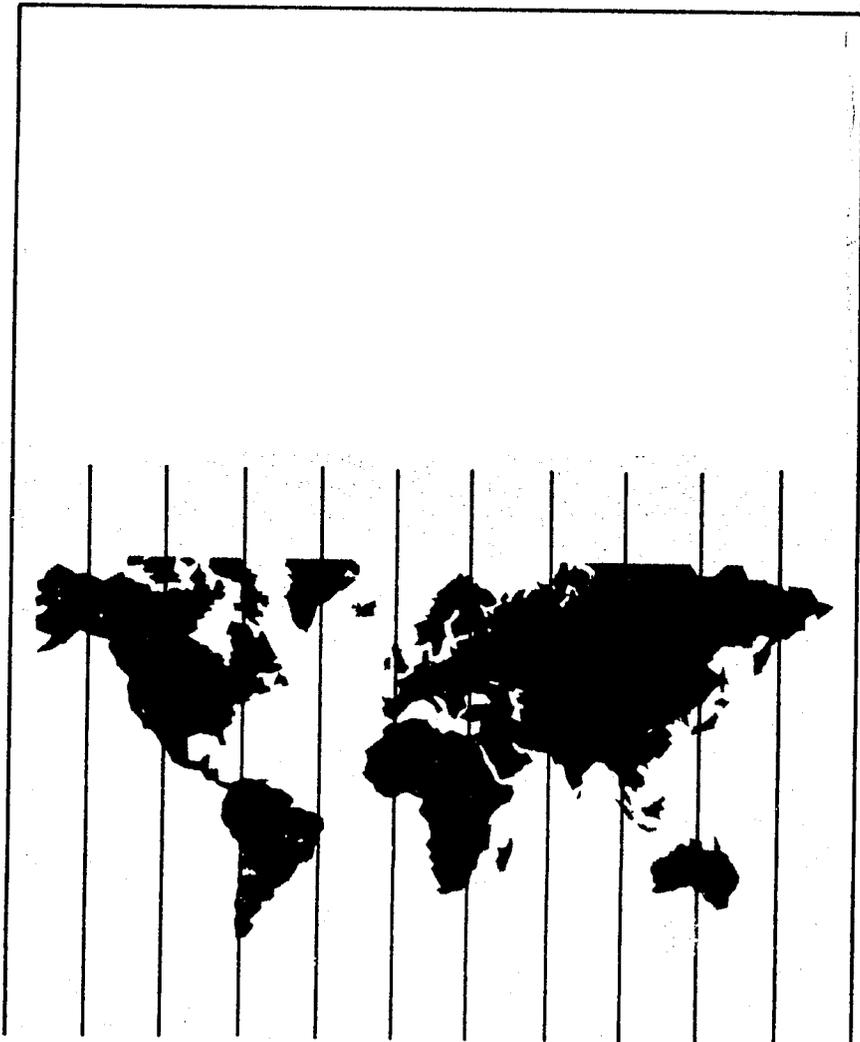


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UNITED STATES
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE
INSPECTOR
GENERAL



Regional Inspector General for Audit
CAIRO

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**Audit of USAID/Egypt's
Peace Fellowship Program**

Audit Report No. 6-263-91-07
August 28, 1991

Under the current Peace Fellowship Program, USAID/Egypt has funded over 600 fellowships for selected Egyptians to conduct graduate-level studies at U. S. institutions in fields contributing to Egypt's economic and social development. Barring unforeseeable developments, the Program will achieve its goal of providing 1,250 fellowships but USAID/Egypt needs to ensure that annual training plans are better targeted, financial audits are conducted, progress reports are submitted, and follow-up activities are implemented.

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

August 28, 1991

MEMORANDUM FOR D/USAID/Egypt, Henry A. Bassford

FROM : RIG/A/C, F. A. Kalhammer 
SUBJECT: Audit of USAID/Egypt's Peace Fellowship Program
(Project No. 263-0125.1)

Enclosed are ten copies of our audit report on USAID/Egypt's Peace Fellowship Program, Report No. 6-263-91-07.

A draft of this report was provided for your review and comment. We have reviewed your comments on the draft report and considered them in the preparation of the final report. Your comments are included as Appendix II to the report.

The report contains five recommendations. Four procedural recommendations (Nos. 1, 2, 3 and 5) are resolved at report issuance and may be closed when the appropriate actions mentioned in your response have been taken. Recommendation No. 4 seeks a refund of about \$67,440 in which you have concurred in principle. However, until you have actually determined the amount to be recovered and communicated that amount as a sustained cost questioned by this audit, it remains unresolved.

Please provide a response to this report within 30 days indicating any further actions planned or already taken to address the open recommendations.

I appreciate the cooperation and courtesies extended to my staff during the audit by USAID/Egypt personnel.

EXECUTIVE SUMMARY

The Peace Fellowship Program (Project No. 263-0125.1) was authorized in September 1985 as a component of the Development Training Project. It is a continuation of a previous USAID/Egypt fellowship program which had provided \$60 million to fund about 2,100 training opportunities for Egyptians to study in the United States. The earlier program originated with the Camp David Peace Accords of 1978. The current Program's main objective is to **provide 1,250 Egyptians with training opportunities in the United States in areas critical to Egypt's economic growth and social development.**

To achieve this objective A.I.D. expects to grant \$28.1 million during the life of the program. As of December 31, 1990, \$19.4 million had been obligated. The Government of Egypt agreed to provide the equivalent of about \$3 million in local currency of which an estimated \$1.5 million had been contributed as of December 31, 1990 (see "Background" pages 1-2).

Between October 1990 and April 1991, the Office of the Regional Inspector General for Audit/Cairo conducted a performance audit of the Peace Fellowship Program in accordance with generally accepted government auditing standards (see page 3 for audit objectives and Appendix I for scope and methodology).

The audit found that USAID/Egypt had funded over 600 fellowships for qualified Egyptians to conduct graduate-level studies at U. S. institutions in areas contributing to Egypt's economic and social development. Barring unforeseeable developments, the Program will achieve its goal of providing a total of 1,250 fellowships. However, we believe USAID/Egypt could enhance the effectiveness of the Program by taking steps to ensure that:

- annual training plans are better targeted (see page 7)
- financial audits of Program funds are made (see page 12)
- research costs are appropriately accounted for (see page 13)
- returned participants comply with their training agreements (see page 17)
- adequate follow-up on returned participants is provided (see page 18).

The report contains five recommendations. Four are procedural in nature and one seeks recovery of the costs associated with three specific fellowships (see page 16). The report also (1) discusses our assessment of internal controls and relates problems to weaknesses in internal controls (see page 22), and (2) includes a summary of significant areas of noncompliance with applicable laws and regulations (see page 26).

A draft of this report was provided to Mission officials for comment. The Mission generally concurred with its findings and agreed to implement all five recommendations. Mission comments were considered in preparing this report and have been included as Appendix II.

Office of the Inspector General
Office of the Inspector General
August 28, 1991

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INTRODUCTION

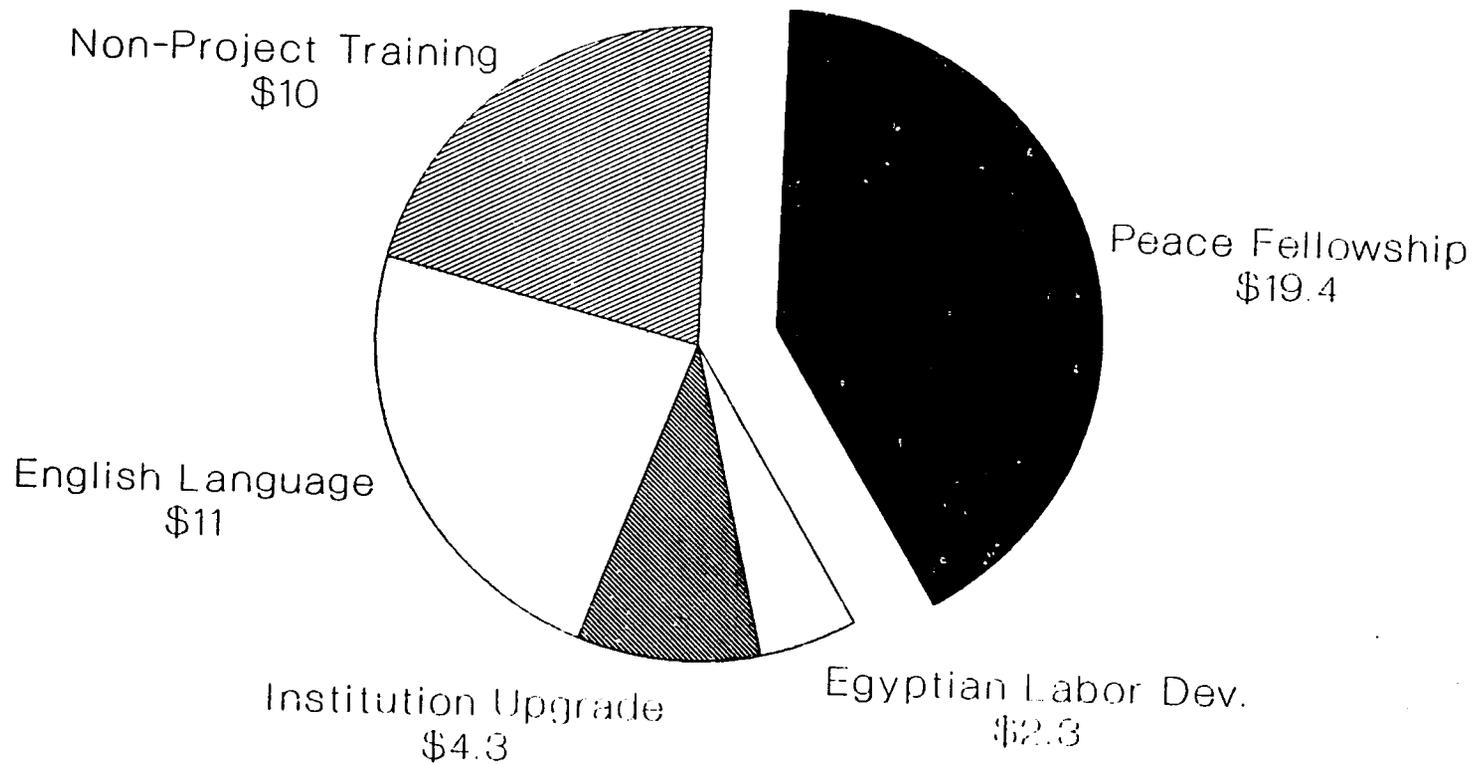
Background

The Peace Fellowship Program is a component of USAID/Egypt's Development Training Project No. 263-0125 covered by a grant agreement between the Arab Republic of Egypt and the United States of America on September 26, 1985. The Project Assistance Completion Date (PACD) for the Peace Fellowship Program is September 25, 1995. USAID/Egypt administers the Program through its Office of Education and Training. The Government of Egypt (GOE) implements the Program through its Ministry of Higher Education (MOHE). Actual placement and administrative services are conducted by MOHE's Egyptian Cultural and Educational Bureau (ECEB) attached to the Embassy of Egypt in Washington, D.C.

The main objective of the Program is to provide 1,250 qualified Egyptians with fellowships for graduate-level study at U. S. institutions in fields critical to Egypt's economic growth and social development. To accomplish that objective, USAID/Egypt expects to grant \$28.1 million in A.I.D. funds (about \$22,480 per Peace Fellow). The GOE has agreed to provide the equivalent of about \$3 million in local currency. As of December 31, 1990 USAID/Egypt had obligated \$19.4 million and the GOE had contributed about \$1.5 million for the Program.

While it is now being funded under an "umbrella" project which includes other activities in the education sector, the Peace Fellowship Program is actually a follow-on to a prior Peace Fellowship Program which began in 1980. The prior Program (USAID Project No. 263-0110) emerged from discussions between the United States and Egypt following the Camp David Peace Accords. Under the prior Program A.I.D. granted \$60 million to the GOE resulting in U. S. fellowships for about 2,100 Egyptians. To avoid confusing the current Program with its predecessor, all future references to the Peace Fellowship Program in this report, unless otherwise specified, will refer to the current Program (Project No. 263-0125.1).

USAID/EGYPT'S DEVELOPMENT TRAINING PROJ. OBLIGATIONS IN MILLIONS AS OF 12/31/90



Total Obligations = \$47 Million
Source: 5th Amendment to Grant Agreement

Audit Objectives

The Office of the Regional Inspector General for Audit/Cairo audited USAID/Egypt's Peace Fellowship Program to answer the following audit objectives:

1. **What is the progress of the project? Have the number of training opportunities planned/budgeted for actually been made available?**
2. **Did USAID/Egypt ensure that Peace Fellowship training supported Egyptian private sector development and A.I.D. women-in-development policies?**
3. **Did USAID/Egypt ensure that the Peace Fellow selection process was fairly applied, all candidates selected met applicable selection criteria, and no individuals, groups, or sectors were able to abuse the program?**
4. **Did USAID/Egypt ensure that trained Peace Fellows returned to Egypt, were assigned to work where they could effectively utilize their training, and received follow-up?**

These audit objectives included an assessment of internal controls and a review of compliance with laws and regulations relating to the audit objectives. Where deficiencies were found, the audit objectives were broadened to identify causes and to develop recommendations. Appendix I contains a complete discussion of the scope and methodology for this audit.

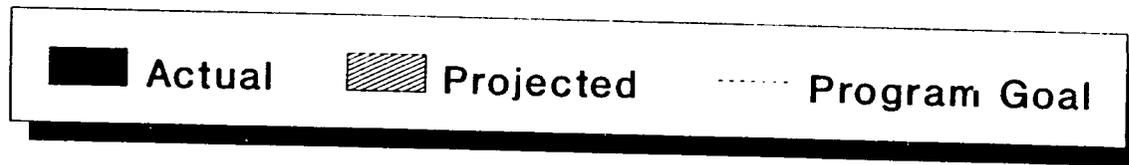
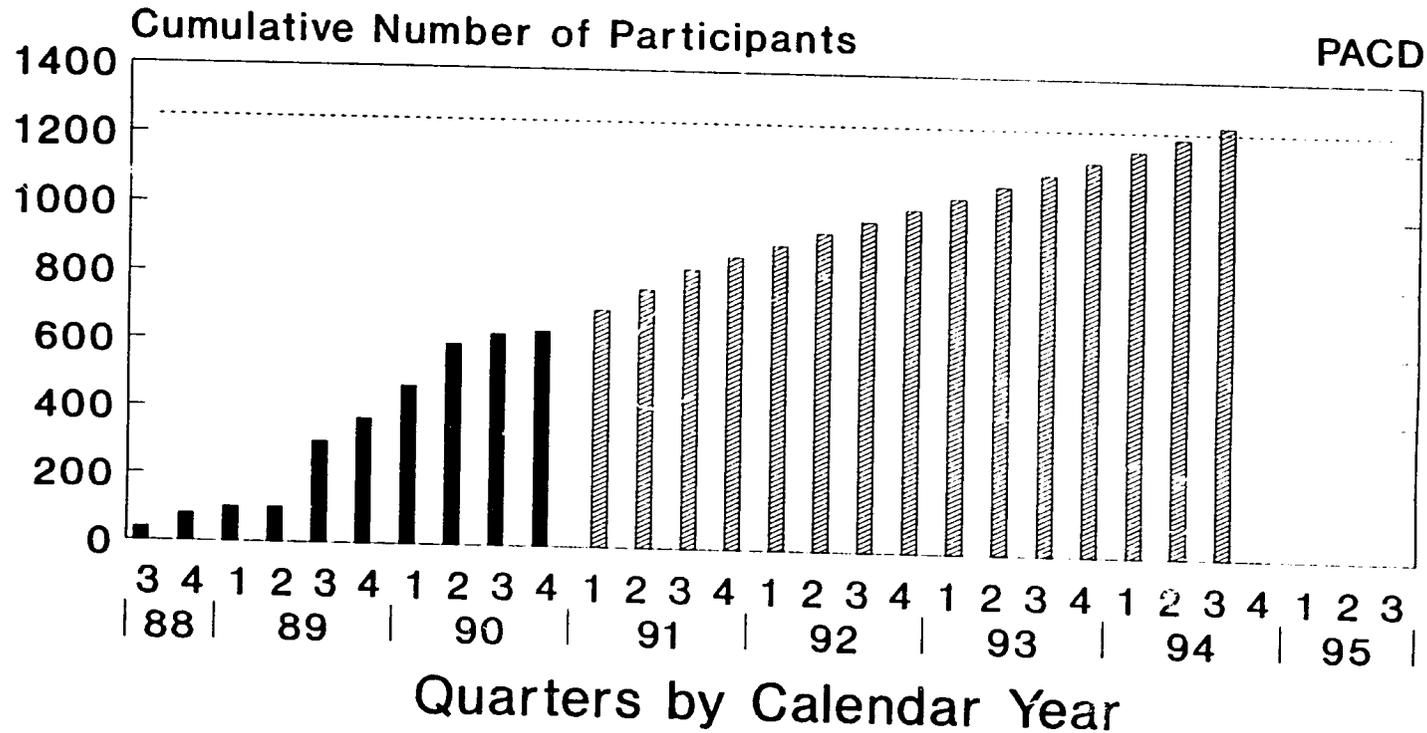
REPORT OF AUDIT FINDINGS

What is the progress of the project? Have the number of training opportunities planned/budgeted for actually been made available?

Although the current Program was approved in September 1985, its first fellowship did not occur until August 1988. This delay was due primarily to the fact that the earlier Peace Fellowship Program, originally scheduled to end in December 1985, was extended until January 1989 and monies available under that program were used for funding new participants through August 1988. Consequently, the Project Assistance Completion Date (PACD) for the current Peace Fellowship program has been extended from September 1991 until September 1995 to compensate for the late start in the funding of fellowships. After two and one-half years of operations the Program has provided more than 600 training opportunities for Egyptians to study in the United States. This represents nearly half the Program target of 1,250 fellowships. Barring unforeseeable developments, with almost five years remaining before the revised PACD we believe there is reasonable assurance that the total number of training opportunities targeted will be made available.

The main objective of the Peace Fellowship Program is to provide 1,250 Egyptians with training opportunities in the United States. USAID/Egypt records indicate that between August 1988 and December 31, 1990, over 600 Peace Fellow trainees had actually begun training in the United States, or about 260 per year. This leaves about 650 training opportunities to be completed prior to the PACD of September 25, 1995. According to Mission records, about 200 fellowships are planned for the fiscal year ending September 1991, and 150 annually for the following three fiscal years. If the Program follows this schedule, it should achieve its overall target of 1,250 fellowships by September 1994, one year before the revised PACD (see graph on following page).

PEACE FELLOWSHIP PROGRAM USAID/Egypt Project No. 263-0125.1



Actual figures from Mission records
Projected = 150 per year for FY 91-93.

Did USAID/Egypt ensure that Peace Fellowship training supported Egyptian private sector development and A.I.D. women-in-development policies?

Although the Peace Fellowship Program was designed to support the development of the Egyptian private sector and provide substantial opportunities for Egyptian women, based on a review of 615 participants selected to date USAID/Egypt has not ensured that Program plans supported established targets in these two areas.

According to the Amended Grant Agreement for the Development Training Project, the Peace Fellowship Program was to provide 1,250 Egyptians with training opportunities in the United States in areas "critical to the country's economic growth and social development." Although the Program has made substantial progress toward achieving the total number of fellowships planned, the number of fellowships granted to candidates from the private sector and to women have not only fallen well below the targets established by USAID/Egypt and MOHE, **but even below the achievements of the previous program.** Furthermore, a special covenant of the Grant Agreement which calls for a plan to support private sector participation remains unfulfilled.

Recommendation No. 1: We recommend that USAID/Egypt, in consultation with the Ministry of Higher Education, and prior to approving its use of AID funds in fiscal year 1992:

- 1.1 develop a training plan for the remainder of the Program which establishes realistic targets for the distribution of fellowships to the Egyptian private sector and women;**
- 1.2 ensure that certain Peace Fellowship funds be reserved for Egyptian private sector and female participation; and**
- 1.3 report the unfulfilled status of Special Covenant 5.4 in Mission Quarterly Implementation and Covenant Reports until it is met for the Peace Fellowship Program.**

Training Plans Need To Be Better Targeted

Targets established by the Ministry of Higher Education (MOHE) and USAID/Egypt for the participation of the private sector and women in the Peace Fellowship Program are not being achieved. Furthermore, a special covenant in the Grant Agreement of the Development Training Project which requires the Government of Egypt (GOE) to develop a plan for, and assure the funding of, private sector participation in the Program has not been fulfilled. The MOHE developed training plans for the Peace Fellowship Program but those plans did not specifically address ways to achieve private sector or female participation or reserve training positions for that participation. Furthermore, in some cases the plans were prepared and approved **after** candidates had already been selected to receive the fellowships included in the training plans. USAID/Egypt approved the training plans, but did not ensure that they were prepared on a timely basis or that they adequately addressed private sector or female participation. Consequently, specific targets for private sector and female participation will probably not be achieved.

The Ministry of Higher Education (MOHE) is the Government of Egypt (GOE) agency responsible for implementing the Peace Fellowship Program. In that role MOHE prepared a memorandum, approved by USAID/Egypt, which included overall Program targets for distribution of training opportunities by sector. According to that memorandum, the Egyptian private sector was to receive 12 percent of the training opportunities. USAID/Egypt and MOHE officials subsequently increased this target to 20 percent based on a recommendation in a January 1989 Program evaluation.

*. . . only 46, or about eight percent, of the 615 Peace Fellows .
. . . were from the Egyptian private sector . . . a significant drop
from the 13.2 percent reported in 1986 under the earlier Peace
Fellowship Program.*

Private Sector Targets Unmet - USAID/Egypt records show that as of December 31, 1990 only 46, or about eight percent, of the 615 Peace Fellows who began their training programs in the United States under the current program were from the Egyptian private sector. This indicates a significant drop from the 13.2 percent reported in 1986 under the earlier Peace Fellowship Program (Project No. 263-0110).

As of December 31, 1990 approximately half the 1,250 participants expected to be trained during the current program had started training in the United States. Since only 46 of those were from the private sector, the program would have to fill 204 of the remaining slots with private sector candidates in order to meet the 20 percent target. **Without a specific plan, we believe this is unlikely to happen.**

The original Grant Agreement of the Development Training Project of which the current Peace Fellowship Program is a component, includes the following special covenant:

The Grantee will develop a plan and procedures for involvement of the Egyptian private sector in all project components and will assure appropriate funding to permit private sector participation.

Mission records show that the GOE has made progress in this area with regard to the Non-Project Training component of the Development Training Project by utilizing the services of a U.S. private voluntary organization to identify priorities and plan programs for private sector participants under that component. However, a plan and procedures to assure substantial involvement, as well as funding, for the Egyptian private sector under the Peace Fellowship Program have yet to be developed. The fact that this covenant has not been met for the Peace Fellowship Program was not reported in the Mission's Quarterly Implementation Reports (Q-sheets) as required by Mission Order No. 3-19. The Mission's Covenant Report Review, dated April 9, 1989, indicated that this covenant could probably not be done, and suggested that the project officer propose a more realistic covenant. However, the Development Training Project Grant Agreement has been amended twice since then **but the covenant remained unchanged**. A covenant report for fiscal year 1991 indicated that all covenants relating to the Peace Fellowship Program had been met.

Females Remain Underrepresented - USAID Policy Determination No. 8 indicates that all participant training programs are expected to provide opportunities for women. It specifically states that:

While A.I.D.'s policy does not require any specific percentage or formula for measuring female participation, it does affirm that all training programs are expected to give attention to means of ensuring substantial participation of women. Where few women are expected to participate, there should be additional justification and explanation of why alternatives providing greater female participation are not recommended.

The Development Training Project Paper indicated that USAID had set a target of 30 percent female participation for all participant training components under the project. However, USAID/Egypt did not incorporate that target into the Grant Agreement and it was never formally accepted by MOHE as a target for the Peace Fellowship Program. USAID/Egypt records show that as of December 31, 1990 there were 88 women among the more than 600 Peace Fellows who had started their training programs in the United States. This 14 percent participation by women is less than half of USAID/Egypt's end-of-Program target of 30 percent. To achieve the 30 percent participation target, women

must be selected to fill 375 of the expected 1,250 training opportunities. However, if the 14 percent participation rate continues only 175 women, 200 short of the target, are likely to receive fellowships.

The current program's rate of female participation is **significantly lower** than that of the prior program, which also failed to achieve its target. Data developed on the prior Peace Fellowship Program (No. 263-0110) revealed a rate of female participation of 19 percent against a target of 35 percent. A January 1989 evaluation of the current and prior programs commissioned by USAID/Egypt considered the results of both programs "dismal" given the level of female participation in the Egyptian labor force from which much of the program was recruiting. The evaluation indicated that the low rate of female participation reflected an equally low level of applications by women. This, according to the evaluation, was because of the Egyptian woman's "primary obligation to look after children and to be with her husband." The evaluation provided a list of recommendations to improve the rate of female participation. According to USAID/Egypt officials, the Mission attempted to implement some of those recommendations but were only partly successful due to the MOHE's reluctance to give preferential treatment to women which it claimed violated Egyptian laws.

The MOHE prepared annual training plans for fiscal years 1989-91, the first three years of Program implementation. However, those training plans were primarily budgets rather than plans which contained adequate detail to achieve the specific targets relating to private sector and female participation established by the MOHE and USAID/Egypt. For example, the training plans for the first two fiscal years did not indicate how the planned number of fellowships were to be distributed among the various sectors targeted by the MOHE. None of the three training plans included women as a specific target for distribution of fellowships. The training plan for the fiscal year ending September 30, 1991, which planned for 200 fellowships, did include a distribution by sector. It indicated that 45 (23%) of the 200 fellowships would go to the private sector. However, this plan was not completed until December 15, 1990 and was not approved by USAID/Egypt until February 25, 1991. By that time, many of the fellowships for that annual cycle had already been granted.

USAID/Egypt approved the annual training plans but did not ensure that the plans identified specific training opportunities for the private sector or women. To improve the private sector's participation in the Peace Fellowship Program, we believe that USAID/Egypt should obtain from MOHE a revised training plan designed to ensure the enhanced involvement and appropriate funding of this important sector of the Egyptian economy. We also believe that USAID/Egypt, in conjunction with MOHE, should reassess female participation with regard to the Peace Fellowship Program and prepare a detailed plan and procedures to enhance female participation.

Management Comments and Our Evaluation

Mission representatives stated that the covenant for private sector participation as well as the 30 percent target for female participation were for the Development Training Project as a whole, rather than just the Peace Fellowship component. According to the Mission, other components of the project are better suited toward training the private sector and women than the Peace Fellowship component.

While the Mission's statements may be correct, they do not explain or justify why participation rates for these two important target groups have actually declined from levels achieved under the prior Peace Fellowship Program.

The Mission also indicated that the audit did not take into account the fact that many of the physicians trained under the Program may have worked part-time in the private sector as well as in the universities and public clinics from which they were selected. In the Mission's opinion, these physicians should have been included in our calculation of private sector participation.

The data used to calculate private sector participation in the audit was taken directly from reports issued by the Mission's Office of Education and Training and was verified by analyzing computerized records in the Mission's Participant Training Information System. Physicians participating in the Program were generally drawn from the faculties of public sector universities, were nominated as Peace Fellows by their universities, and continued to receive university salaries during their training in the U. S. We do not believe that, under these circumstances, it would be appropriate to revise our calculations for private sector participation.

Despite certain differences of opinion, the Mission agreed to implement all parts of Recommendation No. 1 by (1) reviewing targets for private sector and female participation in order to develop more realistic targets, (2) working with MOHE to develop a training plan to achieve the revised targets, (3) earmarking Program funds, and (4) reporting the unfulfilled status of Special Covenant 5.4.

We consequently consider Recommendation No. 1 resolved and will close the recommendation when the above actions have been completed.

Did USAID/Egypt ensure that the Peace Fellow selection process was fairly applied, all candidates selected met applicable selection criteria, and no individuals, groups, or sectors were able to abuse the program?

USAID/Egypt and the GOE provided reasonable assurance that the participant selection process was fairly applied, and that all selected participants met applicable selection criteria. However, USAID/Egypt could not provide adequate assurance that Program accountability had been addressed because its costs had not been audited as required by the applicable grant agreement. Also, a system did not exist to ensure that research funds granted to universities at which Peace Fellows studied were accounted for.

We reviewed the process by which the Ministry of Higher Education (MOHE) selected over 600 Peace Fellows. Selection committees established by MOHE utilized blind (no-name) applications for all candidates except those for post-doctoral research fellowships. Each candidate selected by MOHE was subject to approval by USAID/Egypt. The files of 61 participants that we selected at random demonstrated that all 61 met applicable selection criteria. Although 28 of the sampled participant files did not include an English language test score, the files indicated that the required tests had been waived because the participants were post-doctoral candidates who had been exempted¹ from the testing requirement by MOHE. Finally, we examined the records of 15 Peace Fellows who appeared to be closely related to high-ranking Egyptian officials. The files of all 15 showed that they too met applicable selection criteria.

Accountability for Peace Fellowship Program funds had not been adequately assured because neither MOHE nor USAID/Egypt had arranged for them to be audited as required by the Development Training Project Grant Agreement. Furthermore, the Egyptian Cultural and Educational Bureau (ECEB) had not established a system to ensure that U. S. institutions accounted for research costs which it paid on behalf of Peace Fellows.

Recommendation No. 2: We recommend that USAID/Egypt prepare a plan to ensure that financial records relating to the Program are audited on a regular basis.

¹ USAID/Egypt recently reached agreement with MOHE not to waive English language testing for post-doctoral candidates.

Recommendation No. 3: We recommend that USAID/Egypt develop a system to ensure that research funds paid to U. S. institutions on behalf of Peace Fellows are adequately accounted for and that unused research funds are refunded to Program accounts on a timely basis.

Program Funds Have Not Been Audited

As of December 31, 1990 nearly half the targeted number of participants in the Peace Fellowship Program (263-0125.1) had begun training in the U. S., resulting in unaudited Program expenditures of more than \$10 million. The applicable Grant Agreement requires the Government of Egypt (GOE), as the grantee, to maintain financial records relating to the Program and to conduct audits of those records on a regular basis. In August 1988 USAID/Egypt committed \$28,000 in Program funds specifically to finance such audits, but has taken no subsequent action to ensure that the GOE fulfill this requirement. Consequently, over \$10 million in expended A.I.D. grant funds remain unaudited with approximately \$18 million more expected to be provided and expended in the future.

. . . over \$10 million in A.I.D. grant funds have been expended without being audited, nor is there a plan to ensure that Program expenditures will be audited in the future.

As of December 31, 1990 USAID/Egypt had obligated \$19.4 million of its authorized funds. By issuing various Project Implementation Letters, USAID/Egypt earmarked about \$11.6 million of the obligated funds as grants to the GOE to implement the Program through its Ministry of Higher Education (MOHE). The GOE has reported expending over \$10 million through December 31, 1990 to cover the costs of more than 600 Egyptian participants who had been granted fellowships. Such costs included university tuition, books, research costs, travel, and living allowances for participants, as well as administrative costs incurred by MOHE's Missions Department in Cairo and the Egyptian Cultural and Educational Bureau (ECEB) in Washington, D.C.

Annex I to the Grant Agreement for the Development Training Project states that the Grantee will conduct project audits with project funds as required by the Standard Grant Provisions Annex. The Standard Grant Provisions Annex indicates that books and records relating to the program were to be maintained by the Grantee and audited regularly in accordance with generally accepted auditing standards.

USAID/Egypt provided a separate budget item for standard audits of Program activities through Project Implementation Letter (PIL) No. 10, dated August 9, 1988, which committed \$28,000 for that purpose. PIL 10 authorized the issuance of a PIO/T for the purpose of "performing an assessment and an audit of expenditures under the Program." **Although these funds have been committed for over two years, USAID/Egypt has taken no further action to ensure that the GOE fulfill its audit responsibilities.**

As a result, over \$10 million in A.I.D. grant funds have been expended without being audited, nor is there a plan to ensure that Program expenditures will be audited in the future. Consequently, a total of \$28.1 million in estimated life-of-program funding, of which \$19.4 million has already been obligated, could be expended without being subject to a financial audit. The lack of such an audit function has limited USAID/Egypt's ability to ensure accountability for Program funds.

In order to effectively ensure accountability for Program costs, we believe that USAID/Egypt should prepare a plan to conduct regular audits of Program expenditures in conjunction with RIG/A/C. As the majority of financial records are kept at ECEB in Washington, D.C., the audit work could be conducted by a U. S. firm. The Inspector General's Office of Financial Audits (IG/A/FA) in Washington would help expedite the selection and oversight of a qualified audit firm.

Research Costs Were Not Accounted For

According to USAID/Egypt's Project Grant Standard Provisions Annex, the Government of Egypt (GOE) will maintain records adequate to show, without limitation, the receipt and use of funds acquired under a grant. As of December 31, 1990 the Egyptian Cultural and Educational Bureau (ECEB) had disbursed over \$3 million in Peace Fellowship grant funds to various institutions in the U. S. to cover tuition, fees, and research costs for Peace Fellows placed at those institutions. ECEB officials advised us that research costs accounted for approximately half of those disbursements. Although ECEB instructs academic advisors who supervise Peace Fellows to account for research costs used on behalf of the Peace Fellows and to return any unused funds at the completion of each fellowship, our random sample test of 36 files for Peace Fellows who had completed their programs revealed that only one institution had provided an accounting for research costs as required. We discovered that ECEB does not have a system to regularly determine whether or not academic advisors properly account for Peace Fellow research costs. Consequently, the research costs for many fellowships have not been accounted for and ECEB has not ensured that unused research funds were refunded.

The Project Grant Standard Provisions Annex for the Development Training Project, of which the Peace Fellowship Program is a component, states that the "Grantee" will:

maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project . . . adequate to show, without limitation, the receipt and use of goods and services acquired under the Grant.

According to financial reports, as of December 31, 1990 ECEB had disbursed \$3,315,108 to various institutions in the U. S. to cover tuition, fees, and research costs for Peace Fellows placed at those institutions. ECEB officials negotiated the amount of research funds given to each institution using about \$1,000 per month for each Peace Fellow as the maximum. They estimated that about half of the above disbursements were for research costs. As a precondition to making research grants available to any institution, ECEB requires that the academic advisor at the institution complete a "Request For Funds" form which includes the following clause:

I understand that an accounting of expenses should be submitted every six months, and that all unused funds are to be returned to the Egyptian Cultural and Educational Bureau at the completion of the Peace Fellow's program.

To determine if research costs were being accounted for, we examined ECEB files for 36 randomly selected returned Peace Fellows. Only one file contained an adequate accounting for research costs and indicated that a refund had been made to ECEB. As of December 31, 1990 about 427 Peace Fellows were scheduled to have completed their program. The possibility that their research funds may not have been totally used was evidenced by the fact that seven of the 36 returned participants we interviewed indicated that, in their opinion, the institution they attended did not provide the agreed upon research services.

According to ECEB officials, they do not have a system to ensure that an accounting for research funds is made by academic advisors for each Peace Fellow. Consequently, ECEB was not able to determine whether or not research funds disbursed to U. S. institutions were properly used or that unused research funds were refunded.

We believe that USAID/Egypt, in consultation with the GOE, should ensure that ECEB develops a system which regularly monitors all Peace Fellowship programs to ensure that research funds are properly accounted for and unused research funds are refunded.

Management Comments and Our Evaluation

Mission representatives agreed with both findings and stated that they would implement Recommendation Nos. 2 and 3. To implement Recommendation No. 2, the Mission plans to issue a work order for a contract to carry out independent financial audits of Program expenditures. For Recommendation No. 3, the Mission will work with MOHE and ECEB to improve the accounting for research funds paid to U. S. institutions.

Recommendation Nos. 2 and 3 are resolved and will be closed when the above planned actions have been accomplished.

Did USAID/Egypt ensure that trained Peace Fellows returned to Egypt, were assigned to work where they could effectively utilize their training, and received follow-up?

USAID/Egypt followed the procedures necessary to provide reasonable assurance that trained participants returned to Egypt. All Peace Fellows included in the audit sample who had completed their training, returned to Egypt. All but three were reassigned to the same positions they had occupied before their fellowships. However, USAID/Egypt did not ensure that returned Peace Fellows benefited from planned follow-up activities.

USAID/Egypt has required that all Peace Fellowship participants be sent to the U. S. with J-1 visas under A.I.D. sponsorship. The use of the J-1 visa is to ensure that participants could not apply for other types of visas until two years' residency is completed in their home country. Also, USAID/Egypt has required that all participants complete and sign a standard A.I.D. "Conditions of Training" form which obligates them to return home immediately for a minimum of two years after completion of their training program. Finally, USAID/Egypt and MOHE have instituted certain other controls to ensure that Peace Fellows return to Egypt and are reemployed by the same organization by which they were sponsored. All these controls are designed to ensure that Peace Fellows return to Egypt after completing their training, and are reemployed in the same positions they held prior to their training. Tests conducted on a sample of 61 randomly selected Peace Fellows revealed that all had received J-1 visas and agreed to A.I.D.'s Conditions of Training. Of the 61, 39 had already completed their training and returned to Egypt.

However, two of the 39 did not remain in Egypt after their training and another one changed employers immediately upon his return to Egypt. Also, returned Peace Fellows received a limited amount of Program-sponsored follow-up after their return to Egypt in the form of a brief interview with MOHE, up to three years of membership in a U. S. professional society and/or subscription to U. S. professional journals, and USAID/Egypt maintained records on them in its Participant Training Information System (PTIS). In our opinion, however, the level of follow-up has not been in accordance with the design of the Program, or A.I.D. standards. Further, USAID/Egypt lacks an adequate system to track returned participants. These problem areas are discussed in detail in the following sections.

Recommendation No. 4: We recommend that USAID/Egypt determine the amount of A.I.D. funds expended for training the three Peace Fellows who did not comply with the terms of their training agreements upon return to Egypt (estimated at about \$67,440), and recover the determined amount from the Government of Egypt.

Recommendation No. 5: We recommend that USAID/Egypt:

- 5.1 plan and develop a follow-up program, in collaboration with the Ministry of Higher Education, specifically designed to implement follow-up activities for returned Peace Fellowship participants, including at a minimum:**
- (a) periodic ceremonies to issue Certificates of Achievement to all returned Peace Fellowship participants; and**
 - (b) financial assistance to selected local professional organizations as described in Special Covenant 5.5 of the Development Training Project Grant Agreement;**
- 5.2 report the unfulfilled status of Special Covenant 5.5 in Mission Quarterly Implementation and Covenant Reports until the Covenant has actually been met; and**
- 5.3 improve the accuracy of the Mission's Participant Training Information System by verifying the accuracy of work and home addresses and telephone numbers, employer, position, and field for each returned Peace Fellowship participant on an annual basis.**

**Returned Peace Fellows Left
Egypt or Changed Employers**

Two returned Peace Fellows in our audit sample did not remain in Egypt for the agreed upon minimum of two years after their training. Another Peace Fellow, upon returning to Egypt, accepted a position at a foreign bank operating in Egypt. Prior to their fellowships, they had agreed to A.I.D.'s "Conditions of Training" which required returned participants to return home immediately after completion of training for a minimum of two years and endeavor to utilize the acquired training for the benefit of their country. Also, MOHE's implementation plan states that all Peace Fellows must agree to remain in the service of their present employer in Egypt upon their return for a minimum of two years. However, three participants we identified in our sample did not comply with those agreed upon conditions. Consequently, A.I.D. funds disbursed to provide training for those three individuals were, in our opinion, not effectively used in accordance with Program or A.I.D. policy.

Two returned Peace Fellows in our audit sample of 39 did not remain in Egypt for the agreed upon minimum of two years after their training. They had returned to the same university at which they were employed prior to their fellowship, but then took leave-

without-pay from the university and left Egypt to work in Saudi Arabia. Another Peace Fellow, upon returning to Egypt, resigned from the private sector bank at which he was employed prior to the fellowship and accepted a position at a foreign bank operating in Egypt.

A.I.D.'s "Conditions of Training" form, signed by all Peace Fellows, includes a clause which required participants to return to Egypt for a minimum of two years upon completion of their training program and to "endeavor to utilize the training acquired under this program for the benefit of [Egypt]." Also, MOHE's implementation plan required that all Peace Fellows agree to remain in the service of their present employer in Egypt upon their return for a minimum of two years.

Three returned Peace Fellows did not comply with these conditions. Consequently, A.I.D. funds disbursed to provide training for those three individuals were, in our opinion, not effectively used in accordance with A.I.D. or Program policies. According to the Project Grant Standard Provision Annex, A.I.D. may require the Grantee (the GOE) to refund the amount of such disbursement. We believe that USAID/Egypt should request that the GOE refund all A.I.D. funds used to finance the training costs of these three individuals. We estimate the refund to be about \$67,440 based on an average cost of about \$22,480 per participant, that is, total expected program cost (\$28.1 million) divided by the total number of participants anticipated to be trained (1,250).

USAID/Egypt Did Not Provide Adequate Follow-up

The Development Training Project Paper and Grant Agreement indicate that follow-up was a specific concern of Program designers. A special covenant in the Grant Agreement required the Government of Egypt (GOE) to support specific follow-up activities for returned Peace Fellows. In our opinion, that covenant has not been fulfilled. USAID/Egypt has provided very little follow-up for returned Peace Fellowship participants, and does not maintain adequate records to track returned Peace Fellowship participants. This situation arises from the fact that USAID/Egypt lacks an adequate follow-up system for participant training, as noted in previous RIG/A/C audits and USAID/Egypt's Internal Control Assessment for 1989. Consequently, over \$70 million in AID funds have been expended for prior and current Peace Fellowship training since 1979 without the benefit of adequate follow-up activities. Furthermore, opportunities have been missed to promote the Program and USAID/Egypt's image in the local media that certificate of achievement award ceremonies could provide.

The Development Training Project Paper and Grant Agreement specifically indicate that follow-up of returned Peace Fellowship participants was designed to be part of the Program. The single largest budgeted item in the Peace Fellowship financial plan outlined in the Project Paper was entitled "Training and Follow-Up." One use of these

funds was described in the Grant Agreement for the Training Development Project of which the Peace Fellowship Program is a component. Special Covenant 5.5 states that:

The Grantee [the GOE] will make its best efforts to assist the development of professional organizations and to include participation in such organizations among follow-up activities planned for Returning Peace Fellows.

According to program documentation, Egypt has many professional groups which lack funds for seminars, newsletters, importation of journals, etc. The above covenant, as defined in the Development Training Project Paper, requires the Missions Department to solicit in the local press requests for assistance from selected groups and, within limits per group to be established, fund them with small grants. At the time of the audit, no activities had been initiated to satisfy this covenant. The fact that this covenant has not been met was not reported in the Mission's Quarterly Implementation Reports (Q-sheets) or the Mission Covenant Reports, as required by Mission Order No. 3-19. The applicable Q-sheets and Covenant Reports indicated that this covenant has been met.

USAID/Egypt provided little or no follow-up activities for participants in the prior Peace Fellowship Program. A January 1989 evaluation of the Peace Fellowship Program indicated that:

There has been very little follow-up under Project 0110. Plans contained in early project documentation for an association of returned participants never materialized. There is no record of receptions being held or certificates of achievement being handed out even in the early stages of the program . . .

Personal interviews with 36 randomly selected returned Peace Fellows revealed that, except for a mandatory interview with MOHE officials upon their return to Egypt, none of them had been in contact with either AID or the MOHE following their return to Egypt, nor had any of them received a certificate of achievement from AID. Twenty-one said that they received AID-funded professional journals or society memberships after completing their training, but only eight expected that their subscription would continue for the full three years allowed under the program.

The program's inadequate performance with regard to follow-up is due to the fact the Mission lacked an effective participant training follow-up system. **RIG/A/C has noted in previous audits dating back to 1986 that USAID/Egypt has not had an adequate follow-up system.** Recommendations from those audits were closed based on Mission promises to implement a follow-up system. USAID/Egypt's 1989 Internal Control

Assessment reported that its system of monitoring participant training and tracking participants was unsatisfactory. The same Assessment indicated that a new system would be implemented by July 1990, but had not been implemented at the time of our audit.

For purposes of conducting follow-up activities, Chapter 33 of USAID Handbook 10 stipulates that Missions maintain a centralized and up-to-date data base which should include returned participants' current employment, title, and individual addresses. USAID/Egypt maintains a computerized Participant Training Information System (PTIS) that includes information on returned participants, but the system was not designed to track returned participants. Furthermore, its data is often inaccurate or outdated.

USAID/Egypt recently contracted for and received a study of its participant evaluation and follow-up system. The study indicated that in order to adequately track participants, information on seven data elements need to be collected before the participant leaves for the USA, within a month of the completion of his or her program, and once a year thereafter for three years. These are: 1) home address, 2) home phone, 3) work address, 4) work phone, 5) employer, 6) position, and 7) field of endeavor. It indicated that while trying to contact returned participants, researchers found that the addresses in the Mission's computer system were often incorrect. The study estimated that approximately 20 percent of the participants listed in the database had incorrect addresses.

The program's inadequate performance with regard to follow-up is due to the fact that the Mission lacked an effective participant training follow-up system.

From a random audit sample of 61 Peace Fellowship participants, PTIS contained only 43 complete home addresses, seven home telephone numbers, and three work telephone numbers. PTIS records for all Peace Fellows show that 427 participants were scheduled to complete their training before December 31, 1990. However, 236 of those participants were listed in the computer as not having their return to Egypt confirmed. USAID/Egypt staff believed that most of the 236 had returned to Egypt, but that their computer records had not yet been updated. This explanation seemed plausible since, as previously mentioned, all of the Peace Fellows in a randomly selected audit sample of 39 had returned to Egypt following the completion of their training.

We believe that the development of a Mission follow-up system to provide follow-up activities and accurate, up-to-date data on returned participants would significantly enhance the objectives of the Peace Fellowship Program, as well as other USAID/Egypt-sponsored participant training programs. USAID/Egypt should give this long-neglected element of the A.I.D.'s participant training program immediate and adequate attention.

Management Comments and Our Evaluation

Mission representatives stated they will seek a refund from the GOE for the two Peace Fellows identified in the audit who left Egypt after their return. The Mission will request an explanation from the GOE as to why the third individual changed jobs. If a reasonable explanation is not provided, the Mission will request a refund of those costs as well.

Since the Mission has not yet made its formal determination regarding the amount of questioned costs to be sustained and recovered, Recommendation No. 4 remains unresolved. Resolution may occur when the amount of questioned costs sustained has been formally communicated to RIG/A/C. Closure may occur when the sustained amount has been recovered.

The Mission indicated that a new Participant Training Information System has been implemented and tested. It agreed to implement all parts of Recommendation No. 5 by (1) working with MOHE to develop a follow-up program for returned Peace Fellows which would include periodic ceremonies to issue Certificates of Achievement, (2) reporting the unfulfilled status of Special Covenant 5.5 until such time as it is deleted, and (3) developing a system to obtain and verify the accuracy of personal data on each returned Peace Fellow necessary to conduct follow-up activities.

Based on these planned actions, we consider Recommendation No. 5 resolved.

REPORT ON INTERNAL CONTROLS

This section of the report provides a summary of our assessment of internal controls for the audit objectives.

Scope of Our Internal Control Assessment

We have audited certain aspects of USAID/Egypt's Peace Fellowship Program for the period September 26, 1985 through December 31, 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 those 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 four audit objectives, but not to provide assurance on the internal control structure.

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.

General Background on Internal Controls

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.

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 are obtained, maintained, and fairly disclosed in reports. In doing this audit, we found certain problems that we consider reportable under the above standards.

Conclusions for Audit Objective No. 1

The first audit objective was to gather and verify information concerning the progress of the Program. We noted no reportable conditions that related to this audit objective.

Conclusions for Audit Objective No. 2

This objective relates to procedures for planning participant training in order to ensure that the Egyptian private sector and A.I.D. "women-in-development" policies were supported. We noted two reportable conditions:

- In approving training plans, USAID/Egypt did not ensure that those plans, developed by the Ministry of Higher Education, effectively resulted in progress toward established Program targets.
- The Mission's system to monitor covenants failed to report that the Special Covenant in section 5.4 of the Grant Agreement for the Development Training Project had not been met for the Peace Fellowship Program.

The Mission's monitoring of covenants contained in project grant agreements includes reporting the status of covenants in the Mission's Quarterly Implementation Report, and an annual review of the status of covenants by the office of Project Support. Neither part of this internal control system accurately reported the currently unfulfilled status of this covenant with regard to the Peace Fellowship component of the Development Training Project although USAID/Egypt's Internal Control Assessments for the last three years indicated that the Mission's system for monitoring covenants was satisfactory.

Conclusions for Audit Objective No. 3

This objective relates to the fairness and adequacy of the selection process, and whether anyone was able to abuse the Program. USAID/Egypt had not ensured that:

- Program costs had been subjected to financial audits; or that
- the Egyptian Cultural and Educational Bureau had a system to verify that research funds were properly accounted for.

The Mission's Internal Control Assessment for fiscal year 1989 identified the lack of audits of host country contracts as an internal control weakness but did not comment on audits of grants administered by a host country agency as is the case under the Peace Fellowship Program.

Conclusions for Audit Objective No. 4

This objective relates to whether participants who complete their training return to Egypt, are assigned to work where they can utilize their training, and receive adequate follow-up. We noted that:

- despite repeated past audit recommendations and Mission promises to correct the deficiency, USAID/Egypt still did not have a reliable follow-up system to track returned participants.

- The Mission's system to monitor covenants failed to report that the Special Covenant in section 5.5 of the Grant Agreement for the Development Training Project had not been met.

The Mission's monitoring of covenants contained in project grant agreements includes reporting the status of covenants in the Mission's Quarterly Implementation Report, and an annual review of the status of covenants by USAID/Egypt's Project Support office. Neither part of this internal control system accurately reported the currently unfulfilled status of this covenant of the Development Training Project although USAID/Egypt's Internal Control Assessments for the last three years did not indicate that the Mission's system for monitoring covenants was unsatisfactory.

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A material weakness is a reportable condition in which the design or operation of the specified internal control elements do not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial reports on project funds being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal controls 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 weaknesses as defined above.

REPORT ON COMPLIANCE

This section summarizes our conclusions on the auditee's compliance with applicable laws and regulations.

Scope of Our Compliance Assessment

We have audited certain aspects of USAID/Egypt's Peace Fellowship Program for the period September 26, 1985 through December 31, 1989. 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 and regulations when necessary to satisfy the audit objectives (which include designing the audit to provide reasonable assurance of detecting abuse or illegal acts that could significantly affect the audit objectives); and
- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

As part of fairly, objectively, and reliably answering the audit objectives, we performed tests of USAID/Egypt, and host-government compliance with certain provisions of Federal laws and regulations, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

General Background on Compliance

Compliance with laws, regulations, contracts, and grants applicable to the Program is the overall responsibility of USAID/Egypt's management. Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grant agreements and binding policies and procedures governing entity conduct. 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 performing what may be considered improper practices, which do not involve compliance with laws and regulations.

Conclusions on Compliance

The results of our tests of compliance disclosed the following significant instance of noncompliance:

- **Audit Objective No. 2** - USAID/Egypt has not obtained Government of Egypt compliance with Special Covenant 5.4 of the Grant Agreement of the Development Training Project as it applies to the Peace Fellowship Program. The covenant required the GOE to develop a plan and procedures for involvement of the private sector, and assure appropriate funding.
- **Audit Objective No. 3** - USAID/Egypt has not obtained Government of Egypt audits of Program costs, as required in the Grant Agreement of the Development Training Project, or an accounting for research grants made in support of Peace Fellows' training programs by the Egyptian Cultural and Educational Bureau to U. S. training providers.
- **Audit Objective No. 4** - USAID/Egypt has not obtained Government of Egypt compliance with Special Covenant 5.5 of the Grant Agreement of the Development Training Project. This covenant required the GOE to support the development of Egyptian professional organizations as part of its follow-up activities for returned Peace Fellows.
- **Audit Objective No. 4** - Three returned Peace Fellows were not in compliance with A.I.D.'s "Conditions of Training."

Except as described, 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 fourth paragraph of this report. 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.

SCOPE AND METHODOLOGY

Scope

We have audited certain aspects of USAID/Egypt's Peace Fellowship Program (Project No. 263-0125.1) in accordance with generally accepted government auditing standards. We conducted the audit from October 1990 through April 1991 and covered the systems and procedures relating to the Program from September 1985 (program inception) through December 31, 1990. During that time period USAID/Egypt had disbursed over \$10 million in grants to the Government of Egypt to support over 600 fellowships. As noted below, we tested 10 percent of those fellowships in order to answer the audit objectives. We conducted our field work in the offices of USAID/Egypt, in the offices of Egypt's Ministry of Higher Education, and at various locations in Egypt interviewing returned Peace Fellows. A planned visit to the Egyptian Cultural and Educational Bureau (ECEB) in Washington, D. C. had to be postponed until the end of April 1991 due to travel restrictions during the war in the Persian Gulf.

The last aspect of Audit Objective No. 3 received limited audit work due to the extensive nature of the objective. This report discusses the problem areas that we identified with regard to this objective, but due to limited resources we were unable to test for potential abuse among all individuals, groups, or sectors associated with the Program. Also, our limited resources did not allow us to test whether or not returned Peace Fellows were assigned to work where they could effectively utilize their training.

We examined internal controls relating to the stated audit objectives and considered prior audit findings concerning the Mission's lack of follow-up for returned participants. No audit coverage was given to counterpart contributions.

Methodology

Audit Objective One

Audit objective one consisted of gathering and verifying information to determine the status of the Peace Fellowship Program. We relied primarily on USAID/Egypt financial records, including reports from the Mission Accounting Control System (MACS), copies of advance liquidation vouchers submitted by the Ministry of Higher Education (MOHE), and applicable Project Implementation Letters with accompanying amendments; Government of Egypt (GOE) progress reports, and interviews with officials from USAID/Egypt, and the MOHE. To test the reliability of reported fellowships, we reviewed USAID/Egypt's Participant Training Information System (PTIS) and compared data to reports from the Egyptian Cultural and Educational Bureau. We verified through a random sampling of 10 percent of the reported number of granted Peace Fellowships that the participants listed in USAID/Egypt and GOE reports did in fact receive reported fellowships to study at institutions in the United States.

Audit Objective Two

To accomplish the second audit objective, we reviewed the applicable sections of the Development Training Project's Project Paper and Grant Agreement, USAID/Egypt's Program correspondence files, a 1989 Program evaluation, and USAID/Egypt's PTIS records. By downloading PTIS files into RIG/A/C microcomputers, we were able to sort training records by sector and gender in order to determine the number of fellowships that were granted in those two areas. We tested the reliability of the downloaded data by searching for duplicate records, data entry errors, program cancellations, etc.

Audit Objectives Three and Four

To accomplish these objectives we relied on interviews with cognizant USAID/Egypt and MOHE and ECEB officials, as well as actual Peace Fellowship participants. From a computer printout listing 621 Peace Fellowship participants in alphabetical order by first name, we obtained a random sample of 10 percent by selecting every tenth from that list. We then examined the files of all 62 individuals in the sample to determine if they included documentation as having met applicable selection criteria. We examined files at USAID/Egypt's Training Office, MOHE's Missions Department in Cairo, and ECEB in Washington, D.C.

Of the 62 sampled participants, 39 had surpassed their estimated program completion date. We attempted to contact the 39 individuals in order to conduct interviews with them. We succeeded in contacting and interviewing 36 of the 39 returnees. All of the interviews were held in the RIG/A/C office in Cairo with the exception of one in Suez, one in Ismailia, and six in Alexandria. Of those we did not interview, two had returned but then left to work in Saudi Arabia, and one, located in Assuit, was not able to come to Cairo. We developed a standard questionnaire which we filled out while interviewing each returned participant in person. By consolidating the responses to this questionnaire, we were able to obtain much of the information used in this audit report, as well as verify information from other sources, such as the 1989 Program evaluation.

Finally, we visited the ECEB office in Washington D.C., and conducted interviews with the Director, Deputy Director, and several employees. We reviewed ECEB's participant files and accounting records. In addition, we interviewed a current Peace Fellow on the campus of George Washington University.

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

RECEIVED

JUL 8 1991

MEMORANDUM

TO: RIG/A/C, Frederick Kalhammer

FROM: A/DIR, George A. Wachtenheim *Christopher D. Crowley for*

SUBJECT: Audit of USAID/Egypt's Peace Fellowship Program - Project No. 0125.1

Attachment 1 is USAID/Cairo's response to RIG/A/C's Management Letter of May 30, 1991 to be included in the final Audit Report.

Executive Summary

Implementation of the Peace Fellowship Program (PFP) has been excellent and is on schedule. After two and a half years of operation, the PFP has provided more than 600 training opportunities for Egyptians to study in the United States, nearly half of the Program target of 1,250 fellowships. The Project Assistance Completion Date (PACD) is September 1995. Thus, with four years remaining under the Program, it is on schedule and should achieve its overall target of 1,250 before the PACD.

Both the GOE and USAID/Cairo have assured that the selection process has been fairly applied and that all selected participants met applicable selection criteria. As the audit report itself indicates, after examining the files of 61 candidates, all of them met applicable selection criteria. Even the 15 candidates who appeared to be closely related to high-ranking Egyptian officials also met applicable selection criteria. USAID/Cairo, therefore, believes this audit conclusion supports the fact that USAID/Cairo has in place adequate controls and monitoring to ensure that the PFP is carried out in an equitable manner.

The newly developed Participant Training Information System (PTIS) has been designed, even before the audit took place, with the intent to improve participant data and enable USAID/Cairo to implement a follow-up program. The new PTIS contains data on follow-up activities and will have information on both participants and Peace Fellows updated based on information collected from the returned participants follow-up questionnaires in Handbook 10. USAID/Cairo has already begun using these questionnaires.

Since its 1979 inception, the PFP has trained nearly 3000 Egyptians in the United States. Overall, USAID/Cairo is satisfied with the accomplishments of the Program. It has been and still is a very successful and highly regarded program in Egypt.

Mission Comments on Audit Report Findings

Before responding to the audit recommendations, USAID/Cairo would like to comment on certain statements made in the report.

- (a) On page 8 the audit report states that targets established by the Ministry of Higher Education (MOHE) and USAID/Cairo for participation of the private sector and women are not being achieved. The report also notes that only about eight percent of Peace Fellows under the current program (263-0125.1) are from the private sector.

As USAID/Cairo pointed out in the exit conference of April 10, 1991, the audit of the Peace Fellowship Program (PFP) did not take into account the fact that the majority of physicians trained under the PFP are private sector. If these physicians are included as private sector Peace Fellows, the Program exceeds the 20 percent target for private sector participation. Physicians, according to the audit findings accounted for 18 percent of Peace Fellows. This percentage added to the eight percent private sector Peace Fellows cited in the report puts private sector participation at 26 percent of the total number of Peace Fellows.

USAID/Cairo also pointed out in the exit conference that the PFP is not the appropriate vehicle for attaining private sector training targets (other than clinical physicians). Historically, the Program has focused more on the university sector in Egypt and has been the primary vehicle to upgrade the faculty of Egyptian universities and their teaching and research capabilities. And, in fact, the program has been very successful in achieving this development objective.

Finally, as pointed out in the exit conference, other components of the Development Training Project (263-0125) are better suited to addressing USAID/Cairo's private sector training targets; specifically, the Non-Project Training Component (263-0125.2). Under this component, there is a plan for private sector participation. In addition, the Non-Project Training Component focuses primarily on short-term training, which is more appropriate for private sector individuals who cannot spend lengthy periods of time away from their work. Of the total numbers trained under Non-Project Training since FY 1986, data from USAID/Cairo's Participant Training Information System (PTIS) show that 19.6 percent of the trainees have been from the private sector.

- (b) On pages 10 and 11, the audit report indicates that Covenant 5.4 has not been met under the PFP, but that it

has been reported as met in Mission Quarterly Implementation Reports and Covenant Reports. In reporting on Covenant 5.4 in Quarterly Implementation Reports and Covenant Reports, USAID/Cairo was citing this covenant as being met for most of the components of the Development Training Project.

- (c) On pages 11 through 13, the audit report discusses female participation in the PFP and indicates the Program has achieved a rate of 14 percent female participation, which is below the overall target of 30 percent for the Development Training Project as a whole and also below the 19 percent level achieved under the predecessor project (263-0110). As the report notes, the MOHE did not accept the 30 percent target set for the Development Training Project and was reluctant to undertake any actions that would give preferential treatment to women candidates over male candidates as this would be a form of discrimination prohibited by Egyptian law.

The audit report also cites a 1989 evaluation study of the PFP commissioned by USAID/Cairo. This evaluation concludes that the performance of the current and prior PFPs in achieving female participation is "dismal" in light of the level of female participation in the Egyptian labor force from which much of the program was recruiting. The 1989 evaluation further points out that the low level of female participation reflected an equally low level of applications by women, which is the result of the Egyptian woman's "primary obligation to look after children and to be with her husband."

A major flaw in the logic of the 1989 evaluation centers on the relationship between female participation in overseas training and the level of female participation in the Egyptian labor force. Egyptian women in the labor force do not, because of their employment, have to be separated from their children and husbands. On the other hand, participation in training programs overseas, especially long-term training, requires such a separation which most Egyptian women are not willing to undertake.

The problem is further compounded by the very strict Handbook 10 (Participant Training) regulations which discourage dependents from joining participants while they are in training. Even if an individual is able to meet the Handbook 10 financial and other requirements to enable dependents to join him/her (which many cannot), the individual must wait six months before dependents are permitted to travel to the United States. In a culture where mother-child bonds are so strong, most Egyptian women are not willing to be separated from their children

this length of time and, as a result, forgo the opportunity for overseas training.

USAID/Cairo would also like to offer some additional comments related to the realistic attainment of a 30 percent target for female participation under the Development Training Project and the PFP. A.I.D. worldwide has achieved around 24 percent female participation under participant training programs, which would indicate that a 30 percent target is overly optimistic. USAID/Cairo's participant training programs as a whole achieved approximately 10.9 percent female participation in FY 1988, 15.1 percent in FY 1989, and 18.2 percent in FY 1990. Thus, the percentage of female participant under the PFP is not significantly lower than the percentage for the Mission as a whole.

- (d) On page 33 the audit report discusses the current Participant Training Information System (PTIS) and points out that the system is not designed to track returned participants and its data is often inaccurate or outdated. The report also indicates that this problem should be given immediate and adequate attention. USAID/Cairo wishes to point out that activities to redesign the information system were already underway before the PFP audit began. The new system was designed by MGT/DMS together with staff of the Training Section.

Design of the new system is now complete and Training Section staff has undergone training on the system. Data on all new and former participants as well as the approximately 700 Peace Fellows trained to date under Project 263-0125.1 have begun to be entered and any minor problems with the system are being worked out. USAID/Cairo believes the new PTIS will enable us to maintain better records, track participants, and support the overall follow-up system.

- (e) On pages 30 and 31 the audit report discusses the unmet status of Covenant 5.5. The report indicates that this covenant requires the GOE to provide financial assistance to selected local professional organizations and include the participation in such organizations among follow-up activities planned for returned Peace Fellows. The MOHE, according to the audit report, should advertize in local papers and journals and solicit Egyptian professional associations to submit proposals to receive funding for grants to carry out activities such as seminars, publication of professional newsletters, journals, etc. The participation of returned Peace Fellows in these associations and activities should then be encouraged.

USAID/Cairo believes there may be problems in ensuring that the activities proposed for grant funding by Egyptian professional associations will be of relevance and benefit to returned Peace Fellows. The purpose of follow-up activities is to reinforce returned Fellows' association with the United States and provide continuing education opportunities that build on their U.S. training experience. The activities of Egyptian professional associations, however, may not contribute to this purpose since it is likely that the activities proposed would be in support of the associations' objectives.

Audit Recommendations

USAID/Cairo's response to the audit recommendations is as follows:

Recommendation No. 1

We recommend that USAID/Egypt, in consultation with the Ministry of Higher Education, and prior to approving its use of AID funds in fiscal year 1992:

1.1 develop a plan for the remainder of the Program which provides a means whereby targets established for the distribution of fellowships to the Egyptian private sector and women can be realistically achieved. (If existing targets are not achievable, they should be revised.)

1.2 require that Program funds be earmarked to assure appropriate funding for the Egyptian private sector under the Peace Fellowship Program; and

1.3 until it is met for the Peace Fellowship Program, report the unfulfilled status of Special Covenant 5.4 in Mission Quarterly Implementation and Covenant Reports.

MISSION RESPONSE

1.1 USAID/Cairo will review targets established for the distribution of fellowships to the Egyptian private sector and women to determine if the targets can be realistically achieved. If necessary, the Project Agreement will be amended to establish more realistic and achievable targets. We will then work with the MOHE to develop a training plan for the remainder of the Program to achieve the revised targets for private sector and female participation in the PFP. We will inform RIG/A/C of the revised targets, if any, and will also provide a copy of the Project Agreement if amended and the training plan as soon as it is developed.

- 1.2 We will earmark program funds under the PFP to assure that the revised targets for the Egyptian private sector can be met. A copy of the PIL earmarking funds will be provided to RIG/A/C to close the recommendation.
- 1.3 We will report the unfulfilled status of Special Covenant 5.4 in Mission Quarterly Implementation Reports and Covenant Reports until it is met or until an amendment to the Project Agreement is completed to delete the covenant as unachievable and unrealistic under the PFP.

We will request closure of these recommendations as soon as the above actions have been completed.

Recommendation No. 2

We recommend that USAID/Egypt prepare a plan to ensure that financial records relating to the Program are audited on a regular basis.

MISSION RESPONSE

USAID/Cairo agrees with the audit recommendation. The Education and Training Office (HRDC/ET) will work with the Financial Management Office (FM) to develop a scope of work and estimated budget for annual program audits. If funds (\$28,000) currently earmarked for audits are insufficient, additional funds will be allocated for this purpose. We will issue a work order for a contract with an independent CPA firm to carry out the audits. In addition, a letter will be sent to the MOHE to inform the GOE of our planned actions regarding the recommendation, at which time we will request closure of this recommendation.

Recommendation No. 3

We recommend that USAID/Egypt, in consultation with the Government of Egypt's Ministry of Higher Education and Egyptian Cultural and Educational Bureau, develop a system to ensure that research funds paid to U.S. institutions on behalf of Peace Fellows are adequately accounted for and that unused research funds are refunded to Program accounts on a timely basis.

MISSION RESPONSE

USAID/Cairo also agrees with this recommendation. We will notify the Egyptian Cultural and Educational Bureau (ECEB) by letter with a copy to the MOHE of the necessity to require universities to provide an accounting for research costs budgeted for individual Peace Fellows' programs and to refund unused funds. We will work with the ECEB to develop a system to assure that each university and academic adviser accepting a Peace Fellow for research and study will be required to submit an accounting of research costs

every six months and to refund all unused funds to Program accounts on a timely basis. We will issue a PIL outlining the accounting and reporting requirements and monitor the ECEB's performance in carrying out this requirement. Upon issuance of the PIL, we will request closure of this recommendation.

Recommendation No. 4

We recommend that USAID/Egypt determine the amount of A.I.D. funds expended for training the three Peace Fellows who did not comply with the terms of their training agreements upon return to Egypt (estimated at about \$67,440), and recover the determined amount from the Government of Egypt.

MISSION RESPONSE

USAID/Cairo will verify as accurately as possible the actual costs for these three programs and will send a letter to the MOHE requesting costs be refunded for the two who left Egypt after their return and an explanation as to why the third individual changed jobs. If a reasonable explanation is not provided as to why the third individual was permitted to change jobs, we will also request the MOHE to refund these costs.

Recommendation No. 5

We recommend that USAID/Egypt:

5.1 plan and develop a follow-up program, in collaboration with the Ministry of Higher Education, specifically designed to implement follow-up activities for returned Peace Fellowship participants, including at a minimum:

(a) periodic ceremonies to issue Certificates of Achievement to all returned Peace Fellowship participants; and

(b) financial assistance to selected local professional organizations as described in Special Covenant 5.5 of the Development Training Project Grant Agreement;

5.2 report the unfulfilled status of Special Covenant 5.5 in Mission Quarterly Implementation and Covenant Reports until the Covenant has actually been met; and

5.3 improve the accuracy of the Mission's Participant Training Information System by verifying the accuracy of work and home addresses and telephone numbers, employer, position, and field for each returned Peace Fellowship participant on an annual basis.

MISSION RESPONSE

- 5.1 (a) We will work with the MOHE to plan and develop a follow-up program specifically designed to implement follow-up activities for returned Peace Fellows that will include provision for periodic ceremonies to issue Certificates of Achievement to all returned Peace Fellows under Project 263-0125.1. When the plan is developed, a copy will be provided to RIG/A/C to close this part of the recommendation.
- 5.1 (b) We will re-examine Special Covenant 5.5 in terms of its attainability and relevance to A.I.D.'s objectives in carrying out follow-up activities. If necessary, we will amend the Project Agreement to delete the covenant.
- 5.2 USAID/Cairo will report the unfulfilled status of Special Covenant 5.5 in Mission Quarterly Implementation Reports and Covenant Reports until the covenant has been re-examined and the Project Agreement is amended to delete the covenant.
- 5.3 USAID/Cairo will take action to improve the accuracy of the Participant Training Information System (PTIS) by verifying the accuracy of work and home addresses and telephone numbers, employer, position, and field for each returned Peace Fellow on an annual basis. This action will begin with the development of a form letter to be sent to the approximately 300 returned Peace Fellows under Project 263-0125.1 currently in Egypt (the remainder of the Peace Fellows under Project 0125.1 are still in training). The form letter will request the returned Fellows to verify whether the current information is accurate and to correct information if necessary. As Peace Fellows now in training return, the follow-up questionnaires contained in Handbook 10 will be used to verify and update information annually.

MANAGEMENT LETTER OF MAY 30, 1991

The Management Letter included as part of the audit report points out that under the Peace Fellowship Program (PFP), Academic Enrollment and Term Reports (AETRs) have been received on all academic Peace Fellows, as required by Handbook 10 for academic students under participant training programs. In fact, the files of all academic Peace Fellows examined contained copies of the AETRs. However, neither AETRs or progress reports have been obtained for non-academic or technical Peace Fellows.

The Management Letter further points out that Handbook 10 does not specifically state that individual progress reports are required for non-academic participants, but suggests that the AETR may also be used to monitor the progress of non-academic training. It is recommended in the Management Letter that USAID/Cairo take action to obtain individual progress reports for all Peace Fellows to ensure they are making satisfactory progress and completing the programs for which they were approved.

USAID/Cairo agrees with this recommendation and will take steps to ensure that progress reports are received for non-academic or technical Peace Fellows. We will work with the Egyptian Cultural and Educational Bureau (ECEB) to ensure a suitable progress report format is developed and that the ECEB uses this format to obtain progress reports on non-academic or technical Peace Fellows. We will also work with the ECEB to establish an appropriate schedule for the ECEB to receive these progress reports to ensure that Peace Fellows are making satisfactory progress, that problems with programs are identified early and corrected, and that Peace Fellows are completing the Programs for which they were approved.

APPENDIX III

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