984 ($)	1983 ($)	1982 ($)
Submitted Costs	1,682,505	1,420,760	1,275,107	1,114,409	951,471	2,932,693	2,630,299	2,156,365	1,920,000	1,541,014
1. Restricted Fund Labor Costs	114,239	90,319	106,537	114,247	31,768	-	-	-	-	-
2. USAID/ASHA Grant Offset	-	-	-	-	-	(60,000)	(80,000)	(128,580)	(100,276)	(55,600)
3. Reclassified Press Dept. Costs	40,680	37,962	41,318	22,466	26,537	(103,206)	(109,306)	(53,790)	(25,042)	(29,250)
4. Reclassified Dining Hall Costs	-	-	-	-	-	-	-	-	(922)	(585)
5. Duplicating / Printshop Costs	-	-	-	-	-	-	-	-	-	-
6. Unallowable Costs - Public Relations	-	-	-	-	-	(4,780)	(2,459)	-	-	-
- Fundraising	-	-	-	-	-	(113,333)	(148,319)	(146,987)	(147,537)	(95,676)
- Interest	-	-	-	-	-	(13,727)	(13,449)	(12,200)	(8,421)	(5,639)
- Bad Debts	-	-	-	-	-	(14,814)	(1,396)	-	-	-
7. Reverse Direct Labor Elimination	7,659	9,609	5,000	2,900	-	-	-	-	-	-
8. Not Applicable										
9. Not Applicable										
10. Unallowable Costs - N.Y. Fundraising	-	-	-	-	-	(73,031)	(60,181)	(69,424)	(63,094)	(46,268)
- N.Y. Trustees	-	-	-	-	-	(21,359)	-	(19,734)	(22,405)	(22,654)
- N.Y. Investment	-	-	-	-	-	(196,751)	(127,265)	(81,063)	(83,602)	(12,501)
Recommended Adjusted Costs	1,845,083	1,558,650	1,427,962	1,254,022	1,009,776	2,331,692	2,087,924	1,644,587	1,468,701	1,272,841

Reference indirect costs and direct labor balances to Exhibit 2.

Reference individual exceptions to Section II - B.

FINANCIAL AND COMPLIANCE AUDITS
AMERICAN UNIVERSITY IN CAIRO
FIVE FISCAL YEARS ENDED AUGUST 31, 1986

COST REIMBURSABLE CONTRACTS

CONTRACTING ENTITY	CONTRACT NUMBER	BILLED CONTRACT VALUE ($)	REPORTED COSTS (4): DIRECT LABOR ($)	OTHER DIRECT COSTS ($)	OVERHEAD ($)	TOTAL ($)	PERFORMANCE PERIOD
USAID							
Integrated Social Services - Beni Suef	263-0029-G-00-1050-00	756,944	290,291	119,684	349,055 (1)	759,030	3/1/82 - 6/30/85
Family Planning Project - Menoufiya	263-78-G-008	673,032	218,173	186,681	268,178 (1)	673,032	9/1/82 - 3/31/84
Industrial Quality Improvement Center	263-0090-C-00-4035	51,180	10,690	26,010	14,859 (1)	51,559	3/5/84 - 2/28/85
USDE							
Material Development in Modern Standard Arabic	G00-80-01862	42,079	20,751	14,184	7,144 (2)	42,079	9/30/80 - 6/30/83
Thematic Analysis of Modern Egyptian Literature	G00-82-01397	33,171	19,364	8,643	5,164 (2)	33,171	9/1/82 - 2/29/84
AID NCDDP							
Clinical Classification of Diarrheal Diseases	-	39,343	9,652	16,355	13,417 (1)	39,424	6/1/83 - 7/31/85
US/ ISTI (3)							
Evaluation of Neigborhood Urban Services	NEB-0000-C-3039-00	352,696	129,357	44,782	178,557 (1)	352,696	6/1/83 - 5/31/86

(1) Cost reimbursable contracts with provisional overhead of 139% of direct labor costs. Reference Exhibit 1.

(2) Cost reimbursable contracts with fixed overhead.

(3) Unaudited cost reimbursable contract.

(4) Costs reported during the five fiscal years ended August 31, 1986.

Reference direct labor costs on cost reimbursable contracts subject to provisional overhead rates of 139% to Exhibit 1

FINANCIAL AND COMPLIANCE AUDITS
AMERICAN UNIVERSITY IN CAIRO
FIVE FISCAL YEARS ENDED AUGUST 31, 1986

FIXED PRICE CONTRACTS

CONTRACTING ENTITY	CONTRACT NUMBER	CONTRACT VALUE	PERFORMANCE PERIOD
GOFI/AID			
GOFI Industrial Training	263-0101	$1,650,000	9/18/82 - 8/31/86
AID			
New Beni Suef	263-0029-C-00-7012-00	$81,856	5/1/86 - 9/30/87
English Language Training	263-0026-C-00-1041	$886,583	6/25/81 - 9/30/82
Development Industrial Bank Training	263-00456-C-00-4085	$91,200	6/30/84 - 4/30/85
Evaluation of Basic Village Services	263-0103-C-00-2023	LE 8,300	2/11/82 - 2/28/82
Final Evaluation of Agricultural Management Development Project	263-0116	$16,514	4/28/86 - 6/30/86
English Language Training	263-0026-C-00-6003-00	$524,040	1/9/85 - 11/15/85

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FINANCIAL AND COMPLIANCE AUDITS

AMERICAN UNIVERSITY IN CAIRO

FIVE FISCAL YEARS ENDED AUGUST 31, 1986

PART IV - ATTACHMENTS

ATTACHMENT 1

EXHIBIT B 1

ABBREVIATED METHOD

SAMPLE FORMAT*

Computation of an Indirect Cost Rate
Based on Financial Data for the Fiscal Year
Ended June 30, 19__

Accounts	Reported Expenditures (a)			Eliminations & Adjustments (b)		Adjusted Expenditure				
						Direct Costs		Indirect Costs		
	Salaries & Wages	Other	Total	Salaries & Wages	Other	Salaries & Wages	Other	Salaries & Wages	Other	Total Allowable
Administration										
President's Office	$49,264	$28,526	$77,790		$4,126(c)			$49,264	$24,400	$73,664
Trustee Expense		5,214	5,214						5,214	5,214
Business Office	171,471	47,082	218,553		1,472(c)			171,471	45,610	217,081
Administrative	7,201	15,555	22,756		14,172(d)			7,201	1,383	8,584
Provost	28,356	1,520	29,876		500(c)			28,356	1,020	29,376(f)
Fringe Benefits		154,019	154,019						154,019	154,019(e)
Student Administration & Services										
Registrars Office	19,007	8,383	27,390			$19,007	$8,383			
Admissions Office	70,329	16,676	87,005			70,329	16,676			
Placement Office	13,767	818	14,585			13,767	818			
Dean of Men	29,631	2,321	31,952			29,631	2,321			
Dean of Women	18,792	2,311	21,103			18,792	2,311			
Dean of Students	5,015	799	5,814			5,015	799			
Public Relations										
Vice President's Office	32,505	10,516	43,021			32,505	10,516			
Estate Planning	55,156	35,772	90,928			55,156	35,772			
Corporate Relations	8,268	1,073	9,341			8,268	1,073			
Development Office	46,840	14,771	61,611			46,840	14,771			
Alumni Office	39,638	15,848	55,486			39,638	15,848			
News Bureau	19,112	6,288	25,400			19,112	6,288			
Publications:										
Catalogs		11,768	11,768				11,768			
Alumni Magazine		23,306	23,306				23,306			
Speeches & Bulletins		$3,084	$3,084						$3,084	$3,084
President's Report		4,454	4,454						4,454	4,454
Student Activities										
Office of the Chaplain	$13,270	12,127	25,397			$13,270	$12,127			
Endowed Lectures		1,000	1,000				1,000			
Assemblies & Convocations		7,282	7,282				7,282			
Commencement		3,734	3,734				3,734			
Health Service	39,728	12,672	52,400			39,728	12,672			
Counseling Service	24,629	6,357	30,986			24,629	6,357			
General:										
Economic Lectures		388	388				388			
Artist Course Tickets		10,060	10,060				10,060			
Theatre Subsidy		9,116	9,116				9,116			
Dues & Memberships		2,748	2,748						2,748	2,748
Auditing		7,384	7,384						7,384	7,384
Miscellaneous		1,130	1,130						1,130	1,130
Plant Operation & Maintenance	261,795	363,302	625,097		$43,990(g)			$261,795	319,312	581,107(m)
Library	153,253	74,602	227,855		973(g)			153,253	68,629	221,882(m)
Instruction					5,000(h)					
Deans & Dept. Heads	261,113	38,655	299,768			208,890	30,924	52,223(i)	7,731	59,954
All Other	1,470,024	508,168	1,978,192			1,447,924	508,168	22,100(k)		22,100
→ Sponsored Research	220,309	90,600	310,909			220,309	90,600			
Auxiliary Enterprises					(j)					
Rental Properties	2,320	30,181	32,501			2,320	30,181			
Dormitories	207,333	202,968	410,301			207,333	202,968			
Dining Halls	126,041	461,955	587,996			126,041	461,955			
Book Store	14,136	93,073	107,209			14,136	93,073			
Athletics	23,211	28,796	52,007			23,211	28,796			
Farm	14,632	7,955	22,587			14,632	7,955			
Dairy	32,667	51,674	84,341			32,667	51,674			
Agency Funds:										
Student Organizations	$1,568	$18,066	$19,634			$1,568	$18,066			
Other		76,911	76,911				76,911			
Student Aid		310,000	310,000				310,000			
Work Study Program (l)	100,000		100,000	$80,000		16,000		$4,000(l)		$4,000(l)
Total	$3,580,381	$2,841,003	$6,421,384	$80,000	$70,233	$2,750,718	$2,124,652	$749,663	$646,118	$1,395,781
						(A)				(B)

Indirect Cost Rate Computation

Indirect Cost Rate = B ÷ A

$$\frac{\$1,395,781}{\$2,750,718} = 50.74\%$$

(See next page for footnotes)

*This is a sample only and is not intended to prescribe methods for charging costs.

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Appendix 4.

THE AMERICAN UNIVERSITY IN CAIRO

ACTIVITY REPORT

Name ______________________ PERIOD COVERED: MONTH SEMESTER (Circle One)

Position ______________________

Department ______________________ ENDING ______ (Date)

Prepared by ______________________

ACTIVITIES (Refer to Activity Definitions) PERCENT OF TOTAL WORKLOAD

1. Instruction %
2. Externally Financed Research (Project Name & Funding Source) %
   a. ______________________
   b. ______________________
3. Externally Financed Training (Project & Source) %

   ____
4. Departmental Administration (Not Directly Related to 2 or 3 Above) %
5. Research Administration (Not Directly Related to 2 Or 3 Above) %

   Total Effort 100%

BASIS FOR CALCULATION (Check as Appropriate)

______ Regular Base

______ Overload if authorized (full, half, etc. ______) for APT appointees

______ Overtime if applicable (number of hours ______) for non-APT appointees.

I certify that this distribution of effort represents a reasonable estimate of the effort expended by (me) (this employee) during the period covered by this report

______________________ Signature of Employee or Supervisory Official

______________________ Signature of Unit Head (SRC only)

For instructions see reverse.

UNITED STATES ... AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT

ATTACHMENT 3

March 10, 1981

Dr. Richard F. Pedersen
President
The American University in Cairo
866 United Nations Plaza
New York, New York 10017

Dear Dr. Pedersen:

I am writing as the result of our recent discussion concerning the extent to which grants made by this office to the American University in Cairo are to be used to pay indirect costs of contract work which the University undertakes for the U.S. Government.

The assistance this office provides to the American University in Cairo is to enable the University to meet the purpose of Section 214 of the Foreign Assistance Act, i.e., to serve as a "study and demonstration center for ideas and practices of the United States."

Assistance provided under Section 214 is to help support the University's regular academic and educational functions, including indirect costs associated with those functions. It is not intended to cover costs, either direct or indirect, associated with grant and contract work which the University performs for the U.S. Government or other entities. That would place an undue and unfair burden upon the assistance provided by the American Schools and Hospitals Abroad (ASHA) program. It would result in a subsidy by the ASHA program of activities and objectives outside the purpose and intent of Section 214 of the Foreign Assistance Act and at the same time would lessen the ability of the University to meet ASHA program objectives.

Sincerely,

David A. Santos

David A. Santos
Director, Office of American Schools and Hospitals Abroad

cc: Donald Brown, USAID Egypt
Hugh Dwelley, SER/CM
Gerald Kamens, NE/EI

APPENDIX 1

REPORT DISTRIBUTION

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