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AUDIT REPORT ON OUTSTANDING ADVANCE TO USAID/EGYPT'S SMALL FARMER PRODUCTION PROJECT NO. 263-0079

Audit Report No. 6-263-86-8

August 20, 1986

UNITED STATES GOVERNMENT

memorandum

DATE: August 20, 1986

REPLY TO ATTN OF: William C. Spat, RIG/A/Cairo (A)

SUBJECT: Audit Report On Outstanding Advance To USAID/Egypt's Small Farmer Production Project No. 263-0079

TO: Mr. Frank B. Kimball, Director USAID/Egypt

This report presents the results of audit on Outstanding Advance to USAID/Egypt's Small Farmer Production Project No.263-079. Please advise us within 30 days of any additional information relating to action planned or taken to implement the recommendation. We appreciate the cooperation and courtesy extended to our staff during the audit.

Background

The purpose of the Small Farmer Production Project was to develop a system to improve the small farmers' access to production inputs and to apply these inputs in selected governorates. The project agreement, dated July 25, 1979, obligated $49 million for this purpose. Part of the project involved the construction of banks and storage areas for which USAID/Egypt made a series of advances to cover the costs of construction.

Audit Objective and Scope

The Office of the Regional Inspector General for Audit/Cairo made a financial and compliance audit on Outstanding Advance to USAID/Egypt's Small Farmer Production Project No.263-0079. The audit objective was to determine whether the funds were appropriately accounted for and controlled.

Specifically, this audit covered only the last advance made under Project Implementation Letter 38 in December 1984 in the Egyptian pound equivalent of $2,002,589. (For report presentation purposes, Egyptian pounds were converted to U.S. dollars at a rate of .83168 LE = $1.00.) The audit included an examination of the financial transaction records in the Division of Financial Management, discussions with the previous and current project officers and a contractor project official, and verification of the outstanding account balance at the repository bank.

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The audit, done in May 1986, was made in accordance with generally accepted government auditing standards for financial and compliance audits. A memorandum detailing the results of audit was sent to the Associate Director, Financial Management on May 26, 1986. The memorandum requested that the outstanding advance balance be returned to USAID/Egypt. The funds were not returned as of the date of this report.

Results of Audit

The audit showed that an advance balance of $1,809,441 remained outstanding for about 18 months despite clear evidence that no contract activity was taking place. The failure to take timely action to return the funds to USAID/Egypt was caused by the ineffective implementation of established control systems governing advances. This has cost the U.S. Government about $244,000 ($1,809,441 at 9 percent).

Discussion - On December 4, 1984, the Egyptian pound equivalent of $2,002,588.74 was advanced under the Small Farmer Production Project No. 263-0079. The purpose of this advance was to cover expenses for the period October, November, and December 1984. The funds were disbursed as part of USAID/Egypt's share under the project of the costs of constructing banks and storage areas in certain governorates. A special account was opened at the Principal Bank for Development and Agriculture Credit to handle advances. This bank was designated as the agency to disburse the payments to construction contractors. Under the financial procedures established for advancing funds and liquidating advances, the Small Farmer Production Project would submit monthly to the USAID/Egypt Project Officer a Statement of Cumulative Expenditure and Cash Needs covering projected expenditures for 3 months.

Between December 1984 and May 1986, only one voucher was submitted to liquidate the advance. This voucher, posted on September 9, 1985, totaled $212,048.91 for expenses for the 10-month period from October 1984 through July 1985. The result of these transactions was that, as of April 1, 1986, according to Financial Management records, $1,809,441 remained outstanding. According to the account statement received from the bank, the balance at April 1, 1986, was $1,923,751 or about $114,310 more. Thus, the account needed to be reconciled. Discussions with Project Office officials indicated that contract activity had not taken place to the extent contemplated when the above advance was made because the Egyptian contracting firm ran into financial difficulties and suspended construction activity. We were advised also that the case is presently before the courts in Egypt. The

remaining funds are deposited in a non-interest-bearing account opened at the Principal Bank for Development and Agriculture Credit (PBDAC) under the account name SFPP Construction Fund, Account No. 1711.

The funds have remained essentially intact in the account since December 1984 because neither Financial Management nor the Project Office took action to reduce the outstanding balance despite clear evidence that no contract activity was taking place. For example, a Statement of Cumulative Expenditure and Certified Cash Needs in August 1985 showed that the expected cash needs for the 3-month period from August to October 1985 totaled about $60,000. At that time the available cash balance was $1,809,441. Nevertheless, contrary to sound cash management practice neither the Project Officer nor Financial Management took action to reduce the outstanding cash balance. The balance has cost the U.S. Government about $244,000 ($1,809,441 at 9 percent) for the 18-month period from December 1984 to May 1986. The balance in the outstanding advance account is serving no useful project purpose and should be returned promptly to the account of the U.S. Treasury.

Recommendation No. 1

We recommend that USAID/Egypt immediately recover the unexpended balance of $1,809,441 from the account established for the Small Farmer Production Project.

Management Comments

USAID/Egypt concurred with the recommendation and is taking action to recover the unspent balance of $1,809,441.

Office of the Inspector General Comments

The recommendation will be closed when the funds are recovered by USAID/Egypt.

Compliance and Internal Control

There was a lack of effective implementation of USAID/Egypt's established control systems over project advances. With the exception of this finding, nothing came to our attention that would indicate non-compliance with applicable laws and regulations or material weaknesses in administrative controls.

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