AUDIT OF
SALARY SUPPLEMENTS UNDER USAID/EGYPT
CONTROL OF DIARRHEAL DISEASES
PROJECT NO. 263-0137

Audit Report No. 6-263-88-6
September 29, 1988

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

September 29, 1988

MEMORANDUM FOR D/USAID/EGYPT, Marshall D. Brown

FROM : RIG/A/Cairo, F. A. Kalhammer Kalhammer

SUBJECT: Audit of Salary Supplements under Control of Diarrheal Diseases Project No. 263-0137

The Office of the Regional Inspector General for Audit/Cairo has completed its audit of Salary Supplements under the USAID/Egypt Control of Diarrheal Diseases Project No. 263-0137. Ten copies of the audit report are enclosed for your action.

The draft audit report was submitted to you for comment and your comments are attached to the report. The report contains six recommendations. Recommendation Nos. 1 (a), 1 (b) and 5 are considered closed and require no further action. The remaining Recommendations are resolved and will not be closed until completion of planned or promised actions. Please advise me within 30 days of any additional actions taken to implement Recommendation Nos. 1 (c), 2, 3, 4 and 6.

I appreciate the cooperation and courtesy extended to my staff during the audit.

Attachments as stated

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Executive Summary

USAID/Egypt paid salary supplements (or incentives) to host country employees for years under several A.I.D. projects. Although such payments had been subject to Mission policy since 1978, Agencywide policy guidance was lacking until June 1987. The $36-million Control of Diarrheal Diseases project was a typical health services project employing financial incentives. It was selected for audit because of the large amount of incentive payments financed from dollar-appropriated project funds. The incentives paid to Ministry of Health (MOH) employees were to ensure an effective outreach program by making rehydration services and materials widely available.

By September 30, 1987, $2.362,000 had been budgeted for incentives by A.I.D. and about $1,100,000 had been disbursed. The Government of Egypt (GOE) had contributed an additional $180,000 for the same purpose. In addition, $157,000 in A.I.D. funds had been paid out for incentives but the GOE implementing unit had miscnarged these costs to another budget line-item. Since October 1, 1987, incentives were being paid from local currency produced by the sale of AID-financed rehydration materials and deposited in a project special account.

The objectives of this economy and efficiency audit were to determine whether: the use of salary supplements was clearly justified; the GOE had contributed its share to the program; and management controls were adequate to ensure that incentive payments were properly authorized, accounted for, promptly paid and reported.

The audit showed that management controls had not been adequate to ensure that salary supplement payments were proper, justified and shared with the Government of Egypt. The National Control of Diarrheal Diseases Project (NCDDP), the GOE coordinating organization, had established procedures to authorize and pay incentives, and an audit trail adequate to trace the use of A.I.D. funds; however, the system had not prevented unauthorized payments, overpayments, errors, mispostings, misuse of budget or delayed payments.

Delays of up to 1 year and more had occurred in paying incentives to MOH field personnel and some incentives were no longer scheduled to be paid because of the time lapse. The incentives were intended to motivate doctors, nurses and other health workers to better achieve project objectives. A complex and cumbersome GOE system of approvals was causing the problem. As a result, incentives were paid late to recipients or remained unpaid, thereby reducing or negating intended benefits. Moreover, the small amounts paid to many individuals spread over so long a period raised a question about the effectiveness of using such payments as an important motivating factor. We recommended that USAID/Egypt determine if monetary incentives should be continued or if nonmonetary incentives would better serve project needs; ensure that the personnel due unpaid incentives are properly compensated; and, if continued, work toward a more efficient method of distributing payments. USAID/Egypt has agreed to provide assistance to NCDPP in resolving the unpaid incentives issue. Some system revisions had been undertaken by NCDDP and USAID/Egypt planned to review these.

USAID/Egypt financed salary supplements to GOE employees in amounts that exceeded the percentage of base salary authorized by Egyptian decrees. USAID/Egypt's guidelines require that A.I.D. funds not be spent for purposes inconsistent with GOE policy. These supplements were paid from A.I.D. funds advanced to the project. The NCDDP Director had approved the maximum rates to which the recipients were entitled plus bonuses to certain employees. GOE controls were not in place to prevent such overpayments and a project manager was not aware that supplements exceeded the authorized rates. As a result, funds were inappropriately spent during a 4-year period in which bonuses were paid at a cost to A.I.D. of about $60,000 (LE59,520). We recommended that USAID/Egypt recover these payments and ensure that controls are put in place to prevent further unauthorized payments. USAID/Egypt planned to recover overpaid bonuses and to establish controls to prevent future overpayments.

The grant budget provided more A.I.D. funds for project incentives than needed for several reasons. Joint planned contributions were significantly more than needed to fund the incentive program. USAID/Egypt and the MOH had mutually agreed not to spend any more A.I.D. funds for incentives, but to use project income instead. As a result, A.I.D.'s financial plan of $2,362,000 was greater than the amount it spent, about $1,260,000. We recommended that USAID/Egypt deobligate about $1.1 million unneeded funds for incentives. USAID/Egypt planned to make an internal evalution of the project in September 1988 and to address the issue.

USAID/Egypt had paid incentives since 1978 without showing an exceptional or overwhelming necessity for salary supplements, as required by USAID and subsequent Agencywide guidelines. Project management had leniently interpreted earlier Mission guidelines and had not adequately addressed current A.I.D. requirements. USAID/Egypt officials were not able to demonstrate that all incentives were essential, that important factors had been considered in paying incentives, and that project funds totaling about $1.4 million had been appropriately spent. We recommended that USAID/Egypt's Office of Health submit a complete statement by individual or by category of incentives, in accordance with A.I.D. and Mission guidelines. (Subsequent to the audit, the Mission Director approved the continuation of salary supplement payments using project special account funds, on the basis that discontinuation of incentives would jeopardize project objectives.)

Improvements were needed in accounting and reporting to properly monitor the incentive program in accordance with management's responsibility to establish adequate internal controls and revised Agencywide guidelines and criteria.

Although audit trails were in place for payments to recipients, the review disclosed errors, mispostings, misuse of budget, delayed payments, overpayments to certain individuals, and an accounting system that was not geared to producing management reports. NCDDP reported total incentive costs incorrectly and did not report the details as to how the money was spent. USAID/Egypt and NCDDP did not require this information and the NCDDP accounting office had not initiated management reports. As a result, USAID/Egypt did not know of the errors and misuse of funds. We recommended that USAID/Egypt's Office of Financial Management assist NCDDP to improve its budgeting, accounting and management reporting system, recover overpayments to NCDDP project officials, and correct mispostings. USAID/Egypt planned to meet with NCDDP on these issues and to provide assistance to them in improving NCDDP controls.

Management Comments: "We appreciate the opportunity to comment on your draft audit report entitled Audit of Salary Supplements, Control of Diarrheal Diseases, Project No. 263-137 dated August 10, 1988. [W]e agree in principle with the findings and recommendations provided in the draft report. We are looking into the problems cited in the audit report and we will advise you of any corrective action we will undertake to resolve them."

Office of the Inspector General

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PART I - INTRODUCTION

A. Background

The payment of salary supplements to foreign government employees is a sensitive issue and a matter of Congressional and Agency concern because of the potential this practice creates for abuse. As is the case with many other A.I.D. Missions around the world, USAID/Egypt had paid salary supplements for years under various projects. Although subject to Mission policy, the payments lacked overall Agency policy guidance to control these expenditures.

Salary supplements are payments that augment an employee's base salary or premiums, overtime, extra payments, incentives and allowances. The employee qualifies under host government rules or practices by performing his regular duties or for work performed during normal working hours.

Mission policy covering this practice was established in guidelines for the use of A.I.D. funds to meet Egyptian costs, dated December 14, 1978. The guidelines set forth the rule for not paying employees or officials of cooperating Egyptian entities except in cases of overwhelming necessity in activities of high priority to the U.S. Government. The policy was rewritten in June 1987 to incorporate new Agencywide policy criteria for the payment of salary supplements to host country employees. Agencywide policy was further clarified and restated in April 1988. The new guidance applies to the use of A.I.D. dollar resources, as well as to U.S.-owned local currency and host-country-owned local currency jointly programmed by A.I.D. and the host country.

The Control of Diarrheal Diseases Project was a typical USAID/Egypt health project incorporating financial incentives and was selected for audit because of the amount of incentives budgeted and paid from dollar-appropriated project funds. The project's purpose was to reduce child suffering and mortality from diarrheal diseases by making rehydration services and materials widely available through a national program. The use of incentives was to ensure that an effective outreach program was sustained.

On September 27, 1981 A.I.D. signed a Grant agreement which, as amended, provided $36 million to the National Control of Diarrheal Diseases Project (NCDDP). The Government of Egypt's Ministry of Health (MOH) established NCDDP to coordinate, facilitate and enhance the activities of other organizations involved in the project. NCDDP personnel are responsible for carrying out the tasks involved in implementing the project, such as: training of trainers in the use of oral rehydration therapy, development of training programs and clinical services, clinical supervision, program publicity, supervision of oral rehydration salts (ORS) production and distribution, evaluation and research. The USAID/Egypt Office of Health is responsible for providing required administrative approval to project actions.

As of September 30, 1987, $2,362,000 of the $36 million grant was budgeted for incentive payments of which about $1,115,000* had been reserved and $1,099,000 disbursed by A.I.D. The host government had contributed an additional LE180,000 ($180,000) to incentives. Effective October 1, 1987, USAID/Egypt stopped using A.I.D. funds for incentives. From October 1, 1987 to December 31, 1987, NCDDP paid out about $17,429 for incentives using special account funds generated from the sales of A.I.D.-financed ORS. The amended project assistance completion date was September 30, 1990.

B. Audit Objectives And Scope

The Regional Inspector General for Audit, Cairo (RIG/A/C) made an economy and efficiency audit of salary supplements paid by NCDDP as part of a worldwide IG review of this practice. The Control of Diarrheal Diseases Project was examined in Egypt because of the dollar significance of the A.I.D.-financed expenditures. The audit covered $1.1 million in A.I.D. incentives paid to GOE employees during the period from inception of the project, September 27, 1981 through December 31, 1987. Other USAID/Egypt projects under which incentives were paid were not examined during this audit.

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* The rate of exchange in effect during the period ranged from LE.0.83 to LE2.17 = $1.00. We used an average rate of LE1.00 = $1.00 throughout this report in expressing the dollar equivalents of Egyptian pound costs financed by AID and the GOE.

The audit objectives were to determine if: (1) the use of salary supplements was clearly justified; (2) the GOE contributed its share to the program; and (3) management controls were adequate to ensure that incentive payments were properly authorized, accounted for, promptly paid and reported.

The audit included visits to USAID/Egypt project offices, MOH, NCDDP, and at the local level to seven general hospitals, five health units, two medical centers and three maternal child health centers in four of the twenty-six governorates (provinces). At locations visited, discussions were held with cognizant officials, records were reviewed, and procedures were tested on a judgmental basis for payments made during the period of April, May and June 1987.

The review of compliance and internal controls was limited to the findings in this report. The audit work was done between August 1987 and May 1988 and was carried out in accordance with generally accepted government auditing standards.

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PART II - RESULTS OF AUDIT

The audit showed that management controls had not been adequate to ensure that salary supplement payments were proper, justified and shared with the Government of Egypt.

The NCDDP had established procedures to authorize and pay incentives using A.I.D. funds and an adequate audit trail to identify the recipients who were paid. However, the audit showed that the system had not prevented unauthorized payments, overpayments, errors, mispostings, misuse of budget, and delayed payments from occurring. Some field personnel had not received payments due them after 1 year, and bonuses to office staff exceeded amounts authorized by Egyptian decrees.

Although the incentives had been paid since April 1982, the host government had contributed only a small portion of its planned share. USAID/Egypt and the host government agreed to stop using A.I.D. funds in 1987, and to use project-generated funds instead. As a result, grant funds of about $1.1 million were not spent.

USAID/Egypt did not have a clear justification for paying incentives. A justification statement prepared in September 1987, during the audit, was incomplete in that it did not address: individual, or each category of, recipients; valid reasons why the GOE could not provide funds from its own resources, specify needs in terms of project objectives, or adequately address the deficiencies noted later in the audit. Notwithstanding expressed audit reservations regarding the continuation of these payments, the Mission Director again approved incentive payments under the project in August 1988, which was within his authority to do.

The report recommends that USAID/Egypt examine the issue of delayed cash supplements ensuring that past deficiencies are corrected; recover bonuses and other overpayments, and see that controls are in place; deobligate unneeded grant funds; submit a complete justification statement for payments, if continued; and seek to improve NCDDP's budgeting and accounting controls and its reporting to USAID/Egypt.

A. Findings And Recommendations

1. Field Personnel Had Not Received Incentives after 1 Year

Delays of up to 1 year and more had occurred in paying incentives to MOH field personnel and some incentives were not scheduled to be paid because of the time lag. The incentives were intended to motivate doctors, nurses and other health workers to better achieve project objectives. A complex and cumbersome GOE system of approvals was causing the problem. As a result, most of the $1.4 million in incentives were paid late to recipients or remained unpaid, thereby reducing or negating intended benefits. Moreover, the small amounts paid to many individuals spread over so long a period raises a question as to the effectiveness of using these payments as an important motivating factor under the project.

Recommendation No. 1

We recommend that USAID/Egypt:

(a) determine if salary supplement payments to field personnel are desirable or should be discontinued;

(b) determine if the use of nonmonetary incentives would better serve project needs rather than relying on a cumbersome system of delayed payment rewards; and

(c) ensure that MOH field employees who were due incentives, but did not receive them because of delays in the payment process, are appropriately compensated.

Recommendation No. 2

We recommend that if salary supplements are continued, the USAID/Egypt Office of Financial Management, in conjunction with the Project Office, consult with the Government of Egypt in order to devise a more efficient method of distributing payments.

Discussion

NCDDP did not distribute incentives promptly to MOH field personnel and time lags had increased. For example, as of January 31, 1986, the Gharbia Governorate had not yet received funds to pay incentives for the 4-month period (October 1985 through January 1986) and Sharkia Governorate had not received funds to pay incentives for 2 months (December 1985 through January 1986). At the end of June 30, 1987, these time lags had increased to 9 months for Gharbia and 12 months for Sharkia.

Additionally, after checks were finally issued by NCDDP, these Governorates sometimes took 3 months or longer to pay individuals and return the paid lists to the NCDDP head office because lists were not to be returned until after all recipients located were paid. We estimated that it took more than a year in some cases for incentives to be received by recipients.

According to an evaluation report in February 1987, the financial incentives offered to health personnel were intended to motivate workers toward achieving the project's objectives by partially compensating for current low salaries.

Delays in paying incentives were attributed to the cumbersome system in place for review and approval of payments to field personnel through governorate, district and NCDDP offices. In Sharkia, as an example, typically the General Director evaluates the Governorate Coordinator who in turn evaluates the Health Directors of the 12 regions. Each region has about 15 rehydration centers. The Health Directors then evaluate about 180 doctors in the field health units, hospitals and medical centers throughout Sharkia. Finally, these doctors evaluate the estimated 180 nurses and 180 workers in each center.

The evaluations are collected and reviewed by the Regional Health Directors who make biweekly visits to each center. Recommendations for incentives, together with the evaluations, are then sent to the Governorate Coordinator who reviews, approves and has lists prepared for incentives to be paid to each designated person. After review and approval by the General Director, the lists are then returned to the General Coordinator at NCDDP for review and approval. Before approval, the lists go to the NCDDP accounting department to review calculations.

A check is finally prepared, signed by appropriate NCDDP officials, and returned with the lists to the governorate cashier. The cashier cashes the check and notifies the regions that incentive funds have been received so that field personnel can pick them up and sign the lists. After every individual receives his money, the cashier returns the signed lists to NCDDP.

In a follow-up review of delays in payments on March 29, 1988, we found lists of unpaid incentives for all governorates since April 1987, and 14 lists dating as far back as January 1987 to field doctors, nurses, workers and to others in the governorates. Due to delays in submitting and approving lists by the governorates and the districts, the payments were not being processed by the NCDDP accounting office. Governorate requests, dated prior to September 30, 1987, were either not scheduled to be paid or were to be cancelled. At the time, USAID/Egypt and the MOH had agreed not to use A.I.D. direct funds to pay any incentives after September 30, 1987, and NCDDP had not received authority from MOH to use the special account funds (local currencies generated by the sale of AID-financed commodities) to pay incentives for work periods prior to October 1, 1987.

The audit disclosed that incentive payments were made to about 1,584 people associated with the project, including doctors, nurses and workers assigned to ORT field units. Based on rates paid, generally, doctors received less than LE180 ($180) and nurses less than LE120 ($120) for a year. These payments were often delayed for a year or more. While the possible symbolic importance of any reward amount cannot be discounted, the small amount of incentives paid to many project support personnel spread over so long a period appears questionable in terms of an important motivating factor for achieving project objectives.

Salary supplements were supposed to enhance project support. In total, $1.436 million was channeled from AID and GOE funds for this purpose. USAID/Egypt needed to reconsider whether supplements were desirable and should be continued, or whether other types of incentives would be more effective.

In the latter stages of the audit, the USAID/Egypt Office of Health submitted an action memorandum to the Mission Director for approval to finance salary supplements from the project Special Account (See Exhibit 3). Although the memorandum did not specifically address the deficiencies noted in the audit, the action was approved. In the judgment of the Mission Director, discontinuing the salary supplements now being paid would jeopardize project objectives. The Director has the authority to grant such approvals under ongoing projects.

Notwithstanding our reservations about the effectiveness of continuing these payments, Recommendation No. 1 (a) and (b) are considered closed upon issuance of this audit report. Regarding Recommendation No. 1 (c), USAID/Egypt's Office of Financial Management has agreed to provide assistance to NCDDP in resolving the unpaid incentives issue. The recommendation is considered resolved and can be closed when the funding is provided and payments are being made.

Regarding Recommendation No. 2, NCDDP has undertaken certain system revisions. USAID/Egypt plans to review the revised incentive system and to advise of corrrective actions. The recommendation is considered resolved and can be closed when those actions are completed.

2. Salary Supplements Were Paid in Excess of Amounts Authorized

USAID/Egypt financed salary supplements to MOH and Ministry of Finance (MOF) employees seconded to the project (headquarters personnel) in amounts that exceeded the percentage of base salary authorized by Egyptian decrees. USAID/Egypt's guidelines require that A.I.D. funds not be spent for purposes inconsistent with GOE policy. These supplements, in the form of incentives and bonuses, were paid from A.I.D. funds advanced to the project and were charged to the A.I.D. budget line item for incentives. The NCDDP Director had approved the incentives for payment at the maximum rates to which the recipients were entitled, and the bonuses as additional special rewards to the same employees. GOE controls were not in place to prevent such overpayments and USAID's project management was not aware that the headquarters personnel were paid salary supplements that exceeded the authorized rates. As a result, A.I.D. funds were inappropriately spent during a 4-year period in which bonuses were paid at a cost to A.I.D. of about $60,000 (LE59,520).

Recommendation No. 3

We recommend that USAID/Egypt:

(a) recover the overpayment of bonuses charged to A.I.D. funds, by issuing a Bill for Collection to the Government of Egypt for excess payments totaling LE59,520, or offsetting this amount against future disbursements; and

(b) ensure that controls are strengthened to prevent further overpayments from occurring.

Discussion

Salary incentives are authorized by the GOE only if a foreign-assisted project is involved. Egyptian Presidential Decree No. 48 and MOH Decree No. 111 set forth the maximum monthly financial rewards payable to GOE employees working on projects with foreign or international organizations. The decrees set the maximum rewards payable in terms of the employees' basic salary at 200 percent for a worker on a single project and 300 percent for a worker on more than one project.

In carrying out the decrees, the MOH had established a policy of approving incentives of 200 percent of basic salaries to full-time employees and 100 percent of basic salaries to part-time employees who were seconded from the MOH. The MOF had authorized an incentive of 30 percent to be paid to its only seconded employee, the part-time NCDDP Controller. According to the decrees, extra salary earned beyond the maximum rates mentioned was to be collected and used to finance research to be specified by the GOE agency concerned.

NCDDP was paying operational costs from AID funds advanced to the Project. In addition to incentives, the NCDDP was paying bonuses every 3 months (bimonthly before February 1987) to all of its employees seconded from the MOH and MOF, even though these employees were already receiving the maximum rate authorized for salary supplements. NCDDP paid a total of about $60,000 (LE59,520) in bonuses during the period from September 1, 1983, through August 31, 1987. The overpayment was discovered in our audit test of the incentive costs charged to A.I.D. for the months of April, May, and June 1987. For the period tested we found that 30 employees seconded from the MOH and MOF received bonuses totaling about $4,067. The overpayments were charged to A.I.D. under the Certified Fiscal Report line item captioned "incentives." USAID/Egypt did not specifically authorize bonuses to be paid and current USAID/Egypt project management was not aware that these costs were being funded by A.I.D.

The bonus payments exceeded the monthly financial rewards authorized to be paid. The bonuses added an additional incentive payment to about 30 employees every 3 months, who already were receiving monthly incentives. For example, a full-time employee with a monthly base salary of LE165, received a total of LE660 for the months that bonuses were paid, broken down as follows: incentives LE330 and bonus LE330; thus, increasing rewards to 400 percent (instead of 200 percent) of the base salary. The practice of paying bonuses had been started by NCDDP before the current NCDDP Director's assignment. The payment of bonuses was brought to the attention of the USAID Project Officer during the audit (September 1987) and payment of bonuses using A.I.D. funds was discontinued.

USAID/Egypt Mission Order 3-10, dated December 14, 1978, required, in part, that local cost financing should not be inconsistent with the administrative and personnel policies of the GOE. This concept was further defined in A.I.D. policy on June 7, 1987 (State 173326), which required that A.I.D. project funds be used for salary supplements only if the the payments are permitted under host country law and regulations.

GOE controls were not adequate to prevent the overpayments. The NCDDP Director claimed that the decrees did not apply to bonuses paid as special awards in recognition of services performed. No documentation was provided to support this position. The NCDDP Director has the authority to approve wages, incentives, and rewards for extraordinary efforts, but only within the limits of his authority. The Director exceeded his authority in paying amounts that were not specifically authorized by A.I.D., the decrees, and the appropriate GOE ministries.

Following notification to the USAID/Egypt Project Officer during the audit, USAID informed the MOH that incentives would not be paid from grant funds after August 1987. Based on the review, we concluded that bonuses totaling about $60,000 were charged to A.I.D. funds and should be recovered.

Regarding Recommendation 3, USAID's Office of Financial Management plans to review the alleged overpayments and issue a Bill for Collection, if appropriate. USAID also plans to ensure that controls are established to prevent the recurrence of overpayments. The recommendation is considered resolved and can be closed when the contemplated actions have been taken.

3. AID Provided More Funds than Needed for Salary Supplements

The grant budget provided more A.I.D. funds for project incentives than needed due to program changes, payment delays, and the reduced value of the Egyptian pound. Although A.I.D. continued to fund annual incentive payment requirements, the GOE had not contributed its share toward incentive costs according to the understanding set forth in the project paper. The annual percentage contributions stated in the project paper were not restated in the grant agreement, which was part of the reason the GOE did not participate. In addition, due to devaluation of the Egyptian pound, the planned contributions of both parties were significantly more than needed to fund the incentive program. Moreover, USAID/Egypt and the MOH mutually agreed not to spend A.I.D. funds for incentives after September 30, 1987, and started to use project income instead. As a result, A.I.D.'s project budget for incentives, $2,362,000, was greater than the cumulative amount it had spent, about $1,260,000. We consequently estimated that $1.1 million set aside for A.I.D.'s incentives will not be needed and should be deobligated.

Recommendation No. 4

We recommend that USAID/Egypt deobligate an estimated **$1.1 million in unneeded funds from the operational cost budget for** incentives.

Discussion

According to the original project paper, dated August 1981, A.I.D. was to commit funds for the project with the understanding that the GOE would increase its year-by-year share of the operational cost budget. A.I.D.'s share, starting at 100 percent the first year, was to be reduced 20 percent each subsequent year, and the GOE share was to increase correspondingly. During the fifth or final year, the GOE would pay 80 percent and A.I.D. 20 percent. In no event were A.I.D. contributions to be disbursed in excess of the agreed upon percentages. The intended outputs of the incentive program were the training of personnel to promote the oral rehydration therapy and salts outreach campaign.

The GOE did not contribute its share to incentive costs as called for in the project paper. Due to a 6-month delay in starting the outreach campaign, A.I.D. funds advanced for the first year's incentives, which started in April 1982, were more than adequate to pay for programmed costs. For the second year, the NCDDP continued to pay incentives with A.I.D. funds and A.I.D. advances were more than adequate to extend the program to January 1985 without the GOE making any of its contributions. During the third year, the GOE was to contribute 40 percent. A.I.D., however, honored a request by the implementing agency to pay total incentive costs with the revised provision that the MOH would contribute an increased percentage of the incentives costs during the fourth year, beginning in January 1986. By September 30, 1987, after 5-1/2 years, the GOE should have contributed the greater share of incentives, according to the original plan. Instead, USAID/Egypt had paid a total of LE1,256,000, or 87 percent, (including LE157,000 charged to commodities) compared to LE180,000, or 13 percent, paid by the GOE for the same period.

According to the current project officer, the GOE did not contribute its share to incentives because the grant agreement did not specify the annual percentage requirements for the sharing of project operational costs as set forth in the project paper. Due to changes in the program, delays in payments of incentives and the reduced value of the Egyptian pound, only $1,436,000 of the incentive budget (29 percent) was actually paid. The financial plan in the grant agreement allocated almost $5 million ($2.362 million from A.I.D. and $2.629 million from the GOE) for incentives.

These circumstances allowed the implementing agency the means to pay all of the incentive costs from A.I.D. funds until 1987 when, due to USAID/Egypt insistence, the GOE began to contribute partly to these incentive costs. In our opinion, noncompliance with cost sharing commitments raised serious questions as to the importance of total incentives planned for the project, and as to whether A.I.D. funds could have been better used for other development purposes.

Proceeds from the sale of locally manufactured A.I.D.-financed oral rehydration salts had accumulated in a commercial bank account maintained by the NCDDP and were not being utilized. RIG/A/Cairo (Audit Report 6-263-88-4, dated May 19, 1988, Income Generating Projects) recommended that these funds be put to effective use for mutually agreed project purposes.

During the audit, USAID officials took appropriate action to reduce A.I.D.'s apparent overcontribution toward incentives. USAID/Egypt and the MOH agreed to use funds from the sale of oral rehydration salts in the project special account to pay incentives to eligible MOH project personnel instead of using A.I.D. appropriated funds. Since September 30, 1987, A.I.D. direct funds had not been used to pay any incentives, and all funds provided for this purpose had been paid from either the GOE budget or the special account.

USAID/Egypt's actions thus far have been responsive toward resolving A.I.D.'s overcontribution of funds for incentives. However, the grant agreement has an accumulated budget of $2,363,000 in A.I.D. funds for incentives and only about $1,260,000 (LE1,256,157) had been spent. Since the MOH agreed to provide funds for incentives from other sources, an unneeded A.I.D. budget of about $1.1 million was available for other project purposes or deobligation.

Regarding Recommendation No. 4, USAID/Egypt planned an internal evaluation of the project in September 1988 which was to address the issue of reprogramming excess project funds. The recommendation is considered resolved and can be closed when the evaluation is completed and corrective actions are taken.

4. Incentive Payments Were Not Clearly Justified

USAID/Egypt paid incentives without a justification in USAID/Egypt's files showing an exceptional or overwhelming necessity for salary supplements, as required by USAID guidelines since 1978 and subsequent Agencywide guidance. Project management had leniently interpreted earlier Mission guidelines and had not adequately addressed current A.I.D. and Mission requirements. Without explicit justification statements for each category or payment, USAID/Egypt officials were not able to demonstrate that all incentives were essential, that important factors had been considered in paying incentives, and that project funds totaling about $1.4 million were needfully spent.

Recommendation No. 5

We recommend that the USAID/Egypt Office of Health prepare and submit a complete statement for the Mission Director's approval incorporating a separate justification for each individual or category of incentives, setting forth the specific needs, purposes and criteria met, in accordance with the requirements set forth in A.I.D. and Mission policy guidelines.

Discussion

A review of the period April-June 1987 (See Exhibit 1) showed that five categories of GOE officials or workers had received incentives. Category 1 with 28 percent of the costs, included 30 Ministerial officials seconded to the project on a full- or part-time basis who were working at either the NCDDP head office or the Ministry of Health. Two other categories with 71 percent of the costs, included more than 1,500 MOH field personnel assigned to governorate, regional and district offices or working in oral rehydration therapy units throughout Egypt. The remaining one percent was paid as bonuses to two persons located at the University of Cairo. Detailed lists signed by recipients were being maintained in support of payments at the NCDDP office.

USAID/Egypt Mission Order 3-10, in effect from December 14, 1978 to March 14, 1988, applied to salary supplements. This order required that no payments in the nature of salary, overtime compensation, honorary or incentive awards be made to GOE employees or officials, except upon showing overwhelming necessity in activities of high priority to the U.S. Government. The Mission Director was to approve each exception in writing unless the payment of these costs had been explicitly made eligible by the relevant obligating document.

New Agencywide guidance on salary supplements was established during the period of our review and is supportive of the earlier Mission policy. For example, A.I.D. Policy Guidance on Criteria for Payment of Salary Supplements for Host Government Employees, dated April 17, 1988, stated that salary supplements should be considered an exception to normal A.I.D. practice requiring exceptional justification. The policy defined salary supplements, established criteria, and required that justification for providing supplements be set forth explicitly, approved as part of the activity and described in the relevant agreement. The policy must be applied to ongoing projects and activities as well, to the degree deemed feasible by the Mission Director, without jeopardizing overall A.I.D. country program objectives. The policy criteria included the requirement that the supplements be judged essential to the achievement of project or program objectives.

Regarding the earlier Mission Order 3-10, the terminology "explicitly made eligible" had been leniently interpreted by USAID/Egypt project officials. For example, a previous Mission official took the position that the Mission Director's signature on a project paper, with a line item for salary incentives in the budget annex, constituted an "explicit" approval, and that a separate decision memorandum for the Director's signature was unneeded. This position differed from others in the Mission who understood that the policy was intended to discourage use of project funds for salary supplements and to ensure that when USAID/Egypt used them, it did so "with its eyes wide open." To these people, Mission Order 3-10 clearly implied that a detailed justification for each exception was required.

In a memorandum, dated October 27, 1985, from the Mission's Development Policy Planning and Evaluation Division to the Mission Director, it was noted that "justification" should address not only the need for the payments, but alternatives which have been considered, the impact of the payments on project sustainability, and the recurrent-cost implications to the GOE. Further, the justification should specify the type of payments to be made, the number and category of employees to be paid, the date at which the payments would cease, and that any changes which later arise, such as payments to additional categories of employees or extension of the final date for payment, should be approved through a new action memo.

Project officials had not adequately addressed A.I.D. and Mission requirements for salary supplements. Neither the grant agreement, the project paper, the project implementation letters (PILs), nor other documentation in USAID project files had provided the exceptional justification envisioned. Although project documents provided budget figures, groups and numbers of people to be paid, and expected outputs, the documents did not indicate an overwhelming necessity for paying any specific category or individual. The project paper for the Control of Diarrheal Diseases Project, for example, had budgeted more than $4.968 million in Egyptian pounds for A.I.D. and host country financing of incentives to an estimated 26 governorate coordinators, 500 governorate training team personnel, 750 district level health workers, 2,500 rural health unit and 5,000 dayas (midwives) and key village leaders. The remaining $432,000 (8 percent of the total $5.4 million) was to pay for all other operational costs for training and administration, including incentives to be paid to the project director, 6 professionals, an accountant and office support staff (cleaning, chauffeurs and others). Funding was to be based on an annual program agreement to be executed each year. According to the project paper, training outputs were expected from the payment of incentives. The outputs identified specifically were the training of senior physicians and nurses; the training of governorate teams who were to provide training to rural health unit staffs, village leaders and mothers; and the training of private sector physicians and pharmacists.

The PILs provided annual budgets for incentives, but did not clearly indicate why it was necessary for monetary incentives to be paid or how amounts were to be determined for each person or category. PILs 3, 12, and 15, as amended, earmarked the annual budgets for incentives to be paid from A.I.D. funds with varying details and approvals. PIL 3 specifically detailed LE92,050 for individuals or categories of recipients the first year and was approved by the Office Director. PIL 12 provided LE107,739 with partial details for year two and was approved by the Associate Director. PIL 15 initially provided a LE600,000 incentives budget without any details for the third year of the project, and was signed by the Mission Director. However subsequent amendments to PIL 15, increasing the amount to more than LE800,000, were signed by an Associate Director.

Major changes in project implementation changed the categories of recipients who were paid incentives. By mid-1986, 30 training centers had been established throughout Egypt in lieu of the governorate training teams (GTTs). As a result, the programmed incentives were not paid to GTTs. Instead, a 1986 mid-term evaluation noted that payments of incentives were being made to peripheral health personnel and that these payments should be linked to their performance. The evaluation recommended, however, that the incentive system should be reviewed and that nonfinancial incentives should be considered.

Current project officials were not aware of any other project documentation that set forth an explicit justification for the various categories of salary supplements that had been paid by the project (see Exhibit 1). A small number of full-time head office employees, about 15, ranging from laborer to the NCDDP Director, received larger amounts of incentives and bonuses than others, averaging LE143 to LE440 per month. In contrast, hundreds of eligible MOH doctors, nurses, and workers assigned to ORT units in the field received fixed amounts of only LE15, LE10 and LE5, respectively. Since there was no sliding scale, the payments were considered to be regular benefits by some employees and, to this extent, personnel evaluations served no meaningful purpose. In our opinion maximum or fixed amounts paid to all field personnel diminished the incentives for employees to increase their efforts under the project.

USAID and GOE officials stopped using A.I.D. dollar advances to pay incentives and started to use project special account funds generated from the sales of ORS financed by A.I.D. instead. Effective October 1, 1987, the GOE and A.I.D. mutually agreed to consider this project income as part of the GOE contribution to the project and to use these funds to pay incentives and other project costs. However, the use of special account funds did not obviate the need to properly justify the use of incentives. This is in keeping with the April 17, 1988 A.I.D. policy guidance which applies not only to the use of A.I.D. dollar resources, but to U.S.-owned local currency and host-country-owned local currency as well, when the proposed uses include payment of salary supplements.

In September 1987, USAID/Egypt's Office of Health prepared a statement meant to address the new Agencywide criteria for payment of salary supplements and honoraria to host country employees. However, we noted that the Office of Health did not: (1) address individuals or categories of recipients; (2) demonstrate why the host country could not make payments from its own resources; or (3) show why the supplements were essential for the specific objectives of the project. Moreover, the Health Office was not aware of existing conditions in preparing the justification statement, as indicated by the deficiencies noted in other sections of the report (See Exhibit 2).

Prudent use of the $1.436 million in project funds, whether A.I.D. or GOE-provided, or from the project special account, would dictate that all be properly justified. USAID/Egypt needs to ensure that justification to pay incentives be carefully stated for each category or individual receiving payment and that the incentives being paid are essential to attaining project objectives.

In the latter stages of the audit, the Office of Health submitted an action memorandum to the Mission Director to finance salary supplements from the project special account (see Exhibit 3). The memorandum did not address the specific deficiencies noted in this audit regarding preparation of an adequate justification.

Nevertheless, the action was approved by the Mission Director on the basis that discontinuation of the salary supplements would jeopardize project objectives.

In our view, a convincing case was not made to continue supplements. However, the Mission Director has judgmental authority for such approvals under ongoing projects. Under these circumstances, Recommendation No. 6 is considered closed upon issuance of this report.

5. <u>Improvements Were Needed to Properly Monitor the Incentive Program</u>

Improvements were needed in accounting and reporting to properly monitor the incentive program in line with managerial responsibilities for internal controls, and in accordance with new Agencywide guidelines and criteria. Although audit trails were in place for payments to recipients, the review disclosed errors, mispostings, misuse of budget, delayed payments, overpayments to certain individuals, and an accounting system that was not geared to producing management reports. NCDDP reported total incentive costs incorrectly and did not report the details of how the money was spent. USAID/Egypt and NCDDP did not require this information and the NCDDP accounting office had not initiated management reports. As a result, USAID/Egypt did not know of the errors and misuse of funds.

<u>Recommendation No. 6</u>

We recommend that the USAID/Egypt Office of Financial Management:

(a) assist NCDDP to improve its budgeting, accounting and management reporting system to ensure that USAID/Egypt receive adequate information to properly monitor the incentive program;

(b) issue Bills for Collection to recover overpayments to NCDDP project officials or offset same against future disbursements; and

(c) ensure that mispostings of incentive costs are corrected.

<u>Discussion</u>

Federal Government Standards define internal control as the plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

A.I.D. guidelines and criteria for payment of salary supplements, effective June 7, 1987, further require in part, that "...a mechanism exists for providing the supplements which prevents potential abuse in the determination of recipients and amounts to be provided; ensures financial integrity in the payment system; and establishes adequate monitoring and reporting." This policy guidance applies to A.I.D. funds as well as host-country-owned local currency jointly programmed for the project.

Although audit trails were in place for identifying incentive payments to particular recipients, the audit disclosed examples of errors, mispostings, misuse of budget, delayed payments, overpayments and poor accounting in the 3 months tested (April through June 1987). For example, errors or differences were found in the calculation of incentives paid to the NCDDP Director and the NCDDP Controller. In the case of the Director, monthly incentives were calculated on a base salary (LE165) that differed from the base pay (LE156) reported by the MOH to the project. We estimated that the small difference resulted in an overpayment of LE324 during a year's time. In the case of the Controller, a part-time employee, incentives were calculated at a fixed amount of LE150 per month approved by the Director, instead of the 30 percent rate of base salary authorized by the MOF. This resulted in an estimated overpayment of LE 3,448 during a 4-year period of assignment to the project.

A misposting of about $4,800 (LE4,782) was found in the accounting records for the 3-month period tested. Media costs were charged as incentives, thus misstating the totals for these line item costs reported in NCDDP's monthly Certified Fiscal Reports to USAID/Egypt.

Although NCDDP was specifically authorized to charge incentives to only one line-item budget category: "incentives," salary supplements of about $157,000 paid to pharmacists were charged to ORS production and distribution instead, without USAID/Egypt's authorization. The misuse of budget was reported in RIG/A/C Audit of Income Generating Projects, Report No. 6-263-88-4, dated May 19, 1988.

Bonuses totaling about $60,000 were overpaid to about 30 MOH officials seconded to the project. They occupied positions ranging from the director to the cashier. These payments exceeded legal limits for incentives set by the MOH, as explained earlier in this report.

Delayed payments of incentives to field personnel of up to a year or more resulted from a cumbersome system of evaluating and approving the disbursements, as explained in another section of this report.

An effective accounting and reporting system should provide meaningful information to management to monitor activities. NCDDP accounted for funds advanced by USAID/Egypt, but only reported how much was spent by budget line-item categories established for the project. Total incentives were reported monthly as a single line-item amount in Certified Fiscal Reports. During the period reviewed, NCDDP issued only one management information report on incentive payments to USAID/Egypt. A report in 1985, which purportedly analyzed incentive charges, had not been totaled or reconciled to the accounting records.

Par of the problem was that the NCDDP accounting ledger was set up to report only line-item totals, without reporting any subline-item information. As a result, NCDDP accounting and reporting was not conducive to providing meaningful information to manage incentive costs. Errors, mispostings and misuse of budget were not apparent in total costs and USAID/Egypt did not know how each category of incentives was functioning in relation to budget. Also, the numbers and types of personnel and amounts paid to each governorate were not recapped and reported for comparison so that delays in paying field personnel would be discernable to management. Lacking adequate information, USAID/Egypt did not know of the errors, mispostings, delays and misuse of funds.

The deficiencies noted above related to the period in which A.I.D. directly funded the incentive program. The correction of overpayments, errors, mispostings and misuse of funds should address that period. However, once A.I.D. is no longer funding incentives directly, improvements needed in budgeting, accounting and reporting incentives should address the use of Special Account funds. USAID/Egypt's Office of Financial Management needs to reevaluate an earlier financial assessment of NCDDP's accounting procedures and assist NCDDP in improving its accounting and reporting system.

Regarding Recommendation No. 6, USAID/Egypt's Office of Financial Management planned to meet with NCDDP officials to discuss the budgeting, accounting, and management reporting system; review overpayments of incentives; and provide assistance in improving controls. The recommendation is considered resolved and can be closed after the corrective actions have been taken.

B. Compliance And Internal Controls

Compliance

Justification statements had not been prepared to show the overwhelming or exceptional necessity for paying supplements to GOE employees and officials in accordance with A.I.D. and Mission requirements. The GOE had not contributed its share of incentive costs as set forth in the grant budget. Salary supplements had been paid to individuals in excess of rates authorized by Egyptian decrees.

Internal Controls

The audit disclosed some major weaknesses in management controls. A cumbersome system by the GOE was delaying payments of incentives to field personnel, and improvements were needed in accounting for and reporting of salary supplements to properly monitor the incentive program.

The review of compliance and internal controls was limited to the finding areas in this report.

Control of Diarrheal Diseases Project
Summary of Incentives Paid during the Months of April, May and June 1987

Category	No. of Personnel	Amount Paid for 3 Months	Percentage of Total
(1) Personnel Assigned to NCDDP Headquarters on a Full- or Part-Time Basis			
NCDDP head office personnel seconded from the MOH and MOF included the director, assistant director, training coordinator, assistant training coordinator, assistant evaluation coordinator, statistician, controller computer technician, cashier, social worker, 2 storekeepers, librarian, driver, laborer, and a clerk.	16	LE 11,701	20
Personnel located at the MOH included the undersecretary for security affairs, undersecretary for pharmacies, mass media manager, 2 mass media personnel, 4 members of mobile team, 2 nurse supervisors, storekeeper, engineer, and a clerk.	14	4,686	8
Sub Total	30	LE 16,387	28%
(2) Governorate, Regional and District Personnel			
MOH employees involved in the administration of the program in the Governorates included the undersecretary for Cairo, governorate general directors, coordinators, district health directors, hospital directors, pharmacists, medical inspectors, clerks, drivers, maintenance and cleaning personnel.	*	*	
(3) Other MOH Field Personnel			
Doctors, nurses and workers assigned to oral rehydration therapy units in health centers and hospitals.	*	*	
Sub Total of Categories (2) and (3)	1,552	41,957	71%

Category	No. of Personnel	Amount Paid for 3 Months	Percentage to total
(4) Steering Committee			
No monthly meetings were held and no payments were made.	0	0	
(5) Bonuses Paid to University Personnel			
Consultant for research and evaluation coordinator located at Cairo University.	2	816	1
Total of categories 1 through 5	1,584	LE 59,160	100%

* No breakout was available in NCDDP records to show numbers of individuals or amounts paid for these categories.

Control of Diarrheal Diseases Project
Review of Salary Supplements Justification Statement
Dated September 13, 1987

A.I.D. Criteria for Payment of Supplements 1/	Deficiencies Noted In Audit 2/	Justification Statement Did Not Address 3/
(1) The payments are permitted under host country law and regulations.	Unauthorized Bonuses	A, B
(2) The cooperating entity has demonstrated that it cannot make these payments from its own resources for valid reasons such as the inability of the entity to provide the financing within the time required to meet the needs of the activity.		C
(3) The supplements are judged essential to the achievement of project or program objectives.	Delayed payments	A, D, B
(4) Employees do not receive duplicate payments by receiving supplements from another source for the same activity.		
(5) The rates and fees paid are in accordance with local standards and are limited to amounts reasonable in relation to an employee's pay, and for continuing programs, in amounts which the host country entity could be expected to meet from its own resources within a reasonable time.	GOE contribution	A, B D, R
(6) The proposed recipients would be carrying out technical, managerial or administrative support rather than broad policy functions.		
(7) A mechanism exists for providing the supplements which prevents potential abuse in the determination of recipients and amounts to be provided; ensures financial integrity in the payment system; and establishes adequate monitoring and reporting.	Unauthorized bonuses Overpayments Misuse of budget Errors, mispostings Delayed payments No management reports	A

1/ Agencywide criteria for payment of salary supplements was set forth in State cable 173326, dated June 7, 1987 and State cable 119780, dated April 17, 1988. The latter cable, which superseded the earlier cable, stated that the policy guidance applies to U.S.-owned local currency and to host country-owned local currency, as well jointly programmed.

2/ USAID/Egypt was not aware of these deficiencies when its justification statement was prepared.

3/ USAID/Egypt's justification statement did not address:

A = The deficiencies noted in the audit.

B = All individuals or categories of recipients.

C = The demonstrated valid reasons for GOE not providing funds from own resources.

D = The relationship of incentives to specific objectives of the project.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

ACTION MEMORANDUM FOR THE DIRECTOR

DATE: August 2, 1988

THRU: Constance L. Collins, A/OD/HRDC/H

THRU: Lawrence J. Ervin, A/AD/HRDC

FROM: Charles J. Mantione, HRDC/H

SUBJECT: Approval to Finance Salary Supplements from the Project Special Account for the Control of Diarrheal Diseases Project No. 263-0137.

Problem: Your determination is required that, under the subject project, discontinuation of salary supplements now being paid would jeopardize project objectives.

Background: Project funding for salary supplements (incentive, honorariums) to GOE employees is currently being drawn from the Project Special Account. The initial development of the project included a subsidy for local production and distribution of Oral Rehydration Salts (ORS). The Chemical Industries Development Company (CID), a GOE-owned pharmaceutical company, manufactures the ORS used by the project. The project agreed to purchase 60% of such production at a price which is about 6% higher than CID's manufacturing costs. The remaining 40% of CID's production of ORS is distributed to MOH health facilities without cost to the project. The project sells the ORS on consignment to the Middle East Pharmaceutical Co. (MEPC) at 80% of project cost for distribution to private pharmacies. Subsequently MEPC continues to pay back to the project an amount equal to approximately 80% of the production cost originally paid by the project to CID.

As of February 1988, the project had contracted with CID to produce 1988 ORS requirements (valued at 1.2 million LE) utilizing funds from the Project Special Account. By this arrangement, AID's subsidy for the production of ORS is effectively ended. It is the proceeds of sales to MEPC which have been and still are being deposited in a Special Account in the name of NCDDP/ORS Sales Revenue which are currently funding salary supplements. Since this Special Account consists of GOE-owned local currency subject to joint GOE/AID programming, and since the proceeds are being used for salary supplements*, applicable AID/W guidelines must be considered as discussed below.

Discussion: Payment of salary supplements under this project has previously received serious Mission consideration. Pursuant to Section 5.4 of the Grant Agreement, as amended on July 29, 1987, the GOE and AID agreed to the use of the funds in the Project Special Account for specific project activities. Such funds are considered part of the GOE's contribution under the project. Dr. Nagaty, Executive Project Director, signed PIL No. 20 dated September 19, 1987 that authorizes the use of such funds to pay for, among other line items, incentives and honorariums. Amendment 1 to PIL 20 date November 16, 1987 approved a lin item budget and reporting format for use of the funds in the Project Special Account. An Action Memorandum, dated September 13, 1987, and approved by the AD/HRDC, was written to comply with State 173326 dated June 6, 1987 which provided new criteria for payment of salary supplements to host country employees (See TAB A). HRDC/H believes that the above memorandum provided the necessary justification based on criteria then in effect, and met the guidance of State 173326 for the continued payment of salary supplements.

The issue of salary supplements has of course, been undergoing closer scrutiny throughout the Agency. With regard to the ORS Project, Recommendation No. 5, of the IG/Cairo's Draft Audit Report on Salary Supplements, dated July 28, 1988, recommends that "USAID/Egypt Office of Health should prepare and submit a complete statement for Mission Director review incorporating an exceptional justification for each individual or category of incentives, setting forth the specific needs, purposes and criteria met, in accordance with requirements set forth in AID and Mission Policy Guidelines". This draft audit recommendation is based on State 119780 dated 17 April, 1988 (TAB B) which presents still more specific AID guidance regarding payment of salary supplements. In particular, the latest cable from AID/W requires application of new and stringent restrictions on salary supplements not only to new

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*Salary supplements are paid to all GOE project employees who support the activities of the project at the Home Office, Governorate and District levels. i.e. doctors, nurses, auxiliary medical and maintenance personnel.

projects but also to ongoing projects "to the full degree deemed feasible by the Mission Director and without jeopardizing overall AID country program objectives...". The latest cable further requires that the AA/ANE be informed "immediately" of situations where ongoing salary supplements cannot be discontinued. Therefore the ongoing policy of paying salary supplements under this project must be re-examined and, if it is to be continued, again justified.

Justification:

Although AID discourages payment of salary supplements from AID or Host Country owned (but jointly programmed) local currency, such payments may be approved if the criteria in State 119780 are met. (See TAB B). HRDC/H believes that these criteria as applied to the Control of Diarrheal Diseases Project have been met, and that discontinuation of payment of salary supplements from the Special Account is not a justifiable option, for the following reasons:

1) Under current GOE laws and regulations set forth in Presidential Decrees no. 4811902, No. 175/1982 and Ministerial Decrees No. 111/1982 and No. 546/1988 salary supplements are allowed under GOE law. The supplement rates being paid under this project are reasonable and within local standards set forth in the Presidential and Ministerial Decrees stated above. These decrees specify payment up to 200% of the basic salary for involvement in one project, and up to 300% for involvement in more than one project. (While 200% may seen high, the base salary for doctors starting out at the MOH is approximately LE 80 a month, less than $ 40).

2) With respect to this project, the MOH does not currently have the resources to pay adequate salaries to their employees. Transition to GOE independent resources for such a requirement would almost certainly take many months, and perhaps years, to negotiate and have in place. Meanwhile, project implementation would be seriously delayed. In this regard, incentives have proven to be a powerful tool for achieving project objectives because they have enabled employees to work full time on Project activities rather than cutting short their working day to seek additional employment elsewhere to supplement their low government base salaries. Thus, the currently high level of project efficiency could be expected to change dramatically were we to withdraw our agreement to the current arrangement.

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3) Adequate administrative procedures have been established by the project to ensure that GOE employees do not receive duplicate payments for the same activity. For example, lists of personnel qualified to receive incentive payments are compiled by the Directors of MOH medical facilities at the District levels and forwarded to MOH and MOF officials at the Governorate levels. They in turn confirm and certify to the Project Director in Cairo that these payments are due.

4) Project employees receiving salary incentives are engaged in direct implementation activities in support of the project. No employee receiving a salary supplement is involved in policy-making decisions.

5) The project has established a record system for identifying the recipient of salary supplements and amounts paid. These records are readily available for monitoring and special audits, to minimize the potential for abuse. The project has established a reporting system which meets the requirements of the Mission Order on salary supplements.

Recommendation: That you authorize the continued payment of salary supplements from the Project Special Account by signing below. By so doing, you would be approving our judgment that to discontinue said payments "would jeopardize project objectives".

Approved Marshall Brown

Disapproved ____________

Date: Aug 8, 1988

Attachments:

TAB A - PIL 20
PIL 20. Amendment 1
State 173326

TAB B State 119780

Clearances:

LEG: K. O'Donnell, CFW
PDS: D. Leaty, DL
FM: B. Hill
A/DD: J. Patterson

drafted by: HRDC/H:CMantione, aa 8/1/88 doc. no. 1039H

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

SEP 12 1988

M E M O R A N D U M

TO: Frederick Kalhammer, A/RIG/A/Cairo

FROM: Marshall D. Brown, Director, USAID/Egypt

SUBJECT: Draft Audit Report: Audit of Salary Supplements, Control of Diarrheal Diseases Project, Project No. 263-0137

"We appreciate the opportunity to comment on your draft audit report entitled "Audit of Salary Supplements, Control of Diarrheal Diseases, Project No. 263-137" dated August 10, 1988.

We agree in principle with the findings and recommendations provided in the draft report. We are looking into the problems cited in the audit report and we will advise you of any corrective action we will undertake to resolve them."

Recommendation No. 1

We recommend that USAID/Egypt (a) determine if salary supplement payments to field personnel are desirable or should be discontinued; (b) determine if the use of non-monetary incentives would better serve the project needs rather than relying on a cumbersome system of delayed payment rewards; and (c) ensure that MOE (sic) field employees who were due incentives, but did not receive them because of delays in the payment process, are appropriately compensated by the MOH or the Project.

Comments

As stated in the subject draft report, Parts (a) and (b) of above recommendation have been addressed and considered closed upon issuance of subject audit report. In regard to Part (c), Dr. Hegazy, MOH Project Director for National Control of Diarrheal Diseases Project (NCDDP), has acknowledged that some employees received delayed incentive payments or did not receive their incentive at all. This was due to some confusion during the transition period when funding for incentive payments was shifted from the grant to the special account.

Dr. Nagaty has promised to take necessary action to pay from the grant any incentives that were due prior to October 1, 1987.

USAID/Egypt/Office of Financial Management (FM) has arranged to meet with Dr. Nagaty in September, 1988, to discuss and provide assistance on the following salary supplement issues: (a) unpaid incentives (Recommendation No. 1c); (b) NCDDP's incentive payment system (Recommendation No. 2); (c) alleged overpayment of LE 59,520 in bonuses and controls necessary to prevent reoccurrence of overpayments (Recommendation No. 3); and (d) NCDDP's budgeting, accounting and management reporting system and the related controls (Recommendation No. 7).

Recommendation No. 2

We recommend that if salary supplements are continued, the USAID/Egypt Office of Financial Management, in conjunction with the Project Office, work with the Government of Egypt in implementing a more efficient method of distributing payments.

Comments

Dr. Nagaty, GOE Project Director for NCDDP, informed USAID/HRDC/H that the incentive payment system has been revised so that eligible employees due incentives will be submitted to NCDDP for approval and payment will be on a monthly basis beginning August, 1988. He believes this improved system will be more efficient. USAID/Egypt/FM will meet with Dr. Nagaty in September, 1988, to review the revised incentive system.

Recommendation No. 3

We recommend that USAID/Egypt (a) recover the overpayment of bonuses charged to A.I.D. funds, and issue a Bill for Collection to the Government of Egypt for the payments totaling LE 59,520; and (b) ensure that controls are adequate to prevent further overpayments from occurring.

Comments

USAID/Egypt/FM will review the alleged overpayment of LE 59,520 during a meeting with Dr. Nagaty in September, 1988. If appropriate FM will issue a Bill for Collection. Also, controls preventing reoccurrence of overpayment will be established at this meeting.

Recommendation No. 4

(This recommendation was included in the draft report, but eliminated from the final report, based on USAID/Egypt's response.)

Recommendation No. 5 (4)

We recommend that USAID/Egypt deobligate unneeded funds from the operational cost budget, including the element for incentives which is overstated by an estimated $1.1 million.

Comments

The project committee will be holding an internal evaluation of the project in September, 1988. One of the issues to be addressed will be that of reprogramming of project funds.

Recommendation No. 6 (5)

We recommend that USAID/Egypt Office of Health prepare and submit a complete statement for the Mission Director review incorporating an exceptional justification for each individual or category of incentives, setting forth the specific needs, purposes and criteria met, in accordance with requirements set forth in A.I.D. and Mission policy guidelines.

Comments

As stated in the subject draft report, above recommendation had been addressed and considered closed upon issuance of the audit report.

Recommendation No. 7 (6)

We recommend that the USAID/Egypt Office of Financial Management (a) assist NCDDP to improve its budgeting, accounting and management reporting system to ensure that USAID/Egypt receives adequate information to properly monitor the incentive program; (b) issue Bills for Collection to recover overpayments to NCDDP project officials; and (c) ensure that mispostings of incentive costs are corrected.

Comments

USAID/Egypt/FM will meet with Dr. Hegaty in September, 1988, to discuss NCDDP's budgeting, accounting and management reporting system, review the alleged overpayment of incentives and provide assistance in improving its controls.

List of Recommendations

Page

Recommendation No. 4 — 11

We recommend that USAID/Egypt deobligate an estimated $1.1 million in unneeded funds from the operational cost budget for incentives.

Recommendation No. 5 — 14

We recommend that the USAID/Egypt Office of Health prepare and submit a complete statement for the Mission Director's approval incorporating a separate justification for each individual or category of incentives, setting forth the specific needs, purposes and criteria met, in accordance with the requirements set forth in A.I.D. and Mission policy guidelines.

Recommendation No. 6 — 19

We recommend that the USAID/Egypt Office of Financial Management:

(a) assist NCDDP to improve its budgeting, accounting and management reporting system to ensure that USAID/Egypt receive adequate information to properly monitor the incentive program;

(b) issue Bills for Collection to recover overpayments to NCDDP project officials or offset same against future disburse- ments; and

(c) ensure that mispostings of incentive costs are corrected.

APPENDIX 3

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Office of Administration (IG/ADM)	12
Assistant Inspector General for Investigations (IG/I)	1
Regional Inspector General for Investigations (RIG/I/C)	1
IG/PSA	1
RIG/A/Dakar	1
RIG/A/Manila	1
RIG/A/Nairobi	1
RIG/A/Tegucigalpa	1
RIG/A/Washington	1