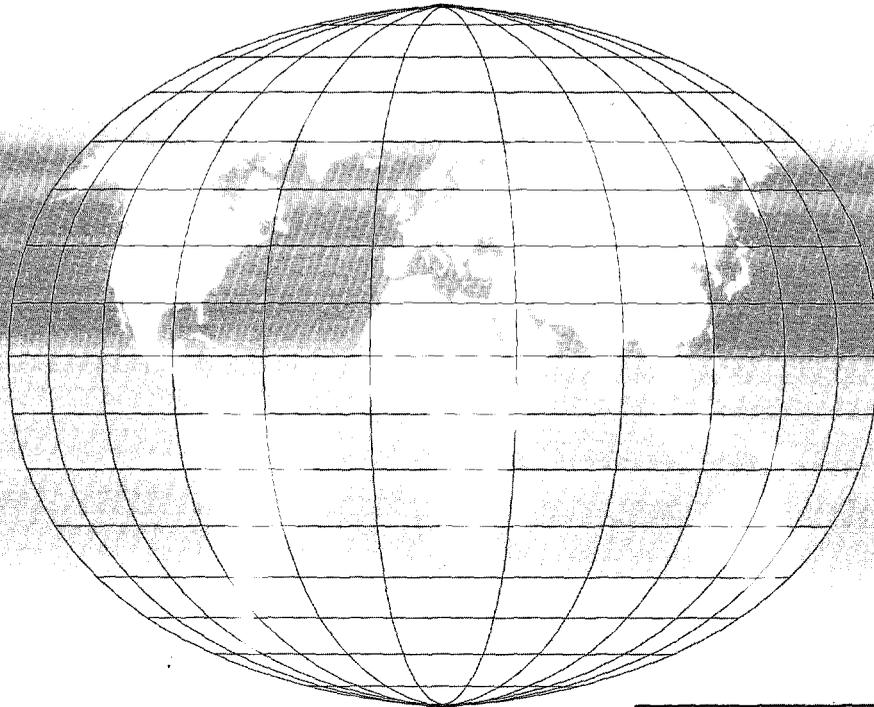


Report of Audit

PD-ABQ-194

**Financial Audit of the United Engineering
and Marketing Company,
Expenses Incurred Under USAID/Egypt
Contract No. 263-0000-C-00-5019-00**

**Report No. 6-263-98-011-N
January 25, 1998**



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

**Regional Inspector General for Audit
Cairo, Egypt**

**OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



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

CAIRO, EGYPT

Report No. 6-263-98-011-N
January 25, 1998

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley
FROM : RIG/A/Cairo, Lou Mundy *Lou Mundy*
SUBJECT: Financial Audit of United Engineering and Marketing Company, Expenses Incurred Under USAID/Egypt Contract No. 263-0000-C-00-5019-00

The attached report, transmitted on November 27, 1997 by KPMG Hazem Hassan, presents the results of a financial audit of the United Engineering and Marketing Company (UEM) under Contract No. 263-0000-C-00-5019-00. UEM provides maintenance services for the USAID/Egypt managed residences, offices and cafeteria.

We engaged KPMG Hazem Hassan to perform a financial audit of UEM's incurred expenses of \$476,429 (equivalent to LE 1,619,862) for the period December 1, 1995 through November 30, 1996. The purpose of the audit was to evaluate the propriety of costs incurred and to determine UEM's indirect cost rate during the period. KPMG Hazem Hassan also evaluated UEM's internal controls and compliance with applicable laws, regulations and contract terms as necessary in forming an opinion regarding the Fund Accountability Statement.

The audit report did not identify any questioned amounts in either the direct costs billed to USAID/Egypt by UEM or in UEM's indirect cost pool. The auditors determined UEM's indirect cost rate to be 25.92 percent for the period audited.

The auditors did not note any material weaknesses in UEM's internal control structure nor any material instances of noncompliance with applicable laws, regulations and contract terms.

UEM officials were in agreement with the audit report and, thus, did not submit any written comments. They had also agreed to waive an exit conference.

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

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

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

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

Recommendation No. 1: We recommend that USAID/Egypt finalize United Engineering and Marketing Company's indirect cost rate for the period December 1, 1995 through November 30, 1996 for Contract No. 263-0000-C-00-5019-00, and recover (or disburse) any amounts determined to be owed USAID/Egypt (or United Engineering and Marketing Company).

In response to the recommendation, USAID/Egypt officials finalized the indirect cost rate by obtaining UEM's agreement with the auditor's rate of 25.92 percent and issuing a Negotiated Indirect Cost Rate Agreement (NICRA). In addition, the Mission provided evidence of recovering \$13,742 (equivalent to LE 46,723), the amount determined to be due USAID/Egypt by applying the NICRA rate to UEM's costs for the period audited and provisionally to their costs for the period December 1, 1996 through November 30, 1997. Based on the Mission's final action, Recommendation No. 1 is closed upon issuance of this report.

Thank you for the cooperation and assistance extended to the audit staff on this engagement and your continued support of the financial audit program in Egypt.

Attachment: a/s

B

Financial Audit of the
United Engineering and Marketing (UEM)
USAID/Egypt Contract No. 263-0000-C-00-5019-00
for the Period December 1, 1995 Through November 30, 1996

"Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public."

Financial Audit of the
United Engineering and Marketing (UEM)
USAID/Egypt Contract No. 263-0000-C-00-5019-00
for the Period December 1, 1995 Through November 30, 1996

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d



Hazem Hassan

Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street
Mohandseen, Cairo
Egypt

Telephone: (202) 336 90 94 - 336 90 98
Telefax : (202) 349 72 24 - 348 78 19
E-Mail : hhassan2@rite.com.

Mr. Lou Mundy
Regional Inspector General for Audit-Cairo
United States Agency for International Development
Cairo, Egypt.

November 27, 1997

Dear Mr. Mundy,

This report represents the results of our financial audit of the United Engineering and Marketing (UEM) USAID/Egypt Contract No.263-0000-C-00-5019-00 for the period December 1, 1995 through November 30, 1996.

Background

The purpose of the Contract is to provide maintenance services for the USAID/Egypt managed residences, offices and cafeteria. The location of the said properties includes, but is not limited to, the 7th, 8th, 9th and 10th floors and part of the Cairo Center Office Building and various residential locations.

The Contract was awarded on November 29, 1994 and subsequently amended several times. On September 9, 1996 amendment No. 8 was issued to increase the total committed funding for the Contract to \$1,007,378 (equivalent to LE3,425,084).



Audit Objectives and Scope

The objective of this engagement was to conduct a financial audit of USAID/Egypt's resources, managed by the United Engineering and Marketing (UEM), under USAID/Egypt Contract No. 263-0000-C-00-5019-00, for the period December 1, 1995 through November 30, 1996. The audit encompassed an examination of UEM's expenses, billed to and reimbursed by USAID/Egypt, in order to determine whether they were in compliance with the terms and conditions of the Contract and USAID/Egypt rules and regulations. We also reviewed internal controls associated with UEM's management of resources funded by USAID/Egypt through the Contract.

The specific objectives were to:

1. express an opinion on whether the fund accountability statement for the USAID financed Contract of UEM presents fairly, in all material respects, project revenues received and costs incurred for the period under audit, in conformity with generally accepted accounting principles or other comprehensive bases of accounting;
2. determine whether the costs, reported as incurred under the Contract, are, in fact, allowable, allocable, and reasonable in accordance with the terms of the Contract;
3. evaluate and obtain a sufficient understanding of the internal control structure of UEM, assess control risk, and identify reportable conditions, including material internal control weaknesses;
4. perform tests to determine whether UEM complied, in all material respects, with the terms and conditions of the Contract and, also, applicable laws and USAID/Egypt rules and regulations; and
5. perform an audit of the indirect cost rate; and
6. determine whether UEM has taken corrective action on prior audit report recommendations.

Preliminary planning and review procedures started in September 1997 and consisted of:

- discussions with RIG/A/C;
- a review of the Contract;
- interviews and discussions with UEM's key personnel concerning the status of the Contract, accomplishments during the period, the statutory reporting requirements, the Contract's budget, procedures governing actual expenditures incurred by UEM and billed to USAID/Egypt; and
- a review of the UEM's organizational structure and UEM's established policies and procedures, and controls related to personnel, procurement, financial accounting and reporting, and billing to USAID/Egypt.

The field work segment of our audit was completed on November 27, 1997. The scope of our work was to audit costs incurred by UEM and reimbursed by USAID/Egypt under Contract No. 263-0000-C-00-5019-00. Within each budget line item, we selected transactions on a judgmental basis in order to perform a substantive test of details. We tested expenditures of \$184,709 (equivalent to LE628,010) out of total expenditures amounting to \$476,429 (equivalent to LE1,619,862).

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

1. Reconciling UEM's accounting records to invoices issued to USAID/Egypt and testing costs for allowability, allocability, reasonableness, and adequate supporting documentation;
2. Determining whether payroll costs were appropriate and consistent with the terms of the Contract and applicable rules and regulations and were adequately supported and approved;
3. Determining whether other direct costs, sub-contractor costs and parts and supplies costs were appropriate and consistent with the terms of the Contract and applicable rules and regulations and were adequately supported and approved; and

4. Determining the actual indirect cost rate for the Contract period covered by our audit, and the propriety of costs included in the related allocation bases and indirect cost pools.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

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

Results of Audit

Contract No. 263-0000-C-00-5019-00 Fund Accountability Statement and Schedule of Computation of Indirect Cost Rate

Our audit did not identify any questioned costs. We determined UEM's indirect cost rate for the Contract to be 25.92%.

Internal Control

Our audit did not identify any reportable conditions associated with UEM's internal controls.

Compliance with Laws and Regulations

Our audit did not identify any material instances of noncompliance with applicable laws and regulations.

Follow-up on the Previous Audit report

The previous audit report did not include any questioned costs nor internal control and compliance matters requiring follow-up.

Supplementary Information

A supplementary fund accountability statement, presented in the functional currency, was communicated to UEM's management and is available upon request.

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


KPMG Hazem Hassan
Cairo, Egypt

FUND ACCOUNTABILITY STATEMENT



Hazem Hassan

Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street
Mohandseen, Cairo
Egypt

Telephone: (202) 336 90 94 - 336 90 98
Telefax : (202) 349 72 24 - 348 78 19
E-Mail : hhassan2@rite.com.

Report on the Fund Accountability Statement
Independent Auditor's Report

Mr. Lou Mundy
Regional Inspector General for Audit-Cairo
United States Agency for International Development
Cairo, Egypt.

We have audited the accompanying fund accountability statement and schedule of computation of indirect cost rate of funds received and costs incurred locally in Egypt by United Engineering and Marketing (UEM), USAID/Egypt Contract No. 263-0000-C-00-5019-00 for the period December 1, 1995 through November 30, 1996. These financial statements are the responsibility of UEM's management. Our responsibility is to express an opinion on this fund accountability statement based upon our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the presentation of the overall fund accountability statement. We believe that our audit provides a reasonable basis for our opinion.



We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

The aforementioned fund accountability statement and schedule of computation of indirect cost rate do not include the cost of USAID/Egypt's direct procurement of vehicles, equipment, and technical assistance provided by USAID/Egypt directly to UEM, nor the total revenues and costs incurred by UEM on an organization-wide basis.

As described in Note 1, the accompanying fund accountability statement and schedule of computation of indirect cost rate have been prepared on the cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the fund accountability statement, referred to above, presents fairly, in all material respects, the amounts received and the costs incurred pursuant to Contract No. 263-0000-C-00-5019-00 for the period December 1, 1995 through November 30, 1996 in conformity with the basis of accounting described in Note 1.

Our audit was performed for the purpose of forming an opinion on the fund accountability statement. The accompanying schedule of computation of indirect cost rate is presented for purposes of additional analysis and is not a required part of the fund accountability statement. Such information has been subjected to the auditing procedures applied in the audit of the fund accountability statement and, in our opinion, is fairly stated, in all material respects, in relation to the fund accountability statement.


KPMG Hazem Hassan
Cairo, Egypt

November 27, 1997

United Engineering and Marketing (UEM)
Fund Accountability Statement
Contract No. 263-0000-C-00-5019-00
For the Period December 1, 1995 through November 30, 1996

USAID/Egypt Funds Received	<u>\$</u> <u>468,976</u>
----------------------------	-----------------------------

<u>Expenditures</u>	<u>Budget</u> \$ (Note 4)	<u>Actual</u> \$ (Note 2)
Management Salaries	78,696	79,501
Workforce Wages	73,742	69,658
Overtime	31,765	27,149
Fringe Benefits	34,336	32,799
Bonus Pool	30,703	30,731
Intermittent Wages	23,235	14,807
Subcontractors	28,529	22,014
Other Direct Costs	26,350	24,572
Overhead	70,939	64,676
Fixed Fee	34,019	34,019
Parts & Supplies	107,059	76,503
Total Expenditures	539,373	476,429

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

Schedule of Computation of Indirect Cost Rate
Direct Contract No. 263-0000-C-00-5019-00
For the Period December 1, 1995 through November 30, 1996

	<u>Total</u>	<u>Questionable Costs</u>		<u>Correct</u>
		<u>Expenditures</u>	<u>Ineligible</u>	
	\$	\$	\$	\$
<u>Overhead Costs</u>				
Office Cleaning	1,002			1,002
Stationery & Supplies	3,891			3,891
Car Fuel/Maintenance	5,793			5,793
Communications	2,851			2,851
Miscellaneous Transport	1,091			1,091
Maint., Office Equip. Tools	4,482			4,482
Renovation/Office Depreciation	2,189			2,189
Electricity & Gas	1,633			1,633
Run. Pats., Tools, Cons. & Tools	3,982			3,982
Assets Depreciation	24,780			24,780
Auditors	1,712			1,712
Commercial Licenses	5			5
Clearing, Waste Disposal	825			825
General Expenses	1,611			1,611
Office Rent	11,298			11,298
Accrued Tax Liability	2,853			2,853
Legal Consultancy	114			114
Total Indirect Costs	70,112	---	---	70,112
<u>Direct Costs</u>				
Management Salaries	79,501			79,501
Workforce Wages	69,658			69,658
Overtime Wages	27,149			27,149
Total Compensation	176,308			176,308
Fringe Benefits	32,799			32,799
Intermittent Wages	14,807			14,807
Subcontractors	24,572			24,572
Other Direct Costs	22,014			22,014
Total Direct Costs	270,500			270,500
Indirect Cost Calculation:				
<u>Total Indirect Costs</u>	<u>70,112</u>	25.92%		
<u>Total Direct Costs</u>	<u>270,500</u>			

United Engineering and Marketing (UEM)
USAID/Egypt Contract No. 263-0000-C-00-5019-00

Notes to the Fund Accountability Statement

Note 1: Accounting Basis

The fund accountability statement has been prepared on the basis of cash receipts and disbursements. Consequently, revenues are recognized when they are actually received and expenditures are recognized when they are actually paid.

Note 2: Source of Data

The column labeled "Actual" is the responsibility of UEM management and represents the cumulative costs billed to USAID/Egypt for the period December 1, 1995 through November 30, 1996.

The column labeled "Total Expenditures" on the schedule of computation of indirect cost rate is the responsibility of UEM management and represents cumulative expenditures for the period December 1, 1995 through November 30, 1996 as obtained from UEM's accounting records.

Note 3: Translation Rate

Expenditures paid in Egyptian Pounds (LE) have been translated into US Dollars (\$). The period average exchange rate method was used. This rate was \$1 = LE3.4.

Note 4: Budget

The column labeled "Budget" includes USAID/Egypt's approved costs in accordance with the most recent budget amendment of the Contract, which was made within the audit period. These amounts are included for informational purposes only.

Note 5: Indirect Cost Rate

As calculated on the schedule of computation of indirect cost rate, we determined that indirect costs represent 25.92% of total direct costs. The base costs (as defined in the Contract) used for computing the actual indirect cost rate includes: 1) Total Compensation (exclusive of bonuses) 2) Fringe Benefits 3) Intermittent Wages 4) Subcontractors 5) Other Direct Costs (excluding parts and supplies).

Note 6: USAID/Egypt Funds Received

Revenues reported in the fund accountability statement included an amount of \$40,303 (equivalent to LE137,030) which represents reimbursement of costs incurred by UEM and billed to USAID/Egypt in the period prior to that covered by our audit.

INTERNAL CONTROL STRUCTURE

11a



Hazem Hassan

Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street
Mohandseen, Cairo
Egypt

Telephone: (202) 336 90 94 - 336 90 98
Telefax : (202) 349 72 24 - 348 78 19
E-Mail : hhassan2@rite.com.

Internal Control Structure Independent Auditor's Report

Mr. Lou Mundy
Regional Inspector General for Audit-Cairo
United States Agency for International Development
Cairo, Egypt.

We have audited the accompanying fund accountability statement and schedule of computation of indirect cost rate of the United Engineering and Marketing (UEM) pursuant to USAID/Egypt Contract No. 263-0000-C-00-5019-00 for the period December 1, 1995 through November 30, 1996, and have issued our report thereon dated November 27, 1997.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.



The management of UEM is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that the transactions are executed in accordance with the management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with the cash basis of accounting. Because of the inherent limitations in any internal control structure, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the fund accountability statement of UEM related to funds received and costs locally incurred under USAID/Egypt Contract No. 263-0000-C-00-5019-00 for the period November 1, 1995 through December 30, 1996, we obtained an understanding of the internal control structure associated with UEM's operations. With respect to the internal control structure associated with UEM's operations, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control structure elements does

not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the fund accountability statement being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We did not note any matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we noted other matters, involving the internal control structure and its operation, that we have reported to the management of UEM in a separate letter dated November 27, 1997.

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


KPMG Hazem Hassan
Cairo, Egypt

November 27, 1997

COMPLIANCE WITH LAWS AND REGULATIONS

14a



Hazem Hassan

Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street
Mohandseen, Cairo
Egypt

Telephone: (202) 336 90 94 - 336 90 98
Telefax : (202) 349 72 24 - 348 78 19
E-Mail : hhassan2@rite.com.

Report on Compliance with Laws and Regulations Independent Auditor's Report

Mr. Lou Mundy
Regional Inspector General for Audit-Cairo
United States Agency for International Development
Cairo, Egypt.

We have audited the accompanying fund accountability statement and schedule of computation of indirect cost rate of United Engineering and Marketing (UEM) pursuant to USAID/Egypt Contract No. 263-0000-C-00-5019-00 for the period December 1, 1995 through November 30, 1996 and have issued our report thereon on dated November 27, 1997.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.



Compliance with laws, regulations, contracts and grants applicable to UEM is the responsibility of UEM's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of UEM's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the fund accountability statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests did not disclose any material instances of noncompliance that are required to be reported herein under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that have been reported to UEM's management in a separate letter dated November 27, 1997.

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



KPMG Hazem Hassan
Cairo, Egypt

November 27, 1997

MISSION COMMENTS



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

22 JAN 1998

MEMORANDUM

DATE: January 22, 1998
TO: Lou Mundy, RIG/A/C
FROM: Shirley Hunter, OD/FM/FA
SUBJECT: Financial Audit of United Engineering and Marketing Company (UEM), Expenditures Incurred Under USAID/Egypt Contract No. 263-000-C-00-5019-00 - Draft Report dated December 22, 1997

Following is the Mission response to Recommendation No. 1 under the subject audit.

Recommendation No. 1 requested USAID/Egypt to determine United Engineering and Marketing Company's final indirect cost rate for the period December 1, 1995 through November 30, 1996 under the subject contract. On January 19, 1998, the Procurement Officer issued a NICRA accepting the indirect cost rate of 25.92% as final for the period December 1, 1995 to November 30, 1996, and as provisional until amended (Attachment No. 1).

The final indirect costs rate of 25.92% is lower than the provisional rate of 28.06%. Applying this rate has resulted in an amount due to USAID of \$5,133.99 (LE 17,456) for 1996. In addition, the final rate for 1996 was also applied to UEM's billings for 1997, which has resulted in an amount due to USAID of \$8,608.03 (LE 29,267). Therefore, UEM owes USAID a total amount of \$13,742 (LE 46,723) for 1996 and 1997 - (See Tables A & B for computation of the indirect costs audited rate - Attachment No. 2).

Accordingly, Mission issued Bill of Collection (BOC) No. CO-263-81744, dated January 20, 1998 in the amount of \$13,742 (LE 46,723) - Attachment No. 3. In settlement of the BOC, UEM submitted check Nos. 01078929 in the amount of LE 17,456, and 010782928 in the amount of LE 29,267, Receipt No. 18180 dated January 22, 1998 (copies of checks and receipt - Attachment No. 4).

Based on the above, Mission requests closure of Recommendation No. 1 upon issuance of the final report.

Thank you for your cooperation.

Att: a/s

cc: PROC : S. Mikhail
MGT/EXO: H. Kamel