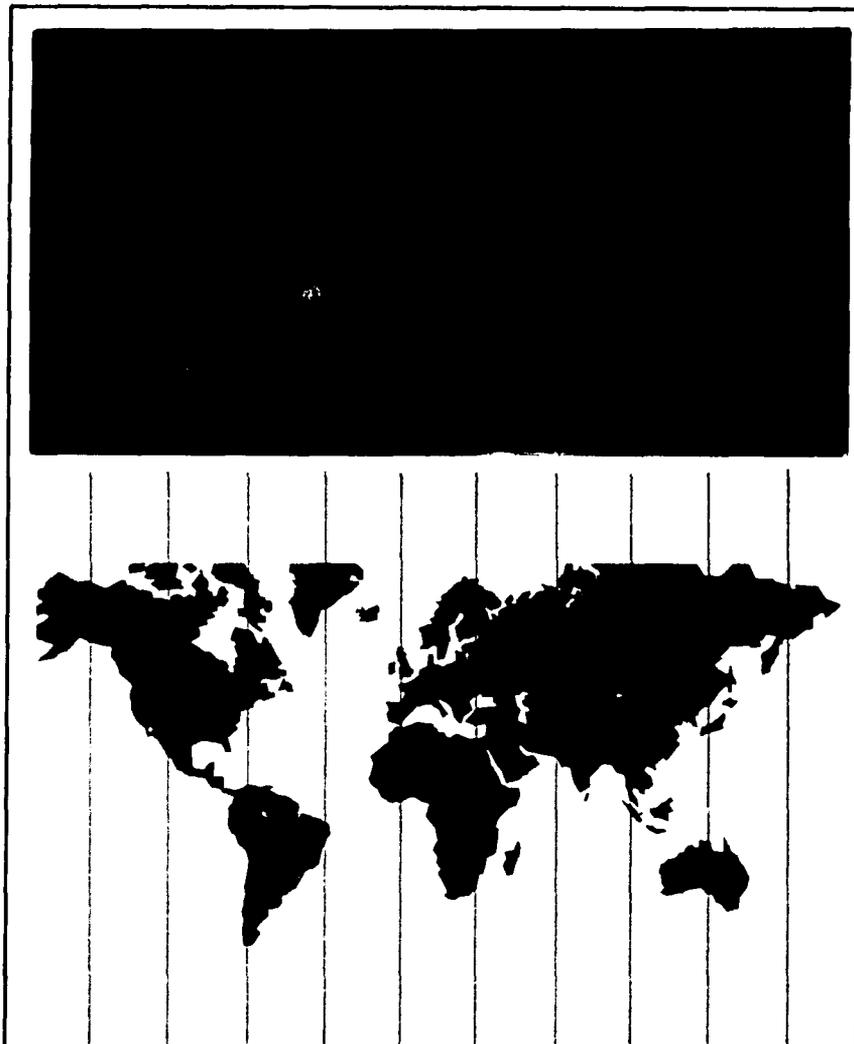


PD-AAI-709

1980 (6/8)

UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
CAIRO

A SURVEY OF THE
PRIVATE INVESTMENT ENCOURAGEMENT
FUND PROJECT
GRANT NO.263-0097

Audit Report No.6-263-82-4

January 20, 1982

In September 1979, the Ministry of Economy (MOE) of Government of Egypt (GOE) signed an agreement with USAID/Egypt to establish a Private Investment Encouragement Fund (PIEF) to provide medium to long-term credit and equity capital to private sector companies. The AID Grant provided \$33 million to the PIEF. As of September 30, 1981, project expenditures totalled \$786,000.

Conditions precedent to disbursement were not met until March 17, 1981. The first subloan for \$3 million was approved on November 25, 1981. Three additional projects totalling \$3.67 million were approved in January 1982.

This survey report comments on the need for the MOE to recruit adequate professional staff to implement the activities of the Fund. Additionally, we questioned costs totalling \$73,533 reimbursed to the projects' consultant under a host country contract (Exhibit).

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INTRODUCTION

Background

In September 1979, USAID/Egypt signed a grant agreement with the Ministry of Economy of the Government of Egypt to provide up to \$33 million for a Private Investment Encouragement Fund. The purpose of PIEF is to provide medium to long-term credit to private sector companies to finance new productive facilities and expand and modernize existing facilities. PIEF will be a co-financier along with various Egyptian participating banks, who will manage the fund investments as agents. In addition, PIEF is to develop institutional capabilities through advisory services for project implementation, project appraisal and training programs.

The agreement provides up to \$78.2 million from the following sources:

USAID Grant	-	\$33,000,000
Participating Banks	-	45,000,000
GOE	-	<u>200,000</u>
Total		\$78,200,000 *****

The Ministry of Economy of GOE is responsible for implementing the project. The MOE appointed an Executive Director in March 1981 to manage the PIEF and to recruit a small staff to assist in project implementation.

Also, an Advisory Board was created in early 1981 to review and monitor the implementation of the Fund and report its findings and recommendations to the MOE. The board is advisory; the MOE can accept or reject its findings and recommendations. In March 1980, the MOE signed a host country cost reimbursement plus fee contract with Robert R. Nathan Associates, Inc., a U.S. consulting firm, for up to \$646,486 plus LE222,593* to provide technical assistance to the project.

* LE is the symbol for Egyptian Pounds. The current exchange rate is LE.83:\$1.

The project completion date is September 30, 1984. As of September 30, 1981 the financial status of the grant was as follows:

Amount Obligated	\$33,000,000
Total Expenditures	<u>786,000</u>
Unexpended Balance	\$32,214,000 =====

Subsequent to the completion of our survey, the USAID approved the first subloan. The subloan was approved on November 25, 1981 for \$3 million. An additional three subloans totalling \$3.67 million were approved in January 1982.

Purpose and Scope

The survey was included in the RIG/A/Cairo Audit Plan for FY 1982. It was not a full scope audit and was limited to: (i) an examination of documentation available in Egypt on project expenditures (both US dollars and Egyptian Pounds) incurred from March 1980 to July 1981; (ii) identifying existing or potential problem areas; and (iii) accumulating sufficient information and documentation about scheduling an audit in our next work plan.

We reviewed project documentation at USAID/E, interviewed AID, PIEF and RRNA officials and examined project financial and activity reports submitted to USAID/E by PIEF and RRNA.

Conclusion

We have concluded that a full scope audit of this project should be scheduled for FY 1983. Also, we found two situations which we believe require management's attention. USAID/Egypt needs to resolve \$73,533 in questioned costs and arrange for needed GOE staffing of the PIEF. Our findings and three recommendations for corrective action are presented in the following section of the report.

USAID/Egypt Comments

Our draft report was discussed with USAID/Egypt officials. Their comments were considered in the preparation of this final report.

AUDIT FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

Questionable Costs Billed by Robert R. Nathan Associates, Inc. (RRNA)

The Contractor, RRNA, billed USAID \$544,374 for technical assistance rendered to PIEF from March 1980 through July 1981. Of this amount, which was paid by AID, we found costs totalling \$73,533 which were either not eligible for reimbursement under the terms of the contract or were not supported by adequate documentation (Exhibit). The questioned costs are explained below.

A. Home Office Fringe Benefits of \$8,734

The contract between RRNA and MOE states that fringe benefits are applicable to the base salaries of RRNA full-time employees. Between November 1980 and July 1981. RRNA engaged the services of three independent consultants who were not on RRNA's payroll. The consultants submitted invoices for their services. RRNA billed AID for fringe benefits totalling \$8,734, computed on payments to the three consultants. Therefore, this amount is not eligible for reimbursement by AID.

B. Overhead of \$48,440

The contract provides for payment of overhead as a percentage applied to the sum of base salaries and fringe benefits of RRNA staff. In addition to overhead billed on the salaries and fringe benefits of the staff, RRNA billed USAID for overheads computed on payments to home office and Egyptian consultants. The billings for overhead were \$27,851 and \$20,589 respectively. The amount of \$48,440 billed by RRNA as overhead on consultant's fees is not eligible for reimbursement by AID.

C. Contractor's 12 percent Fee on the above ineligible reimbursements of \$6,860

This represents installment payments of the Contractor's fixed fee computed as 12 percent of the disallowed overheads and fringe benefits attributable to home office and Egyptian consultants and, therefore, not yet eligible for payment.

D. Travel and Transportation of \$9,499

This is made up of:

Air fares not supported by copies of airline tickets	\$3,540
Air fares to destination other than Cairo	2,683
Travel expenses billed by RRNA, without any explanation or documentary support	<u>3,276*</u>
	\$9,499

* RRNA billed AID for a \$200 "Preparation and Enroute" allowance for each trip undertaken by its staff. This allowance was paid in addition to air fare, hotel, per diem, and local transportation, and no itemization or justification for this allowance was provided by RRNA except for certain minor items.

Recommendation No. 1

USAID/Egypt issue RRNA a bill for collection for \$64,034 which comprises the following questioned costs:

Fringe Benefits on Consultant Fees	-	\$ 8,734
Overheads on Consultant Fees	-	48,440
Fixed Fee (12 percent) on above	-	<u>6,860</u>
		\$64,034

Recommendation No. 2

USAID/Egypt require documentation and justification of the following questioned costs:

Preparation and Enroute Allowances	-	\$3,276
Air fares not supported by airline tickets	-	3,540
Air fares to destination other than Cairo	-	<u>2,683</u>
		\$9,499

If RRNA is not able to justify the above costs, USAID/Egypt should issue a bill for collection of \$9,499.

PIEF has not recruited adequate professional staff to implement project activities

The grant agreement and the project paper specified that the MOE should recruit adequate staff for the PIEF who would perform the following functions:

- . Promotion of PIEF activities with potential participating banks.
- . Preliminary screening and pre-selection of projects in conjunction with USAID.
- . Organization and provision of consulting assistance to participating banks.
- . Review and approval of project proposals.
- . Liaison with participating banks to ensure reporting on fund investments.
- . Organization and management of PIEF sponsored training programs for participating banks.

In addition, the project paper stated that the PIEF staff should include one professional economist or financial specialist, one professional staff assistant and one secretary.

As of December 1981, the MOE had not recruited adequate professional staff for the PIEF. Although an Executive Director was appointed in March 1981, he is engaged in several other activities and does not work on a full time basis. Other PIEF staff consist of two part time personnel and a chauffeur.

The grant agreement did not earmark funds to meet the payroll expenses of PIEF staff during the start-up phase of its operations. Consequently, until PIEF generates sufficient income from its investments to pay its staff, it has no budget for payroll costs. This problem was not foreseen when the grant agreement budget was approved by MOE and USAID/Egypt.

It is essential that PIEF be adequately staffed by professional personnel in order to ensure effective project implementation.

Recommendation No. 3

USAID/Egypt work with the MOE to provide adequate professional staff to implement PIEF project activities.

EXHIBIT

Private Investment Encouragement Fund
Grant No.263-0097
Summary of Questioned Costs - Robert R. Nathan Associates, Inc.
For the Period March 1, 1980 Through July 31, 1981

	<u>Costs Billed</u>	<u>Costs Questioned</u>
Direct Labor		
Costs - Home Office	\$ 99,205*	
Field	55,485	
Fringe - Home Office	42,291	\$ 8,734
Field	14,204	
Overheads - Home Office	134,846	27,851
Field	86,373	20,589
12 Percent Fee on Services	48,673	6,860
Post Differential	7,990	
Travel and Transportation	32,524	9,499
Equipment	8,486	
Other Direct Costs	14,297	
	<u> </u>	<u> </u>
	\$544,374	\$73,533
	*****	*****

* Includes fees paid to outside consultants - \$20,490

LIST OF REPORT RECOMMENDATIONS

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Recommendation No. 1

4

USAID/Egypt issue RRNA a bill for collection for \$64,034 which comprises the following questioned costs:

Fringe Benefits on Consultant Fees	-	\$ 8,734
Overheads on Consultant Fees	-	48,440
Fixed Fee (12 percent) on above	-	<u>6,860</u>
	-	\$64,034

Recommendation No. 2

4

USAID/Egypt require documentation and justification of the following questioned costs:

Preparation and Enroute Allowances	-	\$3,276
Air fares not supported by airline tickets	-	3,540
Air fares to destination other than Cairo	-	<u>2,683</u>
		\$9,499

If RRNA is not able to justify the above costs, USAID/Egypt should issue a bill for collection of \$9,499.

Recommendation No. 3

6

USAID/Egypt work with the MOE to provide adequate professional staff to implement PIEF project activities.

APPENDIX II

LIST OF REPORT RECIPIENTS

USAID/EGYPT

Director	5
Regional Inspector General for Investigations & Inspections (RIG/II/C)	1

AID/WASHINGTON

AID Deputy Administrator	1
Assistant Administrator/Bureau for Near East (AA/NE)	5
Office of Egypt/Israel Affairs (Egypt Desk NE/EI)	1
Bureau for Near East (NE) (Audit Liaison Officer)	1
Bureau for Program and Management Services (SER)	6
Bureau for Program and Policy Coordination	1
Office of Development Information and Utilization (DS/DIU)	4
Office of the General Counsel (GC)	1
Office of Financial Management (FM)	1
Office of Legislative Affairs (LEG)	1
Office of the Inspector General (IG)	1
Office of Policy, Plans and Programs (IG/PPP)	1
Office of Investigations and Inspections (AIG/II/W)	1
Executive Management Staff (IG/EMS)	12

REGIONAL INSPECTORS GENERAL FOR AUDIT

RIG/A/Karachi	1
RIG/A/Karachi--New Delhi	1
RIG/A/Manila	1
RIG/A/Nairobi	1
RIG/A/La Paz Residency	1
RIG/A/LA	1
RIG/A/Washington	1
RIG/A/WA	1