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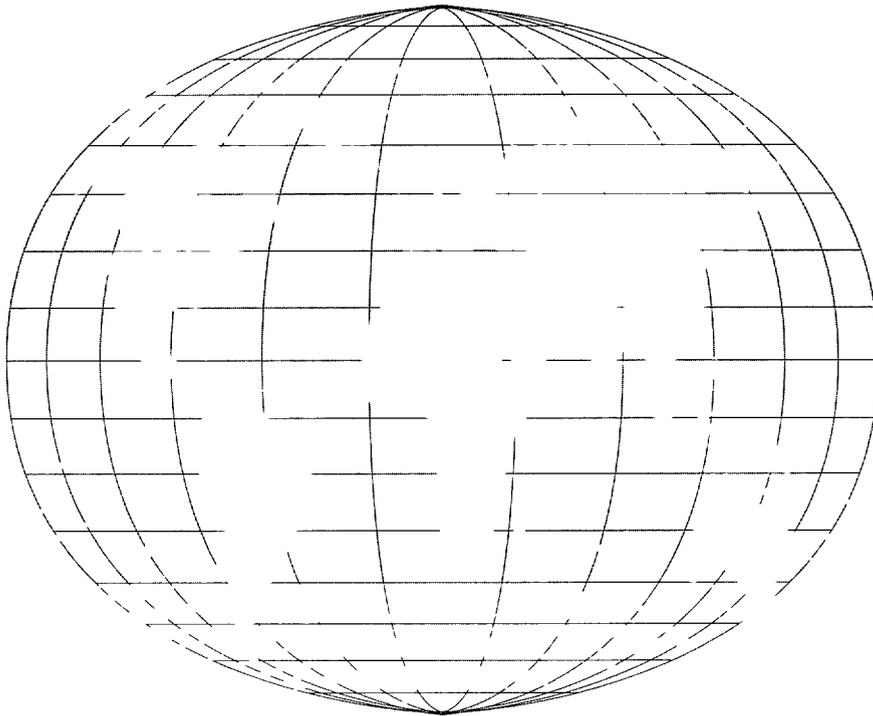
# Report of Audit

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**Financial Audit of the Development Research and  
Technological Planning Center, Costs Incurred Under the  
Energy Conservation and Environmental Protection  
Component of USAID/Egypt's Science and Technology for  
Development Project No. 263-0140**

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**Report No. 6-263-99-009-N  
August 09, 1999**



**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**

PD ABR 603



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

CAIRO, EGYPT

**Report No 6-263-99-009-N**  
August 9, 1999

**MEMORANDUM**

**TO** DIRECTOR USAID/Egypt, Richard M Brown

**FROM** RIG/A/Cairo, Darryl T Burris *DX(Burris)*

**SUBJECT** Financial Audit of the Development Research and Technological Planning Center, Costs Incurred Under the Energy Conservation and Environmental Protection Component of USAID/Egypt's Science and Technology for Development Project No 263-0140

The attached report, transmitted on June 6, 1999 by Price Waterhouse, presents the results of a financial audit of the Development Research and Technological Planning Center (the "Center") funded under the Energy Conservation and Environmental Protection (ECEP) component of USAID/Egypt's Science and Technology for Development Project No 263-0140. The audit included revenues received and costs incurred by the Center under Project Implementation Letter (PIL) Nos 4 and 10 for the period July 1, 1997 through September 30, 1998, and indirect and direct costs used to compute indirect cost rates for the period July 1, 1997 through June 30, 1998. The purpose of the component was to provide and accelerate the adoption of better commercial technologies, processes, and practices to save energy, increase energy efficiency and protect the environment. PIL No 4 provided funds for local management and technical services to private sector entities participating in the project. PIL No 10 provided funds for overseas travel to attend training courses.

We engaged Price Waterhouse to perform a financial audit of project revenues received and costs incurred by the Center under the above-mentioned PILs, as well as the indirect cost rate for the period specified. The purpose of the audit was to evaluate the propriety of costs incurred during these periods. Price Waterhouse also evaluated the Center's internal controls and compliance with applicable laws, regulations and agreement terms, as necessary, in forming an opinion regarding the Fund Accountability Statement.

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The auditors did not identify any questioned direct costs under PIL Nos 4 and 10. However, the auditors did identify \$13,640 in questioned indirect costs for the period July 1, 1997 through June 30, 1998. Additionally, capital expenditures of \$33,645 were excluded from the base of the indirect cost rate calculation for the same audit period. Since the ECEP component of the Project has ended, the auditors did not issue any reports on the Center's internal control structure or compliance with applicable laws and regulations.

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 the Development Research and Technological Planning Center's indirect cost rate for the period July 1, 1997 through June 30, 1998, taking into consideration the questioned indirect costs identified on pages 12 and 13 of the Price Waterhouse audit report, and recover any amounts determined to be owed USAID/Egypt.

In response to Recommendation No 1, USAID/Egypt reviewed the questioned indirect costs (all eligible) and determined the final indirect cost rate to be 18.95 percent for the period July 1, 1997 through June 30, 1998. The Mission applied the final rate to disbursements, which resulted in an amount due to USAID of \$23,846 for the period ending June 30, 1998.

Based on the final indirect cost rate applied to disbursements, USAID/Egypt issued a Bill of Collection in the amount of \$23,846 to recover the amounts owed by the Development Research and Technological Planning Center. Based on this response, we consider Recommendation No 1 to have received a management decision.

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

**DEVELOPMENT RESEARCH AND  
TECHNOLOGICAL PLANNING CENTER**

**CLOSEOUT AUDIT OF  
PROJECT IMPLEMENTATION LETTERS  
NOS 4 AND 10  
UNDER THE USAID/EGYPT FUNDED  
ENERGY CONSERVATION AND  
ENVIRONMENTAL PROTECTION  
SUB-GRANT AGREEMENT NO 263-0140 3**

**FUND ACCOUNTABILITY STATEMENT,  
SCHEDULE OF COMPUTATION OF  
INDIRECT COST RATE AND  
ADDITIONAL INFORMATION**

**FOR THE PERIODS  
JULY 1, 1997 THROUGH SEPTEMBER 30, 1998 AND  
JULY 1, 1997 THROUGH JUNE 30, 1998**

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**"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"**

DEVELOPMENT RESEARCH AND  
TECHNOLOGICAL PLANNING CENTER

CLOSEOUT AUDIT OF  
PROJECT IMPLEMENTATION LETTERS ("PILs") NOS 4 AND 10  
UNDER THE USAID/EGYPT FUNDED  
ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION  
SUB-GRANT AGREEMENT NO 263-0140 3

FUND ACCOUNTABILITY STATEMENT,  
SCHEDULE OF COMPUTATION OF INDIRECT COST RATE AND  
ADDITIONAL INFORMATION

FOR THE PERIODS  
JULY 1, 1997 THROUGH SEPTEMBER 30, 1998 AND  
JULY 1, 1997 THROUGH JUNE 30, 1998

INTRODUCTION

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FUND ACCOUNTABILITY STATEMENT AND SCHEDULE OF COMPUTATION  
OF INDIRECT COST RATE

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Appendix A	Management's Comments
Appendix B	Independent Accountants' Response
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## *Price Waterhouse*



June 6 1999

Mr Darryl Burris  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

Dear Mr Burris

This report presents the results of our financial related audit of project revenues received and costs incurred and the schedule of computation of indirect cost rate of the Development Research and Technological Planning Center ("DRTPC") of the Energy Conservation and Environmental Protection ( ECEP ) Component of the Science and Technology for Development Project The audit population includes revenues received and costs incurred by ECEP/DRTPC under Project Implementation Letters ("PILs") Nos 4 and 10 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") funded Sub-Grant Agreement No 263-01403 ("Sub-Grant Agreement" or "Project"), for the period July 1, 1997 through September 30 1998 The audit population also included indirect and direct costs used in the schedule of computation of the indirect cost rate for the period July 1, 1997 through June 30 1998 (collectively the periods under audit are referred to as "audit periods")

### **Background**

USAID/Egypt entered into the Sub-Grant Agreement with the Arab Republic of Egypt on September 27 1988 The Project was completed on September 30, 1998 The Sub-Grant Agreement established the Energy Conservation and Environmental Protection component ("ECEP") of the Science and Technology for Development Project ECEP was designed to promote and accelerate the adoption of improved commercial technologies, processes and practices to increase energy efficiency and protect the environment as well as to improve the capabilities of Egyptian institutions to promote and implement energy conservation and environmental protection technologies ECEP purpose-directed activities included the selection design installation operation and monitoring of environment and energy efficient technologies financing the first demonstrations of these technologies and promoting and facilitating the replication of those technologies successfully applied through public relations, training activities and the reduction of policy and regulatory constraints To achieve its objectives and perform these activities three implementing agencies were selected to operate under ECEP DRTPC the Tabbin Institute for Metallurgical Studies ("TIMS") of the Ministry of Industry and the Federation of Egyptian Industries ("FEI")

ECEP was segregated into two components one for Egyptian private sector firms and one for public sector firms DRTPC was the implementing agency for private sector firms TIMS was the implementing agency for public sector firms FEI supported the activities of DRTPC and TIMS through the development of a database of information on energy conservation and environmental management PIL No 4 under DRTPC designated funds to be used for providing local management and technical services to the private sector entities participating in the project PIL No 10 under DRTPC designated funds for overseas travel to attend training courses



ECEP/DRTPC received 100% of its capital funding from USAID/Egypt. However, the host country private sector provided in-kind and cash contributions in the form of commodities and equipment, custom clearance services.

DRTPC's agreement with USAID/Egypt was on a cost reimbursement basis for PIL No. 4 and on an advance basis for PIL No. 10. Additionally, PIL No. 4 recovered indirect costs through a provisional indirect cost rate. Amendment No. 13 to PIL No. 4 dated August 9, 1998, approved funding to DRTPC of \$2,382,018 for the period from March 1, 1989 through September 30, 1998. Amendment No. 7 to PIL No. 10 dated October 16, 1997, approved funding to DRTPC of \$129,744 for the period from October 1, 1990 through September 30, 1998. Amendment No. 5 to the Sub-Grant Agreement approved host country private sector in-kind and cash contributions of \$4,883,789 and \$4,778,761, respectively.

### **Audit Objectives and Scope**

The purpose of this engagement was to perform a financial related audit of project revenues received and costs incurred by ECEP/DRTPC under the PILs and DRTPC's indirect cost rate calculation approved under PIL No. 4 for the period. Specific objectives were to perform and determine the following:

1. Express an opinion on whether the fund accountability statement for USAID/Egypt funds managed by ECEP/DRTPC under the PILs presents fairly, in all material respects, project revenues received and costs incurred for the audit period in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including the cash receipts and disbursements basis.
2. Determine if the costs reported as incurred under the PILs are in fact allowable, allocable, and reasonable in accordance with the terms of the PILs and the Sub-Grant Agreement.
3. Obtain sufficient understanding of the internal control of the ECEP Project as it relates to the PILs, assess control risk to adequately plan the audit, and the nature, extent, and timing of audit tests.
4. Perform an audit of the indirect cost rate calculation used by ECEP/DRTPC under PIL No. 4 of the Sub-Grant Agreement, and
5. Determine if ECEP/DRTPC has taken corrective action on prior audit report recommendations.

While we were engaged on the prior audit, the Project approached its project completion date. Therefore, the office of the Regional Inspector General for Audit in Cairo requested an extension of the audit fieldwork to audit through the completion date, September 30, 1998. This report is the result of the additional audit work on the final period of the Project.



The audit population included \$384,226 and \$11,976 of direct ECEP/DRTPC costs for PILs Nos. 4 and 10 respectively. The audit population also included \$104,067 of indirect costs billed under PIL No. 4 for the period July 1, 1997 through September 30, 1998. These indirect costs were calculated and billed using a USAID/Egypt approved provisional indirect cost rate of 26.91%. On a judgmental basis, we selected and tested \$72,231 (15%) of total direct and indirect costs incurred under PIL No. 4 and \$3,533 (30%) of direct costs incurred under PIL No. 10. We also judgmentally selected and tested \$85,490 (62%) of costs included in the indirect cost pool for the period from July 1, 1997 through June 30, 1998. Our audit population also included \$428,132 of ECEP/DRTPC revenues received for PILs Nos. 4 and 10. We tested one hundred percent of these revenues.

Our tests of direct and indirect costs incurred by ECEP/DRTPC included, but were not limited to the following:

1. Reconciling ECEP/DRTPC's accounting records to billings issued to USAID/Egypt to ensure that ECEP/DRTPC costs were appropriately supported.
2. Testing a representative sample of ECEP/DRTPC costs funded by USAID/Egypt for allowability and allocability.
3. Determining if salary costs were properly supported and approved.
4. Examining support for a sample of items included in the indirect cost pool and recalculating the actual indirect cost rates for the audit periods.
5. Determining if revenues received are presented fairly in all material respects in the fund accountability statement.

Except as discussed in the next three paragraphs, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards (GAS) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement and schedule of computation of indirect cost rate are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 of chapter 3 of GAS since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of GAS is not material because we participate in the Price Waterhouse worldwide internal quality control program. This program requires the Price Waterhouse Cairo office to be subjected every three years to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

USAID/Egypt has requested we not report on ECEP's internal control and overall compliance with laws, regulation, contracts, and grants for the PILs under audit as required by Chapter 5 of GAS. This is because recommendations to improve weaknesses in the internal control and corrective actions to rectify instances of material noncompliance cannot be implemented. The ECEP Project



and the activities conducted under the PILs and consequently the internal control with respect to the Project and the PILs under audit have ceased with no additional funds being provided by USAID/Egypt. We believe that the effect of this departure from the financial audit reporting requirements of GAS is not material. This is because in planning and performing our audit of the fund accountability statement of ECEP for the audit periods we obtained an understanding of the internal control as it related to the PILs under audit. With respect to the internal control we obtained an understanding of the design of relevant policies and procedures. 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. As part of obtaining reasonable assurance about whether the fund accountability statement is free from material misstatements we performed tests of ECEP's compliance with certain provisions of laws, regulations, contracts and grants that related directly to the allowability of revenues received and costs incurred. The objective of our audit of the fund accountability statement was not to provide an opinion on overall compliance with such provisions.

### **Results of Audit**

#### **Fund Accountability Statement and Schedule of Computation of Indirect Cost Rate**

Our audit procedures identified no ineligible or unsupported direct costs for PIL No. 4. No questionable costs were identified for PIL No. 10. We identified \$13,640 of ineligible indirect costs included in the schedule of computation of indirect cost rate for the period July 1, 1997 through June 30, 1998. The fund accountability statement, the schedule of computation of indirect cost rate and the detail of questionable costs, as incurred in Egyptian pounds, are included in Supplemental Schedules to this report.

#### **Internal Control**

As stated previously, the ECEP Project term has lapsed. PILs Nos. 4 and 10 and consequently their related internal control have ceased. As a result, we did not perform a detailed evaluation of the Project's internal control with respect to the PILs under audit.

#### **Compliance with Laws, Regulations, Contracts and Grants**

As stated previously, the ECEP Project term has lapsed. PILs Nos. 4 and 10 and consequently their related internal control have ceased. As a result, we did not evaluate ECEP's overall compliance with applicable laws and regulations with respect to the PILs under audit.

#### **Follow up on Prior Audit Recommendations**

We have reviewed the prior audit report of ECEP/DRTPC for the period July 1, 1996 through June 30, 1997. No internal control and noncompliance issues were noted. Also, the fund accountability statement did not include any questionable costs.



Management Comments

ECEP/DRTPC management's comments have been obtained and are included in Appendix A to this report. In response to management's comments, we either provided further clarification of our position in Appendix B or have adjusted our findings.

Mission Response

The mission response is included in Appendix C to this report.

This report is intended for the information of ECEP/DRTPC management, others within the organization, and USAID/Egypt. However, this report is a matter of public record and its distribution is not limited.

*Price Waterhouse*

**Price Waterhouse**



**REPORT OF INDEPENDENT ACCOUNTANTS  
ON THE FUND ACCOUNTABILITY STATEMENT  
AND SCHEDULE OF COMPUTATION OF INDIRECT COST RATE**

June 6 1999

Mr Darrvl Burris  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

We have audited the fund accountability statement ( FAS ) of project revenues received and costs incurred and the schedule of computation of indirect cost rate ( Schedule ) of the Development Research and Technological Planning Center ( DRTPC ) of the Energy Conservation and Environmental Protection ( ECEP ) Component of the Science and Technology for Development Project. The audit population included revenues received and costs incurred by ECEP/DRTPC under Project Implementation Letters ( PILs ) Nos 4 and 10 of the United States Agency for International Development Mission to Egypt ( USAID/Egypt ) funded Sub-Grant Agreement No 263-0140 3 ( Sub-Grant Agreement or Project ), for the period July 1, 1997 through September 30 1998. The audit population also included indirect and direct costs used in the Schedule for the period July 1 1997 through June 30, 1998, (collectively the periods under audit are referred to as audit periods ). The FAS and Schedule are the responsibility of ECEP/DRTPC management. Our responsibility is to express an opinion on the FAS and Schedule based on our audit.

Except as discussed in the next three paragraphs, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards ( GAS ) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the FAS and Schedule are free of material misstatement. An audit includes examining on a test basis evidence supporting the amounts and disclosures in the FAS and Schedule. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall presentation of the FAS and Schedule. 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 GAS since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of GAS is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected every three years to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

USAID/Egypt has requested we not report on ECEP's internal control and overall compliance with laws, regulation, contracts and grants for the PILs under audit as required by Chapter 5 of GAS. This is because recommendations to improve weaknesses in the internal control and corrective actions to rectify instances of material noncompliance cannot be implemented. The ECEP Project and the activities conducted under the PILs and consequently the internal control with respect to the Project and the PILs under audit, have ceased with no additional funds being provided by USAID/Egypt. We believe that the effect of this departure from the financial audit reporting



requirements of GAS is not material. This is because in planning and performing our audit of the FAS of ECEP for the audit periods, we obtained an understanding of the internal control as it related to the PILs under audit. With respect to the internal control, we obtained an understanding of the design of relevant policies and procedures. We assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the FAS and not to provide an opinion on the internal control. Accordingly, we do not express such an opinion. As part of obtaining reasonable assurance about whether the FAS is free from material misstatements, we performed tests of ECEP's compliance with certain provisions of laws, regulations, contracts and grants that related directly to the allowability of revenues received and costs incurred. The objective of our audit of the FAS was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The FAS and Schedule have been prepared on the cash basis of accounting, as described in Note 2 which is a comprehensive basis of accounting other than generally accepted accounting principles used in the United States of America. Consequently, revenues are recognized when received and expenditures are recognized when paid, rather than when the obligations are incurred. Accordingly, the FAS is not intended to present results in accordance with accounting principles generally accepted in the United States of America.

As detailed in the FAS and Schedule and more fully described in Note 6 thereto, our audit procedures identified no ineligible or unsupported direct costs for PIL No. 4. We identified \$13,640 of ineligible indirect costs, included in the Schedule for the period July 1, 1997 through June 30, 1998. Additionally, \$33,645, of capital expenditure costs, was excluded as ineligible, from the base of the indirect cost rate calculation for the audit period. Project costs that are ineligible for USAID/Egypt reimbursements are those that are not program-related or are prohibited by the PILs, the Sub-Grant Agreement, or applicable laws and regulations. Unsupported project costs are those lacking proper documentation.

In our opinion, except for the effects of the questionable project costs discussed in the sixth paragraph, the fund accountability statement and schedule of computation of indirect cost rate referred to in the first paragraph present fairly, in all material respects, project revenues received and costs incurred, and the indirect cost rate of ECEP/DRTPC under the Sub-Grant Agreement during the audit periods, in conformity with the basis of accounting described in Note 2.

This report is intended for the information of ECEP/DRTPC management, others within the organization and USAID/Egypt. However, this report is a matter of public record and its distribution is not limited.

*Pricewaterhouse*

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER ("DRTPC")  
 PROJECT IMPLEMENTATION LETTERS (PILS) NOS 4 AND 10  
 UNDER SUBGRANT NUMBER 263-0140 3

FOR THE PERIOD JULY 1, 1997 THROUGH SEPTEMBER 30, 1998

FUND ACCOUNTABILITY STATEMENT

EXPRESSED IN US DOLLARS

	<u>APPROVED BUDGET (NOTE 1)</u>	<u>ACTUAL EXPENDITURES (NOTE 1)</u>	<u>QUESTIONABLE PROJECT COSTS INELIGIBLE (NOTE 6)</u>	<u>AUDIT FINDING REFERENCE</u>
<b>BEGINNING FUND BALANCE PIL No 4</b>		<u>3 636</u>		
<b>USAID/EGYPT REVENUES</b>			-	
<b>PIL No 4</b>		412 833		
<b>PIL No 10</b>		15 299		
<b>Total Revenues</b>		<u>428,132</u>		
<b>EXPENDITURES</b>				
<b>PIL No 4</b>				
Salaries	231 171	226 997		IA 1 Page 12
Consultant Fees	48 949	47 701		IA 1 Page 12
Honoraria	4 191	357		
Travel and Perdiem	25 593	25 262	-	
Training / Workshops / Conferences	22 959	22 180	-	
Materials and Supplies	21 466	21 188		
Office Equipment and Renovation	34 086	33 645		
Subcontract with CPA Firm	5 998		-	
Other Direct Costs	6 986	6 896	-	
Indirect Costs	154 496	104 067		
<b>Total Expenditures PIL No 4</b>	<u>555,895</u>	<u>488,293</u>	<u>-</u>	
<b>PIL No 10</b>				
Air Tickets		11 976		
<b>Total Expenditures PIL No 10</b>	<u>-</u>	<u>11,976</u>		
<b>OUTSTANDING BALANCE</b>				
<b>PIL No 4 (Note 1)</b>		<u>71,824</u>		
<b>PIL No 10 (Note 1)</b>		<u>3,323</u>		

The accompanying notes are an integral part of the Fund Accountability Statement

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DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER ( ' DRTPC )

COMPUTATION OF INDIRECT COST RATE  
FOR THE PERIOD  
JULY 1, 1997 THROUGH JUNE 30, 1998

EXPRESSED IN US DOLLARS

INDIRECT COST POOL	EXPENDITURES	QUESTIONABLE PROJECT COSTS		CORRECT INDIRECT COST POOL (NOTE 5)	AUDIT FINDING REFERENCE
		INELIGIBLE (NOTE 6)	UNSUPPORTED (NOTE 6)		
Salaries	60 333			60 333	II A 1 Page 12
Stationary and Publications	5 457			5 457	
Photocopying	7 948	7 948	-		II A 2 Page 12
Car Expenses	2 331		-	2 331	
Telephone	2 474			2 474	
Social Insurance	3 433	3 433			II A 3 Page 12
Courier	208			208	
Electricity	4 441			4 441	
Computer Purchases	662	-		662	
Purchases	4 397			4 397	
Repairs and Maintenance	4 259		-	4 259	
Bank Charges	1 322			1 322	
Fringe Benefits	2 286	2 000	-	286	II A 4 Page 13
Financial and Technical Proposals	1 471			1 471	
Subscriptions	185	-	-	185	
Transportation	104			104	
Advertising	629	259		370	II A 5 Page 13
Intangible Services	588			588	
Depreciation	30 425		-	30 425	
Building Use Allowance (2%)	5 487	-		5 487	
<b>TOTAL INDIRECT COSTS</b>	<b>138 440</b>	<b>13 640</b>		<b>124 800</b>	
<b>DIRECT COST POOL</b>					
DRTPC Direct Costs	312 876		-	312 876	
PIL No. 4 Direct Costs	384 226	33 645	-	350 581	II B 1 Page 13
<b>TOTAL DIRECT COSTS</b>	<b>697 102</b>	<b>33 645</b>		<b>663 457</b>	
DRTPC INDIRECT COST RATE (Note 4)					
Total Indirect Costs	124 800				
Total Direct costs	663 457		18.8%		

The accompanying notes are an integral part of the Fund Accountability Statement

**DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER ("DRTPC")  
ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION ("ECEP")**

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT  
AND SCHEDULE OF COMPUTATION OF INDIRECT COST RATE**

**NOTE 1 - SCOPE OF FUND ACCOUNTABILITY STATEMENT**

The fund accountability statement includes project revenues received and costs incurred by ECEP/DRTPC under PILs Nos 4 and 10 of the Sub-Grant Agreement for the period July 1 1997 through September 30 1998 (the "audit period") The schedule of computation of indirect cost rate includes indirect and direct costs incurred by DRTPC for the period July 1 1997 through June 30 1998

"Approved Budget" includes USAID/Egypt approved costs in accordance with the most recent budget amendment of PILs Nos 4 and 10 within the audit period and is presented for informational purposes only

Amendment No 13 to PIL No 4 dated August 9, 1998 approved project costs of \$2,382,018 during the period March 1 1989 through September 30 1998 ECEP records as of June 30 1997 indicate that expenditures of \$1 826 123 were incurred under PIL No 4 from March 1 1989 through June 30 1997 Accordingly the total budget for PIL No 4 during the audit period has been calculated to be \$555,895 PIL No 10 is funded by advances Budget amounts in Egyptian Pounds ("LE") have been converted to US dollars as explained in Note 3 below

"Actual Expenditures" represent cumulative project revenues received and costs incurred under the PILs during the audit period Expenditures in LE have been converted to US dollars as explained in Note 3 below

The outstanding balance for PIL No 4 represents the net receivables and payables of ECEP The outstanding balance for PIL No 10 represents the balance from the advance received This balance was refunded to USAID/Egypt

**NOTE 2 - BASIS OF PRESENTATION**

The fund accountability statement and schedule of computation of indirect cost rate of ECEP/DRTPC have been prepared on the basis of cash receipts and disbursements modified for certain items Project revenues are recognized when received Project costs are recognized when paid rather than when the obligation is incurred However the indirect cost pool also contains depreciation charges

**NOTE 3 - FOREIGN EXCHANGE**

Actual project revenues and costs in LE have been converted to US dollars at an exchange rate of LE 3 399 to one U S Dollar The exchange rate has been calculated by averaging the ending monthly exchange rates during the audit period

**NOTE 4 - BASIS OF COMPUTATION OF THE INDIRECT COST RATE**

PIL No 4 to the Sub-Grant Agreement includes a provision for the recovery of indirect costs incurred by DRTPC that are not directly associated with or specifically identifiable to any particular activity conducted by ECEP/DRTPC These costs have been recovered during the audit period based on a USAID/Egypt approved provisional indirect cost rate of 26.91% PIL No 4 provides for the recovery of indirect costs based on a rate computed by dividing total indirect costs incurred by DRTPC by the sum of the total PIL No 4 direct costs (excluding capital costs and the recovery of indirect costs) plus the other DRTPC direct costs The schedule of computation of indirect cost rate has been prepared on an entity-wide basis in accordance with the above mentioned methodology for the period July 1 1997 through June 30 1998

**NOTE 5 – CORRECT INDIRECT COST POOL COLUMN**

The "Correct Indirect Cost Pool" represents expenditures for each indirect cost pool line item net of questionable costs. These questionable costs are detailed below in Note 6.

**NOTE 6 - QUESTIONABLE PROJECT COSTS**

Questionable costs are presented in two separate categories, ineligible and unsupported. Costs in the column labeled "Ineligible" are those not program-related or are prohibited by the PILs, the Sub-Grant Agreement, or applicable laws and regulations. Costs in the column labeled "Unsupported" are those lacking adequate documentation. Questionable costs identified as either ineligible or unsupported are detailed as follows:

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NOTE 6 – QUESTIONABLE COSTS (CONT'D)

Questionable Costs	
Ineligible	Unsupported

I FUND ACCOUNTABILITY STATEMENT

A PIL NO 4

1 Subsequent to the issuance of the draft report we were provided additional support relating to this item. Based on our review of this information this finding has been removed from the final report

\$		\$	-
\$	-	\$	-

Total PIL No 4

II SCHEDULE OF COMPUTATION OF INDIRECT COST RATE

A INDIRECT COSTS

1 Salaries

Subsequent to the issuance of the draft report we were provided additional support relating to this item. Based on our review of this information this finding has been removed from the final report

\$	-	\$	
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2 Photocopying

The cost of photocopying is being charged as a direct cost of PIL 4. The indirect cost pool also includes the cost of photocopying. OMB A-122 Attachment A states that a cost may not be allocated to an award as an indirect cost if any other cost incurred for the same purpose in like circumstances has been assigned to an award as a direct cost. DRTPC management stated that the majority of photocopying activity is for training and administration purposes. The line item is questioned because ECEP has already paid DRTPC for photocopying and binding services rendered by the latter. Including the cost of photocopying in the indirect cost pool means that USAID/Egypt will fund the cost of photocopying paper as a direct cost and again through the indirect cost rate. Therefore the Photocopying line item is questioned in its entirety as ineligible and is excluded from the indirect cost pool

\$	7,948	\$	-
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3 Social Insurance

Cost of the employer share of social insurance paid by DRTPC is included in the indirect cost pool. According to Amendment No 2 to the Sub-Grant Agreement section No 5.10 paragraph No (a) any transaction financed under the Grant shall be exempted from identifiable taxes, tariffs, duties or other levies (including social insurance assessments) imposed under the laws in effect in the Arab Republic of Egypt. DRTPC management is aware of this cost being ineligible. Therefore the line item is questioned in its entirety as ineligible and removed from the indirect cost pool

\$	3,433	\$	-
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NOTE 6 – QUESTIONABLE COSTS (CONT'D)

		Questionable Costs	
		Ineligible	Unsupported
4	<p><u>Fringe Benefits</u></p> <p>The cost of a Ramadan iftar meal for DRTPC employees and their families at a hotel was included under the Fringe Benefits account. This cost is considered to be entertainment cost. OMB A-122 Attachment B Paragraph No 12 states that Cost of amusement social activities such as meals lodging are unallowable. Management is aware of the fact that such a cost is ineligible because of cultural differences between Egypt and the United States of America. Therefore the amount for the meal of \$2 000 is questioned as ineligible and excluded from the indirect cost pool.</p>	\$ 2 000	\$ -
5	<p><u>Advertising</u></p> <p>Cost of a congratulatory advertisement in the newspaper was included in the indirect cost pool. OMB A-122 Attachment B paragraph No 1 states that The only advertising costs allowable are those which are solely for (i) the recruitment of personnel (ii) the procurement of goods and services (iii) the disposal of surplus materials or (iv) specific requirements of the award. Management agrees with the questioned cost. Therefore the amount of \$259 is questioned as ineligible and excluded from the indirect cost pool.</p>	\$ 259	\$ -
<b>Total Questionable Indirect Costs</b>		<b>\$ 13,640</b>	<b>\$ -</b>
<b>B DIRECT COSTS INCLUDED IN THE INDIRECT COST POOL CALCULATION BASE</b>			
1	<p>ECEP included in the direct cost pool (used as the base for the indirect cost rate calculation) the cost of capital expenditures incurred during the audit period. OMB A-122 Attachment A section No D 2 b states that Both the direct costs and the indirect costs shall exclude capital expenditures. Management agrees to the exclusion of such amounts from the indirect cost rate calculation. Accordingly the amount of \$33 645 is questioned as ineligible and excluded from the calculation of the indirect cost rate.</p>	\$ 33 645	\$ -
<b>Total Questionable Direct Costs</b>		<b>\$ 33,645</b>	<b>\$ -</b>
<b>Total Questionable Costs for July 1997 to June 1998</b>		<b>\$ 47,285</b>	<b>\$ -</b>

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DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER  
PROJECT IMPLEMENTATION LETTERS NOS 4 AND 10  
UNDER THE USAID/EGYPT FUNDED  
ENERGY CONSERVATION AND ENVIRONMENTAL PROTECTION  
SUB-GRANT AGREEMENT NO 263-0140 3

MANAGEMENT'S COMMENTS

The attachments included with management's comments have not been included herein because they were in Arabic. Copies may be obtained upon request.

DEVELOPMENT RESEARCH  
AND TECHNOLOGICAL  
PLANNING CENTER  
CAIRO UNIVERSITY



مركز بحوث التنمية  
والخطيط التكنولوجي  
جامعة القاهرة

Cairo May 17 1999

Mr Robert Johnson  
Price Waterhouse Supervisor  
22 El Nasr Street  
New Maadi Cairo

Subject Response of DRTPC to the draft closeout  
Audit report covering PIL No. 4 & Indirect Costs

Dear Mr Johnson

Attached please find the response of DRTPC to the Draft Closeout Audit Report for ECEP/DRTPC Fund Accountability Statement for the period July 1 1997 through September 30 1998 and DRTPC Indirect Cost Rate for the period July 1 1997 through June 30 1998

If you have any inquiries please do not hesitate to contact me

Thank you for your co operation

Sincerely yours

Prof Osman Lotfy Elsayed

DRTPC Director

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER  
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SUB-GRANT AGREEMENT NO 263-0140 3

MANAGEMENT'S COMMENTS

Development Research and Technological Planning Center  
(DRTPC)

Cairo University

Project Implementation Letters No 4 and 10

Under The USAID/Egypt Funded

Energy Conservation and Environment Project (ECEP/DRTPC)

Sub Grant Agreement No 263 0140 3

Response of DRTPC to the Draft Closeout Audit Report for  
Fund Accountability Statement for ECEP/DRTPC for the Period  
July 1 1997 Through September 30 1998

And

Indirect Cost Rate for DRTPC for the Period July 1 1997 through  
June 30 1998

The following contains the response of DRTPC to the comments and findings of the draft closeout audit report hereinafter referred to as the report DRTPC is willing to provide any further clarifications and supporting documents as and when needed by the auditors

I ECEP/DRTPC Fund Accountability Statement

A PIL No 4

The report contained only one comment on PIL No 4 expenditures ECEP/DRTPC overspent \$ 42 267 from the salaries and consultant fees line items The report considered this amount to be an ineligible expenditure on the ground that this reallocation required the approval of USAID DRTPC provides the following response to this comment

- 1 ECEP/DRTPC management informed the audit team during the audit process that ECEP/DRTPC obtained the verbal approval of the USAID project officer for the reallocation of the above mentioned amount The audit team in turn informed ECEP/DRTPC management that the team would contact USAID to clarify this point and expedite whether a written approval was required Till the issuance of the draft closeout report ECEP/DRTPC did not receive any feedback from the audit team This has been also put very clearly in front of the Price Waterhouse representative during the exit meeting held on April 29 1999 at USAID premises
- 2 During the exit meeting ECEP/DRTPC handed to Price Waterhouse a copy of the concurrence of USAID (dated April 20 1999) regarding the reallocation of the a m amount

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MANAGEMENT'S COMMENTS

DRTPC management insists herefore to remove the above comment completely from the final closeout report Price Waterhouse representative promised to do that during the a.m. exit meeting

II Schedule of Computation of Indirect Cost Rate

A Indirect Costs

1 Salaries

The report excluded the whole line item of the DRTPC salaries in the amount of \$60 333 (LE 205 073) on the ground that the salaries were considered unsupported expenditure

On May 4 1999 the Price Waterhouse Audit Team reviewed the DRTPC personnel files of the persons receiving salary payments from DRTPC Therefore the DRTPC salaries line item in the amount of \$60 333 (LE 205 073) is not unsupported expenditure and should not be excluded from the indirect cost pool of DRTPC

2 Photocopying

The report excluded photocopying costs in the amount of \$7 948 (LE 27 014) from the DRTPC indirect cost pool

DRTPC repeats here its response to the photocopying item for the years 1994/95 & 1996/97 and does not accept the exclusion of this amount due to the following reasons

- 1 The Photocopying Xerox machine Model 1038 is located in the first floor at DRTPC This machine is used by DRTPC management for administrative and financial purposes
- 2 The table below summarizes the maintenance and running costs for the above mentioned photocopier

Model	Photocopier serial #	Maintenance Costs LE	Voucher #	Dated Voucher	No of copies
1038	3022097026	693 70	303	Oct 16 97	6380
1038	3022097026	839 87	692	Feb 02 98	7918
1038	3022097026	673 20	937	April 03 98	5212
1038	3022097026	673 20	1082	May 21 98	4111
1038	3022097026	673 20	1262	June 30 98	4236
	Total	3554 00			27863

The above total number of copies (27863) is equivalent to 56 packets The total cost of these 56 packets of photocopying paper is LE 827 00 (cost of packet is LE 13) The total photocopying cost is thus LE 4381 00 (paper and maintenance costs)

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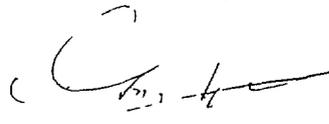
MANAGEMENT'S COMMENTS

Therefore the amount LE 4381 00 should be included in the DRTPC indirect cost pool

Moreover the other photocopiers in the photocopying unit are used for administrative and training purposes These uses represent no less than 90% of the total photocopying costs

In fact the photocopying costs paid by the ECEP (LE 4704 90) for this period should be deducted from the DRTPC indirect cost pool The remaining amount of LE 23 309 10 should be included in the DRTPC indirect cost pool

*Prof Osman Lotfy Elsayed*



*DRTPC Director*

Cairo May 16 1999

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER  
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MANAGEMENT'S COMMENTS

Prof Osama Elbahar  
P O Box 38 Giza  
Fax No (202) 572 8811



Cairo April 15 1999

MS Salwa Wahba  
Project Officer  
USAID / Environment

SUBJECT Readjustment of some Budget Line Items for the Energy Conservation and Environment Project (ECEP/DRTPC) for 1997/1998

Dear Ms Wahba

Further to your verbal approval your concurrence for the readjustment of some line items in the ECEP/DRTPC budget (1997/98) is needed according to the following schedule

No	Transfer from	Transfer to	Amount(LE)
1	Indirect costs line item	Salaries line item	155 000 00
2	Indirect costs line item	Consultant fees line item	5 000 00

This transfer is necessary to cover the salaries and consultant fees of the ECEP/DRTPC staff for the period Sept 1997 through August 1998 where we on the contrary to our planned budget had to keep all the staff members till the end of August 1998 and some of the staff members till the end of September 1998 to ensure the complete installation and monitoring of all demonstration projects. As you know there was some delay in the equipment delivery / installation / start-up of some of the demonstration projects which necessitated this change in the salaries line item.

Upon revision of the indirect cost rates of DRTPC for the years 1993 1994 and 1996 ECEP/DRTPC returned back an amount of LE 254 893 01 to USAID and hence to the direct cost pool of ECEP/DRTPC (indirect cost line item). Therefore the indirect cost line item allows the transfer of these amounts to the line items mentioned above.

Your concurrence is highly appreciated.

Sincerely yours

Prof Osama M. F. Elbahar  
*O. Elbahar*  
Executive Director (Formerly)  
of ECEP/DRTPC

Concur *Salwa Wahba*  
4/20/99

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER  
PROJECT IMPLEMENTATION LETTERS NOS 4 AND 10  
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INDEPENDENT ACCOUNTANT'S RESPONSE

Management of the Development Research and Technological Planning Center ("DRTPC") of the Energy Conservation and Environmental Protection ("ECEP") component provided comments to our draft report presented at the exit conference held on April 28 1999. These comments have been included unedited in Appendix A of this report. We have reviewed management's comments and have either adjusted our final report or clarified our position. Our response below parallels the audit report findings and management's comments.

RESPONSE TO DRTPC MANAGEMENT COMMENTS TO QUESTIONABLE COSTS  
DETAILED IN SUPPLEMENTAL SCHEDULE NO 3

I Fund Accountability Statement

A PIL No 4

ECEP provided USAID/Egypt approval for reallocation of budget from the indirect cost line item to salaries and consultant line items. Therefore the finding has been removed from the final report.

II Schedule of Computation of Indirect Cost Rate

A Indirect Costs

1 Salaries

DRTPC provided access to the personnel files which were reviewed at DRTPC's offices. Based on this support the finding has been removed from the final report.

2 Photocopying

DRTPC provided documents showing the cost associated with one photocopier total LE 4 282 (DRTPC's calculation of paper use was incorrect. The cost/packet (LE 13) times 56 packets equals LE 728 not LE 827). DRTPC also states the cost paid by ECEP should be moved from the indirect cost pool.

Whether DRTPC documents costs for all photocopiers or not the issue remains that ECEP has paid DRTPC for photocopying. ECEP charged this as a direct cost to USAID/Egypt. DRTPC is seeking to recover additional funds from ECEP for photocopying through the indirect cost pool. Our finding disallows this as stated. Therefore our finding remains unchanged.

3 There was no response on other findings therefore our findings remains unchanged

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER  
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MISSION RESPONSE



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO EGYPT

**MEMORANDUM**

**DATE** August 05, 1999

**TO** Darryl Burris, RIG/A/C

**FROM** *MD* Mary Eileen Devitt, Division Chief, FM/FA

**SUBJECT** Closeout Financial Audit of the Development Research and Technological Planning Center (DRTPC), Costs Incurred Under the Energy Conservation and Environment Project (ECEP) Component of USAID/Egypt's Science and Technology for Development Project No 263-0140 3  
Final Draft Report dated June 27, 1999

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

Based on Mission review of the questioned indirect costs of \$13,640 (LE 46,362) and DRTPC's response dated May 17, 1999 (Appendix A of the draft report), the final indirect cost rate was determined to be 18.95% for the period July 1, 1997 through June 30, 1998. This memorandum has been cleared by the Technical, Legal, and Procurement Offices.

Accordingly, Mission applied the final rate to ECEP/DRTPC direct payments which resulted in an amount due to USAID of \$23,846 (LE81,052). As a result, Mission issued Bill Of Collection (BOC) No 81768, dated 08/05/1999 to recover the amount owed to USAID, (Attachment A)

**Recommendation No 1**

**We recommend that USAID/Egypt finalize the Development Research and Technological Planning Center's indirect cost rate for the period July 1, 1997 through June 30, 1998, taking into consideration the questioned indirect costs identified on pages 12 and 13 of the Price Waterhouse (PWH) audit report, and recover any amounts determined to be owed USAID/Egypt**

**Mission response**

Following are the details of the questioned indirect costs under recommendation No 1

**Finding No A 2 Ineligible Photocopying costs for \$7,948 (LE27,014)**

In their response, DRTPC stated that indirect photocopying costs include all projects managed by DRTPC including ECEP, in addition to DRTPC administrative use

PWH found that ECEP's photocopying costs included in the indirect cost pool were previously charged to USAID as a direct cost under Project implementation Letter (PIL) No 4

OMB Circular A-122 titled "Cost Principles for Non-Profit Organizations" states that "A cost may not be allocated to an award as an indirect cost if any other cost incurred for the same purpose in like circumstances, has been assigned to an award as a direct cost " (Attachment B)

Per DRTPC response dated May 17, 1999, DRTPC acknowledged that \$1,384 (LE4 704) represents ECEP photocopying costs already charged to USAID as a direct cost and consequently is a duplicate charge However, DRTPC asserted that \$6,564 (LE22,310) represents photocopying costs spent for DRTPC s administrative work and therefore was proper

Yet, DRTPC did not present any supporting documents (other than documents relating to photocopying maintenance) substantiating its position that \$6,564 represent appropriate administrative photocopying costs, nor did it provide adequate justification/documentation for the basis of allocating this amount to administrative photocopying costs

DRTPC did submit documents supporting photocopier maintenance costs for \$1,045 (LE3,553) (Attachment C) and stated that these costs pertain to a photocopier that was exclusively used for administrative purposes during the audited period USAID has determined that these photocopier maintenance costs are adequately supported

Based on DRTPC's assertion and Mission review of the supporting documentation pertaining to the maintenance costs (invoices, vouchers receipts), Mission has concluded that of the \$1,045 (LE3 553) maintenance costs, only \$950 (LE3 230) is allowed The remaining amount of \$95 (LE323) relates to sales taxes and is sustained (Attachment D)

**Therefore, of the \$7,948 questioned, \$950 is allowed and \$6,998 is sustained**

**Finding No A 3 Ineligible Social Insurance for \$3,433 (LE11,668)**

Although the employer share of social insurance should be paid according to the Egyptian laws and regulations the Project Grant Agreement under which ECEP is operated/funded Amendment two Section No 5 10 a, prohibits the use of USAID monies for funding such payments (Attachment E)

**Therefore, \$3,433 is sustained**

**Finding No A 4 Ineligible Fringe Benefits for \$2,000 (LE6,800)**

DRTPC included in its indirect cost pool, as fringe benefits, \$2,000 representing Ramadan Iftar for its employees and their families

Per OMB Circular A-122, USAID funding is limited to certain types of fringe benefits, including annual sick, and military leave, medical insurance, and the like Accordingly, such costs are not considered fringe benefits, rather, they are considered entertainment costs

**Therefore, \$2,000 is sustained**

**Finding No A 5 Ineligible Advertising costs for \$259 (LE880)**

This amount represents a congratulatory advertisement in the newspaper

Per OMB Circular A-122, advertising costs are limited to recruitment costs, procurement of goods and services disposal of surplus goods acquired in the performance of the award, or specific requirements of the award, (Attachment F)

**Therefore, \$259 is sustained**

**Conclusion**

Based on the above of the \$13,640 (LE46,362) questioned indirect costs, \$950 (LE3,230) is allowed and \$12,690 (LE43,132) is sustained

Therefore, the indirect cost pool is adjusted to \$125,750 as follows

DRTPC indirect cost pool (Per the audit report)	=	\$138,440
Final sustained indirect costs	= (	\$ 12,690 )
Adjusted indirect cost pool		<u>\$125,750</u>

Accordingly the final audited indirect cost rate for the year ending June 30 1998 is 18 95% as follows

<u>Adjusted indirect cost pool</u>	<u>\$125,750</u>	=	<u>18 95%</u>
Total direct cost	\$663,457		

Mission applied the 18 95% audited rate to direct payments made to ECEP/DRTPC during the period from July 1 1997 to June 30 1998 which resulted in \$23,846 (LE81,052) due to USAID (Attachment G)

**Based on the above, Mission requests resolution of Recommendation No 1 Closure will be requested upon resolution by RIG/A and collection of the amount due to USAID**

Att a/s

cc Prof Osman Lotfy El Sayed President, DRTPC  
Prof Osama El Bahar, Former Executive Director, ECEP/DRTPC

USAID/Egypt

Salwa Wahba EI/EE

Sameh Habib, FM/FA

Mokhtar El Shaarani, FM/FA

Sahar Rahman, FM/FA

Lucy Zakhary, FM/FA

FM Reading File