

PD-AEB-348

**Audit of USAID/Egypt's  
Fiscal Year 1988 Cash Transfer  
Grant No. 263-K-617**

**Audit Report No. 6-263-90-07  
July 9, 1990**

**The Government of Egypt properly controlled and used the dollar proceeds of A.I.D.'s FY88 \$115 million cash transfer, and deposited the required amount of local currency in an appropriate separate account.**

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

July 9, 1990

**MEMORANDUM FOR D/USAID/Egypt, Marshall D. Brown**

FROM :

RIG/A/C, F. A. Kalhammer



SUBJECT:

Audit of USAID/Egypt's FY1988  
Cash Transfer, Grant # 263-K-617

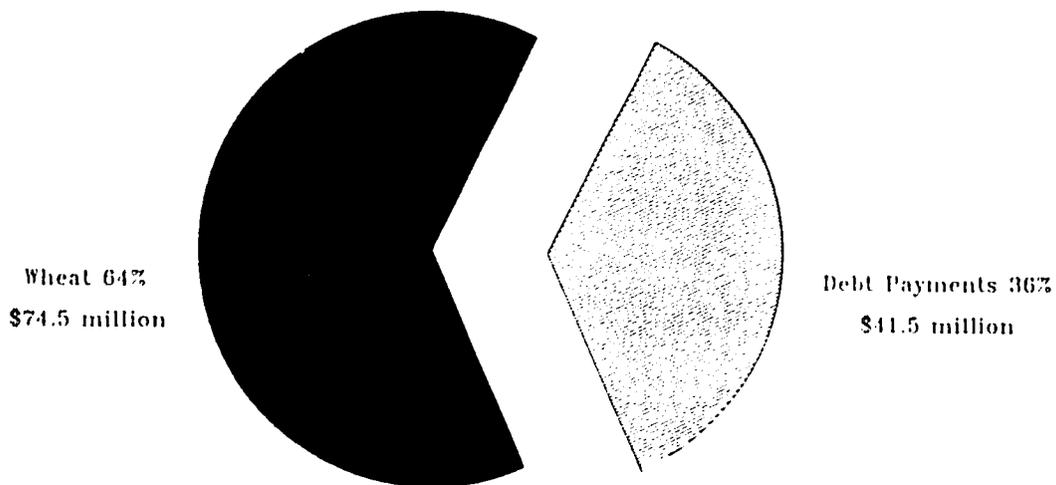
This report presents the results of subject audit. A draft of the report was sent to you on 31 May 1990 for your review and comment. I was advised orally by your Audit Liaison that you would have no comments to make on this report which contains no recommendations. We appreciate the cooperation and courtesies extended to our staff during the audit.

## **Background**

The fiscal year 1988 cash transfer to Egypt (Grant 263-K-617, signed August 17, 1989) for \$115 million provided foreign exchange to finance needed imports and help Egypt meet selected debt service obligations. A.I.D. delayed making this grant for about a year pending implementation by the GOE of sufficient economic reform measures to justify the cash transfer. The GOE's continuing reform measures are expected to trigger further cash transfers and to lead, eventually, to a new Standby Agreement with the International Monetary Fund and "Paris Club" debt rescheduling.

After depositing the cash transfer proceeds (in the form of three U.S. Treasury checks--see Appendix IV) in a special "overnight investment account" at Citibank/Cairo on August 17, 1989, the GOE completed utilizing the grant plus interest earned thereon on December 28, 1989. The GOE used \$1.03 million in interest earned from the account for grant-related purposes. Of the \$116 million total, the GOE used \$74.5 million to buy wheat and \$41.5 million to pay amounts owing to official and commercial creditors in the United States.

Uses of A.I.D.'s \$115 Million\*  
FY88 Cash Transfer to Egypt



Plus \$1.03 million interest earned on the cash transfer proceeds.

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## **Audit Objectives**

The audit objectives sought to answer the following:

1. Did USAID/Egypt and the Government of Egypt comply with A.I.D. policies and procedures and the grant agreement in the control and use of cash transfer proceeds?
2. Did the GOE deposit local currency in a separate account, and at the proper rate of exchange, as required by the cash transfer agreement?

In answering these objectives, we tested whether USAID/Egypt: (1) followed applicable internal control procedures, and (2) complied with certain provisions of laws, regulations, and grant terms. Our tests were sufficient to provide reasonable, but not absolute, assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. Our discussion of the scope and methodology for this audit is at Appendix I, and our reports on internal controls and compliance are at Appendices II and III, respectively.

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## **Audit Findings**

- 1. Did USAID/Egypt and the Government of Egypt comply with A.I.D. policies and procedures and the grant agreement in the control and use of cash transfer proceeds?**

In our opinion, the GOE managed and USAID/Egypt monitored the dollar deposit and disbursement portion of this cash transfer in accordance with the applicable agreement.

**Properly Accounting for the Dollars** - The GOE established a separate bank account for the A.I.D. cash transfer proceeds with Citibank/Cairo and used that account only for the purposes specified in the cash transfer agreement. The GOE provided copies of

monthly bank statements and daily advice of debits or credits to USAID/Egypt. Copies of GOE orders to Citibank for the different payments were all available.

**Properly Using the Dollars** - All commodities purchased and debts repaid with the \$115 million plus interest earned met the eligibility requirements set forth in the cash transfer agreement, as discussed below:

- The different records showed that all wheat purchased by the GOE, about one-half million metric tons costing \$74.5 million, was shipped from five different American suppliers in the United States with an accompanying certificate of origin.
- Debt payments totalling \$41.5 million were for three eligible purposes: (i) A.I.D. loans, \$9.3 million; (ii) PL 480 loans, \$5 million; and (iii) commercial banks, \$27.2 million. Payments made on A.I.D. loans were verified at USAID/Egypt. The United States Department of Agriculture (USDA) confirmed PL 480 payments to the Foreign Agriculture Service (FAS) representative at the Embassy in Cairo. Payments to commercial banks in the U.S. were for wheat purchased under a credit sales program, and those payments, according to an FAS representative, are guaranteed by the U.S. Government in the event of a GOE default.

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**2. Did the GOE deposit local currency in a separate account, and at the proper rate of exchange, as required by the cash transfer agreement?**

In our opinion, the GOE established a separate local currency account and deposited in it the Egyptian pound equivalent of the value of the wheat purchased in accordance with the applicable agreement. The agreement required the local currency deposit to be made at the highest prevailing rate of exchange as declared by the GOE. Deposits in the local currency account, according to a separate implementation letter, were to be made in an amount equivalent to actual dollar disbursements for commodities and/or commodity-related services.

The GOE deposited the equivalent of \$74,397,949<sup>1/</sup> at the rate of US\$1.00=LE1.10<sup>2/</sup> on September 24, 1989. This was substantially below the highest prevailing exchange rate that was not illegal required to be used for the wheat transactions.<sup>3/</sup> Shortly after this discrepancy came to its attention, USAID/Egypt advised the GOE that an incorrect exchange rate had been used in making the required deposit. The GOE subsequently deposited additional amounts to complete its deposit requirement. By February 18, 1990 the balance in the local currency account reflected the entire amount of A.I.D. dollars used for wheat at the appropriate exchange rate.<sup>4/</sup> At the time of our audit, nothing had been withdrawn from the local currency account.

In summation, the cash transfer was handled in conformity with A.I.D. regulations. We believe that USAID/Egypt should be commended for the establishment of appropriate controls to ensure the successful implementation of this cash transfer demonstrating that such transfers can be handled successfully worldwide by A.I.D. with adequate planning, preparation and monitoring.

<sup>1/</sup> Banking charges, \$112,500, related to the wheat transaction were not added to the cost of the wheat because such charges (unlike freight and insurance, for example) are not considered part of the value of the commodity, according to USAID/Egypt officials. We have no objection to this interpretation of the cash transfer agreement.

<sup>2/</sup> This was the "official" (subsidized) rate of exchange used by the GOE's Ministry of Supply for the import of basic foodstuffs like wheat.

<sup>3/</sup> The average rate at which the 14 wheat payments financed from this source were made during September and October 1989 was US\$1.00=LE2.58.

<sup>4/</sup> It should be noted, however, that the GOE had the option under the agreement of depositing only 25% immediately, and the balance over three years.

**Audit of USAID/Egypt's  
Fiscal Year 1988 Cash Transfer  
Grant No. 263-K-617**

**APPENDICES**

**SCOPE AND  
METHODOLOGY**

**Scope**

We audited USAID/Egypt's FY1988 cash transfer in accordance with generally accepted government auditing standards. We conducted the audit from March 22, 1990 to April 8, 1990 using as our criteria the policies and procedures set forth by A.I.D., and agreed to by the Government of Egypt in the pertinent agreement to handle the \$115 million plus the interest earned thereon, from the date of deposit, August 17, 1989, to December 28, 1989 when the GOE completed its utilization of the cash transfer proceeds plus interest earned thereon. We also reviewed the GOE's deposit of local currency.

The first audit objective was intended to verify the uses of A.I.D. dollars only and did not include a verification that the GOE had not provided American wheat purchased with those dollars to ineligible (police or military) recipients. Such verification was not made because the GOE routinely commingles wheat imports and does not separately account for them. In any event, the fungible nature of the commodity, the transformations (from grain to flour to bread, etc.) it undergoes, and the many GOE agencies responsible for wheat processing and distribution, would make verifying the end-use of the wheat purchased with cash transfer proceeds very difficult, if not impossible. We found no indication that the GOE intended to import American wheat bought with cash transfer funds solely for police and military consumers.

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## **Methodology**

To conduct this audit we reviewed pertinent records available at USAID/Egypt, discussed these matters with its Financial Management and Program officials, visited the Central Bank of Egypt (CBE) and Citibank/Cairo, as well as the GOE's Ministry of Supply.

From the above, we verified whether the different parties had: (1) established a separate account for the cash transfer dollars, (2) accurately computed and credited interest to the account, (3) used cash for eligible purposes only, and (4) deposited local currency in a separate local account at the appropriate rate of exchange.

To accomplish our two objectives we reviewed Agency guidance, the program assistance approval document (PAAD), the cash transfer agreement, the program implementation letter, deposit slips, payment orders, Citibank monthly statements, monthly reports and statements of the Central Bank of Egypt (CBE), commodity invoices and certificates of origin, and wheat receiving reports of the GOE Ministry of Supply.

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**REPORT ON  
INTERNAL CONTROLS**

We have audited USAID/Egypt's management of the FY1988 cash transfer during the period March 22, 1990 to April 8, 1990, and have issued our report thereon dated July 9, 1990.

We conducted our audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the objectives of the audit. Those standards also require that we:

- assess the applicable internal controls when necessary to satisfy the audit objectives, and
- report on internal controls, the scope of our work, and any significant weaknesses found during the audit.

In planning and performing our audit, we considered A.I.D.'s internal control structure to determine our auditing procedures in order to answer each of the two audit objectives, but not to provide assurance on the internal control structure.

The management of A.I.D., including USAID/Egypt, is responsible for establishing and maintaining an internal control structure. Recognizing the need to reemphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Manager's Financial Integrity Act (FMFIA) in September 1982. This Act, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers, as delegated, legally responsible for establishing and maintaining adequate internal controls. The General Accounting Office (GAO) has issued "Standards

for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

In response to the FMFIA, the Office of Management and Budget (OMB) has issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government." According to these guidelines, management is required to assess the expected benefits versus related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable, but not absolute, assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky given that conditions may change or the system itself may not be properly administered. In implementing the FMFIA, the Mission evaluated the internal control structure in place in October 1989 and noted certain weaknesses.

For the purposes of this report, we have classified significant internal control policies and procedures according to each of the audit objectives by categories. For each objective, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risks to detect any reportable condition. Reportable conditions are those relating to significant deficiencies in the design or operation of the internal control structure which, in our judgment, could adversely affect USAID/Egypt's ability to assure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. We did not identify any reportable conditions related to the audit objectives.

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### **Audit Objective One**

This objective relates to how the cash transfer dollars were controlled and used. For this purpose we classified the internal controls into the following categories: how the dollars were deposited in a separate bank account, how interest was computed and credited to the account, the source and origin of the commodities purchased, and identification of loans repaid with A.I.D.'s dollars.

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## **Audit Objective Two**

The second objective concerns the deposit of local currency in a separate local account. For this purpose we classified the internal controls into the following categories: whether USAID/Egypt's records reflected that a separate account had been established at the CBE, and whether the amount of local currency deposited in that account, according to CBE statements on file with and reviewed by USAID/Egypt, reflected the value of the imported commodities per the documents on file related to the wheat purchase transactions.



A material weakness is a reportable condition in which the design of the specified internal control does not reduce, to a relatively low level, the risk that errors or irregularities in amounts being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our review of the internal control structure would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weakness as defined above. We did not identify any material internal control deficiencies related to the audit objectives.

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**REPORT ON  
COMPLIANCE**

We have audited USAID/Egypt's management of the FY88 cash transfer during the period March 22, 1990 to April 8, 1990, and have issued our report thereon dated July 9, 1990.

We conducted our audit in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the objectives of the audit. Those standards also require that we:

- assess compliance with applicable requirements of laws, regulations and pertinent agreements when necessary to satisfy the audit objectives, and
- report all significant instances of noncompliance and abuse, and all indications or instances of illegal acts found during, or in connection with, the audit.

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing the conduct of the audit entity. Noncompliance constitutes an illegal act when the source of the requirement not followed or prohibition violated is a statute or implementing regulation. Noncompliance with internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is furnishing excessive services to beneficiaries or carrying out what may be considered improper practices, which do not involve compliance with laws and regulations.

Compliance with laws, regulations, contracts, and grants applicable to the cash transfer is the overall responsibility of USAID/Egypt's management. We performed tests of USAID/Egypt and host-government compliance with certain provisions of Federal laws, regulations, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests of compliance indicate that, with respect to the items tested, USAID/Egypt and the Government of Egypt complied, in all significant respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that USAID/Egypt and the Government of Egypt had not complied, in all significant respects, with those provisions.

APPENDIX IV

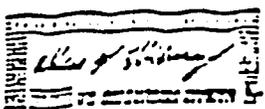
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CAIRO

Check No.  
AUG 17, 1989  
U. S. DOLLARS\*\*\*\*\*39000000.00\*

Pay to the order of CITIBANK CAIRO N.A.  
FOR FURTHER CREDIT TO CENTRAL BANK OF EGYPT  
ACCOUNT NO. 12944  
4, AHMED PASHA STR.,  
GARDEN CITY

\*\*\*\*\*39000000AND00/100\*  
U. S. DOLLARS





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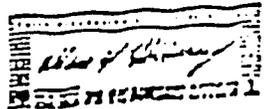
**United States Treasury** <sup>15-51</sup>/<sub>000</sub> AMERICAN EMBASSY 8464-00059018  
CAIRO

Check No.  
AUG 17, 1989  
U. S. DOLLARS\*\*\*\*\*38000000.00\*

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U. S. DOLLARS





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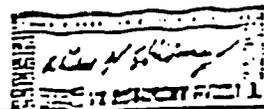
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U. S. DOLLARS





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**APPENDIX V**

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