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**REVIEW OF EXCHANGE RATE PRACTICES
BY THE COMMISSION FOR EDUCATIONAL AND
CULTURAL EXCHANGE UNDER
AID GRANT NO. 263-0026-4009
Audit Report No. 6-263-86-2
January 30, 1986**

memorandum

DATE: January 30, 1986
 REPLY TO: Joseph A. Ferri, RIG/A/Cairo
 ATTN OF: *Joseph A. Ferri*
 SUBJECT: Review Of Exchange Rate Practices By The
 Commission For Educational And Cultural
 Exchange Under AID Grant No. 263-0026-4009
 TO: Audit Report No. 6-263-86-2

Mr. Frank B. Kimball, Director USAID/Egypt

This report presents the results of a compliance review of exchange rate practices by the Commission for Educational and Cultural Exchange under AID Grant No. 263-0026-4009. Please advise us within 30 days of the actions taken or planned to close the recommendation.

Background

In November 1983, USAID/Egypt awarded a \$686,000 grant (No. 263-0026-4009) to the Commission for Educational and Cultural Exchange in Cairo, Egypt, referred to as the Fulbright Commission, for the purpose of funding a team of American instructional specialists in the teaching of English as a foreign language. The grant was increased to \$1,616,650 in August 1985 by two interim amendments totaling \$930,650.

USAID/Egypt advanced all funds to the Commission in U.S. dollars. Advances received and dollar costs claimed against the advances totaled \$835,001 through August 31, 1985. The Commission converted the dollars to Egyptian pounds (LE's) to meet local currency expenses. Specifically, the Commission obtained Egyptian pounds at the U.S. Embassy Branch of the Chase National Bank in Cairo by presenting U.S. dollar checks drawn on a U.S. bank. The Egyptian pounds were deposited in a local account with the Egyptian-American Bank in Cairo. Egyptian pounds were drawn from the account to pay local costs of the grant. The Commission then converted the local costs to U.S. dollar equivalents when it prepared SF-1034 expenditure vouchers to liquidate the U.S. dollar advances received under the grant.

The USAID/Egypt Controller sent a letter in May 1985 to all USAID/Egypt contractors requiring the contractors to certify that the exchange rates used on reimbursement vouchers were the same rates at which Egyptian pounds were purchased.



Audit Objective And Scope

The objective of this compliance review was to determine whether the Commission liquidated its U.S. dollar advances at the same conversion rates at which it purchased Egyptian pounds.

We reviewed the process by which the Commission purchased Egyptian pounds and liquidated its U.S. dollar advances for the period November 1983, when the grant was signed, through August 1985. The Commission prepared its latest liquidation voucher October 29, 1985, covering expenditures through August 1985. Financial records were examined at USAID/Egypt and at the Commission's office in Cairo. The work was done in December 1985.

No audit was made of the actual expenditures claimed by the Commission or the calculation of the adjustment due USAID/Egypt. This review was made in accordance with generally accepted government auditing standards.

Results Of Audit

The Commission currently is complying with the grant provisions and the Controller's letter of May 12, 1985, except as noted. An adjustment is due USAID/Egypt, however, because of the Commission's practice prior to June 1985 of liquidating its cash advances at exchange rates that were lower than its actual dollars to pounds conversions.

Prior to June 1985, the Commission submitted expenditure vouchers using the official rate of LE.83 = US\$1 although it received Egyptian pounds at the higher most favorable official rates, as prescribed under the grant, from the Chase National Bank at the U.S. Embassy. At the time of our audit, the Commission was preparing an adjustment to credit USAID/Egypt for the gains created by purchasing Egyptian pounds at the higher rates. The Commission estimated the adjustment to be \$100,975.

This adjustment was needed to comply with a memorandum from the USAID/Egypt Controller to all USAID/Egypt contractors dated May 12, 1985 requiring a certification for all reimbursements prior to June 30, 1985. The certification stated, "...the exchange rate used on the reimbursement vouchers equals the actual exchange rate used to purchase Egyptian pounds..."

After June 30, 1985, the Commission claimed reimbursement in U.S. dollars at the same rates used to purchase Egyptian pounds. During July 1985, for example, the Commission obtained pounds from the Embassy branch of Chase National Bank at the rate of LE1.44 = US\$1. The Commission's records showed the same rate of conversion for expenditures reported to USAID/Egypt in U.S. dollars, except for salaries paid with Egyptian pounds. In these cases, salaries were converted and paid at LE1.31 = US\$1. The Commission's Financial Manager explained that this was done to preclude paying a premium on salaries in Egyptian currency. The effect of these transactions was to provide the Commission an additional 13 Egyptian piasters for each dollar of salary costs paid in Egyptian pounds.

Recommendation No. 1

We recommend that the USAID/Egypt Associate Director for Financial Management:

- a. ensure the Commission for Educational and Cultural Exchange makes timely refund of the monies due USAID/Egypt as a result of currency conversion practices; and
- b. validate the adjustment amount.

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