

PC-ARF-126

Regional Inspector General for Audit
Cairo, Egypt

Audit of U.S. Investment Promotion Office (USIPO)
Local Expenditures Incurred Under Cooperative
Agreement No. 263-0102-A-00-9073-00 and
Related Program Income Account

Report No. 6-263-93-15-N
March 30, 1993



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REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF
18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY
INFORMATION IS RELEASED TO THE PUBLIC.**





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

March 30, 1993

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

FROM : RIG/A/C, *Philippe B. Barcy*

SUBJECT : Audit of U. S. Investment Promotion Office (USIPO)
Local Expenditures Incurred Under Cooperative
Agreement No. 263-0102-A-00-9073-00 and Related
Program Income Account

The attached report dated December 13, 1992 by Price Waterhouse presents the results of a financial audit of U.S. Investment Promotion Office (USIPO) locally incurred costs under Cooperative Agreement No. 263-0102-A-00-9073-00 funded by USAID/Egypt, and the related program income account. USIPO was responsible for facilitating joint ventures between Egyptian and foreign partners for the export of Egyptian products, advising foreign investors, maintaining rosters of Egyptian experts in various fields as a resource for foreign investor, identifying local sources of finance and foreign markets for Egyptian products, and monitoring on-going ventures.

We engaged Price Waterhouse to perform a financial audit of USIPO's locally incurred expenditures of LE 1,295,575 (equivalent to \$417,928) and \$612,020 under the cooperative agreement mentioned above for the period July 1, 1990 through March 31, 1992 and \$69,327 under the program income account for the period December 1, 1990 through September 17, 1992. The purpose of the audit was to evaluate the propriety of costs incurred during those periods. In performing the audit, Price Waterhouse evaluated USIPO's internal controls and compliance with applicable laws, regulations and project terms as necessary in forming an opinion regarding the Fund Accountability Statements.

Price Waterhouse questioned \$69,094 (including \$2,931 in unsupported costs) in costs billed to A.I.D. by USIPO under the cooperative agreement and also, questioned \$47,453 (including \$11,679 in unsupported costs) in expenditures from the program income account that were considered unallowable or unsupported.

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These questioned costs include counterpart contributions not paid, consultants fees, travel expenses, publication, conferences and capital expenditures. Price Waterhouse noted material weaknesses in USIPO's internal controls relating to employee advances and classification of costs incurred. In addition, the Report on Internal Controls disclosed reportable conditions which were not considered to be material weakness, relating to time and attendance data, cash, and safeguarding of assets. Finally, Price Waterhouse reported that no material items of noncompliance were noted.

Price Waterhouse has reviewed USIPO's response to the findings. Where applicable they have made adjustments in their reports or provided further clarification of their position. For those items not addressed, the response provided by USIPO has not changed their understanding of the facts underlying the questioned costs of the Fund Accountability Statements or the reportable conditions and material weaknesses in the Report on Internal Control Structure.

Recommendation No. 1.1: We recommend that USAID/Egypt resolve questioned costs of \$69,094 consisting of ineligible costs of \$66,163 and unsupported costs of \$2,931 as detailed on page 11 and pages 15 through 17 of the audit report.

Recommendation No. 1.2: We recommend that USAID/Egypt resolve questioned costs of \$47,453 consisting of ineligible costs of \$35,774 and unsupported costs of \$11,679 as detailed on page 12 and pages 18 through 20 of the audit report.

These recommendations 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 costs, Recommendations No. 1.1 and 1.2 are considered unresolved. These recommendations can be resolved when we receive the Mission's formal determination as to the amounts sustained or not sustained and can be closed when any amounts determination be owed to A.I.D. are paid by USIPO.

Recommendation No. 2: We recommend that USAID/Egypt require USIPO to address the inadequate internal control procedures as detailed on pages 24 through 33 of the audit report.

This recommendation will be included in the Inspector General's audit recommendation follow-up system. This recommendation is considered unresolved and may be resolved when the Mission provides our office with a copy of its request that USIPO address its internal control weaknesses. The recommendation can be closed when we have assessed USIPO's response and USAID/Egypt's follow-up for adequacy.

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.

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U.S. INVESTMENT PROMOTION OFFICE
COOPERATIVE AGREEMENT NO. 263-0102-A-00-9073-00
AND RELATED PROGRAM INCOME ACCOUNT

FUND ACCOUNTABILITY
STATEMENTS AND ADDITIONAL INFORMATION

FOR THE PERIODS FROM JULY 1, 1990 THROUGH
MARCH 31, 1992 FOR THE COOPERATIVE
AGREEMENT AND FROM DECEMBER 1, 1990
THROUGH SEPTEMBER 17, 1992
FOR THE PROGRAM INCOME ACCOUNT

U.S. INVESTMENT PROMOTION OFFICE

COOPERATIVE AGREEMENT NO. 263-0102-A-00-9073-00

AND RELATED PROGRAM INCOME ACCOUNT

FUND ACCOUNTABILITY STATEMENTS AND ADDITIONAL INFORMATION

FOR THE PERIODS FROM JULY 1, 1990 THROUGH MARCH 31, 1992

FOR THE COOPERATIVE AGREEMENT AND FROM DECEMBER 1, 1990

THROUGH SEPTEMBER 17, 1992 FOR THE PROGRAM INCOME ACCOUNT

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U.S. INVESTMENT PROMOTION OFFICE

COOPERATIVE AGREEMENT NO. 263-0102-A-00-9073-00
AND RELATED PROGRAM INCOME ACCOUNT

FUND ACCOUNTABILITY STATEMENTS AND ADDITIONAL INFORMATION

FOR THE PERIODS FROM JULY 1, 1990 THROUGH MARCH 31, 1992
FOR THE COOPERATIVE AGREEMENT AND FROM DECEMBER 1, 1990
THROUGH SEPTEMBER 17, 1992 FOR THE PROGRAM INCOME ACCOUNT

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Price Waterhouse



February 11, 1993

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

Dear Mr. Darcy:

This report presents the results of our financial cost-incurred audit of the U.S. Investment Promotion Office ("USIPO") reimbursements from the United States Agency for International Development Mission to Egypt ("USAID") for Cooperative Agreement No. 263-0102-A-00-9073-00 pursuant to USAID's Technical Cooperation and Feasibility Studies Project No. 263-0102 for the period from July 1, 1990 through March 31, 1992. Additionally, this report presents the results of our audit of USIPO generated income ("program income") under the aforementioned Cooperative Agreement for the period from December 1, 1990 through September 17, 1992.

Background

USIPO was founded in 1981 and is based in Cairo, Egypt.

The primary objectives of USIPO are (1) to increase private investment in Egypt and (2) promote Egyptian exports in cooperation with the Government of Egypt, the Egyptian Businessmen's Association, the Egypt United States Business Council, the American Chamber of Commerce



and the Export Development Bank.

USIPO meets its objectives by facilitating joint ventures between Egyptian and foreign partners for the export of Egyptian products; advising foreign investors; maintaining rosters of Egyptian experts in various fields as a resource for foreign investors; identifying local sources of finance and foreign markets for Egyptian products; and monitoring on-going ventures.

USIPO receives its funding from USAID and self generated fees ("program income").

Audit Objectives and Scope

The objective of this engagement was to perform a financial cost-incurred audit of USAID funds provided to USIPO pursuant to Cooperative Agreement No. 263-0102-A-00-9073-00 under USAID's Technical Cooperation and Feasibility Studies Project No. 263-0102 and to determine if expenditures from USIPO generated program income were used to further eligible program objectives. The financial cost-incurred audit encompassed expenditures and required counterpart contributions for the period from July 1, 1990 through March 31, 1992 and the program income audit covered the related revenue and expenditures for the period from December 1, 1990 through September 17, 1992. Specific objectives were to determine whether:

1. The fund accountability statements for USIPO present fairly, in all material respects, project revenues and costs incurred and reimbursed under the Cooperative Agreement in conformity with the



applicable accounting principles;

2. The costs reported as incurred under the Cooperative Agreement are in fact allowable, allocable, and reasonable in accordance with the terms of the Cooperative Agreement, OMB Circular No. A-122, A.I.D. Handbook 13, and A.I.D. Acquisition Regulations, subpart 731.7;
3. The internal controls, accounting systems and management practices of USIPO are adequate for USAID agreements;
4. USIPO is in compliance, in all material respects, with the Cooperative Agreement terms and applicable laws and regulations;
5. USIPO has taken adequate corrective action on recommendations in Audit Report No. 6-263-91-02-N dated December 31, 1990; and
6. Expenditures from the program income account were used to further eligible USIPO activities.

Preliminary planning and review procedures began in June, 1992 and consisted of discussions with RIG/A/C personnel, USIPO officials and a review of the Cooperative Agreement. Fieldwork commenced in June and was completed in December, 1992.

The scope of our financial cost-incurred audit work was all incurred expenditures and required contributions for Cooperative Agreement No. 263-0102-A-00-9073-00. Within



each budget line item, we selected amounts for testing on a judgmental basis to test a majority of the related amounts. We tested expenditures of LE 875,904 and \$ 362,300 out of total expenditures of LE 1,295,575 and \$ 612,020, respectively. In addition, we tested whether all required counterpart contributions were received by USIPO.

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

1. Reconciling USIPO's accounting records to invoices issued to USAID and testing of costs for allowability, allocability, reasonableness, and appropriate support;
2. Determining that payroll costs were appropriate and conformed with the terms of the Cooperative Agreement and relevant regulations;
3. Determining that per diem and transportation charges were adequately supported and approved; and
4. Establishing the adequacy of USIPO's control over USAID funded project equipment.

The scope of our program income audit was all revenue and expenditures from the separate bank account established to receive and expend program income funds. We tested one hundred percent of the transactions from this separate account. Our audit tests were designed to determine if expenditures from the program income account were in furtherance of eligible USIPO activities.



Except as discussed in the next paragraph, we conducted our audits in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

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

Results of Audit

Cooperative Agreement fund accountability statement

Our audit identified \$ 69,094 in questionable costs, including \$ 2,931 of unsupported costs.

Program income fund accountability statement



Our audit identified \$ 47,453 in questionable costs, including \$ 11,679 of unsupported costs.

Internal control structure:

We recommend that USIPO adopt procedures to ensure the proper classification of all costs incurred and develop better internal control procedures surrounding employee advances, employees' time and attendance data, cash, and the safeguarding of assets. We also noted certain internal control issues of a non-reportable nature which we have reported to the management of USIPO in a separate letter dated December 13, 1992.

Compliance with Agreement terms and applicable laws and regulations:

No material items of noncompliance were noted. However, we noted certain immaterial instances of noncompliance that we have reported to the management of USIPO in a separate letter dated December 13, 1992.

Management's comments

USIPO management comments have been obtained and are included in Appendix C of this report. USIPO provided comments on the majority of the findings and agreed to implement the internal control recommendations. (Note: Only USIPO's summary sheets are included in Appendix C due to the volume of supporting schedules, etc. that were included in their responses. The supporting schedules, etc. have been retained by us and



are available for inspection at any time.) Where applicable, we have provided further clarification of our position in Appendix D.

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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REPORT OF INDEPENDENT ACCOUNTANTS

December 13, 1992

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We have audited the accompanying fund accountability statements of U.S. Investment Promotion Office ("USIPO") relating to expenditures incurred for Cooperative Agreement No. 263-0102-A-00-9073-00 pursuant to the United States Agency for International Development Mission to Egypt ("USAID") Technical Cooperation and Feasibility Studies Project No. 263-0102 for the period from July 1, 1990 through March 31, 1992 and the related revenue and expenditures from the program income account for the period from December 1, 1990 through September 17, 1992. These financial statements are the responsibility of USIPO's management. Our responsibility is to express an opinion on these financial statements based upon our audits.

Except as discussed in the next paragraph, we conducted our audits 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 audits to obtain reasonable assurance about whether the fund accountability statements are free of material



misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

As described in Note 3, the accompanying fund accountability statements have been prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.



Included in the fund accountability statements are questioned costs of \$ 69,094 and \$ 47,453 relating to Cooperative Agreement No. 263-0102-A-00-9073-00 and the program income account, respectively. The basis for questioning these costs is more fully described in the "Fund Accountability Statements - Audit Findings" section of this report.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the fund accountability statements referred to above present fairly, in all material respects, USIPO's expenditures for Cooperative Agreement No. 263-0102-A-00-9073-00 pursuant to USAID's Technical Cooperation and Feasibility Studies Project No. 263-0102 for the period from July 1, 1990 through March 31, 1992 and the related revenue and expenditures from the program income account for the period from December 1, 1990 through September 17, 1992 in conformity with the basis of accounting described in Note 3.

Our audit was made for the purpose of forming an opinion on the financial statements included in the first paragraph. The supplemental information included in appendices A and B is presented for purposes of additional analysis and is not required as part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Pricewaterhouse
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U.S. INVESTMENT PROMOTION OFFICE

FUND ACCOUNTABILITY STATEMENT

COOPERATIVE AGREEMENT NO. 263-0102-A-00-9073-00

PURSUANT TO USAID'S TECHNICAL COOPERATION

AND FEASIBILITY STUDIES PROJECT NO. 263-0102

FOR THE PERIOD FROM JULY 1, 1990 THROUGH MARCH 31, 1992

		<u>Questioned Costs</u>		Audit
	Actual	Ineligible	Unsupported	Findings
	<u>(Note 2)</u>	<u>(Note 8)</u>	<u>(Note 8)</u>	<u>Reference</u>
Income		\$ 48,805		
Salaries	\$ 120,546			
Consultants	190,518	371	\$ 758	
Travel	77,392	7,283		Pages 15
Other direct costs	118,963	7,350	484	through
Publications	36,708	904		17
Conferences	468,686	94		
Capital expenditures	10,695	1,356	1,689	
Rent	<u>6,440</u>	<u> </u>	<u> </u>	
Total Expenditures	\$ <u>1,029,948</u>	\$ <u>66,163</u>	\$ <u>2,921</u>	

See accompanying notes to the fund accountability statements.

U.S. INVESTMENT PROMOTION OFFICE

PROGRAM INCOME ACCOUNT FUND ACCOUNTABILITY STATEMENT UNDER
 COOPERATIVE AGREEMENT NO. 263-0102-A-00-9073-00
 PURSUANT TO USAID'S TECHNICAL COOPERATION
 AND FEASIBILITY STUDIES PROJECT NO. 263-0102

FOR THE PERIOD FROM DECEMBER 1, 1990 THROUGH SEPTEMBER 17, 1992

		<u>Questioned Costs</u>			Audit
	Actual	Ineligible	Unsupported		Findings
	<u>(Note 2)</u>	<u>(Note 8)</u>	<u>(Note 8)</u>		<u>Reference</u>
Program revenues: (Note 4)					
Debt swap deals	\$ 55,500				
Commissions	20,572				
Bank interest	<u>1,878</u>				
Total	77,950				
Expenditures:					
Business trip to Prague	\$ 6,132	\$ 6,132			
Gifts	6,448	6,448			
Travel/transportation	16,886	13,415	\$ 3,471		Pages 18
Car telephone	667	667			through
Guest trip	5,582	5,582			20
Bonuses	806	806			
Advertisement	1,649	1,649			
Capital assets	1,075	1,075			
Food and beverage	8,208		8,208		
Eligible program objectives (Note 6)	<u>21,874</u>				
Total	<u>69,327</u>				
Net (Note 5)	\$ <u>8,623</u>	\$ <u>35,774</u>	\$ <u>11,679</u>		

See accompanying notes to the fund accountability statements.

U.S. INVESTMENT PROMOTION OFFICE

NOTES TO THE FUND ACCOUNTABILITY STATEMENTS

NOTE 1 - SCOPE OF AUDIT:

The fund accountability statements of USIPO include all expenditures for Cooperative Agreement No. 263-0102-A-00-9073-00 for the period from July 1, 1990 through March 31, 1992 and the revenues and expenditures from the program income account for the period from December 1, 1990 through September 17, 1992. There is no provision for reimbursement of indirect costs.

NOTE 2 - SOURCE OF DATA:

The column, labeled "Actual" is the responsibility of USIPO - and represents cumulative amounts incurred for Cooperative Agreement No. 263-0102-A-00-9073-00 and the related program income account for the period from July 1, 1990 through March 31, 1992 and from December 1, 1990 through September 17, 1992, respectively.

NOTE 3 - BASIS OF PRESENTATION:

The fund accountability statements have been prepared on the basis of cash receipts and disbursements. Consequently, revenues and expenditures are recognized when received or paid rather than when earned or incurred.

NOTE 4 - PROGRAM REVENUES:

Program revenues represent gross income earned by USIPO from debt-swap transactions, client commissions and interest earnings.

NOTE 5 - NET:

Represents the balance in the separate bank account and petty cash.

NOTE 6 - ELIGIBLE PROGRAM OBJECTIVES:

Represents expenditures from the program income account that were used to further eligible program objectives.

NOTE 7 - EXCHANGE RATE:

Expenses incurred in Egyptian pounds have been converted to U.S. dollars at an average exchange rate of 3.10 Egyptian pounds to 1 U.S. dollar.

NOTE 8 - QUESTIONED COSTS:

Questioned costs are presented in two separate categories - ineligible and unsupported costs - and consist of audit findings proposed on the basis of the terms of the Cooperative Agreement and the cost principles set forth in A.I.D Acquisition Regulations, subpart 731.7, OMB Circular No. A-122 and A.I.D Handbook 13 which prescribe the nature and treatment of reimbursable costs not specifically defined in the Cooperative Agreement. Costs in the column labeled "Ineligible" are supported by vouchers or other documentation but are ineligible for reimbursement because they are not program related, are unreasonable, or prohibited by the Cooperative Agreement or applicable laws and regulations. Costs in the column labeled "Unsupported" are also formally included in the classification of "questioned costs" and relate to costs that are not supported with adequate documentation or did not have the required prior approvals or authorizations. All questioned costs are detailed in the "Fund Accountability Statements - Audit Findings" section of this report.

U.S. INVESTMENT PROMOTION OFFICE

COOPERATIVE AGREEMENT FUND ACCOUNTABILITY STATEMENT

AUDIT FINDINGS

Our audit procedures identified the following items related to Cooperative Agreement No. 263-0102-A-00-9073-00 that are ineligible or unsupported:

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
A. Income:		
(1) The required counterpart contributions to USIPO activities were not paid in total.	\$ 32,414	
(2) Improper handling of check sent to USIPO by USAID in error.	<u>16,391</u>	
	<u>48,805</u>	
B. Consultants:		
(1) Establishment of library for Engineering Society.	323	
(2) Private tour.	<u>48</u>	
	<u>371</u>	
(3) Airline fare and hotel charges.		\$ <u>758</u>
C. Travel:		
(1) Driver tips which are unallowable per OMB Circular No. A-122.	103	

Item Description

Questioned Costs
Ineligible Unsupported

(2) Unreasonable taxi fare during business trip to Europe	\$ 5,883	
(3) Costs of travel to Libya	1,200	
(4) Gifts-flowers	<u>97</u>	
	<u>7,283</u>	

D. Other Direct Costs:

(1) Expenses for car telephone. Luxury items are not allowable.	1,694	
(2) Tips, donations and gifts.	430	
(3) Deposit paid as a guarantee for a letter of credit for use of an international telephone line and not liquidated upon the grant closure.	<u>5,226</u>	
	<u>7,350</u>	
(4) Purchase of dictating machine without prior USAID approval as required by the Cooperative Agreement, Attachment 1, page 4.		\$ <u>484</u>

Item Description

Questioned Costs
Ineligible Unsupported

E. Publications:

(1) Purchase of flowers. Gifts are unallowable.	\$ 582	
(2) Membership fees paid to an organization that is the co-contributor with USAID for USIPO activities.	<u>322</u>	
	<u>904</u>	

F. Conferences:

(1) Food costs with no explanation of business purpose.	<u>94</u>	
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G. Capital Expenditures:

(1) Typewriter and shredder purchased without prior USAID approval which is required by the Cooperative Agreement for general purpose equipment.		\$ <u>1,689</u>
(2) Purchase of aluminum partitions for which a budgeted amount was not provided.	<u>1,356</u>	
Total questioned costs	\$ <u>66,163</u>	\$ <u>2,931</u>
		\$ <u>69,094</u>

U.S. INVESTMENT PROMOTION OFFICE

PROGRAM INCOME FUND ACCOUNTABILITY STATEMENT

AUDIT FINDINGS

Our audit procedures identified the following amounts from the program income account that are ineligible or unsupported:

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
H. Business Trip to Prague		
(1) Expenses for trip to Prague, Czechoslovakia. Czechoslovakia is included in the USAID list of Non-free world countries.		
Hotel Accommodations	\$ 3,043	
Airline	2,740	
Transportation	242	
Gifts	57	
Other	<u>50</u>	\$ <u>6,132</u>
I. Gifts:		
(1) Egyptian and European government employees	\$ 5,247	
Others	<u>1,201</u>	<u>6,448</u>
J. Travel/Transportation		
(1) Taxi fares in Paris and Brussels (Oct. 1991) and rentals unsupported with business purpose.		\$ 421

Item Description

Questioned Costs
Ineligible **Unsupported**

(2) Upgrades from economy hotel accommodations to suites and air tickets from economy to first class.	\$ 7,839	
(3) First class air fare for two trips to various locations for Executive Director and one trip for Administration Manager without USAID approvals.	5,576	
(4) Miscellaneous unsupported consultant travel expenses.	<u>13,415</u>	\$ <u>3,050</u> <u>3,471</u>
K. Car Telephone:		
(1) Installation and phone charges for car telephone.	<u>667</u>	
L. Guest Trip:		
(1) Expenses for travel and full accommodation for guests to Paris, France (two trips).	<u>5,582</u>	
M. Bonuses:		
(1) Ramadan dinner for USIPO staff (June 7, 1992).	600	

Item Description

Questioned Costs
Ineligible Unsupported

(2) Prophet Mohamed bonus
(September 15, 1992).

\$ 206
806

N. Advertising:

(1) Advertising expense
which is unallowable.

1,649

O. Capital:

(1) Purchase of television
and video player
without USAID
approval.

1,075

P. Food and Beverage:

(1) Represents numerous
dinners without
documented business
purpose and persons
in attendance.

_____ \$ 8,208

Total questioned costs

\$ 35,774 \$ 11,679
\$ 47,453

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Price Waterhouse



REPORT ON INTERNAL CONTROL STRUCTURE
REPORT OF INDEPENDENT ACCOUNTANTS

December 13, 1992

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We have audited the fund accountability statements of U.S. Investment Promotion Office ("USIPO") relating to expenditures incurred for Cooperative Agreement No. 263-0102-A-00-9073-00 pursuant to the United States Agency for International Development Mission to Egypt ("USAID") Technical Cooperation and Feasibility Studies Project No. 263-0102 for the period from July 1, 1990 through March 31, 1992 and the related revenue and expenditures from the program income account for the period from December 1, 1990 through September 17, 1992, and have issued our report thereon dated December 13, 1992.

Except as discussed in the next paragraph, we conducted our audits 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 audits to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement.



We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

In planning and performing our audits of USIPO, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statements, and not to provide assurance on the internal control structure.

The management of USIPO 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 structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the 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 cash receipts and disbursements, general accounting, payroll, and fixed asset procurement. 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 reportable condition in which the design or operation of one or more 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audits disclosed the following conditions which we believe constitute material weaknesses:



MATERIAL WEAKNESSES

The employee advance system contains several weaknesses related to management's ability to identify, quantify, and control employee advances. In particular, we noted:

- . Employee advances are not reconciled on a timely basis.
- . Outstanding advances are not liquidated prior to issuance of additional advances.
- . Salary advances remained outstanding for up to four months.
- . Individual and summary advance totals are not maintained.

Recommendation 1

We recommend that USIPO implement the following procedures or controls:

1.1 Employee advance accounts should be maintained and reconciled to the cash disbursements records and expense reports each month. To facilitate a proper reconciliation the following procedures and controls should be implemented:

- * Monthly advance totals from the cash disbursement records should be compared to the advance subsidiary records and differences investigated by the Executive Director.



- * Employee expense reports should be summarized monthly and compared to the advance subsidiary records. Differences should be investigated by the Executive Director.
- * Advances that have not been liquidated within a reasonable time period should be refunded to USIPO.
- * Employee advances should be approved prior to issuance and the employee should sign for its receipt.
- * The accountant in-charge should initial all advance request forms and expense reports.

1.2 Employee advance account reconciliations should be reviewed and approved by the Executive Director.

1.3 Employee salary advances should be liquidated on a timely basis. Payroll deductions or other alternative arrangements should be implemented.

* * * * *

Costs of the Cooperative Agreement were misclassified among budget line items.

During the course of our audits, we noted numerous instances in which costs were misclassified among budget line items. Often this misclassification occurred where the proper allocation of costs to their appropriate budget line items would have resulted in line items exceeding budgeted amounts. Proper classification of costs is a basic assertion in any



financial statement and improper classifications result in incorrect and misleading financial information.

Recommendation 2

USIPO should implement controls to ensure that all costs are properly classified. Specifically, a chart of accounts detailing what types of costs are included in each budget line item or account should be developed. Additionally all accounting entries should be approved by management prior to being entered into the accounting system.

* * * * *

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statements. Our audits disclosed the following reportable conditions:



REPORTABLE CONDITIONS

Employees' time and attendance data are not properly processed and documented and adequately reviewed and approved before disbursements are made.

During the course of our examination we noted that time cards or other source documents are not prepared evidencing that employees have worked the time for which they are being paid. This breakdown in the internal control structure may allow employees to be paid for time not worked.

Recommendation 3

Employees should prepare time cards or other source documents which should be reviewed to determine that such documents are complete and have been approved by the employee's supervisor.

3.1 Before payroll disbursements are made, the completed payroll register should be reviewed and approved in writing by a responsible official who has not participated in the payroll preparation. This review may range from a detail check to a review for general reasonableness of the following:

- * Names appearing on the payroll are authorized employees.
- * Time worked is evidenced by appropriate time records.
- * Amounts to be paid have been computed at authorized rates.



- * Computations of gross pay, deductions and net pay are accurate.

- * Paychecks agree with the payroll register.

* * * * *

Internal accounting controls surrounding cash should be strengthened. Specifically, we noted:

- . Improper segregation of duties exists in this area. For example, one individual is responsible for custody, approval and recording of petty cash activity.

- . Checks are made payable to "bearer" or to "individual or bearer." Not only is there a loss of control over regular business transactions, but the way may be clear for the processing of unauthorized transactions.

- . Bank account reconciliation procedures are not adequate.

- . Cash remittances received directly at USIPO are not listed.

- . Fidelity insurance is not maintained for employees with cash handling responsibilities.

- . Reconciliations are not performed of costs submitted to USAID to USIPO accounting records.

- . Prenumbered forms are not used for petty cash disbursements.

Recommendation 4



In order to improve internal accounting controls surrounding cash, we recommend the following:

- 4.1 Management strengthen the segregation of duties in this area. The controls needed to adequately safeguard petty cash depend not only on the size of the fund but also on the dollar volume of fund activity. USIPO should be alert to increased activity in cash funds, since this may indicate that they are being used for transactions which should be processed through regular disbursement procedures. Periodic counts should be made of cash funds by someone independent of all cash functions.
- 4.2 All cash remittances received directly at USIPO should be listed and restrictively endorsed by an individual independent of other cash and accounts receivable functions and then sent to accounting. This list should then be subsequently checked against the validated bank deposit to ensure that all receipts were deposited on a timely basis.
- 4.3 Bank accounts should be reconciled on a monthly basis. Additionally, a responsible official, who is also independent of all cash processing and recording activities, should review and approve all completed reconciliations. Proper bank reconciliations should be documented and include the following procedures:



- * Comparison of deposit amounts and dates with cash receipt entries.
- * Comparison of payee name, date and amount on canceled checks with cash disbursement records.
- * Comparison of endorsements on canceled checks to payees as shown on the face of the check. (This may be done on a test basis.)
- * Comparison of book balances used in reconciliations with the cash disbursement listing.
- * Footing the cash book.

4.4 Checks made payable to "bearer" and the Executive Director should be prohibited. Also, consider the use of cashiers checks for payments to consultants located abroad.

4.5 Fidelity coverage should cover all employees or officials involved in custodial, processing or recording activities. Prudent business management would dictate that this coverage be obtained, especially in light of the current internal accounting control environment surrounding cash whereby, among other weaknesses, there exists improper segregation of duties (see 4.1 above) and bank reconciliation procedures (see 4.3 above). Fidelity coverage is not a substitute for an adequate system of controls. USIPO must be able to detect irregularities and prove the loss before insurance claims will be honored.



- 4.6 USIPO should ensure that amounts billed USAID are reconciled with USIPO records.
- 4.7 Prenumbered forms should be used to record petty cash disbursements. The forms should be prepared in a manner which precludes alternations and accounted for on a periodic basis.

* * * * *

Weaknesses exist over the safeguarding of assets. In particular, we noted that:

- . Productive assets are not adequately insured.
- . Detail property records are not maintained.
- . Physical counts of assets are not performed as a routine matter.

Recommendation 5

In order to improve internal accounting controls over productive assets we recommend that:

- 5.1 A comprehensive insurance policy be purchased for all significant assets in which USIPO assumes the responsibility for maintenance and safekeeping. The possibilities of loss to USIPO if fire or other hazards are not covered by insurance includes not only the loss of assets but, among others, operating losses and the non-obtainment of the projects' objectives which may result from the disruption of operations.



5.2 Detailed properly records should be developed and include the following information:

- * Asset description, location and identification number.
- * Date of acquisition, vendor or lessor and installed cost.
- * Identification of grant funds used for purchase.

5.3 Detailed property records should be periodically compared with existing assets. To maintain physical control over its productive assets USIPO should include one or more of the following techniques:

- * Complete physical inventories on a periodic or rotating basis.
- * Physical inventories limited to items where risk of loss or misuse is significant.
- * Random selection of recorded assets for physical inspection by internal auditors or others as a test of accountability for productive assets and of the reliability of the records.
- * Periodic appraisals by independent insurance representatives. If insurance appraisals are based on inspections of assets and if they are performed in a manner which permits items (or groups of items)



to be traced to fixed asset ledgers, such appraisals may be the equivalent of a physical inventory.

When differences between the recorded and existing assets are found to exist, appropriate action should be taken to correct the discrepancy and to eliminate its cause.

* * * * *

We also noted other matters involving the internal control structure and its operation that we reported to the management of USIPO in a separate letter dated December 13, 1992.

This report is intended for the information of USIPO's 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.

Price Waterhouse



REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS
REPORT OF INDEPENDENT ACCOUNTANTS

December 13, 1992

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We have audited the fund accountability statements of U.S. Investment Promotion Office (USIPO) relating to expenditures incurred for Cooperative Agreement No. 263-0102-A-00-9073-00 pursuant to the United States Agency for International Development Mission to Egypt ("USAID") Technical Cooperation and Feasibility Studies Project No. 263-0102 for the period from July 1, 1990 through March 31, 1992 and the related revenue and expenditures from the program income account for the period from December 1, 1990 through September 17, 1992, and have issued our report thereon dated December 13, 1992

Except as discussed in the next paragraph, we conducted our audits 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 audits to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.



We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

Compliance with laws, regulations, agreements, and binding policies and procedures applicable to USIPO is the responsibility of USIPO's management. As part of our audits we performed tests of USIPO's compliance with certain provisions of laws, regulations, agreements, binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatement. Our objective was not to provide an opinion on compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, USIPO complied, in all material 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 USIPO had not complied, in all material respects, with those provisions.



We noted certain immaterial instances of noncompliance that we have reported to the management of USIPO in a separate letter dated December 13, 1992.

This report is intended for the information of USIPO's 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.

Price Waterhouse

U.S INVESTMENT PROMOTION OFFICE
SUMMARY AND STATUS OF 1990 RECOMMENDATIONS

The following discussion relates to the current status of prior audit recommendations as disclosed in Audit Report No. 6-263-91-02-N dated December 31, 1990.

All recommendations have been satisfactorily resolved to the satisfaction of USAID.

U.S. INVESTMENT PROMOTION OFFICE
COOPERATIVE AGREEMENT
NO. 263-0102-A-00-9073-00

ADDITIONAL INFORMATION
FUND ACCOUNTABILITY STATEMENT EXPRESSED
IN EGYPTIAN POUNDS OR U.S. DOLLARS

FOR THE PERIOD FROM JULY 1, 1990
THROUGH MARCH 31, 1992

	Actual Expenditures Incurred in LE	LE Expenditures Expressed in US \$	Actual Expenditures Incurred in US \$	Total Expenditures Expressed in US \$
Salaries	LE 372,142	\$ 120,046	\$ 500	\$ 120,546
Consultants	190,853	61,566	128,952	190,518
Travel	43,972	14,184	63,208	77,392
Other direct costs	364,902	117,711	1,252	118,963
Publications	58,143	18,756	17,952	36,708
Conferences	236,611	76,326	392,360	468,686
Capital expenditures	28,952	9,339	1,356	10,695
Rent	<u>0</u>	<u>0</u>	<u>6,440</u>	<u>6,440</u>
Total Expenditures	LE <u>1,295,575</u>	\$ <u>417,928</u>	\$ <u>612,020</u>	\$ <u>1,029,948</u>

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U.S. INVESTMENT PROMOTION OFFICE

PROGRAM INCOME ACCOUNT UNDER THE COOPERATIVE
AGREEMENT NO. 263-0102-A-00-9073-00
FUND ACCOUNTABILITY STATEMENT EXPRESSED
IN EGYPTIAN POUNDS OR U.S. DOLLARS

FOR THE PERIOD FROM DECEMBER 1, 1990
THROUGH SEPTEMBER 17, 1992

Not applicable as the program income account is dollar denominated.

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U.S. INVESTMENT PROMOTION OFFICE
COOPERATIVE AGREEMENT
NO. 263-0102-A-00-9073-00
ADDITIONAL INFORMATION
QUESTIONED COSTS DETAIL OF AMOUNTS AS INCURRED
IN EGYPTIAN POUNDS OR U.S. DOLLARS

FOR THE PERIOD FROM JULY 1, 1990
THROUGH MARCH 31, 1992

Our audit procedures identified the following items related to Cooperative Agreement No. 263-0102-A-00-9073-00 that are ineligible or unsupported:

<u>Item description</u>	<u>Amount incurred in LE</u>	<u>Converted to US \$</u>	<u>Amount incurred in US\$</u>	<u>Questioned costs US\$</u>
A. Income:				
(1) The required counterpart contributions to USIPO activities were not paid.			\$ 32,414	\$ 32,414
(2) Improper handling of check sent to USIPO by USAID in error.			\$ 16,391	\$ 16,391
B. Consultants:				
(1) Establishment of library for Engineering Society.	LE 1,000	\$ 323		\$ 323
(2) Private tour.	LE 150	\$ 48		\$ 48
(3) Airline fare and hotel charges.	LE 2,350	\$ 758		\$ 758

Wp

<u>Item description</u>	<u>Amount</u> <u>incurred</u> <u>in LE</u>	<u>Converted</u> <u>to</u> <u>US \$</u>	<u>Amount</u> <u>incurred</u> <u>in US\$</u>	<u>Total</u> <u>Questioned</u> <u>Costs</u> <u>US\$</u>
C. Travel:				
(1) Driver tips which are unallowable per OMB Circular No. A-122.	LE 320	\$ 103		\$ 103
(2) Unreasonable taxi fare during business trip to Europe			\$ 5,883	\$ 5,883
(3) Costs of travel to Libya			\$ 1,200	\$ 1,200
(4) Gifts-flowers			\$ 97	\$ 97
D. Other Direct Costs:				
(1) Expenses for car telephone. Luxury items are not allowable.	LE 5,250	\$ 1,694		\$ 1,694
(2) Tips, donations and gifts.	LE 1,334	\$ 430		\$ 430
(3) Deposit paid as a guarantee for a letter of credit for use of an international telephone line and not liquidated upon the grant closure.	LE 16,200	\$ 5,226		\$ 5,226

<u>Item description</u>	<u>Amount incurred in LE</u>	<u>Converted to US \$</u>	<u>Amount incurred in US\$</u>	<u>Total Questioned Costs US\$</u>
(4) Purchase of dictating machine without prior USAID approval as required by Agreement, Attachment 1, page 4.	LE 1,500	\$ 484		\$ 484
E. Publications:				
(1) Purchase of flowers. Gifts are unallowable.	LE 1,805	\$ 582		\$ 582
(2) Membership fees paid to an organization that is the co-contributor with USAID for USIPO activities.	LE 1,000	\$ 322		\$ 322
F. Conferences:				
(1) Food costs with no explanation of business purpose.	LE 292	\$ 94		\$ 94
G. Capital Expenditures:				
(1) Typewriter and shredder purchased without prior USAID approval which is required by the Cooperative Agreement for general purpose equipment.	LE 5,238	\$ 1,689		\$ 1,689

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<u>Item description</u>	Amount incurred <u>in LE</u>	Converted to <u>US \$</u>	Amount incurred <u>in US\$</u>	Total Questioned Costs <u>US\$</u>
(2) Purchase of aluminum partitions for which a budgeted amount was not provided.			\$ <u>1,356</u>	\$ <u>1,356</u>
Total questioned costs	LE <u>36,439</u>	\$ <u>9,291</u>	\$ <u>59,803</u>	\$ <u>69,094</u>

U.S. INVESTMENT PROMOTION OFFICE

PROGRAM INCOME ACCOUNT UNDER THE COOPERATIVE AGREEMENT

NO. 263-0102-A-00-9073-00

ADDITIONAL INFORMATION

QUESTIONED COSTS DETAIL OF AMOUNTS AS INCURRED
IN EGYPTIAN POUNDS OR U.S. DOLLARS

FOR THE PERIOD FROM DECEMBER 1, 1990

THROUGH SEPTEMBER 17, 1992

Not applicable as the program income account is dollar denominated.

U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

USIPO

U.S. Investment Promotion Office

Cairo, November 29, 1997

RIG/A
USAD/ Cairo
106, Kasr Al-Aini St.,
Cairo

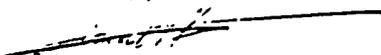
Dear Sirs,

Re: USIPO Grant Audit

Reference to the above mentioned subject and to the Fund Accountability Statement Audit Findings, I have the pleasure to enclose herewith our final comments prepared on the aforementioned findings.

Should you need any further clarification, please do not hesitate to contact us.

Very truly yours,


Emad Abdel Razek
Executive Director

CC: - Mrs. Exa Snow - Price Waterhouse
- Mr. Fred Kirsenstein - Project Officer USAID.FI.
- Mrs. Beth Paige - Contract Officer / USAID

Encs: as mentioned above

E.A. he.

U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

USIPO

USIPO'S COMMENTS
ON
THE REPORT ON INTERNAL CONTROL STRUCTURE
REPORT OF INDEPENDENT ACCOUNTANTS

We will try to start applying most of the recommendations as you have requested in the above mentioned report, as soon as possible

EA/ha.

U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

USIPO

U.S. Investment Promotion Office

USIPO'S COMMENTS

ON

FUND ACCOUNTABILITY STATEMENT

AUDIT FINDINGS

ITEM DESCRIPTION	QUESTIONED COSTS	
	INELIGIBLE	UNSUPPORTED
A. GENERAL:		
1. <i>Egyptian Businessmen's Association required contributions to USIPO activities were not paid.</i>	\$	36,704
<p>EBA was supposed to contribute LE. 316,900 and \$19,500. EBA sent 18 participants to the Milan Fair and 22 participants to the Prague Fair. The paid booth lease, airfare, and per diem for a total of \$241,200.</p> <p>EBA also paid \$19,933.30 in rent for USIPO office space.</p> <p>Total EBA contribution \$261,133.30. This is well over the amount they were supposed to contribute.</p> <p>(Please see relevant enclosures)</p>		
2. <i>Collection of unauthorized commissions from exporters and debt-swap deals not refunded to USAID</i>	\$	75,949
<p>Price waterhouse should review the Cooperative Agreement where it is clearly stated that USIPO is oriented toward sustainability and to collect fees. This was substantiated by a Baker & McKenzie Legal Study and further ratified by the board of Directors of USIPO. Mr. Greg Huger of USAID was a voting member.</p> <p>The legal study advised USIPO to place these funds in "a separate account" and use those funds only for project related purposes. These recommendations were ratified by the Board with Mr. Greg Huger of USAID as a voting member.</p>		
3. <i>Unexpected previous and current grant funds not refunded to USAID</i>	\$	2,053
<p>All funds from previous grant have been refunded to USAID.</p> <p>(Please see relevant enclosures)</p>		

U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

USIPO

- 2 -

ITEM DESCRIPTION	QUESTIONED COSTS
	INELIGIBLE UNSUPPORTED
B. CONSULTANTS:	
<p>1. USAID approvals were not obtained for the hiring of consultants (technical, legal and accounting) as required by OMB Circular No. A-122, Attachment B, page 18 # 26, and the Cooperative Agreement, Attachment 1, page 5, G4</p>	<p>\$ 190,516</p>
<p>It could be that I misinterpreted section V A.4 of the Cooperative Agreement which provides that any subagreements to be entered into by the Recipient which are to exceed \$10,000 or LE equivalent, shall require the approval of the Grant Officer. I interpreted this clause to provide me the authority to hire consultants when the amount was under \$10,000. In those areas of the Cooperative Agreement which specify how to maintain an effective and efficient organizations the hiring of multiple consultants is advised. In addition, under those areas of Cooperative Agreement outlining the Executive Director's responsibilities it is pointed out that the efficient running of the organization is my responsibility. I was also charged with bringing these decisions to the review of the Executive Committee, all of which I performed. I do not believe I have violated the "intent" of the Cooperative Agreement and believe that the procedures we used facilitated the accomplishment of the objectives of the project. Had I followed AID procedures for approval these expenditures would still have been made and the total project costs would be the same. Please excuse my lapse if indeed I was required to obtain approval for consultants when the cost did not exceed \$10,000.</p>	
<p>2. Improper handling of check sent to USIPO by USAID in error.</p>	<p>\$ 16,391</p>
<p>USAID were supposed to pay a leather consultant directly but inadvertently issued the check to USIPO Upon instructions from the USAID Project Officer. USIPO credited their account and paid the consultant directly. The consultant checks and receipts are attached</p>	

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U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

USIPO

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ITEM DESCRIPTION	QUESTIONED COSTS	
	INELIGIBLE	UNSUPPORTED
C. TRAVEL		
<i>1. Driver tips which are unallowable per OMB Circular No. A-122.</i>	\$	103
Please notice that drivers work sometimes for more than 18 hours and we have no budget for overtime, also notice that the nature of project is quite different than any other AID project for example if we are receiving foreign buyers who usually arrive late 9Pm sometimes we used to pick them up at the airport and drive straight ahead to Alexandria simply because the buyers time is so precious so he would arrive to Cairo on a Friday night and leave on a Monday morning, we will be very happy to furnish you with one or more of the buyers visit.		
<i>2. Unreasonable taxi fare during business trip to Europe</i>	\$	5,983
Two USIPO staff members conducted two trips to Europe - one trip for 14 days (July 23 - August 7) and one trip to Belgium for 24 days (Sept. 2 - Sept. 23) - total days 38 for one staff member. This staff member averaged \$88.65 per day and the other staff member was in Belgium for 24 days, average cab fare per day is \$93.11. Receipts are available for all trips. Unless one assumes that both staff members conspired to increase unreasonably their cab fares, it appears that these cost represent actual costs of doing business in these locals. Receipts should also indicate that these were actual costs of doing business in those locals. USIPO Voucher # 67, 74, 76		
<i>3. Costs of travel to Libya</i>	\$	1,200
It is my understanding that with the breakdown of the communist regimes, some AID staff have traveled frequently to ex-communist countries. I have also been advised that when questions were put to AID Washington about the banned list, they were told that the list was under review. Because USIPO was		

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U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

USIPO

<p><i>Page 3 continued</i></p> <p>specifically oriented to trade promotion in the Middle East with no specification as to actual countries. Libya was not considered to be ruled out. This is especially true since Libya is a historical trading partner of Egypt. Egypt has open borders and good trade relations with Libya. Nevertheless, we decided after one trip that for political reasons we should not facilitate trade with this country.</p>		
<p>4. Gifts-flowers</p>	<p>S</p>	<p>97</p>
<p>These items are minor promotional items. I can not accept an invitation to a European reception where food and drinks are served without taking or sending flowers. this is a cultural practice all over Europe that can not be violated by us or anyone else seeking to do business there.</p> <p>Please see enclosed copies of invitations received from different European Embassies to their National day, meeting some of their delegations etc.</p> <p>I care to stress that these flowers are not gifts but a part of the Public Relations Job.</p> <p>Please do not forget that I carried a business card with the US name on it and I am working with Europe. I was looked at in the beginning as if I am spying for the account of the US embassy, and it took me quite some time to build the trust in USIPO as an organization; also we do not have an expense account so I can not reciprocate these receptions by doing the same therefore the least I could do is to send flowers.</p>		

U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

USIPO

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ITEM DESCRIPTION	QUESTIONED COSTS	
	INELIGIBLE	UNSUPPORTED
D. OTHER DIRECT COSTS:		
1. Expenses for car telephones. Refer to OMB PA-3a and Contract part 61 - (V). Luxury items are not allowable.	\$	1,694
Computer especially laptops and other communication equipment were once considered luxury items. They are now considered "essential" for the conduct of business. Similarly, car phones for business executives save staff time, transaction costs, and are sometimes essential for the efficient conduct of business in traffic snarled cities. This business item saves money. It would be short sighted and obsolete to consider a car phone a luxury item for a specialized business services organization which is short staffed.		
2. Tips, donations and gifts	\$	430
Please notice that drivers work sometimes for more than 18 hours and we have no budget for overtime, also notice that the nature of project is quite different than any other AID project for example if we are receiving foreign buyers who usually arrive late 9Pm sometimes we used to pick them up at the airport and drive straight ahead to Alexandria simply because the buyers time is so precious so he would arrive to Cairo on a Friday night and leave on a Monday morning, we will be very happy to furnish you with one or more of the buyers visit.		
3. Deposit paid as a guarantee for a letter of credit for use of international telephone line and not liquidated upon the grant closure	\$	5,226
I have given all correspondence with our project officer to the auditor, however, I care to clarify that we had only two telephone lines (phone & fax) and being an Export/Investment Promotion Office all our work is with the USA (Investment Promotion) Europe (Export Promotion); the ARENTO people got burned by lots of companies who would lease furnished offices and make a big figures and leave their offices with outstanding bills, at a certain time, we were threatened to have our lines cut which is one thing we can not afford. This letter of guarantee was liquidated.		

U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

USIPO

<i>Page 5 continued</i>		
<i>4. Purchase of dictating machine without prior USAID approval as required by the Cooperative Agreement, Attachment 1, page 4.</i>	S	484
I was under the impression that this purchase fall under my perogative (LE 10,000). Kindly notice that the Executive Director attends most of his meetings outside the office, therefore, it is easier to tape the meeting and gave it back to the secretary to document it. This is also due to the different nature of the project all my meetings are with my clients in their factones or agncultural fields.		

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U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

USIPO

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ITEM DESCRIPTION	QUESTIONED COSTS	
	INELIGIBLE	UNSUPPORTED
F. CONFERENCES		
1. Food costs with no explanation of business purpose	\$	94
This was a business function, planning meeting for the agriculture group to plan a future exhibition. We had around 20 persons for a meeting with USAID so we had to book a separate room at the Mayfair restaurant in our building; as you can see our office can not accommodate 20 persons, dates attached and receipts.		

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U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

USIPO

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ITEM DESCRIPTION	QUESTIONED COSTS	
	INELIGIBLE	UNSUPPORTED
G. CAPITAL EXPENDITURES		
1. Typewriter and shredder purchased without prior USAID approval which is required by the Cooperative Agreement for general purpose equipment.		\$ 1,689
I was under the impression that the typewriter & the shredder purchase fall under my perogauve (LE 10,000). USIPO frequently received confidential bids on purchases and /or export transactions where the bidders desired that there bids remain confidential. Consequently, we felt and still believe strongly that a shredder is essential to maintain the confidentiality of business communications where those items represent financial transactions. We bought the shredder for safety reasons as I believe that shredding a document is definiteiv better than throwing it in waste baskets.		
2. Purchase of Aluminum partitions for which a budgeted amount was not provided.		\$ 1,356
USAID disallowed the cost		

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U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

TDC - EGYPT
TRADE DEVELOPMENT CENTER - EGYPT

Cairo, January 27, 1993

Mr. Jeffery Hentges
Price Waterhouse
4, Road 261,
New Maadi
Cairo

Dear Sirs,

Re: USIPO Grant Audit
Program Income Account
for the period from Dec. 1, 1990 through Sept. 17, 1992

Reference to the above mentioned subject and to the Fund Accountability Statement Audit Findings, I have the pleasure to enclose herewith our final comments prepared on the aforementioned findings as per your letter dated Jan 7 and received Jan. 10.

Should you need any further clarification, please do not hesitate to contact us.

Very truly yours,


Emad Abdel Razeq
Executive Director

PRICE WATERHOUSE
CAIRO

JAN 28 1993

RECEIVED

CC. - RIG/A - USAID
- Mr. Fred Kirschstein - Project Officer, USAID/FL
- Mrs. Beth Page - Contract Officer, USAID

Enc.: as mentioned above.

EA/he.

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**U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS**

TDC - EGYPT

USIPO'S COMMENTS
ON
PROGRAM INCOME
FUND ACCOUNTABILITY STATEMENT
AUDIT FINDINGS

ITEM DESCRIPTION	QUESTIONED COSTS	
	INELIGIBLE	UNSUPPORTED
H. BUSINESS TRIP TO PRAGUE:		
<i>1. Expenses for trip to Prague, Czechoslovakia. Czechoslovakia is included in the USAID list of non-free world countries</i>	6,132	
Enclosed is the legal opinion of Mrs. Viki Moore of the Legal office / USAID.		

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U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

TDC - EGYPT

- 2 -

ITEM DESCRIPTION	QUESTIONED COSTS	
	ELIGIBLE	UNSUPPORTED
L GIFTS:		
1. Egyptian and European government employees and others	\$ 6,448	
<p>• • US\$2810 represents 9 new telephone lines for TDC, changing the old name USIPO to TDC on previous Telephone lines (telephone company did not submit an invoice for these figures); subscription for a new P.O.Box instead of sharing EBA's P.O.Box.</p> <p>• • The figure of US\$390 for labor and social security offices' inspections and reports.</p> <p>• • US \$1325 Promotional cost for TDC opening ceremony attended by H.E. Minister Atef Ebied and Mr. Henry Bastard (Egyptian T.V., photographer, caterers, Video photographer, security personnel, care service).</p> <p>• • US \$40 present during Prague trip Nov.23, 1991</p> <p>• • US \$50 present during Dubai trip June, 1992</p> <p>• • two presents each of US \$50 during Brussels trip June 1992</p> <p>• • two presents each of US \$50 during Brussels trip Aug, 1992</p> <p>US \$35 present during Paris trip Aug 9, 1992</p> <p>US \$ 49 present during Toulouse trip, Aug, 1992</p> <p>US \$ 50 present during Dusseldorf Aug, 1992</p> <p>US \$ 35 present during Dusseldorf Aug, 1992</p> <p>• • US \$ 50 present during Köln Aug 19, 1992</p> <p>US \$ 50 present during Paris trip Aug, 19, 1992</p> <p>• • Balance of US\$1364 could not trace it would appreciate if PW could give us some more details about it.</p>		

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U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

TDC - EGYPT

- 3 -

ITEM DESCRIPTION	QUESTIONED COSTS	
	INELIGIBLE	UNSUPPORTED
J. TRAVEL /TRANSPORTATION		
1. Taxi fares in Paris & Brussels (Oct. 1991) and rentals unsupported with business purpose.	\$ 421	
<p>This figure represent car rent from AVIS Co. (Copy of the rent enclosed).</p> <ul style="list-style-type: none"> * Friday Oct. 25, 91 meeting with Bull Computer company together with Dr. Hisham ElSherif, Advisor to the Minister of Cabinet Affairs (follow-up on SITEF Exhibition) and also had lunch with them. Bull opened an office in Cairo last year. Meeting with Minutel Company as a follow-up on SITEF exhibition. Meeting with Mr. Berzi, Egyptian manufacturer of ready made garments and introduced him to Mrs. Spindle buyer for STEILMANN (German Co.) * Saturdav, Oct. 26.drove to Brussels to confer with our Ambassador Hussein El-Kamel and returned to Paris same day * Sundav, Oct. 27, met with Eng. Hisham Shawk one of the participants of SITEF exhibition for lunch to follow-up on their progress during the function and in the evening met with Mrs. Spindle (buyer) to discuss her trip to Cairo. * Mondav, Oct. 28, breakfast with Mr. Denjean of CEPLA who heiped in preparing some of our meetings in Toulouse during SITEF; and drove to the airport to return to Egypt. <p>I do believe that the above mentioned is relevant to my business trip to SITEF exhibition.</p>		
2. Upgrades from economy hotel accommodations to suites and air tickets from economy to first class	\$ 7,839	
<p>There is no basis in fact for that statement all room rates are actual room rates not suites as per hotel rates in Paris. I do have an image to maintain, and I do not believe I can invite the European Economic Community representatives and our Ambassador to the EEC as well as our Consul General to attend a USIPO function and lodge them in an hotel that match the AID</p>		

U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

TDC - EGYPT

<p><u>page 3 continued</u></p> <p>per diem US\$131 for lodging and \$97 for food. Also it would not make any sense that I lodge them in an hotel and I stay in another one. (PW looked at all hotel receipts and there was no single receipt whereas I have stayed in a suite, and they are welcome to look at them again to verify this statement). total hotel differences US\$5,195.09</p> <p>** Concerning the upgrading of my trips there was no guidance pertinent to this account and any top executive would fly first especially in long trips (i.e. Dubai - Brussels 9hours flight) total airline differences US\$2,643.90</p>		
<p>3. <i>First class surfare for two trips to various locations for Executive Director and one trip for Administrative Manager without USAID approvals.</i></p>	<p>\$ 5,576</p>	
<p>I am enclosing the correspondence with AID concerning these two functions (Dubai and SITEF exhibitions) AID did definitely approve these two functions: I flew first simply because I was travelling from London to Dubai (night trip left about 10pm and it is around 9 hours flight). While the Administrative Manager flew economy and being a software function, she is the only and best one to represent the USIPO in this function in Dubai. (While buying our software and hardware she was the one negotiating the offers with AID to get the approval for the procurement)</p>		
<p>4. <i>Miscellaneous Unsupported Consultants Travel expenses.</i></p>		<p>\$ 3,050</p>
<p>I am enclosing all the receipts covering the trip of Mrs. Ghada Fouad to attend TDC exhibition in Germany. PW did review those receipts. I do not know why it is considered unsupported.</p>		

U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

TDC - EGYPT

- 5 -

ITEM DESCRIPTION	QUESTIONED COSTS	
	INELIGIBLE	UNSUPPORTED
K CAR TELEPHONE:		
1. <i>Installation and phone charges for car telephone.</i>	5	667
<p>Computer especially laptops and other communication equipment were once considered luxury items. They are now considered "essential" for the conduct of business. Similarly, car phones for business executives save staff time, transaction costs, and are sometimes essential for the efficient conduct of business in traffic snarled cities. This business item saves money. It would be short sighted and obsolete to consider a car phone a luxury item for a specialized business services organization which is short staffed.</p>		

U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

TDC - EGYPT

- 6 -

ITEM DESCRIPTION	QUESTIONED COSTS	
	INELIGIBLE	UNSUPPORTED
L. GUEST TRIP:		
1. Expenses for travel and full accommodation for guests to Paris, France (two trips).	\$ 5,582	
<p>- Trip No. 1, covered USIPO's participation representing Egypt in one of the most significant advance technology exhibitions in Europe SITEF in Toulouse, France (October 91), and whereas Egypt was the guest of honor and a full day of the exhibition mainly was dedicated for visits by top French officials to visit the Egyptian Pavilion. Therefore, inviting Dr. Hisham ElSherif as a top Egyptian official who is responsible for Ministers' Cabinet Information & Decision Support Center (IDSC) and Advisor to the Ministers' Cabinet was necessary for the image of Egypt in such event. (a detailed report covering the exhibition is enclosed)</p> <p>- Trip No. 2, covered SIAL exhibition in France and the invitation of both Dr. Rhein, Director of Middle East in the EEC and Ambassador Hussein El-Kamel, Egyptian Ambassador to Brussels and the EEC. This invitation was extended as being a part of the negotiations to cooperate with the EEC to provide TDC-Egypt with funds to serve its goal of being self-sufficient by the end of the grant. This sort of activity TDC is entitled to carry out as per the new TDC Grant Agreement (Attachment No. 2, 263-0226-A-00-2027-00, page 5 of 8, V.). Copy enclosed of this part of the grant agreement along with a detailed report about the meeting with Dr. Rhein.</p>		

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U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

TDC - EGYPT

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ITEM DESCRIPTION	QUESTIONED COSTS	
	INELIGIBLE UNSUPPORTED	
M. BONUSES:		
1. Ramadan dinner for USIPO Staff, June 7, 1992	\$ 600	
This gathering is needed in such a spiritual month to enhance the team spirit of the staff and stress the fact that all the office is one family. I believe that such concept is necessary to have good working atmosphere and more productive staff.		
2. Prophet Mohammed bonus.	\$ 206	
This bonus was mainly given to the drivers and office boys . Please notice that drivers work sometimes for more than 18 hours and we have no budget for overtime, also notice that the nature of project is quite different than any other AID project for example if we are receiving foreign buyers who usually arrive late 9Pm sometimes we used to pick them up at the airport and drive straight ahead to Alexandria simply because the buyers time is so precious so he would arrive to Cairo on a Friday night and leave on a Monday morning, we wil be very happy to furnush you with one or more of the buvers visit.		

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U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

TDC - EGYPT

- 8 -

ITEM DESCRIPTION	QUESTIONED COSTS	
	INELIGIBLE	UNSUPPORTED
<i>N. ADVERTISING</i>		
<i>1. Advertising expense which is unallowable per OMB circular No. A-122. p 1.</i>	\$	1,649
This was not an actual advertisement but it was a promotional material to market TDC services. This is an allowable cost under the debt -swap account, please check the enclosed letter (first paragraph in the second page) addressed to Eng. Hussein Sabbour, Chairman of the JBC and sent by Mrs. Priscilla Del Bosque , Associate Director , USAID/TL, regarding the aspects to which TDC can spent money under the debt-swap account.		

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U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

TDC - EGYPT

- 9 -

ITEM DESCRIPTION	QUESTIONED COSTS	
	<i>INELIGIBLE UNSUPPORTED</i>	
<i>O. CAPITAL</i>		
<i>1. Purchase of television and video player without USAID approval</i>	\$ 1,075	
<p>USIPO purchased a television and video in order to further its investment promotion and staff training objective. The video which was made included every US executive of US firms operating in Egypt and also included the US Ambassador to Egypt. All discussed the investment climate, their experience of doing business in Egypt, and why Egypt was an attractive investment local. The video is shown to potential investors who visit USIPO's office in order to discern their interest in possible future direct investment. This method of using videos as a presentational and promotional technique is widely used in more developed countries.</p>		

U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

TDC - EGYPT

P. Food and Beverage:

- 1-After the celebration ceremony attended by the Mission Director and all AID top staff at EBA premises (May 13th); we had our celebration and I took the office for a lunch .
- 2-April 21st,1992 lunch at Swissair restaurant with Mr. F. de Maurissens Belgium commercial counsellor to discuss triangular transaction (Egypt-Belgium-Tunisia); in my way back to the office I bought the staff some chocolate and sweets.
April 28th,1992 dinner at Swissair restaurant with P. Phillipe EC representative in Cairo to discuss possibility to get some financing to TDC from the European Mission.(as requested in my grant cooperative agreement).
- 3- The whole trip to Belgium, Dubai, Toulouse, and Paris, was charged to the Swap account I had Dr. Hesham El Sherif the advisor to the Ministers Cabinet Affairs officially representing Egypt in SITEF as well as the Egyptian Counsel General in Marseille as Egypt was the guest of honor in this function.
- 4- I am enclosing a copy of the dinner receipt with the Fabrimetal (B.Vadarput) discussing various possibility of cooperation.(October 12 91).
- 5- Lunch with Mr. Rene Mo:stens in Brussels our promoter in the Benelux (October 13,1991).
- 6- Dinner with the participants in Dubai exhibition on the night of October 14,1991 ;to discuss the press conference which took place the next day October 15,1991.
- 7- Dinner with the representative of the minister of information and cabinet affairs in the Intercontinental hotel in Dubai(Oct.18 ,1991).
- 8- I am enclosing a copy of the invoice of the hotel in Dubai and as I said the whole trip was charged to the SWAP account.
- 9- I am enclosing the receipt of my hotel in Paris starting the 24th of October till the 28th,1991; continuation of my SITEF exhibition with Dr. Hesham El Sherif and various visit during the three nights.
please see my answer to L-Travel-Transportation
- 10- SITEF exhibition attended by Dr. Hesham El Sherif advisor the minister cabinet affairs and representing Egypt during the function being the guest of Honor

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U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

TDC - EGYPT

11- EC Egypt desk Mr. Passadeos together with Mr. P. Phillipe of Cairo EC Mission in a visit organized by TDC as per the request of H.E. Ambassador McGeever to visit three ready made garments factories in Alexandria on Friday Nov. 6th, 1992 for the day ; a follow up of Passadeos after attending TDC function in Cologne Germany in Aug. 1992 with H.E. H. El Kamel; enclosure a receipt of the lunch at Sea Gull in Alexandria .

12- Lunch in Paris with M. Reignez of Uromoff consultant company to organize some meeting for Egyptian Manufacturers during the SIAL function which took place in Paris during the month of October 1992. (lunch was on Aug. 17, 92)

13- Nov. 2 91 Dinner with J.L. Denjean Promoter in Paris to discuss follow up report about SITEF of Toulouse. (Cairo Semiramis Hotel)

Nov. 24, 91 dinner with Canadian Mission to Egypt to discuss possibility to get fund for USIPO and various cooperation with their SIDA (Canadian AID Program) also lunch with L. Gregory on Nov. 25th for continuing discussion of same subject. (Cairo Semiramis Hotel).

Dec. 12, 1991 lunch with M. El Fara to discuss status on P.S.F.S. program and his project presented to GAFI and the delay he had to get his work processed and get reimbursed in proper time by AID (Cairo Semiramis Hotel).

Dec. 20, 91 ,dinner with M. Goldfarb of Paris who is working with our export promotion director in promoting ready made garment in France. (Cairo Semiramis Hotel).

Dec. 26, 91 dinner with H.E.L. Kayoute to promote triangular transaction between Belgium-Egypt-Guinea. (Cairo Semiramis hotel).

14 Abu Dabai Hotel receipts for a total of US\$ 169.00 charged to the Swap account; I was invited by the Egyptian exhibition authority to see their function in Abu Dhabi and they wanted to pay all the hotel bills ; I refused so they paid for Bed & Breakfast only and I charged balance to the Swap ; I did not charge anything to TDC account.

15 Dinner in Brussels with Mr. Timmermans a consultant of textile in Brussels and Mr. Vandeput of Fabrimetal (Counter part of EBA) to discuss subcontracting promotion between Belgium manufacturers and Egypt. (Oct. 21, 92).

U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

TDC - EGYPT

16 Various lunches and dinners in Paris in October 92 during SIAL function with Jean Bakhoum, to discuss the visit organized to the exhibitors in SIAL to the Rungis market (biggest wholesale market in Europe).

H.E. the Ambassador El Kamel our Ambassador to the EC to sum up and evaluate the meeting with Dr. Rhein and the Egyptian participants in the SIAL exhibition.

CNPF B. Gruee to follow up on his lobbying with the French government to get some funding for a bilateral cooperation between the two countries.

Mr. M. Abdel Nour one of the participants in SIAL to get some feedback about the function.

U.S. INVESTMENT PROMOTION OFFICE
USIPO MANAGEMENT COMMENTS

USIPO

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USIPO'S COMMENTS
ON
THE REPORT ON INTERNAL CONTROL STRUCTURE
REPORT OF INDEPENDENT ACCOUNTANTS

We will try to start applying most of the recommendations as you have requested in the above mentioned report. as soon as possible

EA/he.

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U.S. INVESTMENT PROMOTION OFFICE

Auditor's Response

Cooperative Agreement

Our responses below address USIPO management responses for the audit of the Cooperative Agreement relating to those situations where we believe additional information or clarification is warranted. For those items not addressed we did not change our position as a result of USIPO management responses. Note: Our responses follow the format used by USIPO in Appendix C.

A. GENERAL

1. Egyptian Businessmen's Association required contributions to USIPO were not paid.

The Egyptian Businessmen's Association (EBA) is required by the Cooperative Agreement budget dated December 31, 1991, which supersedes previous budgets, to expend the equivalent of \$ 126,561 for the benefit of USIPO.

USIPO notes in their responses certain contributions that were made by EBA for the benefit of USIPO. However, there were offsetting contributions made by USIPO to EBA. Net contributions from EBA totalled \$ 74,214 and adding EBA's rent contribution to USIPO of \$ 19,933 results in total EBA contributions to USIPO of \$ 94,147, leaving a shortfall of \$ 32,414.

2. Collection of unauthorized commissions.

USAID approved USIPO's collection of debt swap and commission revenue ("program income") in a letter dated October 14, 1992, which retroactively approved the collection of these revenues. Based upon this approval, the questioned costs relating to the collection of

. 69'

Auditor's Response (Con't.).

2. Collection of unauthorized commissions (Con't.).

these revenue sources have been removed from our report. Subsequently, at the request of RIG/A/C, we audited the revenue and expenditures from the program income account and the associated audit findings are documented on pages 18-20 of this report.

3. Unexpended previous and current grant funds.

This finding has been removed from the final report.

B. CONSULTANTS

1. USAID approvals were not obtained for the hiring of consultants.

Based on USIPO management responses, we have changed this finding to include only unsupported amounts of \$ 758 and unallowable costs of \$ 371.

2. Improper handling of check.

This transaction was questioned based upon the following:

- A) The leather consultant could have been paid by USAID directly (double paid by USAID).

Auditor's Response (Con't.).

2. Improper handling of check (Con't.).

B) USAID records may contain errors relating to disbursements to USIPO and the leather consultant. That is, because of the inadvertent payment, USAID payments to USIPO and the consultant may be overstated and understated by the amount of \$ 16,391, respectively,

C) USIPO does not have a written acknowledgement from USAID regarding the handling of this matter.

C. TRAVEL

1. USIPO states that because there is no budget for overtime payments to drivers then it is acceptable to compensate them outside the normal payroll system (e.g. tips). If USIPO wishes to pay overtime to their drivers then USIPO should use other than USAID funds.

2. Unreasonable taxi fares.

As part of our audit responsibility we are required to determine if the expenditure is reasonable under the circumstances. The mere fact that an expenditure has been incurred does not necessarily mean that the expenditure is allowable for USAID reimbursement. According to OMB Circular No. A-122, Attachment A, for a cost to be allowable it must be reasonable and accorded consistent treatment. The Circular defines a reasonable cost as a cost in its nature or amount, that "does not exceed that which would be incurred by a prudent person under circumstances prevailing at the time...." In determining the reasonableness of a given cost consideration should be given to whether the individual

11'

Auditor's Response (Con't.)

2. Unreasonable taxi fares (Con't.).

acted with prudence and if the practices of the organization are consistent so that significant deviations therefrom do not unjustifiably increase the award costs.

For example, one USIPO employee travelled to Athens for two weeks and incurred taxi fares of \$ 1,510, or \$ 107 per day. As another example, three USIPO employees traveled to Belgium during September 1990 for approximately two weeks: One individual rented a car for \$ 350; the other two individuals paid taxi fares averaging \$ 93 each per day. In our opinion, the incurred taxi fares by the three individuals described above do not meet the "reasonableness" standard. Also, these examples illustrate that USIPO does not accord consistent treatment for employees travelling abroad.

Finally, the voucher numbers cited by USIPO do not correspond to our audited voucher numbers.

3. Trip to Libya.

Regardless of Egypt's relationship with Libya, Libya is a Non-Free World Country and, accordingly, USAID will not reimburse for Libyan-related expenses. Additionally, the Cooperative Agreement, Attachment 3, page 5, requires AID grant officer approval for assistance to countries eligible for assistance under the Foreign Assistance Act of 1961, as amended.

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Auditor's Response (Con't.).

4. Gifts - flowers.

Regardless of USIPO's intentions for creating goodwill, gifts are unallowable cost items. If USIPO feels the need to make such gestures of goodwill then the funds required should come from sources other than USAID.

D. OTHER DIRECT COSTS

1. Expenses for car telephone.

We questioned amounts relating to the installation and recurring monthly charges associated with the use of the car telephone. We did not question the expenses for placed calls. Further, it is our understanding that USAID specifically requested that a car telephone not be purchased with USAID funds. Additionally, it is our opinion that a car telephone is a luxury type item and, therefore, is not a necessity item for reasonable business needs. Finally, to avoid confusion as to the allowability of this cost, USIPO should have obtained advance written approval from USAID. The car telephone was not included in the approved equipment list outlined in the Cooperative Agreement, Attachment 1, Page 4.

2. Tips, donations, gifts.

See our response at C1 above.

3. Deposit paid as a guarantee for use of international telephone line.

Since the stated purpose of the deposit is to reserve against USIPO not paying its outstanding telephone bill and because the deposit is refundable unless USIPO does

Auditor's Response (Con't.).

3. Deposit paid as a guarantee for use of international telephone line (Con't.).

not pay its outstanding bill, USIPO should not charge the deposit against the Cooperative Agreement. USIPO should seek recovery of the deposit, and if they choose not to do so, this does not obligate USAID to reimburse USIPO for a voluntary loss. The deposit was transferred to USIPO's new TDC contract with USAID.

4. Purchase of dictating machine.

We questioned this purchase because equipment not listed in the Cooperative Agreement, Attachment 1, Page 4 requires approval on a case-by-case basis from the grant officer. This approval was not obtained.

F. CONFERENCES

1. Food costs with no explanation of business purpose.

When we audited this transaction it was not supported as to its business purpose. Subsequently, USIPO claims that it was business related, but no reliable documentation was available to support their claim. Thus, our position remains unchanged.

G. CAPITAL EXPENDITURES

1. Typewriter and shredder purchased.

See D4 above.

Auditor's Response (Con't.).

2. Purchase of Aluminum partitions.

See D4 above. Also, the purchase of aluminum partitions was dollar denominated for which a dollar budget line item was not included in the Cooperative Agreement. Finally, we were not provided with any evidence that USAID disallowed this cost. If, in fact, USAID did disallow this cost why then is it included in USIPO's Fund Accountability Statement?

U.S. INVESTMENT PROMOTION OFFICE

Auditor's Response

Program Income Account

Our responses below address USIPO management responses for the audit of the program income account relating to those situations where we believe additional information or clarification is warranted. For those items not addressed below we did not change our position as a result of USIPO management responses. Note: Our responses follow the format used by USIPO in Appendix C.

H. BUSINESS TRIP TO PRAGUE

1. Expenses for trip to Prague, Czechoslovakia.

Included with USIPO's management responses is a legal memorandum dated October 11, 1990 which describes the types of costs that may be incurred-and reimbursed-in a non-free world country. However, the memorandum clearly states that the conclusions reached therein are the opinion of the writer which may not necessarily be those of USAID. If the memorandum is considered binding then we would agree that the majority of the Prague costs are allowable. However, we are not in a position to make this determination.

I. GIFTS

1. Egyptian and European employees.

The questioned costs relate to \$ 4,488 in unsupported giveaways to phone company officials. The balance includes other miscellaneous gifts, including flowers.

Auditor's Response (Con't.).

1. Egyptian and European employees (Con't.).

In USIPO's response they acknowledge \$ 2,810 in unsupported payments to phone company officials and \$ 559 in presents - all unallowable cost. We did not question the \$ 1,325 relating to the TDC opening ceremony as part of this finding.

J. TRAVEL/TRANSPORTATION

1. Taxi fares in Paris and Brussels.

See our response at C2 above. Our position remains unchanged.

2. Upgrades from economy hotel accommodations to suites and air tickets from economy to first class.

We consider the upgrades as being extravagant and not reasonable. If USIPO personnel feel that they have an "image to maintain" then they should maintain that image with other than USAID funds. In reference to USIPO's comment that "any top executive would fly first especially in long trips", while this may be correct the "top executive" would fly first class at his or his organization's expense and not at USAID expense. USIPO must accept that they have a fiduciary duty to USAID to be prudent with their use of USAID funds, and that they will be scrutinized with particular care, especially since they receive the preponderance of their support from USAID awards.

3. First class airfare for two trips to various locations.

See our response at J2 above. Our position remains the same.

11

Auditor's Response (Con't.).

4. Miscellaneous/unsupported consultant travel expenses.

USIPO's normal policy is to pay travel-related expenses directly to the service provider. In this case, USIPO paid the consultant the maximum USAID per diem amounts and did not support actual charges with auditable receipts.

K. CAR TELEPHONE

1. Installation and phone charges for car.

See our response at D1 above.

L. GUEST TRIP

1. Expenses for travel and full accommodations for guests to Paris.

According to the legal memorandum dated October 11, 1990 (see H1 above), USAID funds may be used to support invitational travel only if travel authorizations pursuant to Chapter 3 of Handbook 22 are obtained. Clearly, USIPO should have obtained advance approval for guest travel given that this type of activity would not normally be subject to USAID reimbursement and is not considered a normal part of continuing USIPO business operations. USIPO has not provided us with any evidence that such authorizations were obtained.

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Auditor's Response (Con't.).**M. BONUSES**1. Ramadan dinner for USIPO staff.

Regardless of USIPO's rationale for incurring this cost, it is an unallowable cost. If USIPO feels strongly that the Ramadan dinner makes a positive contribution to their operations then they should continue to fund the dinner, but not with USAID funds.

2. Prophet Mohammed bonus.

See our response at C1 above.

N. ADVERTISING1. Advertising expense which is unallowable per OMB.

In a letter from USAID's Associate Director - Trade and Investment dated October 14, 1992, the Associate Director states "that costs paid from these funds (program income) would include costs which would not be reimbursable from AID grant funds under the cooperative agreement. These costs as stated in the cooperative agreement, include, but are not limited to, entertainment, advertising, fund raising, identifiable taxes, and other GOE assessments, public information services, etc...." Although, this may be considered an advance agreement binding upon both USAID and USIPO, USAID personnel are not authorized to enter into advance agreements for the treatment of cost inconsistent with the other provisions of the cost principles. For example, an advance agreement may not allow interest or entertainment cost since these costs are expressly stated to be unallowable in the "selected costs" section of the cost principles.

Auditor's Response (Con't.).

1. Advertising expense which is unallowable per OMB (Con't).

Based upon the above discussion, we continue to question advertising costs as an allowable cost item.

O. CAPITAL

1. Purchase of television and video player.

USIPO should have obtained prior approval from the USAID grant officer for the purchase of general purpose equipment not previously approved in the Cooperative Agreement, Attachment 1, Page 4.

P. FOOD AND BEVERAGE

See our responses at F1 above.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

March 22, 1993

MEMORANDUM

TO: Philippe L. Darcy, RIG/A/C

FROM: Nimalka Wijesooriya *NW* A/AD/FM

SUBJECT: Audit of U.S. Investment Promotion Office (USIPO) Local Expenditures Incurred Under Cooperative Agreement No. 263-0102-A-00-9073-00 and Related Program Income Account - Draft Report

Mission has completed its review of the subject draft report, and has no comments to offer at this time. No exit conference is required. Please issue the final report.

APPENDIX F

REPORT DISTRIBUTION

	<u>No. of Copies</u>
U.S. Ambassador to Egypt	1
Mission Director, USAID/Egypt	5
Assistant Administrator for Bureau for Near East, AA/NE	2
Associate Administrator for Finance and Administration, AA/FA	1
Associate Administrator for Operations, AA/OPS	1
Office of Press Relations, XA/PR	1
Office of Financial Management, FA/FM	1
Bureau for Legislative Affairs, LEG	1
Office of the General Counsel, GC	1
Country Desk	1
POL/CDIE/DI, Acquisitions	1
FA/MCS	1
IG	1
AIG/A	1
IG/A/PSA	1
IG/A/PPO	2
IG/LC	1
AIG/I	1
IG/RM/C&R	5
Other RIG/A's	1 each

