

PD-ABD-725

ISA 75642

Regional Inspector General for Audit
Cairo, Egypt

**Audit of Local Expenditures of Agricultural
Cooperative Development International Under
USAID/Egypt Project No. 263-0161
(Cooperative Agreement No. 263-0161-A-00-7254-00)**

Report No. 6-263-92-4-N
November 26, 1991



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

November 26, 1991

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford
FROM : RIG/A/C, *Philip L. Darcy*
SUBJECT: Audit of Local Expenditures of
Agricultural Cooperative Development
International Under USAID/Egypt
Project No. 263-0161 (Cooperative
Agreement No. 263-0161-A-00-7254-00)

The attached report dated March 7, 1991 by Price Waterhouse presents the results of a financial audit of Agricultural Cooperative Development International's (ACDI's) local expenditures under Cooperative Agreement No. 263-0161-A-00-7254-00 with USAID/Egypt. ACDI assists the National Bank for Development (NBD) with implementation of the Rural Small Scale Enterprises credit program, which is bringing commercial banking services to the village level.

We engaged Price Waterhouse to perform a financial audit of ACDI's local expenditures totaling \$415,627 for the period May 1, 1988 to November 30, 1990. The purpose of the audit was to evaluate the propriety of costs incurred in this period and in performing the audit, Price Waterhouse evaluated ACDI's internal controls and compliance with applicable laws, regulations and grant terms as necessary in forming an opinion regarding the Funds Accountability Statement. Additionally, Price Waterhouse determined whether adequate corrective action had been taken on recommendations contained in a prior IG audit report.

Price Waterhouse questioned \$174,449 of ACDI's claimed costs (including \$89,081 in unsupported costs). Questioned items include costs incurred before the effective agreement period, unsupported salaries, fringe benefits and travel, unapproved transportation costs, double billing for furniture, misclassified costs, the billing of budgeted rather than actual amounts and unsupported advances. Price Waterhouse also noted certain matters involving the internal control structure that they considered to be reportable conditions. These include inadequacies in NBD's and ACDI's accounting systems, the billing of budgeted rather than actual costs and the process through which ACDI provides NBD with operating expense advances.

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Additionally, Price Waterhouse identified areas in which ACDI was in noncompliance with agreement provisions such as the requirements for an ACDI cost-sharing contribution and for marking of A.I.D.-financed equipment. Price Waterhouse determined that all recommendations in the IG's Audit Report No. 6-263-88-11-N, dated September 8, 1988, had been adequately addressed.

ACDI management has not accepted the questioned or unsupported costs identified by Price Waterhouse. In areas where budgeted rather than actual costs were billed, ACDI asserts that the Cooperative Agreement budget provides the necessary support for claimed costs. ACDI has stated that questioned advances are in compliance with the agreement and that other questioned and unsupported costs are also explicitly or implicitly in compliance with the Cooperative Agreement. Price Waterhouse does not agree with ACDI's position.

Recommendation No. 1: We recommend that USAID/Egypt resolve the questioned and unsupported costs of \$85,368 and \$89,081 appearing on page 8 of the audit report.

This recommendation will be included in the Inspector General's audit recommendation follow-up system. Until we are advised of USAID/Egypt's determination regarding the questioned and unsupported costs, the recommendation is considered unresolved. The recommendation can be resolved when we receive the Mission's formal determination as to the amounts sustained or not sustained. It can be closed when any amounts determined to be owed to A.I.D. are paid by ACDI.

Recommendation No. 2: We recommend that USAID/Egypt review the adequacy of NBD's accounting system.

Although USAID/Egypt currently has no direct contractual relationship with NBD, the Mission is contemplating the direct provision of funds to NBD through a cooperative agreement. In our opinion, prudent management dictates that USAID/Egypt determine the adequacy of NBD's accounting system prior to entering a cooperative agreement.

This recommendation will be included in the Inspector General's audit recommendation follow-up system. Until we are furnished documentation that USAID/Egypt has reviewed and accepted NBD's accounting system, Recommendation No. 2 is unresolved. This recommendation can be resolved and closed when we receive a copy of USAID/Egypt's evaluation and reviewed it for adequacy.

Recommendation No. 3.1: We recommend that USAID/Egypt determine ACDI's contribution was not charged directly or indirectly to U.S. Government agreements.

Recommendation No. 3.2: We recommend that USAID/Egypt require ACDI to mark A.I.D.-financed equipment in accordance with the Cooperative Agreement.

These recommendations will be included in the Inspector General's audit recommendation follow-up system. While the Mission provided documentation that demonstrated ACDI had paid a contribution, we were not able to determine that this payment had not been charged to U.S. Government contracts or grants. Until we are furnished documentation demonstrating that USAID/Egypt has determined ACDI's contribution has not been charged to U.S. Government agreements, Recommendation 3.1 is unresolved. This recommendation can be closed when we have reviewed the Mission's determination regarding ACDI's contribution.

Recommendation No. 3.2 is resolved as USAID/Egypt has agreed to request that ACDI mark A.I.D.-financed equipment in its possession. Recommendation No. 3.2 can be closed when USAID/Egypt furnishes documentation demonstrating that this equipment has been marked, but will be reopened if subsequent audits determine that such equipment is not marked in accordance with the Cooperative Agreement.

Please advise this office within 30 days of any actions planned or taken to close the recommendations. We appreciate the courtesies extended to the staff of Price Waterhouse and to our office.

AUDIT OF
AGRICULTURAL COOPERATIVE DEVELOPMENT
INTERNATIONAL RURAL SMALL SCALE ENTERPRISE
CREDIT PROJECT COOPERATIVE AGREEMENT NUMBER
263-0161-A-00-7254-00
NOVEMBER 30, 1990

AUDIT OF
AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL
RURAL SMALL SCALE ENTERPRISE CREDIT PROJECT
COOPERATIVE AGREEMENT NUMBER
263-0161-A-00-7254-00
NOVEMBER 30, 1990

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Price Waterhouse

March 7, 1991

Mr. Frederick A. Kalhammer
Regional Inspector General for Audit
United States Agency for
International Development
Mission to Egypt
Cairo, Egypt

Dear Mr. Kalhammer:

This report presents the results of our audit of Cooperative Agreement Number 263-0161-A-00-7254-00 and the project account of the Local Development II program number 263-0182, exclusive of the credit fund, between Agricultural Cooperative Development International (ACDI) and United States Agency for International Development (USAID) for the Rural Small-Scale Enterprise (RSSE) project. The National Bank for Development (NBD), a private sector bank, in the governorates of Sharkiya and Damietta in Egypt is the implementing agency of ACDI as authorized by USAID. This grant is financed by project number 263-0161-06.

Background

The purpose of the Rural Small Scale Enterprise Credit project (RSSE) is to determine the technical and financial feasibility of providing formal commercial credit to rural, off-farm, micro-enterprises through the local affiliates of the National Bank for Development (NBD) in the governorates of Sharkiya and Damietta in Egypt.

The project strives to bring commercial banking services to the village level for the first time in Egypt, and

seeks to expand the rural economies of those areas served by the project by providing small businesses with credit through simplified procedures and lending criteria, i.e. cash flow potential and community references.

The project began in late 1987. Its format is based upon the proven principles of similar lending systems in other developing countries. The project combines the speed, convenience, and reliability of traditional village money-lending systems with the operating philosophy, management systems, lower rates, and profit margins of the Egyptian private-sector NBD.

Lending activities are channeled into income generating businesses in productive areas. The project now avoids trading and resale businesses and concentrates on manufacturing, food production and processing, and those service sectors which increase productivity.

A major contract extension is currently under negotiation.

Audit Objectives and Scope

The objective of this engagement was to perform a financial and compliance cost-incurred audit of A.I.D. funds provided to ACDI pursuant to Cooperative Agreement No. 263-0161-A-00-7254-00 and the project account of the Local Development II program number 263-0182, exclusive of the credit fund, under USAID/Egypt's Sector Development and Support Project No. 263-0161-06. The audit was limited to expenditures for the period from May 1, 1988 through November 30, 1990. Specific objectives were to determine whether:

- The statement of grant costs for ACDI presents fairly, in all material respects, project revenues and costs incurred and reimbursed for the grant in conformity with applicable accounting principles;
- The costs reported as incurred under the grant are in fact allowable, allocable, and reasonable in accordance with the terms of the grant and other applicable regulations;
- The internal controls, accounting systems and management practices of ACDI are adequate;
- ACDI is in compliance with the grant terms (including standard grant provisions) which may have affected the costs incurred under the grant; and
- ACDI has taken adequate corrective action on recommendations in Audit report No. 6-263-88-11-N dated September 18, 1988.

Preliminary planning and review procedures were performed during December 1990 and consisted of discussions with RIG/A/C personnel, USAID project officers, ACDI officials and review of the grant agreement. Audit work commenced in January 1991 at the ACDI Middle East Regional Office in Cairo and was completed in March 1991.

Our selection of disbursements to be tested was made on a judgmental basis and was structured to test a majority of local expenditures. We tested local costs incurred in U.S.

dollars and Egyptian pounds and relied on ACDI's monthly certified fiscal reports (CFR), which are prepared and presented monthly to their U.S. office.

We tested local expenditures of \$ 344,251 out of a total expenditure of \$ 415,627 (before adjustments and questioned costs). Of this total, \$ 281,240 related to NBD/RSSE operating expenditures incurred during the first six months of the grant and we tested \$ 224,518 or 80% of the total of such expenditures.

Our tests of expenditures included, but were not limited to, the following:

1. Reconciling ACDI's accounting records to their monthly CFRs issued to ACDI-U.S. for invoicing to USAID and testing of costs for allowability;
2. Determining that allowances were appropriate and conformed with the terms of the grant and relevant regulations;
3. Testing of allowances, travel, and per diem claims and determining that these expenditures were supported by adequate source documents and were properly approved;
4. Reviewing salaries as shown on the CFRs for compliance with the budgetary terms of the grant; and
5. Testing of equipment, commodities and other direct costs for allowability and appropriate support.

As a part of our examination we made a study and evaluation of relevant internal controls and reviewed ACDI's compliance with applicable laws and regulations.

Results of Audit

Statement of grant costs:

Our examination identified \$ 174,449 in questionable costs including \$89,081 in unsupported costs.

Internal Control Structure

We recommend changes in the accounting systems and the discontinuance of making operating expense advances to NBD. We also recommend improvements in documentation for all NBD related expenditures.

Compliance with agreement terms and applicable laws and regulations:

Items of noncompliance have been noted dealing with identification of USAID property and the cost-sharing contribution.

Management Comments

Management has not accepted the questioned or unsupported costs identified in the audit. In our view their main objections center on the following issues:

1. Advances to NBD: Management indicates the advances questioned and considered unsupported are in compliance with the grant.
2. NBD leased vehicles and offices: Management insists the unsupported costs are fully supported by the grant agreement.
3. Other unsupported and questioned costs: Management asserts that most other questioned and unsupported costs are in compliance with the grant by formal or implied approvals and are fully supported as a result. Their position on the remaining items is that PW has not supplied them adequate information concerning the findings. We have answered their request for additional information both formally via Appendix B: Auditors' comments and informally through meetings held after the exit conference and before their response was received.

This report is intended solely for use by the United States Agency for International Development and may not be suitable for any other purpose.

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Price Waterhouse

March 7, 1991

Mr. Fredrick A. Kalhammer
Regional Inspector General for Audit
United States Agency for
International Development
Mission to Egypt
RIG/A/C Office
Cairo, Egypt

Report of Independent Accountants on Statement of Grant Costs

We have audited the accompanying statement of grant costs of Agricultural Cooperative Development International (ACDI) for the period from May 1, 1988 through November 30, 1990. This statement is the responsibility of ACDI management. Our responsibility is to express an opinion on the statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 2, the accompanying financial statement has been prepared on the basis of cash disbursements. Consequently expenditures are recognized when paid rather than when the obligation is incurred. In addition, the accompanying financial statement has been prepared in accordance with the cost principles set forth in A.I.D. Handbook 13. Accordingly, the accompanying statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the financial statement presents fairly, in all material respects, the grant costs paid, adjusted for questioned costs, of ACDI for the period from May 1, 1988 through November 30, 1990, in conformity with the basis of accounting described in Note 2.

Price & Associates

AUDIT OF
AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL
RURAL SMALL SCALE ENTERPRISE CREDIT PROJECT
COOPERATIVE AGREEMENT NUMBER
263-0161-A-00-7254-00

For the period from May 1, 1988 through November 30, 1990

	Statement of Grant costs (Note 1)	Adjustments (Note 4)	Reclassification (Note 5)	Questioned Costs (Note 6)	Unsupported Costs (Note 6)	Reimbursable Costs	Audit Findings Reference
Salaries	\$115,849		(\$47,619)	(\$10,251)	(\$4,668)	\$53,311	1,2
Fringe benefits	14,831			(2,434)	(88)	12,309	1,3
Allowances	36,875	5,540				42,415	
Travel & Transp. per diem	23,781	(2,799)		(183)	(1,293)	19,506	4
Consultants	1,225	(1,116)				109	
Participant training	2,785	541		(2,785)		541	5
Commodities & Equipment	89,501			(16,298)	(1,116)	72,087	6
Other direct costs	90,780	(6,880)		(13,417)	(34,297)	36,186	1,7
Sub-Total	\$375,627	(\$4,714)	(\$47,619)	(\$45,368)	(\$41,462)	\$236,464	
Project advance	40,000		47,619	(40,000)	(47,619)		8
Total	\$415,627	(\$4,714)		(\$85,368)	(\$89,081)	\$236,464	

See accompanying notes to statement of grant costs

AUDIT OF
AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL
RURAL SMALL SCALE ENTERPRISE CREDIT PROJECT
COOPERATIVE AGREEMENT NUMBER
263-0161-A-00-7254-00
NOTE TO STATEMENT OF GRANT COSTS

NOTE 1 - SOURCE OF DATA

The first column, labeled "Statement of Grant Costs", is the responsibility of Agricultural Cooperative Development International (ACDI) and gives the cumulative figures taken from ACDI's monthly certified fiscal reports (CFRs) for the period from May 1, 1988 through November 30, 1990. The other columns have been developed for the purpose of this report based on our audit of those figures. The CFRs are used in preparing the ACDI project billings to USAID.

NOTE 2 - BASIS OF ACCOUNTING

The statement of grant costs has been prepared on the basis of cash disbursements. Consequently, expenses are recognized when paid rather than when the obligation is incurred. Additionally, the statement has been prepared in accordance with the cost principles set forth in A.I.D Handbook 13, chapters 1 and 4 as well as OMB circular A 110, which prescribes the nature and treatment of reimbursable costs not specifically defined in the grant.

NOTE 3 - DESCRIPTION OF GRANT

The grant is a cooperative agreement between ACDI and USAID for the Rural Small-Scale Enterprise (RSSE) project. The National Bank for Development (NBD) in the governorates of Sharkiya and Damietta is the implementing agency as authorized by USAID. The grant is financed by United States Agency for International Development project number 263-0161-06.

The accompanying statement of grant costs include funding of U.S. Dollars expended as Egyptian pounds. These costs were expended by ACDI in Egypt.

NOTE 4 - ADJUSTMENTS

Adjustments represent billing adjustments made by ACDI subsequent to November 30, 1990. All such adjustments were posted to the December 1990 CFR.

NOTE 5 - RECLASSIFICATION

Salary expenditure has been reclassified to project advance in order to reflect the proper classification of these amounts.

NOTE 6 - QUESTIONED AND UNSUPPORTED COSTS

Questioned and unsupported costs consist of audit findings proposed on the basis of the terms of the grant and the accounting principles described in Note 2. Costs in the column labeled "questioned costs" are supported by vouchers or other documentation and could be called "supported questioned costs". Costs in the column labeled "unsupported costs" are also formally included in the classification of "questioned costs" but are required to be separately identified in the audit report. This second category could be called "unsupported questioned costs". All questioned and unsupported costs are detailed in the "Statement of Grant Costs - Audit Findings" section of this report.

AUDIT OF
AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL
RURAL SMALL SCALE ENTERPRISE CREDIT PROJECT
COOPERATIVE AGREEMENT NUMBER
263-0161-A-00-7254-00
STATEMENT OF GRANT COSTS
AUDIT FINDINGS

Our audit procedures identified the following costs billed to the grant which are questionable or not supported.

	Questioned Costs <u>(Note 6)</u>	Unsupported Costs <u>(Note 6)</u>	<u>Notes</u>
1. Salaries, fringe benefits and other direct costs charged by NBD during a period beyond that authorized by the grant:			
- Salaries	\$ 10,251		A
- Fringe benefits	2,434		
- Other direct costs	11,154		
2. Salaries charged by NBD which were not adequately documented.		\$ 4,668	B
3. Fringe benefits charged by NBD staff which were not adequately documented.		88	C
4. Travel, transportation, and per diem charges not in compliance with grant regulations or adequately supported.	183	1,293	D

	Questioned Costs <u>(Note 5)</u>	Unsupported Costs <u>(Note 5)</u>	<u>Note</u>
5. NBD participant training not authorized by USAID.	2,785		E
6. Equipment and commodities not adequately supported, authorized, or complying with the grant.	16,298	1,116	F
7. Other direct costs charged by NBD not in compliance with, or incurred during the period of the grant.	2,263	34,297	G
8. Project advances paid to NBD which are not in compliance with the grant.	<u>40,000</u>	<u>47,619</u>	H
Total	\$ <u>85,368</u>	\$ <u>89,081</u>	

Recommendation

We recommend that USAID/Egypt resolve the questioned costs identified on pages 11 through 12 of this report, totaling \$ 174,449 (\$89,081 unsupported).

Notes:

A. **NBD salaries, fringe benefits, and other direct costs.**

Findings

Salaries charged are in excess of what was authorized. Project Implementation Letter 14, amendment 1, authorized the payment of NBD operating expenses for the first six months of the project defined therein as beginning on the day the first funds are received by NBD from USAID. The first USAID payment to NBD was received on September 12,

1989. Therefore, the six month period became defined as September 12, 1989 through March 12, 1990. Thus, all operating expenses charged beyond March 12, 1990 were in excess of what was authorized. Special permission such as a grant amendment from USAID was not obtained. Consequently, NBD costs charged to the project, exclusive of the aforementioned period, are questioned.

B. Unsupported NBD Salaries

Findings

There was no supporting documentation for the following NBD incurred salaries: (1) Sharkiya guards' and office boys' wages of \$ 948, and (2) salaries for Sharkiya and Damietta employees of \$ 3,720.

C. Unsupported Fringe Benefits

Findings

Fringe benefit costs for NBD Sharkiya of \$88 were not adequately supported. There was no voucher or other supporting documentation for this cost. It appears to be an arithmetic error which overstated fringe costs in the cost compilation provided to ACDI.

D. Travel, Transportation, and Per Diem

Travel, transportation and per diem expenditures do not comply with regulations or are not adequately supported. They are in detail:

Rental of an automobile which was not authorized by A.I.D. \$ 54

Per diem charges which are unsupported and not in compliance with grant provisions. ACDI reimbursed the staff for actual costs incurred and, in addition, paid them 50% of the per diem rate. This additional 50% payment is in excess of the amount allowable per Contractor Notice on acceptable per diem charges. Furthermore, there was no supporting documentation (e.g. voucher, memos, etc.) indicating the business reason, purpose or dates of the trip. 757

Per diem advances which are not allowable and were not supported. No support existed to verify to what the charges related. In addition, advances are not acceptable for billing to USAID. 536

Per diem charges occurring during December, 1990 but were charged prior thereto. 129

E. Participant Training

Findings

Participant training charges of \$ 2,785 were not approved by USAID. The charges related to transportation of instructors for which no advance approval from USAID was obtained.

F. Commodities and Equipment

Findings

Commodities and equipment charges do not comply with regulations or are not adequately supported. They are in detail:

Gasoline and personal computer rental charged to equipment. Unsupported and unallowable due to noncompliance with grant definition of line item. \$ 1,116

Double reimbursement was made for furniture purchases. ACDI purchased furniture for NBD and billed the purchase to USAID. NBD subsequently reimbursed ACDI. ACDI has not made a billing adjustment to USAID. 11,743

Purchase of computer printers which violated the source and origin guidelines. The printers were made in a country other than the United States. 4,555

G. Other Direct Costs - NBD

Findings

Expenditure for other direct costs do not comply with regulations or are not adequately supported. They are in detail:

Bonus for NBD-Sharkiya employees was billed by NBD to ACDI, but not paid to the employees. (\$ 1,130 was not supported.) \$ 3,116

Computer rental charges incurred prior to September 12, 1989 which was the inception point for ACDI payment of NBD expenses. (See discussion at Note A, above.) 277

NBD leases vehicles it owns to the RSSE project. These related party leases (i.e. NBD and NBD/RSSE) are based on estimated expenses. The USAID project officer stated in correspondence to the NBD project manager that USAID would only reimburse for actual normal operating expenses for the use of NBD owned vehicles and that USAID does not allow for the long-term leasing of vehicles. (The amount of \$ 24,698 is unsupported.) 24,698

NBD medical provision charged which is not authorized by the agreement. Represents a provision for payments to staff for treatments due to sickness or accidental injuries. Medical services are not part of the Cooperative Agreement and were not subsequently ratified by USAID. (The amount of \$ 2,133 is unsupported by vouchers or other documentation.) 2,133

NBD owns the buildings in which the RSSE project is based and leases the building to the project. No operating results information was available to support the amounts charged. Additionally, water, electricity, telephone and postage costs are based on estimated amounts for which no supporting documentation is available. Therefore, the amount of 6,336 is considered unsupported costs. 6,336

H. Project Advances

Findings

We found that ACDI made several advances to NBD during the period of our audit. Two of these advances totalled \$ 97,619 and appeared on the CFR's; \$ 47,619 was unsupported. Furthermore, project advances are not a budget line item in the agreement.

Represents a payroll advance and is unsupported. \$ 47,619

Advanced to NBD for purchase of computer equipment which ACDI later bought on their behalf. 50,000

NBD advance refunded to ACDI. (10,000)
\$ 87,619

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Price Waterhouse

March 7, 1991

Mr. Frederick A. Kalhammer
Regional Inspector General for Audit
United States Agency for
International Development
Mission to Egypt
RIG/A/C Office
Cairo, Egypt

Report of Independent Accountants on Internal Control

We have audited the statement of grant costs of Agricultural Cooperative Development International (ACDI) for the period from May 1, 1988 through November 30, 1990 and have issued our report thereon dated March 7, 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of grant costs are free of material misstatement.

In planning and performing our audit of the statement of grant costs of ACDI for the period from May 1, 1988 through November 30, 1990, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the statement of grant costs and not to provide assurance on the internal control structure.

The management of ACDI is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial reports and to maintain accountability over the entity's assets. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we determined the significant internal control structure policies and procedures to be in the categories of disbursements and local payroll. For these internal control structure categories cited, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the statement of grant costs being audited

may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have identified in the "Internal Control Structure - Audit Findings" section of this report.

This report is intended for the information of management and others within the organization and the United States Agency for International Development. The restriction is not intended to limit the distribution of this report which is a matter of public record.

Place with Jones

AUDIT OF
AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL
RURAL SMALL SCALE ENTERPRISE PROJECT
COOPERATIVE AGREEMENT NUMBER
263-0161-A-00-7254-00
INTERNAL CONTROL STRUCTURE
AUDIT FINDINGS

Our audit procedures as they related to internal accounting control included those that we considered necessary to determine the nature and extent of audit procedures to be performed in connection with auditing standards generally accepted in the United States of America. Our procedures also included such tests as we considered necessary to report in accordance with Government Auditing Standards (1988 Revision), issued by the Comptroller General of the United States. The procedures consisted primarily of a walk-through of ACDI's systems.

1. ACDI should discontinue making operating expense advances to NBD.

Discussion

ACDI has made several advances to NBD for RSSE program operating expenses. After the advance is made, ACDI requests reimbursement from USAID. ACDI has lost control over the use of these funds and its ability to determine if the funds were ultimately used by NBD for their intended purpose.

Recommendation

We recommend that ACDI discontinue making operating expense advances to NBD and that NBD request and obtain advances directly from USAID. This approach reduces ACDI's exposure to the risk of error in NBD's usage of these funds.

2. A project accounting system should be implemented to account for USAID fund expenditures.

Discussion

NBD does not utilize an appropriate accounting system to track expenditure related to the RSSE project. As a result, we noted the following:

- Source documents are not filed by type of expenditure, but rather are accumulated in one large unsegregated file.
- Fund accountability statements are not prepared as a normal business practice, but instead are recreated when such statements are required.
- There is no general ledger used to record project expenditure.

As a result, auditing and accounting for NBD activity requires a labor-intensive manual exercise to classify and analyze expenditure and to prepare fund accountability statements.

Recommendation

NBD should adopt an accounting system in which U.S. government accounting standards and requirements are met. Specifically, the following goals or objectives should be achieved:

- Segregation of duties.
- Utilization of a filing system that is documented, sufficiently controlled and tracks the documents throughout the process.
- Maintaining a general ledger system to account for all costs and which can be used to prepare monthly or quarterly fund accountability statements.
- Classifying costs clearly among salaries, fringe benefits, other direct costs, etc.

3. All expenditures to be reimbursed from USAID should be based on actual incurred costs.

Discussion

NBD leases cars and commercial buildings it owns to the project. The amounts charged to the project are not based on actual, incurred costs but rather on estimated expenditure data drawn from the Cooperative Agreement. Additionally expenditure for water, electricity, telephone and postage are also based on estimated data. No supporting documentation exists except for the estimated expenditure data from the Cooperative Agreement. Furthermore, for the NBD owned property (i.e. cars and buildings) it is possible that the terms of the transaction are not the same as those which would result from transactions between wholly unrelated parties.

Recommendation

We recommend that all expenditure be based on actual, incurred costs and not estimated amounts.

4. The separated accounting systems used in Egypt and the United States should be revised (a) to minimize the risk of errors in the current manual data transfer process and (b) to allow reconciliation of the records maintained in Egypt with the corresponding amounts shown on the U.S. system.

Discussion

Separate accounting systems are maintained in Cairo for local currency expenditure, and in Washington for total expenditure expressed in U.S. dollars. At the end of each accounting period the results are converted to U.S. dollars at the current rate of exchange, line items are consolidated, and then entered in the U.S. system expressed in U.S. dollars.

It is difficult to reconcile the records held in Cairo to the amounts reimbursed by USAID in Washington.

This is in part due to the advice of charge billing arrangement between ACDI and USAID. To reconcile records in Cairo to USAID billings requires that a copy of the bill be provided by ACDI to USAID in Washington. No such copy of the bill is currently being transmitted to Cairo. Consequently, this reconciliation is not being performed.

Recommendation

We recommend the U.S. accounting system be revised to separately identify U.S. dollar expenditure and Egyptian pound expenditure while maintaining totals in both currencies.

This would facilitate reconciliation to the records kept in Egypt. It should also facilitate management control because the two types of expenditure are incurred in two different countries, with different individuals generally responsible.

We also recommend reviewing the accounting system in Egypt to ensure it produces appropriate totals and subtotals to facilitate reconciliation to the (modified) U.S. system.

We also recommend the system of AID billing be amended to include the sending of a copy of the billing to ACDI in Egypt.

4, Road 261,
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CAIRO C.R. 226786

Price Waterhouse

March 7, 1991

Mr. Fredrick A. Kalhammer
Regional Inspector General for Audit
United States Agency for
International Development
Mission to Egypt
RIG/A/C Office
Cairo, Egypt

Report of Independent Accountants on Compliance with Laws and Regulations

We have audited the statement of grant costs of Agricultural Cooperative Development International (ACDI) for the period from May 1, 1988 through November 30, 1990 and have issued our report thereon dated March 7, 1991.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of grant costs is free of material misstatement.

Compliance with laws, regulations and grants applicable to ACDI is the responsibility of ACDI's management. As part of our audit, we performed tests of ACDI's compliance with certain provisions of laws, regulations, grants and binding policies and procedures. However, our objective was not to provide an opinion on overall compliance with such provisions.

Our testing of transactions and records selected disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found are identified in the "Report on Compliance - Audit Findings" section of this report.

The results of our tests indicate that, with respect to the items tested, ACDI complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that ACDI had not complied, in all material respects, with those provisions.

This report is intended for the information of management, and others within the organization and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

page withdrawn

AUDIT OF
AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL
RURAL SMALL SCALE ENTERPRISE CREDIT PROJECT
COOPERATIVE AGREEMENT NUMBER
263-0161-A-00-7254-00
REPORT ON COMPLIANCE
AUDIT FINDINGS

The following instances of noncompliance with laws and regulations and the grant came to our attention during our audit:

1. The required cost-sharing contribution has not been made.

Discussion

The Cooperative Agreement provides for an ACIDI cost-sharing contribution of \$ 14,500.

Recommendation

We recommend that ACIDI comply with the Agreement provision which requires a \$ 14,500 contribution.

2. No formal identification of USAID property is made.

Discussion

USAID requires that all property bought with USAID funds be identified as owned by USAID.

This requirement was not complied with.

Recommendation

We recommend compliance with the USAID requirement that all USAID property be identified as such. Stickers should be attached to the equipment, or other alternative methods should be utilized, which clearly identify the owner of the property as USAID.

AUDIT OF
AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL
RURAL SMALL SCALE ENTERPRISE CREDIT PROJECT
COOPERATIVE AGREEMENT NUMBER
263-0161-A-00-7254-00
SUMMARY AND STATUS OF 1988 RECOMMENDATIONS

The following discussion relates to the current status of prior audit recommendations as disclosed in the 1988 audit report No. 6-263-88-11-N dated September 18, 1988.

Recommendation No. 1

1. USAID/Egypt's Office of Local Administration and Development, in consultation with the Program Office, in light of questionable transactions and project implementation changes either:
 - a) terminate the grant with ACDI and select a new grantee under the project; or
 - b) amend its Cooperative Agreement with ACDI in order to better facilitate project implementation and correct internal control deficiencies.

March 1991 Status:

A modified Cooperative Agreement was entered into with ACDI which incorporated proper project implementation and internal control procedures. Recommendation No. 1 is considered closed.

Recommendation No. 2

USAID/Egypt's Office of Contract Services, in accordance with Recommendation No. 1 above, ensure that any new Cooperative Agreement for the implementation of the Rural Small Scale Enterprise Credit Project include:

- a) clarification of the types of project expenditures that require National Bank for Development approval; and

- b) a provision for grantee cost-sharing contributions in order to meet A.I.D.'s 25 percent minimum requirement.

March 1991 Status

The modification to the Program Description of the Cooperative Agreement included provisions which were very clear on the types of expenditures requiring NBD, ACDI, and joint NBD/ACDI approval. Recommendation 2a is considered closed.

In accordance with AID/W criteria which ACDI meets and within existing policy and regulations the Mission waived the 25% grantee cost-sharing contribution. The new Cooperative Agreement provides a cost-sharing contribution of \$ 14,500. Based upon the waiver of the 25% grantee cost-sharing contribution, recommendation 2b is considered closed.

Recommendation No. 3

USAID/Egypt Office of Contract Services, in consultation with the Office of Local Administration and Development, negotiate a settlement of the questioned costs totaling \$ 22,116.10. The Office of Local Administration and Development should then prepare a Bill for Collection regarding any disallowed costs for issuance by USAID/Egypt's Office of Financial Management to ACDI.

March 1991 Status

Of the amount of \$ 22,116.10 in questioned costs, USAID/Egypt settled \$ 10,116.10 in ACDI's favor and sustained the balance of \$ 12,000. Instead of issuing a Bill for Collection, ACDI reduced its reported costs by \$ 12,000. All collection actions have been completed; recommendation 3 is considered closed.

AUDIT OF
AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL
RURAL SMALL SCALE ENTERPRISE CREDIT PROJECT
COOPERATIVE AGREEMENT NUMBER
263-0161-A-00-7254-00

Appendix A: Auditees' response to findings



**Agricultural Cooperative
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Appendix A

Page 2 of 7

المنظمة الدولية لتنمية
التعاون الزراعي

٥٣ شارع المنيل - شقة ٨٠٠

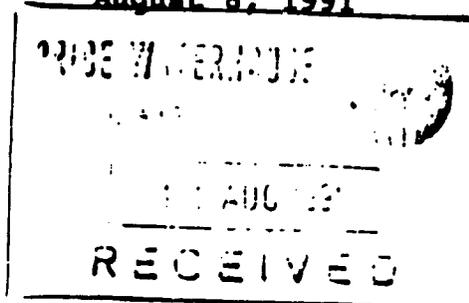
ص.ب ٥١

منيل الروضة - القاهرة

ت : ٨٤٦٨٣٣ - ٨٤٧١٥٥ - ٨٤٧٢٤٤

فاكس : ٨٤٦٨٠٠

August 8, 1991



**Mr. Jeffrey Hentges
Head of Audit Section
Price Waterhouse
Maadi - Cairo - Egypt**

Dear Mr. Hentges:

Ref: Pre-Exit Conference held at ACDI on August 1, 1991, (Draft) Audit of ACDI. RSSE credit project USAID Cooperative Agreement No. 263-0161-A-00-7254-00 dated November 30, 1990 and reports to Mr. Fredrich A. Kalhammer, Regional Inspector General for Audit, USAID/Cairo dated March 7, 1991.

Further to the meeting of August 1, 1991 on the above draft audit reports, it was decided that ACDI would supply additional information to Price Waterhouse to clarify certain points. ACDI stated that this data would materially change the draft audit findings and results presented as the draft was erroneous in fact and could be prejudicial in its present format.

Our understanding is that you shall review this data, and accept our explanations below on key points and project definitions that we would like to see considered for alteration in your preliminary audit report for the period from May 1, 1988 through November 30, 1990.

Data presented

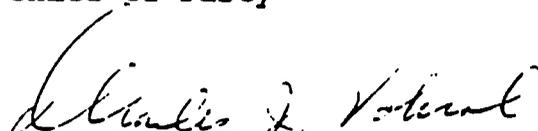
- 1) Monthly NBD/RSSE financial statement and respective documentation photocopied as verified by ACDI's Financial Manager. (These files were reviewed by Cathy Chacko and PW staff on August 8 and are located at ACDI office).
- 2) Statement accounting for cash advanced to the NBD (by ACDI).

- 3) Reconciliation of ACDI/NBD joint account No. 10003/01 (U.S. Dollars) and 10003/02 (L.E. Egyptian Pounds).
- 4) Reconciliation of NBD "PIL 14". Activities from May 90 till November 90.
- 5) NBD cash position through the first year of operations according to PIL 14.
 - 5a) NBD Sharkia
Cash position through September 90.
 - 5b) NBD Damietta
Cash position through November 90.



Jeffrey G. Sole
M.E. Regional Representative/
Chief of Party

Date Aug 3/91



Charles E. Nokral
Technical Advisor RSSE

Date Aug 8, 91



Samya Nawar
Financial Officer ACDI

Date Aug. 8, 91

cc. Leo Deege - RIG/A - USAID/C

Encl. 1) Notes on Exit Conference (4 pages)
2) Presentation letter

JGS/CV/SN/nm

NOTES ON EXIT CONFERENCE

I- Unsupported costs

(Ref. #8) \$47,619.

- a) This advance is in full compliance with grant (Ref PIL 14)
 - b) This item does not represent a payroll advance as stated in P.W. draft report but represents an operational advance which also includes payroll. Payroll is the majority of NBD operational expenses - this is more a question of semantics rather than fact.
 - c) Furthermore this amount (LE 110,000.00) is fully supported. Original documentation is available at NBD branches and can be examined by P.W. at their convenience.
-

II- Questioned costs

(Ref. #8) \$40,000.

- a) This advance is in full compliance with grant. (Ref PIL 14)
 - b) This item does not represent an advance for the procurement of commodities as stated in the draft report, but is consistent with operational advances which includes commodity procurement.
 - c) The procurement of commodities by ACDI on behalf of NBD is consistent with the cooperative agreement terms and references, as is the reimbursement for the actual costs of the commodities to ACDI.
 - d) PW does not present rationale as to why this advance is questioned.
-

III- Unsupported costs

(Ref. #7) \$24,698 NBD leased vehicles.

- a) This cost is supported through the grant agreement budget as estimated and has not been exceeded.
 - b) The NBD is providing the support documentation.
-

IV- Questioned costs

(Ref. #8) \$11,743

- a) No double reimbursement has taken place.
 - b) RSSE purchased the furniture with ACDI's NBD concurrence and financing.
 - c) This transaction was properly billed to USAID Washington, and no adjustment is required.
 - d) Documentation has been provided to P.W.
-

V- Unsupported costs

(Ref. #7) \$6,336 NBD rent

- a) This cost is supported through the original grant agreement budget determined before July 1987, and has not been exceeded.
-

VI- Questioned costs

(Ref. #6) \$4,555

- a) USAID project officer reviewed ACDI's bids for this purchase while approving a line-item increase. Approval of USAID and attachments mentioning japanese printer was provided on August 8, 1991.
 - b) Procurement regulations provide for "off the shelf" guidelines which do not violate source and original regulations.
 - c) P.W. has not provided adequate references or rationale.
-

VII- Questioned costs

(Ref. #4) \$4,304

- a) Contract officer approval was obtained. Document is provided.
 - b) This was R&R not home leave.
-

VIII- Questioned costs

(Ref. #4) \$1,132

- a) Contract officer approval was obtained. Document is provided
 - b) Foreign carrier was not used for the transatlantic portion. USAID approval is not required.
 - c) P.W. has not provided adequate references, as to why this is questioned, as original ticket copies were reviewed.
-

IX- Unsupported costs

(Ref. #6) \$1,116

- a) Auditors need to provide us with information on this item. We have no idea of what this is.
 - b) P.W. has not provided adequate references.
-

X- Unsupported costs or questioned costs.

(Ref. #7) \$2,133

- a) Medical provision is a normal and customary benefit for Egyptian employees of the NBD, and consistent with institutional practice.
 - b) Benefits are authorized by the grant agreement and are not required to be "ratified by USAID" since the benefits budget had not been exceeded.
-

XI- Unsupported or Questioned

(Ref. #4) \$757

- a) Grant agreement supports per diem costs.
 - b) ACDI follows the regulations on per diem and has no record of payments of 50% in excess of allowable amount.
 - c) P.W. has not given us details of this \$757.
-

XII- Questioned costs

(Ref. #4) \$536

- a) A per diem advance was provided and is consistent with USAID per diem regulations.
 - b) This cost was billed as an expense and not as an advance.
 - c) A travel authorization supports this activity.
 - d) P.W. has not provided adequate rationale.
-

XIII- Questioned or unallowable

(Ref. #8) \$277

- a) This expenditure is consistent with the cooperative agreement (Ref. Coop. agreement, PIL's)
-

XIV- \$129 (per diem charges)

- a) ACDI does not have any information regarding this charge. P.W. needs to provide more information for this amount.
-

XV- \$54

- a) Authorization from USAID is not required for this expenditure. P.W. has not provided a rationale.
- b) ACDI has travel line item in budget.

AUDIT OF
AGRICULTURAL COOPERATIVE DEVELOPMENT INTERNATIONAL
RURAL SMALL SCALE ENTERPRISE CREDIT PROJECT
COOPERATIVE AGREEMENT NUMBER
263-0161-A-00-7254-00

Appendix B: Auditors' comments

On August 8, 1991 we met with Mr. Charles Vokral, ACDI technical advisor, to review the additional information referred to in Appendix A. This information was copied and compiled by ACDI from records maintained at various NBD site offices. We also reviewed the audit findings again with Mr. Vokral to further his understanding of costs we identified as unsupported and questioned. We then examined the information ACDI provided.

The additional information was written entirely in Arabic and consisted primarily of invoices and vouchers. Mr. Vokral could not read Arabic and only provided limited assistance with the information. We reviewed the vouchers and invoices in an attempt to locate support for costs appearing in our report as unsupported. Generally this information did not change the conclusions we drew concerning the items in our report, except as noted below.

Our response to ACDI's specific comments contained in "Notes on Exit Conference" in Appendix A are as follows.

Items I & II, page 1: \$ 47,619 unsupported costs and \$ 40,000 questioned costs, Audit finding 8, Note H.

ACDI indicates the costs are in "full compliance with the grant," however, payroll advances or advances in general are not a budget line item in the cooperative agreement. Thus, our position is that this item is not in compliance with the grant.

Furthermore, if the \$ 47,619 advance was an "operational advance" it should not have been billed through the CFR as a "payroll advance." There was no supporting documentation, such as signed receipts or vouchers at the NBD/RSSE site to confirm that the advances had occurred. In fact, we noted that the advances NBD indicated they had received were for different amounts and on different dates than those ACDI had claimed. Because the documentation provides no evidence concerning the operational advance, the advance of \$ 47,619 remains an unsupported cost. The LE 110,000 mentioned by the auditee represents actual costs invoiced by NBD to the project and was separately distributed throughout the accounts as appropriate. If ACDI billed USAID and was reimbursed for both an advance of \$ 47,619 as well as actual costs of LE 110,000 (via the different line items) they have received double reimbursement from USAID.

The \$ 40,000 advance remains a questioned cost because of the nature of the following transactions. \$ 50,000 was advanced by ACDI to NBD to purchase a computer. ACDI eventually purchased this computer for NBD. The NBD submitted documentation to ACDI supporting expenditure of \$ 10,000. ACDI produced no documentation supporting the remaining \$ 40,000 as to how and where it was actually expended. Therefore the amount of \$ 40,000 remains a questioned cost.

The auditee's comments notwithstanding, we believe we have validly questioned both the \$ 47,619 and the \$ 40,000 as unsupported costs and questioned costs, respectively.

Item III, Page 2: \$ 24,698 unsupported costs, Audit finding 7, Note G.

ACDI's comments only further confirm our understanding of the NBD/RSSE leased vehicles. The cost estimate being charged to USAID is that which is taken directly from the grant budget. A budget is only an estimate. The project officer informed ACDI that NBD needed to maintain

operating expense data for the vehicles if NBD was to lease its vehicles to the project. It is our opinion, that a budget, by definition, does not fulfill the support requirement. Neither NBD nor ACDI has shown us additional supporting documentation about the leased vehicles. Thus our position is unchanged as a result of the auditee's response.

Item IV, page 2: \$ 11,743 questioned cost, Audit finding 8, Note G.

The auditee provides no new information concerning our previous finding and related audit fieldwork. ACDI's response represents only that they would like us to believe their claims and provides no supporting documentation to substantiate these claims. Thus our position on this questioned cost of \$ 11,743 remains unchanged.

Item V, page 2: \$ 6,336 unsupported cost, Audit finding 7, Note G.

As noted in item III above, a grant agreement budget is only an estimate. The support requirement can only be met through providing figures and voucher support for that estimate to prove the amount does not exceed normal costs of ownership, such as depreciation on the building, taxes, insurance, etc, provided that no part of such costs shall duplicate any other allowed cost (as per FAR 31.205-36 (b) (3)). No fair market value comparisons were provided to us to show that this is a reasonable rent for the area. Thus, our position, as stated in the audit report, remains unchanged.

Item VI, page 2: \$ 4,555 questioned costs, Audit finding 8, Note F.

During the meeting of August 8, 1991, ACDI showed us a photocopy of a letter signed by the project officer behind which there were three pages of alleged attachments on which the Seikosha printer was noted. As project officers do not have contracting authority and the fact that the both the letter and attachments were

photocopies, we requested to see the original of this letter and some notation of approval on the attachments from the contracts office. We do not presently feel we can accept this photocopied letter as USAID approval to violate the source origin rule on procurements. Our position remains unchanged based on the current information available.

Item VII and VIII, page 3: \$ 4,304 and \$ 1,132 questioned costs, Audit finding eliminated.

After review of supporting documentation and discussion with ACDI, we concur with ACDI that these are valid cost items. Therefore the \$ 4,304 and \$ 1,132 questioned amounts from our preliminary draft have been excluded from the final report.

Item IX, page 3: \$ 1,116 unsupported costs, Audit finding 6, Note F.

This finding arose when we compared the total amounts billed to USAID on the commodities and equipment budget line items to ACDI's inventory listing of project commodities and equipment. Upon further analysis we determined that this amount related to charges for gasoline and computer rental. We enquired at that time of Ms. Nawar, ACDI financial officer, and Mr. Sole, ACDI chief of party, why the amounts were charged to this line item but not recorded on the inventory listing. Ms. Nawar was working on a reconciliation of this amount at the end of our regular field work. We have requested that the auditee provide the related vouchers for these items but to date have not been given any. It is unfortunate that the auditee cannot recall these amounts. They were comprised of the following items on the November, 1990 CFR:

PC rental	LE	3,081.00
Gasoline		<u>42.80</u>
	LE	3,123.80

Using a conversion rate of 2.80 this represents \$ 1,115.64 or \$ 1,116. ACDI's response does not change our position on this item.

Item X, page 3: \$ 2,133 unsupported costs, Audit finding 7,
Note G.

The project implementation letter 14 makes no provision for USAID's carrying this cost as a direct cost of the project. Such an item is deemed to be covered by the overhead rate for indirect costs built into the contract. We found no support to indicate that NBD has actually incurred any medical costs for employees whatsoever. In fact, we were given no supporting evidence for the fact that medical benefits are included in the grant provision. Thus the auditee's comments notwithstanding, we believe the \$ 2,133 remains an unsupported cost.

Item XI, page 4: \$ 757 unsupported costs, Audit finding 4,
Note D.

While it is true that the grant agreement does allow per diem charges in general, this fact alone does not provide support that per diems were actually incurred. We stress that any amounts charged to USAID must actually be documented and supported. Also it should be noted that a contractor notice was in effect that defined the per diem rate. The rate that ACDI was charging exceeded this amount by 50%. In addition, ACDI stated that they have no record of these payments charged on their November, 1990 CFR of LE 2,121.05 (translated to \$ 757 at an exchange rate of 2.8 LE per US dollar). As such we continue to consider the \$ 757 an unsupported and questioned cost.

Item XII, page 4: \$ 536 unsupported cost, Audit finding 4,
Note D.

This amount was charged on the November 1990 CFR for LE 1500 using an exchange rate of 2.80 to become \$ 536. Advances are never billable to USAID, only costs incurred. As the amount has never been supported with any documentation, we have no way to verify that it was ever incurred. Notwithstanding the auditee's comments our position on this item remains the same.

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Item XIV, page 4: \$ 129 questioned cost, Audit finding 4,
Note D.

This amount was incurred on the October 1990 CFR at LE 355.65, using an exchange rate of 2.75 to become \$ 129. It was incurred in December 1990 not October 1990, thus it was charged to USAID before it was incurred. USAID does not reimburse advances, but reimburses costs only as they are incurred. Notwithstanding the auditee's comments our position on this item remains the same.

Item XV, page 4: \$ 54 questioned cost, Audit finding 4,
Note D.

In October 1990 ACDI incurred a charge of \$ 54 for rental of an additional car. Per the grant agreement, ACDI is allowed only one car. This car is specifically identified as a Peugeot. The car rental charge in question was for an additional Mercedes. No USAID permission was granted to go beyond the budget line item and rent an additional car. Our position remains unchanged on this amount.



CAIRO, EGYPT

APPENDIX C

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

ACDI F.

NOV 13 1991

MEMORANDUM

RECEIVED
13 NOV 1991

TO: Philippe Darcy, RIG/A/C
FROM: George Wachtenheim D/DIR
SUBJECT: NFA Report on Local Expenditures of
Agricultural Cooperative Development
International Under USAID/Egypt Project No.
263-0161 (Cooperative Agreement No. 263-0161-A-
00-7254-00)

Following is the Mission response to the recommendations under the subject audit report:

Recommendation No. 1:

We recommend that USAID/Egypt resolve the questioned and unsupported costs of \$85,368 and \$89,081 appearing on page 8 of the audit report.

Mission Response:

The Contracting Officer has reviewed the recommendation and is working with the contractor to resolve it. Mission has no comments or information to add at this time.

Recommendation No. 2:

We recommend that USAID/Egypt review the adequacy of NBD's accounting system.

Mission Response:

USAID does not have a direct contractual relationship with NBD. NBD is a sub-recipient of USAID funds granted ACDI under the Cooperative Agreement. The risk of having costs disallowed and the responsibility for ensuring that NBD has an adequate accounting system appropriately rests with ACDI. Therefore, we shall communicate the findings related to this recommendation to ACDI and request that they take whatever action they believe is necessary to safeguard their assets.

Notwithstanding the above, the Mission is concerned with NBD's Internal Control systems as Project Agreement No. 263-0228 contemplates providing funds to NBD through a cooperative agreement (or other appropriate contracting vehicle). In this regard, the PP contained a CP to first disbursement to NBD which stated that:

"NBD shall furnish in form and substance satisfactory to AID, a credit operations and training manual (in English and Arabic) detailing program policies, internal procedures, lending criteria, management information processing and analysis, and all the administrative forms required for the smooth and efficient day-to-day management of the project."

Based on the above, we request that this recommendation be closed upon final report issuance.

Recommendation No. 3:

3.1 We recommend that USAID/Egypt require ACDI to contribute its required cost-sharing contribution.

3.2 We recommend that USAID/Egypt require ACDI to mark AID-financed equipment in accordance with the Cooperative Agreement.

Mission Response:

3.1 Attached are copies of documentation that indicate what the required ACDI contribution was to consist of; and that the contribution was in fact made (Attachment No. 1). Based on this action, Mission requests closure of this part of the recommendation.

3.2 The Project Officer will send a letter to ACDI requesting them to mark the AID-financed equipment. In addition, the Project Officer is currently working directly with ACDI (and NBD) staff to assure that all AID-financed equipment is properly marked. These actions should be completed within two weeks, at which time, Mission will request closure of this part of the recommendation. Based on this action, Mission requests that this part of the recommendation be resolved.

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RIG/A/C Response to USAID/Egypt Comments**Recommendation No. 1**

This recommendation is considered unresolved as the Mission has no comments at this time.

Recommendation No. 2

Although USAID/Egypt states that it does not have a contractual relationship with the National Bank for Development (NBD), USAID management notes that it is contemplating the direct provision of funds to NBD through a cooperative agreement. The condition precedent contained in the project paper, and quoted in the Mission's response, addresses banking policy/procedures and project management, but does not address NBD's financial accounting system. In our opinion, prudent management dictates that USAID/Egypt establish the adequacy of NBD's accounting system to meet the requirements of OMB Circular's A-110 and A-133 before signing a cooperative agreement. Accordingly this recommendation remains unresolved.

Recommendation No. 3.1

While the Mission provided documentation indicating ACDI had paid its contribution to the project, the submitted materials did not clarify ACDI's accounting treatment of this contribution. For example, if this payment was charged to an account that is a component of an indirect cost pool, a portion of this cost would be allocated to the cooperative agreement, and potentially other U.S. Government agreements, through ACDI's indirect cost rate. This situation would effectively result in the U.S. Government subsidizing ACDI's contribution. Therefore, we will modify our recommendation to concentrate on ACDI's accounting treatment of its \$14,500 payment.

Recommendation No. 3.2

This recommendation will be resolved upon issuance.

APPENDIX E**Report Distribution**

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