

Regional Inspector General for Audit
Cairo, Egypt

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**Audit of The Egyptian Organization for Biological and Vaccine
Production's (VACSERA) Local Expenditures Incurred Under
PILs No. 3 and 5 Relating to the Schistosomiasis Research
Project No. 263-0140.02 a Sub-Project of USAID/Egypt Science
and Technology Cooperation, Project No. 263-0140**

**Report No. 6-263-93-16-N
March 30, 1993**



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INFORMATION IS RELEASED TO THE PUBLIC.**

**INSPECTOR
GENERAL**
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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

March 30, 1993

MEMORANDUM FOR D/USAID/Egypt, Henry W. Bassford
Mustafa
FROM : RIG/A/C, Philippe L. Darcy
SUBJECT : Audit of The Egyptian Organization for Biological and Vaccine Production's (VACSERA) Local Expenditures Incurred Under PILs No. 3 and 5 Relating to the Schistosomiasis Research Project No. 263-0140.02 a Sub-project of USAID/Egypt Science and Technology Cooperation, Project No. 263-0140

The attached report dated January 13, 1993 by Price Waterhouse presents the results of a financial audit of the Egyptian Organization for Biological and Vaccine Production locally incurred costs under PILs No. 3 and 5, relating to the Schistosomiasis Research Project, funded by USAID/Egypt. VACSERA was responsible for the coordination and administration of all research activities for vaccine development, immuno-diagnostics, and chemotherapy.

We engaged Price Waterhouse to perform a financial audit of VACSERA's locally incurred expenditures of LE 5,676,817 (equivalent to \$1,867,373) for the period from March 1, 1989 through May 31, 1992 for PIL No. 3 and September 1, 1989 through May 31, 1992 for PIL No. 5. The purpose of the audit was to evaluate the propriety of costs incurred during those periods. In performing the audit, Price Waterhouse evaluated VACSERA's internal controls and compliance with applicable laws, regulations and project terms as necessary in forming an opinion regarding the consolidated Fund Accountability Statement.

Price Waterhouse questioned \$8,895 in costs billed to A.I.D. by VACSERA (including \$503 in unsupported costs). These questioned costs include Committee meetings, equipment and supplies, travel and per diem, renovations and other direct costs. Price Waterhouse noted no material weaknesses in VACSERA's internal controls. However, the audit disclosed two reportable conditions relating to VACSERA's oversight responsibilities for the project investigators and the computer system environment. Finally, Price Waterhouse reported that no material items of noncompliance were noted.

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Price Waterhouse has reviewed VACSERA's response to the findings. The response provided by VACSERA has not changed their understanding of the facts underlying the questioned costs of the consolidated Fund Accountability Statement or the reportable conditions in the Report on Internal Control Structure.

We have reviewed the comments submitted to us by the Mission which provided additional information regarding the questioned and unsupported costs incurred by VACSERA for training, renovation, repairs and travel. Based on this information we have reduced the questioned costs by \$5,206 and the unsupported costs by \$503. With regards to the \$462 incurred training costs and the \$543 in repairs, we concur with the auditor's response in Appendix D which states these costs were not in compliance with the terms of the PIL.

Recommendation No. 1: We recommend that USAID/Egypt resolve questioned costs of \$3,186 as detailed on pages 10 and 11 of the audit report and Appendix A.

This recommendation will be included in the Inspector General's audit recommendation follow-up system. Until we are advised of USAID/Egypt's determination regarding the questioned costs, Recommendation No. 1 is considered unresolved. This recommendation 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 VACSERA.

Recommendation No. 2: We recommend that USAID/Egypt require VACSERA to address the inadequate internal accounting control procedures as detailed on pages 19 through 25 of the audit report.

This recommendation will be included in the Inspector General's audit recommendation follow-up system. As USAID/Egypt has initiated an evaluation of VACSERA's actions in alleviating the reported internal control deficiencies, Recommendation No.2 is considered "resolved". We have reviewed the comments submitted to us by the Mission regarding the policy and laws of the GOE to self insure USAID/Egypt's project commodities and would like for the Mission to provide to RIG/A/C the documentation supporting this. This recommendation can be closed when the Mission provides this documentation and the results of its evaluation so it may be reviewed by the RIG/A/C 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.

SCHISTOSOMIASIS RESEARCH PROJECT

**CONSOLIDATED FUND ACCOUNTABILITY
STATEMENT AND ADDITIONAL
INFORMATION**

**PROJECT IMPLEMENTATION LETTERS
(PILs) NUMBER 3 AND 5 PURSUANT
TO USAID/EGYPT PROJECT
NO. 263-0140.02**

**FOR THE PERIODS FROM MARCH 1, 1989
THROUGH MAY 31, 1992 FOR PIL
NO. 3 AND SEPTEMBER 1, 1989
THROUGH MAY 31, 1992 FOR
PIL NO. 5**

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**FINANCIAL-RELATED AUDIT OF THE SCHISTOSOMIASIS
RESEARCH PROJECT**

**PROJECT IMPLEMENTATION LETTERS (PILs) NUMBER 3 AND 5
PURSUANT TO USAID/EGYPT PROJECT NO. 263-0140.02**

**FOR THE PERIODS FROM MARCH 1, 1989
THROUGH MAY 31, 1992 FOR PIL NO. 3 AND SEPTEMBER 1, 1989
THROUGH MAY 31, 1992 FOR PIL NO. 5**

**THIS REPORT IS A FINANCIAL-RELATED AUDIT OF THE
SCHISTOSOMIASIS RESEARCH PROJECT DISBURSEMENTS PURSUANT TO
PROJECT IMPLEMENTATION LETTERS NUMBER 3 AND 5 UNDER THE UNITED
STATES AGENCY FOR INTERNATIONAL DEVELOPMENT MISSION TO EGYPT
PROJECT NUMBER 263-0140.02 FUNDED BY THE UNITED STATES AGENCY
FOR INTERNATIONAL DEVELOPMENT MISSION TO EGYPT.**

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**FINANCIAL-RELATED AUDIT OF THE SCHISTOSOMIASIS
RESEARCH PROJECT**

**PROJECT IMPLEMENTATION LETTERS (PILs) NUMBER 3 AND 5
PURSUANT TO USAID/EGYPT PROJECT NO. 263-0140.02**

**FOR THE PERIODS FROM MARCH 1, 1989
THROUGH MAY 31, 1992 FOR PIL NO.3 AND SEPTEMBER 1, 1989
THROUGH MAY 31, 1992 FOR PIL NO. 5**

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Production ("VACSERA") was one of two coordination units for SRP. VACSERA was responsible for the coordination and administration of all research activities for vaccine development, immuno-diagnostics, and chemotherapy. During 1990 VACSERA's responsibilities relating to this Project were assumed by SRP.

SRP's administrative activities are covered under PIL No. 3 and are directed from SRP facilities located in Agouza. The principal investigators ("PIs") activities are covered under PIL No. 5. The PIs are located and perform SRP activities throughout Egypt. All activities of the PIs are reported to SRP headquarters on a monthly basis. SRP operations are supervised by an Executive Director and a Financial and Administrative Manager.

SRP employs approximately 16 persons full time; there are 58 PIs. The accounting system is computerized via an in-house developed system utilizing non-network personal computers. SRP accountants accumulate all financial-related data for PILs No. 3 and 5. Initially, SRP operated under an advance arrangement with USAID/Egypt and beginning December 1990 they converted to a cost reimbursement arrangement.

Audit objectives and scope

The principle objective of this engagement was to perform a financial cost-incurred audit of USAID/Egypt funds provided to SRP pursuant to PILs No. 3 and 5 under the USAID/Egypt Project No. 263-0140.02.



The audit encompassed all disbursements for the periods from March 1, 1989 through May 31, 1992 for PIL No. 3 and September 1, 1989 through May 31, 1992 for PIL No. 5. Specific objectives were to determine whether:

1. The consolidated fund accountability statement for SRP presents fairly, in all material respects, project revenues and costs incurred and reimbursed pursuant to PILs No. 3 and 5 in conformity with generally accepted accounting principles or another comprehensive basis of accounting;
2. The costs reported as incurred under PILs No. 3 and 5 are in fact allowable, allocable, and reasonable in accordance with the terms of the PILs, USAID regulations and the umbrella grant agreement;
3. The internal controls, accounting systems and management practices of SRP are adequate for USAID/Egypt agreements; and
4. SRP is in compliance, in all material respects, with the PILs, the umbrella grant agreement terms and applicable laws and regulations.

Preliminary planning and review procedures were started in October 1992 and consisted of discussions with RIG/A/C personnel, SRP officials and a review of the umbrella grant agreement and the related PILs. Fieldwork commenced in November 1992 and was completed in January 1993.



The scope of our work was all costs incurred under PILs No. 3 and 5. Within each PILs budget line items, we selected disbursements for testing on a judgmental basis to test a majority of disbursements. For PIL No. 3 we tested disbursements of LE 506,362 out of total disbursements of LE 976,322; for PIL No. 5 we selected disbursements of LE 2,138,190 out of total disbursements of LE 4,700,494.

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

1. Reconciling SRP's accounting records to invoices submitted to USAID/Egypt, and testing of costs for allowability, allocability, reasonableness, and appropriate support;
2. Determining that personnel costs were appropriate and conformed with the terms of the PILs, the umbrella grant agreement, and relevant procedures and regulations;
3. Determining that per diem and travel charges were adequately supported and approved; and
4. Establishing the adequacy of SRP's control over USAID/Egypt funded project equipment.

Except as discussed in the next paragraph, we conducted our audit 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 audit to obtain reasonable assurance about whether the consolidated 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.

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

Results of audit

Consolidated fund accountability statement:

Our audit identified LE 27,041 (converted to \$ 8,895 at applicable exchange rates) in questionable costs, including LE 1,530 (converted to \$ 503 at applicable exchange rates) of unsupported costs.



Internal control structure:

We recommend that SRP address internal accounting control weaknesses relating to its oversight responsibilities for the project investigators and the computer system environment.

Compliance with Agreement terms and applicable laws and regulations:

No material items of noncompliance were noted.

Management comments

Management's comments have been obtained and are included in Appendix C of this report. Management concurs with the factual situation relating to the questionable costs, and has provided rationale relating to why the questioned cost items should be allowed under the circumstances. Where applicable, we have provided further clarification of our position in Appendix D.

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

Price Waterhouse

Price Waterhouse



REPORT OF INDEPENDENT ACCOUNTANTS

January 13, 1993

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

We have audited the accompanying consolidated fund accountability statement of the Schistosomiasis Research Project ("SRP") relating to costs incurred for Project Implementation Letters ("PILs") No. 3 and 5 pursuant to the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Project No. 263-0140.02, a sub-project of USAID/Egypt Project No. 263-0140, for the periods from March 1, 1989 through May 31, 1992 for PIL No. 3 and September 1, 1989 through May 31, 1992 for PIL No. 5. This statement is the responsibility of SRP's management. Our responsibility is to express an opinion on this statement based upon our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and



disclosures in the consolidated fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated fund accountability statement presentation. We believe that our audit provides 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 consolidated fund accountability statement has been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying consolidated fund accountability statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.



Included in the consolidated fund accountability statement are questioned costs of \$ 8,895. The basis for questioning these costs is more fully described in the "Consolidated Fund Accountability Statement - Audit Findings" section of this report.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the consolidated fund accountability statement referred to above presents fairly, in all material respects, SRP's expenditures related to PILs No. 3 and 5 pursuant to USAID/Egypt's Project No. 263-0140.02 for the periods from March 1, 1989 through May 31, 1992 for PIL No. 3 and September 1, 1989 through May 31, 1992 for PIL No. 5 in conformity with the basis of accounting described in Note 3.

Our audit was conducted for the purpose of forming an opinion on the consolidated fund accountability statement described 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 consolidated fund accountability statement of SRP. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated fund accountability statement and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated fund accountability statement taken as a whole.

Price Waterhouse

SCHISTOSOMIASIS RESEARCH PROJECT

**CONSOLIDATED FUND ACCOUNTABILITY STATEMENT
PROJECT IMPLEMENTATION LETTERS NUMBER 3 AND 5
PURSUANT TO USAID/EGYPT PROJECT NO. 263-0140.02**

**FOR THE PERIODS FROM MARCH 1, 1989 THROUGH
MAY 31, 1992 FOR PIL No. 3 AND SEPTEMBER 1, 1989
THROUGH MAY 31, 1992 FOR PIL NO. 5**

	<u>Budget</u> <u>(Note 2)</u>	<u>Actual</u> <u>Expenditures</u> <u>(Note 2)</u>	<u>Reclassification</u> <u>(Note 6)</u>	<u>Questioned Costs</u>		<u>Audit</u> <u>Findings</u> <u>Reference</u>
				<u>Ineligible</u> <u>(Note 6)</u>	<u>Unsupported</u> <u>(Note 6)</u>	
Salaries & consultants PIL 5	\$ 1,228,831	\$ 622,865	\$ (2,145)	-	-	
Consultant fees PIL 3	14,605	9,415	(221)	-	-	
Salaries PIL 3	215,461	126,988	221	-	-	
Committee meetings PIL 3	8,125	6,132	-	\$ 488	-	Item A, Pg1
Equipment and supplies PIL 5	955,542	634,816	1,800	-	-	
PIL 3	121,875	105,345	(281)	1,482	-	Item D, Pg1
Travel and per diem PIL 5	295,081	129,674	434	-	-	
PIL 3	24,770	15,265	(110)	211	\$ 503	Item C, Pg1 Item B, Pg1
Workshops and seminars PIL 3	32,697	8,705	-	-	-	

See accompanying notes to the consolidated fund accountability statement.

SCHISTOSOMIASIS RESEARCH PROJECT

**CONSOLIDATED FUND ACCOUNTABILITY STATEMENT
PROJECT IMPLEMENTATION LETTERS NUMBER 3 AND 5
PURSUANT TO USAID/EGYPT PROJECT NO. 263-0140.02**

**FOR THE PERIODS FROM MARCH 1, 1989 THROUGH
MAY 31, 1992 FOR PIL NO. 3 AND SEPTEMBER 1, 1989
THROUGH MAY 31, 1992 FOR PIL No. 5**

	Budget (Note 2)	Actual Expenditures (Note 2)	Reclassification (Note 6)	Questioned Costs Ineligible (Note 6)	Unsupported (Note 6)	Audit Findings Reference
Training in Egypt PIL 5	\$ 32,895	\$ 9,506	-	-	-	
Other direct costs PIL 5	348,086	149,355	\$ (89)	\$ 462	-	Item E, Pg1
Renovations PIL 3	24,375	21,054	391	5,749	-	Item F&G, Pg15
Communications PIL 3	21,875	14,737	-	-	-	
Coordination units PIL 3	<u>13,520</u>	<u>13,516</u>	<u>-</u>	<u>-</u>	<u>-</u>	
Totals	\$ <u>3,337,738</u>	\$ <u>1,867,373</u>	\$ <u>-</u>	\$ <u>8,392</u>	\$ <u>503</u>	

See accompanying notes to the consolidated fund accountability statement.

SCHISTOSOMIASIS RESEARCH PROJECT

NOTES TO THE CONSOLIDATED FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF AUDIT:

The consolidated fund accountability statement of SRP includes all costs incurred and reimbursed by USAID/Egypt for PILs No. 3 and 5 for the periods from March 1, 1989 through May 31, 1992 and September 1, 1989 through May 31, 1992, respectively.

NOTE 2 - SOURCE OF DATA:

The column labeled "Actual Expenditures" is the responsibility of SRP - and represents the cumulative costs billed to and reimbursed by USAID/Egypt for the periods from March 1, 1989 through May 31, 1992 for PIL No. 3 and September 1, 1989 through May 31, 1992 for PIL No. 5.

The "Budget" column includes all USAID/Egypt approved costs for PILs No. 3 and 5. The most recent budget amendments are dated June 5, 1991 for PIL No. 3 and April 23, 1992 for PIL No. 5.

NOTE 3 - BASIS OF PRESENTATION:

The consolidated fund accountability statement has been prepared on the basis of cash disbursements. Consequently, disbursements are recognized when paid rather than when the obligation is incurred.

NOTE 4 - EXCHANGE RATE:

Costs incurred in Egyptian pounds have been converted to U.S. dollars at the monthly average exchange rate over the audit period. The rate approximates 3.04 Egyptian pounds to 1 U. S. dollar for the period from March 1, 1989 through May 31, 1992.

NOTE 5 - 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 PILs No. 3 and 5, the umbrella grant agreement and USAID regulations. 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 PILs, the umbrella grant 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 "Consolidated Fund Accountability Statement - Audit Findings" section of this report.

NOTE 6 - RECLASSIFICATION:

Amounts included in the consolidated fund accountability statement have been reclassified to reflect the proper classification of costs incurred.

SCHISTOSOMIASIS RESEARCH PROJECT

CONSOLIDATED FUND ACCOUNTABILITY STATEMENT

AUDIT FINDINGS

Our audit procedures identified the following invoiced costs that are ineligible or unsupported:

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<u>Committee Meetings</u>		
PIL 3		
A. Payments of committee member fees to persons who are not bona fide project recipients.	\$ 488	
<u>Travel</u>		
PIL 3		
B. Miscellaneous travel items that should be paid from the GOE contribution.	211	
PIL 5		
C. Miscellaneous travel payments.		\$ 503
<u>Equipment and Supplies</u>		
PIL 3		
D. Consumption taxes paid.	1,482	

SCHISTOSOMIASIS RESEARCH PROJECT

CONSOLIDATED FUND ACCOUNTABILITY STATEMENT

AUDIT FINDINGS (cont.)

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<u>Other Direct Costs</u>		
PIL 5		
E. Entertainment expenses paid for by a project investigator.	\$ 462	
Renovations		
PIL 3		
F. Luxurious and unnecessary renovations to the secretariat office.	5,206	
G. Renovations that should be charged to the GOE contribution.	<u>543</u>	<u> </u>
	\$ <u>8,392</u>	\$ <u>503</u>
Total questioned costs		\$ <u>8,895</u>

Price Waterhouse



REPORT ON INTERNAL CONTROL STRUCTURE
REPORT OF INDEPENDENT ACCOUNTANTS

January 13, 1993

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

We have audited the accompanying consolidated fund accountability statement of the Schistosomiasis Research Project ("SRP") relating to costs incurred for Project Implementation Letters ("PILs") No. 3 and 5 pursuant to the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Project No. 263-0140.02, a sub-project of USAID/Egypt Project No. 263-0140, for the periods from March 1, 1989 through May 31, 1992 for PIL No. 3 and September 1, 1989 through May 31, 1992 for PIL No. 5, and have issued our report thereon dated January 13, 1993.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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.

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

The management of SRP 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, project 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.

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 judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the consolidated fund accountability statement. Our audit disclosed the following reportable conditions:



REPORTABLE CONDITIONS

Standardized internal accounting control systems for the Principal Investigators (PI's) expenditures should be developed. Specifically, we noted that:

- . Project costs were misclassified among budget line items.
- . Productive assets were not adequately insured. The possibilities of loss to SRP if fire or other hazards are not covered by insurance includes not only the loss of assets but the operating losses which may result from the distribution of operations.
- . Controls over the safeguarding of cash and productive assets are not independently verified.
- . Bank reconciliations are not routinely performed.
- . Time charges are not supported with appropriate documentation.
- . Fidelity insurance is not maintained.

Recommendation 1

Standardized internal accounting control systems should be developed for all PIs. The SRP secretariat should assist in the implementation of those systems and conduct training for the PIs on how to use the systems. Then a follow up and audit of records and internal controls should be conducted on a regular basis. Specifically, we recommend that:



- . A chart of accounts detailing what types of costs are included in each budget line item or account should be developed.
- . A comprehensive insurance policy be purchased for all significant assets in which the PIs assume the responsibility for maintenance and safekeeping.
- . Physical inventories should be conducted on a periodic or rotating basis. Physical inventories may be limited to items where risk of loss or misuse is significant. 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.
- . Authority for those individuals eligible to sign and endorse checks and establish bank accounts should be formalized with the bank.
- . Management strengthen the segregation of duties in the cash area so that not one individual is responsible for preparing, reviewing, and approving petty cash expenditures.
- . Bank reconciliations should be performed and reviewed on a timely basis, and include the following procedures:
 - * Comparison of deposit amounts and dates with cash receipt entries.
 - * Checks outstanding for more than six months should be written back to "cash" and; if necessary, billing adjustments made to USAID/Egypt.



- * 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.
- . Timesheets be utilized to account for PIs time.
 - . Fidelity coverage be purchased to cover all employees or PI's involved in custodial, processing or recording activities. Fidelity coverage is not a substitute for an adequate system of controls. SRP must be able to detect irregularities and prove the loss before insurance claims will be honored.

* * * * *

SRP's computerized information system environment contains weaknesses. Specifically, we noted that:

- . An improper segregation of duties exists as the Financial and Administrative (F&A) Manager performs all the duties of the Management Information Specialist and the Financial Manager.
- . No documentation of the computerized information system has been prepared.



- . Computer equipment, software and data are not adequately insured.
- . There is no independent review of the testing or implementation of new systems.
- . There is no evidence that all users of the system are adequately trained.
- . No formalized method or written records are kept for changes to the system.
- . Access to the system is not restricted to authorized personnel physically nor through the use of data access security codes.

Recommendation 2

A more formalized computer information systems environment should be adopted by SRP. This environment should include formal policies and procedures for systems operation and maintenance, sufficient documentation and approvals issuance and filing, and a thorough review of systems prior to implementation. A more controlled security environment is highly recommended through proper segregation of incompatible duties between the different project entities. Specifically, we recommend that:

- . An MIS specialist be hired to be responsible for all computerized activities (including programming and data processing). The F&A manager should not be involved in any automation activities, especially the General Ledger system, except as a user.



- . SRP prepare technical documentation of all programmed systems, especially the accounting and reporting systems. The documentation should be comprehensive enough to allow any programmer to understand the way the system is operating, and enable performance of any upgrade or change to the systems features if required, and correction of any errors if they arise. The documentation should include system description, flow chart, listing of programs, data file layouts, and sample reports.
- . Computer equipment, software, and data should be properly insured from loss or destruction to enable the project to operate in cases of emergencies. Backup copies of data should be kept in an outside location known to management.
- . Project management independently review and formally approve the design, testing and implementation of new systems.
- . Users and operators of systems be adequately and formally trained on all computerized systems. A user manual should be developed for each system, detailing all steps the user may perform to efficiently operate the system and utilize all its features.
- . Changes to automated systems be performed formally according to written requests from users that are approved by management and the system programmers. Changes should be implemented and tested properly before being transferred back to user. All steps should be



adequately documented and maintained in the system's technical documentation.

Access to the computers be restricted to authorized personnel, and physical security of the data access facility be controlled by locking the computer rooms. In addition, the following security controls should be utilized:

- * For system software, all data manipulation utilities and commands should be removed from the computer or protected by passwords known only by reliable personnel.
- * The computer data entry terminals have key locks and utilized by authorized persons only. Otherwise a reading password should be implemented and known only by those who are allowed to use it.
- * Users of the General Ledger system should be defined and security profiles for each should be generated. Each user should have a unique combination of password and login ID that is specific to the kind of transactions they are allowed on the system. Passwords should not be easily guessed and should change periodically. The computer should log off after a specified number of unauthorized login attempts.
- * The input stations not be left unattended while they are signed on to the system. A master security officer should be assigned to monitor and set procedures for all these activities.



- * Programming personnel access to the system be limited and adequately supervised. Accounting personnel should not have access to any source code programs.

* * * * *

A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the consolidated fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable conditions described above are not material weaknesses.

This report is intended for the information of SRP'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.

Pricewaterhouse

Price Waterhouse



REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS
REPORT OF INDEPENDENT ACCOUNTANTS

January 13, 1993

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

We have audited the accompanying consolidated fund accountability statement of the Schistosomiasis Research Project ("SRP") relating to costs incurred for Project Implementation Letters ("PILs") No. 3 and 5 pursuant to the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Project No. 263-0140.02, a sub-project of USAID/Egypt Project No. 263-0140 for the periods from March 1, 1989 through May 31, 1992 for PIL No. 3 and September 1, 1989 through May 31, 1992 for PIL No. 5, and have issued our report thereon dated January 13, 1993.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated 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, grants, and binding policies and procedures applicable to SRP is the responsibility of SRP's management. As part of our audit we performed tests of SRP's compliance with certain provisions of laws, regulations, agreements, grants and 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 consolidated fund accountability statement is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

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



This report is intended for the information of SRP'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

SCHISTOSOMIASIS RESEARCH PROJECT

PROJECT IMPLEMENTATION LETTERS NUMBER 3 AND 5
PURSUANT TO USAID/EGYPT PROJECT NO. 263-0140.02

FOR THE PERIODS FROM MARCH 1, 1989 THROUGH MAY 31, 1992 FOR PIL NO. 3
AND SEPTEMBER 1, 1989 THROUGH MAY 31, 1992 FOR PIL NO. 5

ADDITIONAL INFORMATION

CONSOLIDATED FUND ACCOUNTABILITY STATEMENT EXPRESSED IN EGYPTIAN POUNDS

	<u>Budget</u>	<u>Actual Expenditures</u>	<u>Adjustment/ Reclassification</u>	<u>Questioned Costs</u>	
				<u>Ineligible</u>	<u>Unsupported</u>
Salaries & consultants					
PIL 5	LE3,735,646	LE1,893,509	LE (6,521)	-	-
Consultant fees					
PIL 3	44,400	28,623	(673)	-	-
Salaries					
PIL 3	655,000	386,045	673	-	-
Committee meetings					
PIL 3	24,700	18,539	-	LE 1,483	-
Equipment and supplies					
PIL 5	2,904,849	1,929,841	5,474	-	-
PIL 3	370,500	320,250	(856)	4,504	-
Travel and per diem					
PIL 5	897,047	394,207	1,318	-	LE 1,530
PIL 3	75,300	46,406	(333)	642	-
Workshops and seminars					
PIL 3	99,400	26,464	-	-	-

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SCHISTOSOMIASIS RESEARCH PROJECT

PROJECT IMPLEMENTATION LETTERS NUMBER 3 AND 5
PURSUANT TO USAID/EGYPT PROJECT NO. 263-0140.02

FOR THE PERIODS FROM MARCH 1, 1989 THROUGH MAY 31, 1992 FOR PIL NO. 3
AND SEPTEMBER 1, 1989 THROUGH MAY 31, 1992 FOR PIL NO. 5

ADDITIONAL INFORMATION

CONSOLIDATED FUND ACCOUNTABILITY STATEMENT EXPRESSED IN EGYPTIAN POUNDS

	<u>Budget</u>	<u>Actual Expenditures</u>	<u>Adjustment/ Reclassification</u>	<u>Questioned Costs</u>	
				<u>Ineligible</u>	<u>Unsupported</u>
Training in Egypt PIL 5	LE 100,000	LE 28,897	-	-	-
Other Direct Costs PIL 5	1,058,180	454,040	LE (271)	LE 1,404	-
Renovations PIL 3	74,100	64,004	1,189	17,477	-
Communications PIL 3	66,500	44,802	-	-	-
Coordinations Units PIL 3	<u>41,100</u>	<u>41,090</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	LE <u>10,146,722</u>	LE <u>5,676,817</u>	<u>-</u>	LE <u>25,510</u>	LE <u>1,530</u>

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SCHISTOSOMIASIS RESEARCH PROJECT

PROJECT IMPLEMENTATION LETTERS NUMBER 3 AND 5
PURSUANT TO USAID/EGYPT PROJECT NO. 263-0140.02

ADDITIONAL INFORMATION
QUESTIONED COSTS EXPRESSED IN EGYPTIAN POUNDS

<u>Item Description</u>	<u>Questioned Costs</u>		Costs as incurred in LE
	<u>Ineligible</u>	<u>Unsupported</u>	
<u>Committee Meetings</u>			
PIL 3			
A. Payments of committee member fees to persons who are not bona fide recipients.	\$ 488		LE 1,483
 <u>Travel</u>			
PIL 3			
B. Miscellaneous items that should be paid from the GOE contribution.	211		642
PIL 5			
C. Miscellaneous travel payments.		\$ 503	1,530
 <u>Equipment and Supplies</u>			
PIL 3			
D. Consumption taxes paid.	1,482		4,504

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SCHISTOSOMIASIS RESEARCH PROJECT

PROJECT IMPLEMENTATION LETTERS NUMBER 3 AND 5
PURSUANT TO USAID/EGYPT PROJECT NO. 263-0140.02

ADDITIONAL INFORMATION
QUESTIONED COSTS EXPRESSED IN EGYPTIAN POUNDS

<u>Item Description</u>	<u>Questioned Costs</u>		Costs as incurred <u>in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
<u>Other Direct Costs</u>			
PIL 5			
E. Entertainment expenses paid by a PI with no budget for such expenses.	462		LE 1,404
<u>Renovations</u>			
PIL 3			
F. Luxurious and unnecessary renovations to the secretariat office.	5,206		15,827
G. Renovations that should be charged to the GOE contribution.	543		1,650
	\$ <u>8,392</u>	\$ <u>503</u>	
Total questioned costs	\$ <u>8,895</u>		LE <u>27,040</u>

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**SCHISTOSOMIASIS RESEARCH PROJECT
SRP MANAGEMENT COMMENTS ON THE FINANCIAL AUDIT**

Arab Republic of Egypt
Ministry of Health
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مشروع العموم لبحوث الملاريا

Schistosomiasis Research Project

Date: Feb 4, 1993

Mr. Jeffery Hentages
Audit Manager
Price Waterhouse
4, Road 261
New Maadi
Cairo, Egypt

Subject: SRP MANAGEMENT COMMENTS ON THE AUDIT REPORT SUBMITTED
BY PRICE WATERHOUSE COVERING THE PERIOD UP TO MAY 31, 92
FOR PROJECT IMPLEMENTATION LETTERS (PIIs) NO. 3 AND 5

Dear Mr. Hentages,

Please find attached our comments on your findings stated in the
above mentioned report.

The contents of the attachments are as follows :

- SRP Management comments for the ineligible findings (as described
in your report).
- SRP Management comments for the unsupported findings.
- Actions to be taken by the project in response to your Internal
control recommendations concerning the PI's expenditures
- Actions to be taken by the project in response to your internal
control observations concerning the computerized financial system.

Finally, we appreciate your efforts towards the strengthening of the
Project Financial System and we hope our response would be
satisfactory to achieve this target.

Best Regards,

Financial Manager

Sherif Zohdy

Sherif Zohdy

Executive Director

T. El Khoby

Dr. Taha El Khoby

cc USAID Project Officer
USAID Auditor General
USAID Head Chief of PM
MSCI Resident Proj. Manager

مبنى الهيئة المصرية العامة للمستحضرات الحيوية واللقاحات

1 شارع وزارة الزراعة - المحيزة - الجيزة ت 31129.2 - 31129.11 فاكس 00-202-3601756

The Egyptian Organization for Biological and Vaccine Production

51, Wezarat El Zeraa st., Agouza, Egypt Tel.: 3482011-3613903 Fax: 00-202-3601756

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**SCHISTOSOMIASIS RESEARCH PROJECT
SRP MANAGEMENT COMMENTS ON THE FINANCIAL AUDIT**

Arab Republic of Egypt
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Schistosomiasis Research Project

SRP Management comments for the ineligible findings

(as described in the audit report).

We would like first, before getting into the detailed justification for these items, to emphasize the fact that more than 90% of ineligible items were incurred during the first three months of the life of the project. These three months are considered the dark area for any project where there is a natural lack of personnel, documentation system, and there is no full awareness of USAID procedures and regulations. Although we strongly believe that these expenditures are very reasonable (as will be fully described below), we preferred to highlight this fact for two reasons:

- To justify any lack of approvals or incomplete procedures (if any), which might have caused the auditing team to consider them as subjects for questionable cost.
- To reach to a conclusion, which we are very proud of, that the audit team, while examining the vouchers of the following three years, did not find reasons to make them consider other items as ineligible. Actually, this fact by itself could be a basis for closing these items assuming that the target of this audit, which is the strengthening of the financial system, has been automatically achieved by the project.

However, our comments on these findings are as follows :

- (1) Payment of committee member fees to persons who are not bona fide recipients of the project (\$ 488)

These amounts were spent in the first three months of life of the project, actually 70% of it existed in vouchers # 2 and 14 when the Project was still lacking a complete financial and administrative staff. Thus temporary specialists were required to assist with the start of the project which included the recruiting for the project staff, writing the technical specifications for the building renovation and the equipment required, the purchasing of such equipment and renovation services .

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**SCHISTOSOMIASIS RESEARCH PROJECT
SRP MANAGEMENT COMMENTS ON THE FINANCIAL AUDIT**

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مشروع القوم ببحوث البلهارسيا

Schistosomiasis Research Project

The executive director had no option but to assign several GOE specialists to perform the tasks necessary to make the project move forward. The selected GOE staff performed many extra tasks beyond their GOE scope of work, and, in many cases, they worked late in the evenings to achieve their targets.

Furthermore, much of the so-called ineligible sums were compensation for participating in the purchasing committees and the preparation for such committees. Please note that this is an authorized and eligible expenditure as approved later in the budget breakdown of PIL # 3 (see attachment 1).

(2) Miscellaneous travel items that should be paid from the GOE contribution (\$ 211):

This amount represents, mainly, a very small portion of the fuel expenses for the secretariat vehicle. SRP has obtained USAID approval to pay the fuel expenses of the PIs vehicles from USAID funds. The project did not ask for a similar approval for the secretariat vehicles (purchased through USAID funds), not because we thought it is not possible, but because we had the chance to cover such expenses from the GOE funds.

The project obtained GOE approval for fuel coupons to be used (according to GOE procedures) through specific Gas stations "EL Taaven Gas Stations ". However, on a few rare occasions, specially when the vehicle was on a distant field trip, the vehicles ran short of fuel with no nearby available "Taaven Station". The driver was thus forced to purchase some fuel with cash from the nearest Station. Unfortunately, the GOE procedures are not that flexible making it difficult to reimburse the driver for his purchase. In these cases we reimbursed him from PIL No 3 funds.

Therefore, we believe that these expenses are reasonable and could not be avoided, specially when we mention that they represent less than 4% of the total GOE contribution actually paid for the fuel of the secretariat vehicles.

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SRP MANAGEMENT COMMENTS ON THE FINANCIAL AUDIT**

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(3) Consumption taxes paid (\$ 1482) :

This amount was part of an invoice which was paid in the early stages of the project. At that time there was no full awareness of USAID regulations.

However, we accept this finding and we will actually request the approval to refund this amount from GOE funds.

(4) Entertainment expenses paid by a PI with no budget for such expenses (US\$ 462):

The PI is Dr. Sara Lusa, and her research agreement included a budget for a workshop to be held before the end of her research (see attachment 2). This (long day) workshop was attended by GOE officials and other concerned specialists. It was planned, as an essential part of the scope of work, for two reasons :

- (a) To get feed back from the audience to develop the final results.
- (b) To convince them with the work layout and the importance of its implementation.

The grant is financed under PII No. 5 which stated clearly that one of the justified uses for the grant funds is " workshops related to project activities " (attachment 3) .

A long day workshop particularly in a government office with no nearby cafeteria, must include refreshments to keep the attendance as high as possible until the end of the day.

Please note that the costs of workshop refreshments are eligible as shown in the approved budget of PII No. 3 (attachment 4).

We can recharge the costs of this workshop to PII No. 3 where the workshop refreshments are clearly authorized (although we don't find a strong reason for doing so) .

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**SCHISTOSOMIASIS RESEARCH PROJECT
SRP MANAGEMENT COMMENTS ON THE FINANCIAL AUDIT**

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Schistosomiasis Research Project

(5) Luxurious and unnecessary renovations to the secretariat office

(US\$ 5206) :

We consider the expression " Luxurious " to be truly inappropriate and not the right word to describe the SRP offices. However, we will not stress on it considering the good relationship built on trust and full cooperation between both SRP and audit teams.

We suggest that this amount represents a judgmental difference between the cost of covering the second floor walls of the secretariat office with wood (as actually happened) and the cost of painting these walls (as estimated by the audit team).

It is very important to describe the condition of these walls before the secretariat moved to the building. The rooms were used as laboratories and had been deserted for a long time, The walls were covered with tiles, while benches, sinks and water connection pipes were every where.

If the management had decided, at that time, to paint the walls, remove all traces of the connection pipes, all tiles, and then have walls covered with special building materials twice to form the basis for painting, Finally three coats of paint would be needed. Actually this means almost rebuilding the walls of the rooms. We don't have to mention the costs of this operation which would have, definitely exceeded the costs of covering the walls with wood.

Further more, covering the walls with wood was a permanent solution and more cost saving if we consider that painting would have to be redone every two or three years during the life of the project.

It might be important to highlight the fact that this was the only time when the SRP had used the USAID available authorized budget for the renovations of the building because there were no available GOE funds at that time . Later, GOE funds were used for the renovation of the third, fourth, and the remaining work of the first floor.

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**SCHISTOSOMIASIS RESEARCH PROJECT
SRP MANAGEMENT COMMENTS ON THE FINANCIAL AUDIT**

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Schistosomiasis Research Project

Finally, who says that walls which are covered with brown wood are more delightful and "luxurious" than light fashioned white painted walls. In fact, the management has taken the more economic, practical, and permanent decision and the far less luxurious solution.

(6) Renovations that should be charged to GOE contribution (\$543):

This amount represents the costs of repairing the back gate of VACSERA. This gate is almost directly facing the front door of the secretariat building. SRP had to repair the gate for security reasons.

We are sure that the audit firm would be the first to understand the purpose of "security" because one of the recommendations in the auditing report is to purchase an insurance coverage for the equipment. We believe that we should secure these equipment first and then think of covering them with insurance.

The SRP used the available, authorized, eligible USAID funds for this purpose because there were no available GOE funds in the early stages of the project while it was very urgent to get the gate repaired for security reasons.

We don't see a reason, and we would not be in a strong position, trying to convince GOE officials to accept the recharging of these costs (occurred during a none effective GOE budget duration), while these costs are eligible and based on authorized USAID budget.

The question is why the audit team finds it reasonable to accept the building repairs costs (in principal) and to reject the gate repairs costs while both are GOE property and both costs are spent for the direct use and safety of the SRP secretariat offices ?

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**SCHISTOSOMIASIS RESEARCH PROJECT
SRP MANAGEMENT COMMENTS ON THE FINANCIAL AUDIT**

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Schistosomiasis Research Project

SRP Management comments for the unsupported findings.

Miscellaneous travel payments (\$ 503):

This amount represents some travel expenses incurred by the PIs and their research team members and they could not support it with documents. The majority of this amount represent individual trips from the town where the research is located to SRP office in CAIRO.

The PIs and their teams, sometimes, are not able to provide such supporting documents specially when they have to hire a taxi or " a car by person" to meet the dead lines to submit to, or meet with, the secretariat staff.

SRP usually approves this expenses because there is no doubt of the reality of these trips confirmed by the fact that the SRP staff met those people actually at that time or received documents from them.

The SRP, when approving such expenditures to the PIs, is in fact following the USAID regulations because :

- PIL No. 4 of the project stated that a travel claim form for expenses incurred during travel should be accompanied "where possible" with receipts (attachment 5).
- Paragraph (c) of item (301-11.3) of USAID handbook NO.22 stated that " Travel receipts are required for allowable cash expenditure in amounts in excess of \$25 " (attachment 6).

It might be helpful to mention that this type of accidental unsupported travel expenses is rarely happening specially when we state that total travel expenses incurred by the PIs up to the end of audit duration period is LE 194,207 .

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SRP MANAGEMENT COMMENTS ON THE FINANCIAL AUDIT**

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**Actions to be taken by the project in response to your Internal
control recommendations concerning the PI's expenditures**

We would like first to record the correction requested by us and agreed to by you in the closing meeting concerning the typing error in the audit report (Page 18)

The paragraph as shown in the report : " Project costs were often misclassified among budget items "

The paragraph should be : " One of the PI's costs were often misclassified among budget line items" .

*** Preparing a chart of accounts :**

The chart of accounts is under preparation where all the details of the expected expenditures will be included under the related line items . USAID approval will be obtained, and correction entries for the misclassifications will be entered to the system.

*** A comprehensive insurance policy be purchased for all significant assets :**

The project has no objection provided that USAID approval and the significant required budget for this purpose will be obtained.

*** Physical inventories be conducted in the PI's locations**

The project has been doing this for quite some time. Moreover, it is a GOE requirement that the PI's should conduct a detailed inventory by the end of every fiscal year.

*** Authority for those individuals eligible to sign and endorse checks and establish bank account should be formalized with the bank :**

It is a general practice by the project that every PI bank account should be established based on a letter from the project to the bank. This letter authorizes the bank to establish a non interest bearing account, and specifies the signatories and the name of the account (Project name and sub agreement number).

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Schistosomiasis Research Project

- * Segregation of duties in the cash areas of The PI's activities :
Already existing because preparing the petty cash, approving it is done by different persons . It is not cost effective , considering the volume of such activities, to ask every PI to hire additional staff specifically to strengthen this area more than it is now.
- * Bank Reconciliations should be performed by PIs :
All PI's have been requested to submit the bank statements and bank reconciliations on timely basis. We expect this procedure to be regular within one or two months.
- * Time sheets be utilized to account for PIs time :
Person months are already obtained through the standard forms used by all the PIs. Asking for detailed time sheets will significantly increase the volume of paper work for the PIs, while they already complain from the existing burden of paper work . It is important to highlight the fact that PIs are paid for the total number of none official hours they spend for the project . The compensation is limited by a maximum of 200% of their base salary.
- * Fidelity coverage be purchased to cover all employees involved in custodial :
The project has no objection provided that USAID approval and the required budget be obtained.

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**SCHISTOSOMIASIS RESEARCH PROJECT
SRP MANAGEMENT COMMENTS ON THE FINANCIAL AUDIT**

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Actions to be taken by the project in response to your internal control observations concerning the computerized financial system.

- * An Improper segregation of duties as the financial and administrative manager performs all the duties of the MIS and FM :

The Financial Manager is leaving the Project to another job.

- * No documentation of the computerized system :

The documentation is under completion

- * Computer equipment is not adequately insured :

Insurance coverage will be purchased if the necessary funds are provided by USAID

- * There is no independent review and testing :

Testing the results is done by two different persons of the financial team and then by every accountant concerning the projects he is handling. This happens after entering the vouchers by a data entry clerk who is not involved in the researches accounts or the writing of entries.

- * There is no evidence of that all users of the system are adequately trained :

Nor is there any evidence that they are not adequately trained !!!
In fact all users are fully trained and using the system on their own without any interference by the financial manager.

- * No formalized method or written record kept for changes to the system :

There were no changes occurred to the system since it was installed.

**SCHISTOSOMIASIS RESEARCH PROJECT
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Schistosomiasis Research Project

* Access to the system is not restricted :

Passwords will be entered to system

* Financial Manager has full access to the system :

Since he devised the system this is hardly surprising. Now the Financial Manager is leaving the Project to another job.

**SCHISTOSOMIASIS RESEARCH PROJECT
SRP MANAGEMENT COMMENTS ON THE FINANCIAL AUDIT**

①

2. Committee Meetings

PIL # (3)

Am. # (2)

Honoraria for governmental authorized persons to attend Purchasing committee meetings during non official hours .
These Meetings are held with suppliers to receive and negotiate bids .

Local law should be followed for any purchase less than the equivalent of US\$ 25,000 (as stated in PIL #3) . However, Purchasing committee is an obligatory according to local law for any purchase exceeding LE 2500.

These meetings are held (in average) 5 times per month through which, central purchasing is arranged by secretariat to buy goods for PI's , specially when goods are similar for more than one grant .

Central purchasing was recommended by Ministry of Finance to a) Minimize cash advances paid to PI's b) Make sure that procurement is done according to the proper procedures c) Getting the best price when buying in big quantities.

5 Meetings per month x 5 persons at LE 20 per person = LE 500 /Month

Budget of 24 months = LE 500 x 24 = LE 12,000

3. Consulting Fees

LE

a	Local Steering Committee Members paid in consultancy basis (as previously approved by AID) :	
	8 Meetings x 5 members x LE 125 per meeting	5,000
b	Local TRC Members paid in consultancy basis :	
	4 Meetings x 10 days x 4 members x LE 125 per day	20,000
c	Provision for temporary assignments of local consultants : 40 man days x LE 125	5,000
		<hr/>
	Total budget of 24 months	30,000
		<hr/>

**SCHISTOSOMIASIS RESEARCH PROJECT
SRP MANAGEMENT COMMENTS ON THE FINANCIAL AUDIT**

(2)

PRINCIPAL INVESTIGATOR DR. SARA LOZA

BUD28VI.LCD

PROJECT BUDGET AS APPROVED BY THE TRC FEBRUARY 1990
AND AMENDED ON MAY 9TH 1990

CODE	CATEGORY	YEAR 1		YEAR 2		YEAR 3		TOTAL	
		LE	\$	LE	\$	LE	\$	LE	\$
10	SALARIES	80650	0	49750	0	16250	0	146650	0
20	EQUIPMENT								
21	Permanent	38400	0	8000	0	0	0	46400	0
22	Consumable	1650	0	5340	0	200	0	7190	0
30	TRAVEL								
31	Travel	7000	0	3000	0	1000	0	11000	0
32	Per Diem	22650	0	0	0	0	0	22650	0
40	TRAINING								
	In U.S.	0	0	0	0	0	0	0	0
	In Egypt	0	0	0	0	0	0	0	0
50	OTHER COSTS	8800	0	5400	0	8000	0	22200	0
60	INDIRECT COSTS (20%)	31830	0	14298	0	5090	0	51218	0
70	COLLABORATION		18629		23353			0	41982
TOTALS		190980	18629	85788	23353	30540	0	307308	41982

DETAILS OF OTHER COSTS

Communications	3000	0	3000	0	2000	0	8000	0
Publications	3000	0	1000	0	1000	0	5000	0
Field Expenses	2800	0	1400	0	0	0	4200	0
Renovation	0	0	0	0	0	0	0	0
Workshop	0	0	0	0	5000	0	5000	0
Subtotal	8800	0	5400	0	8000	0	22200	0

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**SCHISTOSOMIASIS RESEARCH PROJECT
SRP MANAGEMENT COMMENTS ON THE FINANCIAL AUDIT**

For production of media materials, 20 video tapes, five Umatic tapes, and art supplies are needed. ②

All expendable equipment will be purchased locally.

7.3 Travel

All field data collection activities require travel from Cairo to selected locations. It is estimated that a total 183 round trips from and to Cairo are required to complete data collection of focus group interviewing and survey.

Per diem costs cover the nights spent in the field by data collectors estimated to be 755 m/d.

Transportation costs are needed for local transportation of data collection teams within localities.

7.4 Training

No project training is needed. Senior research team will be responsible for training other staff.

7.5 Other Costs

Communication costs include telephone and courier delivery costs.

Field research expenses include costs of renting places for conducting focus group sessions and costs of local field facilitators.

The one day workshop costs include cost of renting hall, costs of refreshments and meals and any other direct costs.

Printing costs cover the reproduction of interview schedules.

Since SPAAC and RAC are non-government organization, a 20 % of total costs are included to cover use of office facilities, project management costs and other indirect costs of the offices of SPAAC and RAC.

8. GOVERNMENT INPUTS

No government inputs are included in this proposal.

**SCHISTOSOMIASIS RESEARCH PROJECT
SRP MANAGEMENT COMMENTS ON THE FINANCIAL AUDIT**

PIL # (5)

(3)

-2-

8. Establishing the Account:

1. We understand from your letter dated July 19, 1989 (Attachment 5) that you established a separate non-interest bearing account for the research activity at an Egyptian bank. The funds in this account are not to be commingled with any other Project or non-Project resources.
2. The Agency for International Development will commit for the first year of the first grant cycle the sum of Egyptian Pounds seven hundred sixty nine thousand (LE 769,000), but not to exceed \$301,568 for purposes set forth in Section C of this letter and Attachment 1 entitled "Research Work Plan".
3. An initial Egyptian Pounds advance (not to exceed 90 days cash needs) will be made to this account upon receipt of an estimate of the first quarter's cash needs for the project Secretariat's activities described in this PIL.

The account will be replenished on a monthly basis in Egyptian Pounds based on: (a) an accounting of expenditures for the expired month; and (b) a budget estimate of cash needs for the coming three months. The fiscal report and the statement of cash needs, respectively, shall be given in the forms attached to this PIL.

9. Purposes for Using the Grant Funds:

1. Salaries of researchers and research support staff in accordance with the conditions set forth in PIL #3.
2. Local materials and supplies.
3. Local travel and per diem for researchers and research support staff. Payment shall be in accordance with procedures established by the Project Secretariat.
4. Local training, meetings, seminars, and workshops related to project activities.

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**SCHISTOSOMIASIS RESEARCH PROJECT
SRP MANAGEMENT COMMENTS ON THE FINANCIAL AUDIT**

<u>5. Travel</u>	<u>LE</u>
<i>PIL # (3)</i>	
<i>7m. # (2)</i>	
a Visits to all research institutions involved in the project 160 man days x LE 100	16,000
(The daily rate of LE 100 is an average, but payment will be based on secretariat procedures, according to category, and actual number of days or hours spent during the assignment)	
b) Car rental and other local travel expenses 24 months x LE 2000	48,000
Total budget	64,000
<u>6 Workshops and Seminars</u>	
1 seminar or workshop every 3 months . Cost of meetings reports , publications , refreshments, rental of conference hall and advertisements , ... etc .	
LE 10,000 x 8 = LE 80,000	
<u>7 Communications</u>	<u>LE</u>
a) Installation of 2 telephone lines LE 1,500 x 2	3,000
b) Courier , postage charges , local/international telephone calls to communicate with principal investigators and collaborators LE 1,500 x 24 months	36,000
Total budget	39,000

④

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**SCHISTOSOMIASIS RESEARCH PROJECT
SRP MANAGEMENT COMMENTS ON THE FINANCIAL AUDIT**

5

PIL # (4)

CHAPTER EIGHT

TRAVEL

Project funds may be used to reimburse travel and per diem costs for travel within and outside Egypt in support of attaining project objectives. All travel must be noted in the work plan presented with the proposal. Approval of the Proposal assumes approval of planned travel mentioned in the work plan.

Travel within Egypt and payable in Egyptian Pounds needs no further authorization. Such travel may include :-

- o the Principal Investigator and others to attend regularly scheduled meetings and training seminars
- o field trips and field study costs for all activity research personnel.

The Principal Investigator may issue a travel advance by check or cash to employees who will be travelling on project-related reasons for up to 60% of the estimated cost of the travel and per diem. Per diem may be obtained upon request from the Financial Manager. A receipt must be signed at the time of the advance and all monies expended must be accounted for. Per Diem rates are established and amended regularly by the Executive Director.

A travel claim form for expenses incurred during activity related travel should be accompanied where possible with receipts. Any unused portion of an advance must be returned to the Principal Investigator. All travel claims must be settled within thirty days of the completion of travel.

**SCHISTOSOMIASIS RESEARCH PROJECT
SRP MANAGEMENT COMMENTS ON THE FINANCIAL AUDIT**

H.B. 22

**FEDERAL TRAVEL REGULATION
Chapter 301—Travel Allowances**

§ 301-11.3

6

PART 301-11—CLAIMS FOR REIMBURSEMENT

Sec.

- 301-11.1 Fraudulent claims.
- 301-11.2 Records of travel and expenses.
- 301-11.3 Travel vouchers and attachments.
- 301-11.4 Submission and review of travel vouchers.
- 301-11.5 Preparation of voucher.
- 301-11.6 Administrative approvals.
- 301-11.7 Suspension of charges.

Authority: § U.S.C. 5701-5709; E.O. 11609, July 22, 1971 (36 FR 13747).

§ 301-11.1 Fraudulent claims.

A claim against the United States is forfeited if the claimant attempts to defraud the Government in connection therewith (28 U.S.C. 2514). In addition, there are two criminal provisions under which severe penalties may be imposed on a traveler who knowingly presents a false, fictitious, or fraudulent claim against the United States (18 U.S.C. 237 and 1001). Travelers' claims for reimbursement shall accurately reflect the facts involved in every instance so that any violation or apparent violation of those provisions may be avoided.

§ 301-11.2 Records of travel and expenses.

All persons authorized to travel on business for the Government (see certificate on travel voucher form) should keep a record of expenditures properly chargeable to the Government, noting each item at the time the expense is incurred and the date. The information thus accumulated will be available for the proper preparation of travel vouchers.

§ 301-11.3 Travel vouchers and attachments.

(a) Use of authorized form. All claims for the reimbursement of traveling expenses shall be submitted on authorized reimbursement forms and must be itemized and stated

in accordance with this regulation unless, for special reasons, compliance with certain provisions has been waived or modified by written determination of the Administrator of General Services.

(b) Evidence of authorization. The travel voucher must be supported by a copy of the travel authorization. If the travel authorization has been filed or attached to a previous voucher, reference to the previous voucher shall be made.

(c) Receipts required. Receipts are required for allowable cash expenditures in amounts in excess of \$25, plus any applicable tax. When receipts are not available, the expenditures shall be explained on the voucher. Receipts are required for the following expenditures regardless of amount:

(1) Excess baggage. The receipt shall indicate the weight of the baggage and the points between which the baggage was moved. (See § 301-5.3(a).)

(2) Baggage, transfer, and checking charges. (See §§ 301-5.3(b) and 301-5.3(d).)

(3) Clerical assistance. (See § 301-9.1(a).)

(4) Fees relating to travel outside the continental United States. (See § 301-9.1(d).)

(5) Hire of special conveyance such as livery, boat, automobile (not taxicabs locally), and aircraft. Livery and other special transportation receipts must describe the service hired, the service rendered, and the rate of compensation by the day, hour, or other unit, as may have been agreed. If the subsistence of driver or team is included in the cost, that fact must be stated. A receipted bill or other form or receipt will be accepted, provided it is made out to show the period and service rendered or articles purchased and the unit price. (See § 301-3.2.)

(6) Miscellaneous expenses allowable. (See § 301-9.1(e).)

Auditor's Response

GENERAL

Our responses below address the Schistosomiasis Research Project (SRP) management responses only relating to those situations where we believe additional information or clarification is warranted.

FUND ACCOUNTABILITY STATEMENT

(1) Payment of committee meeting fees:

Committee meeting fees were paid to Government of Egypt (GOE) employees who were not listed on SRP internal documents as being bona fide project recipients. Additionally, USAID/Egypt approval for the hiring of these committee members was not obtained. All costs were incurred from April to July 1989.

(2) Miscellaneous travel items:

Vehicle operating expenses are a GOE expense. SRP should comply with GOE procedures relating to reimbursement for these expenses. Noncompliance with GOE procedures should not then obligate USAID/Egypt. Our position remains unchanged.

(4) Entertainment expenses paid by a PI:

Expenses for workshops are not part of the budget for PIL No. 5. As SRP management notes in their response, PIL No. 3 does provide a budget for workshop related expenses. However, this PIL relates to expenditures incurred at headquarters and does not apply to PI related expenditures. Therefore, we continue to assert this item as a questioned cost.

Auditor's Response (Con't)

(5&6) Renovations:

We do not question the necessity for the repair of the back gate; however, we do question the use of USAID/Egypt funds for this purpose. Renovations and repairs to VACSERA property (i.e. the gate) are the responsibility of the GOE and, accordingly, any improvement to VACSERA property should be at GOE expense.

In reference to SRP's management comment on "why the audit team finds it reasonable to accept the building repairs costs (in principal) and to reject the gate repairs costs while both are GOE property...", we agree that a renovation budget amount does exist. However, it is our interpretation that this budget amount includes only renovations to those facilities directly utilized by SRP (e.g. SRP office space) and not renovations to any facilities or property external to SRP.

(7) Miscellaneous travel payments:

SRP management has quoted two sources to support their position that small travel payments need not be supported. However, we questioned only those travel expenses that would reasonably be expected to be supported such as bus and train tickets. Our position regarding this item, therefore, remains unchanged.

INTERNAL CONTROL RECOMMENDATIONS

SRP management essentially agrees with the internal control recommendations. Our position remains the same for all recommendations with special emphasis on the computerized financial system's recommendation, due to the recent departure of the Financial and Administration Manager who played a key role in the development and use of the computer system.

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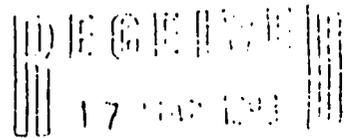


UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

MAR 17 1993

MEMORANDUM



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

FROM: Douglas S. Franklin, AD/FM *DSF*

SUBJECT: Audit of the Egyptian Organization for Biological and Vaccine Production's (VACSERA) Local Expenditures Incurred Under PILs 3 and 5 Relating to the Schistosomiasis Research Project No. 263-0140.02, a Sub-project of USAID/Egypt Science and Technology Cooperation Project No. 263-0140 - Draft Report

Mission has reviewed the subject draft audit report. Following are our comments in response to the three recommendations under the subject audit:

Recommendation No. 1:

We recommend that USAID/Egypt resolve questioned costs of \$8,895 consisting of ineligible costs of \$8,392 and unsupported costs of \$503 as detailed on pages 10 and 11 of the audit report and Appendix A.

Mission Response:

Ineligible costs for PILs 3 and 5:

We have reviewed these costs and agree with the auditors that items A, B, and D, which total \$2,181.00 are ineligible and should be reimbursed to the grant account from GOE funds. (See pages 14 and 15). We however take exception to: (a) item E for \$462, representing Entertainment expenses paid by a project investigator; (b) item F for \$5,206, representing luxurious and unnecessary renovations to the secretariat office; and (c) item G for \$543, representing renovations that should be charged to the GOE contribution. The three items total \$6,211 and are described below:

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(a) The amount of \$452 represents meals and soft drinks for a full day workshop which was presented by the Principal Investigator at VACSERA. It was attended by 80 participants who were actively involved in this project activity. Under the cost principles set forth in AID Handbook 11, Chapter 4, meals and soft drinks for workshops are not **unallowable costs**. In our review of this transaction, we have confirmed that participants in the workshop did not receive any other compensation or per diem. We believe that \$5.65 per person is reasonable for this type of activity in lieu of per diem. Accordingly, we have determined that this amount is not sustained.

(b) The amount of \$5,206 represents the cost of the wood panelling of the SRP office. This office was previously used as a laboratory, with tiles, sinks and water connection pipes. We believe that the wood panelling is the most economic and cost effective means to transform the laboratory into an office. Removing the pipes, tiles, connection pipes and painting the walls would have definitely exceeded the cost of wood panelling. Accordingly, we have determined that this amount is not sustained.

(c) The amount of \$543 represents the cost of repairing a gate. This gate is facing the front door of the secretariat building. The purpose of repairing this gate is to adequately safeguard the project equipment and resources. We believe that the cost of repairing the gate was a prudent management decision and has minimized the risk of losses of AID-procured non expendable property. Therefore, we believe this was a reasonable cost and should be allowed.

Unsupported Costs:

Regarding Item C, unsupported costs of \$503 representing travel costs without supporting receipts. Per Handbook 22, FTR Chapter 301, Para (c) of item 301-11.3, USAID does not require transportation receipts for transactions less than \$25. However,

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the traveller is required to state the mode and places travelled in order to be reimbursed. VACSERA follows the same policy as USAID. The unsupported transportation costs of \$503 represents individual transportation costs that do not exceed LE 50 (approximately \$15) per round trip, where there is sufficient evidence that travel was actually performed, e.g. the mode of transportation is identified, location specified and signed by the traveller, authorized by the PI, and finally approved by VACSERA. We believe that VACSERA's accounting system for transportation costs is adequate, and that this represents the exception rather than the rule. Accordingly, we believe that the \$503 is allowable and should not be sustained.

In summary, out of the \$8,895 reported in the audit as questioned/unsupported costs, \$2,181.00 are sustained and should be reimbursed by the project, and \$6,714.00 are not sustained and determined to be allowable. Based on the above, Mission requests that this recommendation be resolved.

Recommendation No. 2:

We recommend that USAID/Egypt require VACSERA to address the inadequate internal accounting control procedures as detailed on pages 19 through 25 of the audit report.

Mission Response:

Mission would like to comment regarding the purchase of insurance for delivered project commodities. These commodities are the property of the GOE which requires self insurance of commodities and is the same practice of the U.S.G. We believe that this section of the recommendation is not practical given GOE laws and regulations. Therefore, we request this section be closed. Attached is a copy of a letter to VACSERA requesting an implementation schedule for elements of the two major recommendations which we believe are reasonable. Based on this action, Mission requests this recommendation be resolved.

Att: a/s

SS



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

February 25, 1993

Dr. Taha El Khoby
Executive Director
Schistosomiasis Research Project.
Ministry of Health

Subject: Audit of the Egyptian Organization for Biological and Vaccine Production's (VACSERA) Local Expenditures incurred under PIL's No. 3 and 5 Relating to the Schistosomiasis Research Project No. 263-0140.02 a sub-project of the USAID/Egypt Science and Technology Cooperation Project No. 263-0140

Dear Dr. Khoby:

Please find attached the final report on subject audit which includes, as an annex, your response and comments to the findings and recommendations. You will note that your response to the auditors findings did not, according to our auditors, change Price Water House's understanding of the facts underlying their questioning of some project expenditures. The report contains two recommendations that you need to address.

Regarding the first recommendation dealing with questioned and unsupported costs, please submit to us a list of all the costs in these categories that you agree with as well as a list for those costs that you disagree with. For each issue in this recommendation that you agree with, provide us with a completion date for action to close out the issue. We suggest that the project should attempt to close out all actions it agrees with within the next four weeks.

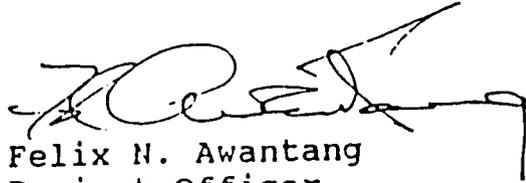
Each questioned cost that you disagree with will be addressed on a case by case basis until these costs are satisfactorily closed.

For recommendation No. 2 which deals with internal accounting control procedures, we request a completion date for actions you plan to implement to rectify those weaknesses you agree with that have been identified in the report. Also identify for our attention, the recommendations on this issue that you disagree with. These will be addressed on a case by case basis until they are all are satisfactorily closed.

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If you need any assistance or require clarification on any of the audit issues please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read 'Felix N. Awantang', with a long horizontal flourish extending to the right.

Felix N. Awantang
Project Officer
USAID/Cairo.

APPENDIX F

REPORT DISTRIBUTION

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