Regional Inspector General for Audit
Cairo, Egypt

# Audit of Development Research and Technological Planning Center Local Expenditures Incurred Under Project Implementation Letter No. 4 Related to the Energy Conservation and Efficiency Project No. 263-0140.3, a Sub-Project of USAID/Egypt's Science and Technology for Development Project No. 263-0140

Report No. 6-263-93-17-N
September 1, 1993

**FINANCIAL INFORMATION CONTAINED IN THIS 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

September 1, 1993

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

FROM : A/RIG/A/Cairo, Phillip C. Holt, Jr.

SUBJECT : Audit of Development Research and Technological Planning Center (DRTPC) Local Expenditures Incurred under Project Implementation Letter (PIL) No. 4 Related to the Energy Conservation and Efficiency Project (ECEP) No. 263-0140.3, a Sub-project of USAID/Egypt's Science and Technology for Development Project No. 263-0140

The attached report dated June 14, 1993, by Price Waterhouse presents the results of a financial audit of Development Research and Technological Planning Center locally incurred costs under PIL No. 4, related to Project No. 263-0140.3 funded by USAID/Egypt. DRTPC's directive is to improve the energy efficiency of Egyptian industrial and commercial firms by identifying energy conserving technologies not currently being used within the private sector in Egypt.

We engaged Price Waterhouse to perform a financial audit of DRTPC's locally incurred expenditures of LE1,727,093 (equivalent to $576,658) for the period from March 1, 1989 through June 30, 1992 for PIL No. 4. The purpose of the audit was to evaluate the propriety of costs incurred during that period. In performing the audit, Price Waterhouse evaluated DRTPC's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement. The auditors also determined the actual indirect cost rate for the period under audit.

Price Waterhouse questioned $76,446 in costs billed to A.I.D. by DRTPC (including $70,413 in unsupported costs). These questioned costs include salaries that exceed the approved budget, excess Social insurance paid, travel and per diem, bonuses, training cost and transportation. Price Waterhouse noted weaknesses in DRTPC's internal controls such as the payment of Egyptian taxes, preparation of time and attendance records, misclassification among budget line items, and safeguarding of assets. Additionally, they noted one instance of noncompliance relating to the improper

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reporting of the required Government of Egypt contribution to the project.

Price Waterhouse has reviewed DRTPC's response to the findings. Where applicable they have made adjustments in their reports. For those items not addressed, the response provided by DRTPC has not changed their understanding of the facts underlying the questioned costs of the Fund Accountability Statement or the reportable conditions in the Reports on Internal Control and Compliance.

The following recommendations are included in the Office of Inspector General's recommendation follow-up system.

> **Recommendation No. 1.1: We recommend that USAID/Egypt resolve questioned costs of $76,446 consisting of ineligible costs of $6,033 and unsupported costs of $70,413 as detailed on pages 14 through 16 of the audit report.**
>
> **Recommendation No. 1.2: We recommend that USAID/Egypt determine DRTPC's final indirect rate for the period under audit based on the resolution of direct and indirect costs questioned in the audit report as detailed in Appendix E, page 1 of 1.**

These recommendations are considered unresolved and can be resolved when we receive the Mission's formal determination regarding the questioned costs and indirect rate, in Recommendation 1.1 and 1.2. These recommendations can be closed when any amounts determined to be owed to A.I.D are paid by DRTPC and its indirect rate is finalized.

> **Recommendation No. 2: We recommend that USAID/Egypt require DRTPC to address the inadequate internal control procedures as detailed on pages 20 through 29 of the audit report.**

This recommendation is considered unresolved and may be resolved when the Mission provides our office with a copy of its request that DRTPC address its internal control weaknesses. The recommendation can be closed when RIG/A/C has assessed DRTPC's response and USAID/Egypt's follow-up for adequacy.

> **Recommendation No. 3: We recommend that USAID/Egypt require DRTPC to address the inadequate accounting for in-kind contribution as detailed on Page 33 of the audit report.**

This recommendation is considered unresolved and may be resolved when the Mission provides our office with a copy of its request that DRTPC address its noncompliance issue. The recommendation can be closed when RIG/A/C has assessed DRTPC'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.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL
PLANNING CENTER

PROJECT IMPLEMENTATION LETTER
NUMBER 4
RELATED TO THE ENERGY CONSERVATION
AND EFFICIENCY PROJECT
NO. 263-0140.3,
A SUB-PROJECT OF USAID/EGYPT
PROJECT NO. 263-0140

FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION

FOR THE PERIOD FROM MARCH 1, 1989
THROUGH JUNE 30, 1992

DEVELOPMENT RESEARCH AND TECHNOLOGICAL
PLANNING CENTER

PROJECT IMPLEMENTATION LETTER NUMBER 4
RELATED TO THE ENERGY CONSERVATION AND
EFFICIENCY PROJECT NO. 263-0140.3, A
SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0140

FUND ACCOUNTABILITY
STATEMENT AND ADDITIONAL INFORMATION

FOR THE PERIOD FROM MARCH 1, 1989
THROUGH JUNE 30, 1992

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**DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER**

**PROJECT IMPLEMENTATION LETTER NUMBER 4 RELATED TO THE ENERGY CONSERVATION AND EFFICIENCY PROJECT NO. 263-0140.3, A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0140**

**FUND ACCOUNTABILITY STATEMENT AND ADDITIONAL INFORMATION**

**FOR THE PERIOD FROM MARCH 1, 1989 THROUGH JUNE 30, 1992**

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*Price Waterhouse*

June 14, 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 Development Research and Technological Planning Center ("DRTPC") disbursements under Project Implementation Letter ("PIL") No. 4 pursuant to the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Energy Conservation and Efficiency Project ("ECEP") No. 263-0140.3, a sub-project of the broader Science and Technology for Development Project No. 263-0140 ("umbrella grant agreement"), funded by USAID/Egypt. The audit encompassed all disbursements for the period from March 1, 1989 through June 30, 1992.

Background

The ECEP is designed to improve the energy efficiency of Egyptian industrial and commercial firms. This objective is accomplished by identifying energy-conserving technologies not currently being used in Egypt which offer significant potential for energy savings, financing the initial uses of these technologies and promoting its

use. DRTPC's directive is to accomplish these objectives within the private sector.

Audit Objectives and Scope

The principle objective of this engagement was to perform a financial cost-incurred audit of USAID/Egypt funds provided to DRTPC under PIL No. 4 pursuant to USAID/Egypt Project No. 263-0140.3, a sub-project of the broader Science and Technology for Development Project No. 263-0140.

The audit encompassed all disbursements for the period from March 1, 1989 through June 30, 1992. Specific objectives were to determine whether:

1. The fund accountability statement for DRTPC presents fairly, in all material respects, project costs incurred and reimbursed under PIL No. 4 in conformity with the applicable accounting principles or another comprehensive basis of accounting;

2. The costs reported as incurred under PIL No. 4 are in fact allowable, allocable, and reasonable in accordance with the terms of the PIL and the umbrella grant agreement;

3. The internal controls, accounting systems and management practices of DRTPC are adequate for USAID/Egypt agreements;

4. DRTPC is in compliance, in all material respects, with the PIL, the umbrella grant agreement terms, and applicable laws and regulations; and

5. Indirect provisional rate has been authorized and, if USAID/Egypt has not negotiated final rates, determine the actual indirect cost rate applicable for the audit period.

Preliminary planning and review procedures began in October 1992 and consisted of discussions with RIG/A/C personnel and DRTPC officials and a review of the umbrella grant agreement and the related PIL. Fieldwork commenced in October and was completed in December 1992.

The scope of our work was all expenditures incurred under PIL No. 4. Within each budget line item, we selected expenditures for testing on a judgmental basis to test a majority of expenditures. We tested expenditures of LE 1,237,014 out of total expenditures of LE 1,727,093. Tested expenditures were incurred during the period from March 1, 1989 through June 30, 1992. DRTPC was authorized to charge indirect costs to USAID/Egypt using a provisional rate of 38.5% applied to direct costs.

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

1. Reconciling DRTPC's accounting records to invoices submitted to USAID/Egypt and testing of expenditures

for allowability, allocability, reasonableness, and appropriate support;

2. Determining that payroll costs were appropriate and conformed with the terms of the PIL and relevant regulations;

3. Determining that per diem and transportation charges were adequately supported and approved; and

4. Establishing the adequacy of DRTPC'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 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 DRTPC's compliance with applicable laws and regulations.

Results of Audit

Fund accountability statement:

Our audit identified $ 76,446 in questionable costs, including $ 70,413 of unsupported costs.

Internal control structure:

We recommend that DRTPC adopt procedures to ensure the proper classification of all costs incurred, and ascertain that only reimbursable taxes are invoiced to USAID/Egypt and paid to the authorities within a reasonable time period. In addition, DRTPC should develop improved internal control procedures surrounding employees' time and attendance data, cash, and the safeguarding of assets.

Compliance with Agreement terms and applicable laws and regulations:

Our audit found one instance of noncompliance relating to improper reporting of the required Government of Egypt contributions to the project.

Management comments

DRTPC management comments have been obtained and are included in Appendix C of this report. DRTPC provided comments on the majority of the questioned costs and agreed to consider implementation of the internal control recommendations. DRTPC provided a limited response to the compliance finding which does not provide a basis to warrant our response. (Note: DRTPC's summary sheets are included in Appendix C due to the volume of supporting documents, etc. that were included in their response. The supporting documents, etc. are retained in our files 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.

Price Waterhouse

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**REPORT OF INDEPENDENT ACCOUNTANTS**

December 3, 1992

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

We have audited the accompanying fund accountability statement of Development Research and Technological Planning Center ("DRTPC") relating to expenditures incurred for Project Implementation Letter ("PIL") No. 4 pursuant to the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Energy Conservation and Efficiency Project ("ECEP") No. 263-0140.3, a sub-project of the broader Science and Technology for Development Project No. 263-0140 ("umbrella grant agreement"), funded by USAID/Egypt, for the period from March 1, 1989 through June 30, 1992. This fund accountability statement is the responsibility of DRTPC's management. Our responsibility is to express an opinion on this fund accountability 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 fund

accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the fund accountability statement. 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 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 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 accompanying fund accountability statement are questioned costs of $ 76,446. The basis for questioning these costs is more fully described in the "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 fund accountability statement referred to above presents fairly, in all material respects, DRTPC's expenditures for PIL No. 4 pursuant to USAID/Egypt's Project No. 263-0140.3 for the period from March 1, 1989 through June 30, 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 statement described in the first paragraph. The supplemental information included in appendices A, B, and E is presented for purposes of additional analysis and is not required as part of the basic financial statement of DRTPC. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

Price Waterhouse

**DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER**

**FUND ACCOUNTABILITY STATEMENT**
**PROJECT IMPLEMENTATION LETTER NUMBER 4**
**RELATED TO THE ENERGY CONSERVATION AND**
**EFFICIENCY PROJECT NO. 263-0140.3, A**
**SUB-PROJECT OF USAID/EGYPT PROJECT NO 263-0140**

**FOR THE PERIOD FROM MARCH 1, 1989 THROUGH JUNE 30, 1992**

| | Budget (Note 2) | Actual Expenditures (Note 2) | Reclassification (Note 6) | Questioned Costs Ineligible (Note 5) | Questioned Costs Unsupported (Note 5) | Audit Findings Reference |
|---|---|---|---|---|---|---|
| General | | | | | $ 1,026 | |
| Salaries | $ 275,858 | $ 208,754 | $ (2,640) | $ 4,356 | 27,319 | |
| Consultant fees | 83,740 | 44,459 | (1,229) | | 8,193 | |
| Honoraria | 3,956 | 784 | | | | |
| Travel and per diem | 35,366 | 16,695 | 790 | | 799 | Pages 14 through 16. |
| Other direct costs | 14,023 | 8,724 | (3,138) | | | |
| Workshops/training/ conferences | 85,250 | 51,947 | (1,956) | | 6,183 | |
| Office equipment and renovations | 70,117 | 61,741 | 8,772 | | | |
| Contract with CPA firm | 2,504 | 2,504 | | | | |
| Materials and supplies | 32,104 | 21,229 | | | | |
| Indirect cost (Note 7) | 232,252 | 159,821 | (599) | 1,677 | 26,893 | |
| Totals | $ 835,170 | $ 576,658 | $ - | $ 6,033 | $ 70,413 | |
| Total Questioned Costs | | | | $ 76,446 | | |

See accompanying notes to the fund accountability statement.

**DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER**

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT**

NOTE 1 - SCOPE OF AUDIT:

The fund accountability statement includes all expenditures incurred by DRTPC and reimbursed by USAID/Egypt for PIL No. 4 related to the ECEP No. 263-0140.3, a sub-project of USAID/Egypt project No. 263-0140 for the period from March 1, 1989 through June 30, 1992. USAID/Egypt reimburses DRTPC for indirect costs at the provisional rate of 38.5% of total costs, exclusive of indirect costs.

NOTE 2 - SOURCE OF DATA:

The column labeled "Actual Expenditures" is the responsibility of DRTPC - and represents the cumulative expenditures billed to and reimbursed by USAID/Egypt for PIL No. 4 for the period from March 1, 1989 through June 30, 1992. The "Budget" column includes all USAID/Egypt approved costs for PIL No. 4. The amounts are based on the most recent budget amendment dated February 25, 1992.

NOTE 3 - BASIS OF PRESENTATION:

The 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:

Expenditures incurred in Egyptian pounds have been converted to U.S. dollars at the average monthly exchange rate of 2.995 Egyptian pounds to 1 U.S. dollar.

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 cost principles set forth in PIL No. 4 and the umbrella grant 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 PIL 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 Statement - Audit Findings" section of this report.

NOTE 6 - RECLASSIFICATION:

Certain expenditures included in the fund accountability statement have been reclassified to their proper budget line items in order to reflect the proper nature of incurred expenditures.

## NOTE 7 - INDIRECT COST AND RATE

A provisional indirect cost rate was authorized for the project of 38.5% applied to direct costs. The indirect cost pool consists of expenditures for rent, security, telephone, office maintenance, parking and electricity. We have determined that overhead costs represent 35.3535% of direct costs. See Appendix E to this report for details of this calculation.

## DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

### FUND ACCOUNTABILITY STATEMENT
### AUDIT FINDINGS

Our audit procedures identified the following invoiced costs relating to PIL No. 4 that are ineligible or unsupported:

| Item Description | Questioned Costs | |
|---|---|---|
| | Ineligible | Unsupported |
| **A. General:** | | |
| (1) Amounts paid for taxes, for which the related check is still outstanding for over one year. | | $ 1,026 |
| **B. Salaries:** | | |
| (1) Employee transportation not supported with receipts or expense reports. | | 201 |
| (2) Monthly employee bonuses paid. | | 17,495 |
| (3) Social insurance for three employees paid in excess of their gross salary. | $ 742 | |
| (4) Management salaries that exceed the USAID/Egypt approved budget. | | 4,932 |

| Item Description | Questioned Costs | |
|---|---|---|
| | Ineligible | Unsupported |
| **B. Salaries (Cont.)** | | |
| (5) Employers share of social insurance. Project is exempt from taxes. | $ 3,614 | |
| (6) Salaries in excess of the USAID/Egypt approved budget in effect at the time the salaries were paid. USAID/Egypt approval for the excess was not obtained. | | $ 4,691 |
| Total salaries | 4,356 | 27,319 |
| **C. Consultant fees:** | | |
| (1) Numerous fees paid to consultants not supported with a formal contract. | | 8,193 |
| **D. Travel and per diem:** | | |
| (1) Car rental expenses not supported with travel vouchers. | | 412 |
| (2) Miscellaneous travel and per diem expenses. | - | 387 |
| Total travel and per diem | - | 799 |

| Item Description | Questioned Costs | |
|---|---|---|
| | Ineligible | Unsupported |
| **E. Workshops/training/conferences:** | | |
| (1) Numerous charges for meals at conferences unsupported with attendance sheets. | | $ 6,183 |
| Total direct | $ 4,356 | $ 43,520 |
| **F. Indirect cost:** | | |
| (1) Unsupported indirect cost billed to USAID/Egypt for May and June 1992 prior to remitting amounts to DRTPC. | | 10,138 |
| (2) Recovery of indirect cost at the provisional indirect cost rate of 38.5% on questioned direct costs of $ 4,356 and $ 43,520, respectively. | 1,677 | 16,755 |
| Total indirect | 1,677 | 26,893 |
| **Total questioned costs** | $ 6,033 | $ 70,413 |
| | $ 76,446 | |

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**REPORT ON INTERNAL CONTROL STRUCTURE**

**REPORT OF INDEPENDENT ACCOUNTANTS**

December 3, 1992

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

We have audited the fund accountability statement of Development Research and Technological Planning Center ("DRTPC") relating to expenditures incurred for Project Implementation Letter ("PIL") No. 4 pursuant to the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Energy Conservation and Efficiency Project ("ECEP") No. 263-0140.3, a sub-project of the broader Science and Technology for Development Project No. 263-0140 ("umbrella grant agreement"), funded by USAID/Egypt, for the period from March 1, 1989 through June 30, 1992, and have issued our report thereon dated December 3, 1992.

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

The management of DRTPC 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.

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 statement. Our audit disclosed the following reportable conditions:

## REPORTABLE CONDITIONS

**DRTPC does not maintain separate ledger accounts to accumulate and track payment of various Egyptian taxes. As a result, amounts related to USAID/Egypt reimbursable vendor withholding taxes are billed to USAID/Egypt when the vendor invoice is paid and not when the taxes are actually remitted to the Egyptian Government. Furthermore, certain USAID/Egypt non-reimbursable taxes, such as customs duties and sales taxes, are included in billings to USAID/Egypt.**

### Recommendation 1

**DRTPC should implement procedures to quantify and segregate, USAID/Egypt reimbursable taxes from nonreimbursable taxes.** Specifically, we recommend that DRTPC establish separate general ledger accounts to accomplish this. USAID/Egypt reimbursable taxes should only be billed to USAID/Egypt upon actual payment to the tax authorities.

* * * * * * *

**The DRTPC petty cash system contains several weaknesses related to its ability to identify, quantify, record, and bill expenditures from petty cash.** In particular, we noted:

- Prenumbered forms are not used to control petty cash activity.

- Petty cash balances are not reconciled on a consistent basis.

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

- Imprest fund replenishments are billed to USAID/Egypt rather than the actual expenditures from petty cash.

- All petty cash transactions are originally charged to the materials and supplies line item and are subsequently adjusted to their proper line item. Therefore, account balances may contain errors prior to this adjustment.

- Physical counts of petty cash on hand are not performed by an independent party.

## Recommendation 2

**We recommend that DRTPC implement the following procedures and controls with regard to petty cash:**

2.1 Detailed petty cash records should be reconciled to cash disbursements records and supporting documents each month. To facilitate a proper reconciliation and control the following procedures should be implemented:

* Prenumbered forms should be used to record petty cash disbursements. The forms should be prepared in a manner which precludes alterations and can be sequentially accounted for on a periodic basis.

* The petty cash custodian should initial all petty cash disbursements and cancel the related support.

* The cash disbursement records should be compared to the petty cash fund balance. Differences should be investigated by the Executive Director.

* Supporting documents should be summarized monthly by someone other then the petty custodian and compared to the petty cash records. Differences should be investigated by the Executive Director.

2.2 Petty cash records and supporting documents, should be reviewed and approved by the Executive Director prior to replenishment of the petty cash fund. Additionally, the petty cash custodian should sign for receipt of the petty cash fund replenishments. A journal entry should be prepared at this time to record petty cash expenditures in the proper ledger accounts to ensure that amounts are actually incurred prior to billing amounts to USAID/Egypt.

2.3 Periodic counts should be made of cash funds by someone independent of all petty cash functions.

As an overall control over petty cash the balance should be reviewed to ensure the adequacy of the balance with regard to average monthly petty cash transactions. Unusual or increased activity in petty cash funds may indicate that expenditures which should be processed through regular disbursement procedures are being paid for through petty cash.

* * * * * * * *

**Employees' and consultants' 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 sheets or other source documents are not prepared

evidencing that employees and consultants have worked the time for which they are being paid. This breakdown in the internal control structure may allow employees and consultants to be paid for time not worked.

**Recommendation 3**

**Employees and consultants should prepare time sheets or other source documents which should be reviewed to determine that such documents are complete and have been approved by the employees' and consultants' immediate 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 or consultants.

* Time worked is evidenced by appropriate time records.

* Amounts to be paid have been computed at authorized rates and are within the USAID/Egypt approved budget limits.

* 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:

- Cash remittances received directly at DRTPC are not accurately listed.

- Bank account reconciliations are not approved by the Executive Director, and are not performed for the FT-800 account on a consistent basis.

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

- Reconciliations are not performed of costs submitted to USAID/Egypt to DRTPC accounting records.

**Recommendation 4**

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

4.1 All cash remittances received directly at DRTPC 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.

4.2 Bank reconciliations should be reviewed and approved by a responsible official, who is also independent of all cash processing and recording activities. Additionally, the FT-800 account should be reconciled on a monthly basis.

4.3 Fidelity coverage should be obtained and include all employees or officials involved in custodial, processing or recording activities. Fidelity coverage is not a substitute for an adequate system of controls. DRTPC must be able to detect irregularities and prove the loss before insurance claims will be honored.

4.5 DRTPC should ensure that amounts billed and approved by USAID/Egypt are reconciled with DRTPC records.

* * * * * * * *

**Costs of PIL No. 4 were misclassified among budget line items.**

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 5**

**DRTPC 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. In those cases where an expenditure may be allocated among various budget line items, the rationale underlying the allocation method should be documented and approved by a responsible official. Additionally, all accounting entries should be approved by management prior to being entered into the accounting system.

* * * * * * * *

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

- Productive assets are not adequately insured.

- Detailed property records are not periodically compared with existing assets and accurately prepared.

**Recommendation 6**

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

6.1 A comprehensive insurance policy be purchased for all significant assets in which DRTPC assumes the responsibility for maintenance and safekeeping.

6.2 Detailed property records should be periodically compared with existing assets. To maintain physical control over its productive assets and to detect errors or irregularities in the detailed property records, DRTPC 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.

Whenever 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.

* * * * * * * *

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 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 DRTPC'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

4, Road 261,
New Maadi,
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*Price Waterhouse*

**REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS**

**REPORT OF INDEPENDENT ACCOUNTANTS**

December 3, 1992

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

We have audited the fund accountability statement of Development Research and Technological Planning Center ("DRTPC") relating to expenditures incurred for Project Implementation Letter ("PIL") No. 4 pursuant to the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Energy Conservation and Efficiency Project ("ECEP") No. 263-0140.3, a sub-project of the broader Science and Technology for Development Project No. 263-0140 ("umbrella grant agreement"), funded by USAID/Egypt, for the period from March 1, 1989 through June 30, 1992, and have issued our report thereon dated December 3, 1992.

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 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, PIL's, and binding policies and procedures applicable to DRTPC is the responsibility of DRTPC's management. As part of our audit, we performed tests of DRTPC's compliance with certain provisions of laws, regulations, PIL's, 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 fund accountability statement is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Our testing of transactions, and records selected disclosed one instance of noncompliance with those laws and regulations, which is identified in the accompanying "Report On Compliance - Audit Findings" section of this report.

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

This report is intended for the information of DRTPC'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

## DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

### REPORT ON COMPLIANCE
### AUDIT FINDINGS

The following instance of noncompliance with laws, regulations, PIL's, and binding policies and procedures came to our attention during the audit.

**DRTPC reported to USAID/Egypt the Government of Egypt's (GOE) required contribution to the project as the benefit derived from the free use of DRTPC facilities. (DRTPC facilities are housed in a GOE facility). However, this benefit was also included as a component of DRTPC overhead.**

#### Recommendation 1

**We recommend that DRTPC obtain the required GOE project contribution and not double-count the GOE required contribution as a component of overhead.**

* * * * * * * *

**DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER**

**PROJECT IMPLEMENTATION LETTER NUMBER 4
RELATED TO THE ENERGY CONSERVATION AND
EFFICIENCY PROJECT NO. 263-0140.3, A
SUB-PROJECT OF USAID/EGYPT PROJECT NO 263-0140**

**ADDITIONAL INFORMATION
FUND ACCOUNTABILITY STATEMENT DETAIL OF AMOUNTS AS INCURRED IN EGYPTIAN POUNDS**

**FOR THE PERIOD FROM MARCH 1, 1989 THROUGH JUNE 30, 1992**

| | Budget | Actual Expenditures | Reclassification | Questioned Costs Ineligible | Questioned Costs Unsupported |
|---|---|---|---|---|---|
| General | | | | | LE 3,072 |
| Salaries | LE 826,195 | LE 625,218 | LE (7,907) | LE 13,047 | 81,821 |
| Consultant fees | 250,800 | 133,156 | (3,680) | | 24,538 |
| Honoraria | 11,849 | 2,349 | | | |
| Travel and per diem | 105,920 | 50,002 | 2,366 | | 2,392 |
| Other direct costs | 42,000 | 26,128 | (9,399) | | |
| Workshops/training/ conferences | 255,325 | 155,582 | (5,858) | | 18,517 |
| Office equipment and renovations | 210,000 | 184,913 | 26,273 | | |
| Contract with CPA firm | 7,500 | 7,500 | | | |
| Materials and supplies | 96,150 | 63,581 | | | |
| Indirect cost | 695,594 | 478,664 | (1,795) | 5,023 | 80,546 |
| Total Expenditures | LE 2,501,333 | LE 1,727,093 | LE - | LE 18,070 | LE 210,886 |
| Total Questioned Costs | | | | LE 228,956 | |

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DEVELOPMENT RESEARCH AND TECHNOLOGICAL
PLANNING CENTER

PROJECT IMPLEMENTATION LETTER NUMBER 4
RELATED TO THE ENERGY CONSERVATION AND
EFFICIENCY PROJECT NO. 263-0140.3, A
SUB-PROJECT OF USAID/EGYPT PROJECT NO 263-0140

ADDITIONAL INFORMATION
QUESTIONED COSTS DETAIL OF
AMOUNTS AS INCURRED IN EGYPTIAN POUNDS

FOR THE PERIOD FROM MARCH 1, 1989 THROUGH JUNE 30, 1992

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

| Item Description | Questioned Costs | |
|---|---|---|
| | Ineligible | Unsupported |
| **A. General:** | | |
| (1) Amounts paid for taxes, for which the related check is still outstanding for over one year. Check # 980119, dated February 13, 1991 | | LE 3,072 |
| **B. Salaries** | | |
| (1) Employee transportation amounts not supported with receipts or expense reports. | | 603 |
| (2) Monthly employee bonuses paid for October 91, December 91, and April 92. | | 52,398 |

| Item Description | Questioned Costs | |
|---|---|---|
| | Ineligible | Unsupported |
| **B. Salaries (Cont.)** | | |
| (3) Social insurance for three employees paid in excess of their gross salary. | LE 2,221 | |
| (4) Management salaries that exceed the USAID/Egypt approved budget for May 91 - June 92. | | LE 14,770 |
| (5) Employers share of social insurance for entire audit period. Project is exempt from taxes. | 10,826 | |
| (6) Salaries in excess of the USAID/Egypt approved budget in effect at the time the salaries were paid. USAID/Egypt approval for the excess was not obtained. | | 14,050 |
| Total salaries | 13,047 | 81,821 |
| **C. Consultant fees:** | | |
| (1) Numerous fees paid to consultants not supported with a formal contract. | | 24,538 |

| Date | Amount (LE) | Check No. |
|---|---|---|
| Sept. 89 | 6,743 | 26321 |

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| Item Description | Questioned Costs | |
|---|---|---|
| | Ineligible | Unsupported |

**C. Consultant fees (Cont.)**

| Date | LE Amount | Check No. |
|---|---|---|
| Dec. 89 | 9,900 | 56529 |
| " | 1,445 | 117351 |
| " | 661 | 117364 |
| " | 302 | 117379 |
| " | 370 | 72177 |
| " | 236 | 72198 |
| " | 330 | 72199 |
| " | 85 | 72200 |
| " | 57 | 72201 |
| " | 750 | 72208 |
| " | 3,506 | 3969083 |
| " | 91 | 3969087 |
| " | 62 | 3969088 |

**D. Travel and per diem:**

(1) Car rental expenses not supported with travel vouchers. LE 1,234

| Date | LE Amount | Check No. |
|---|---|---|
| Aug. 92 | 72 | 1145916 |
| Dec. 91 | 694 | 1225752 |
| Dec. 91 | 232 | 1145907 |
| Dec. 90 | 149 | 72267 |
| June 89 | 87 | 26218 |

| Item Description | Questioned Costs Ineligible | Questioned Costs Unsupported |
|---|---|---|
| **D. Travel and per diem (Cont.)** | | |
| (2) Miscellaneous travel and per diem expenses. | | LE 1,158 |

| Date | LE Amount | Check No. |
|---|---|---|
| Dec. 90 | 150 | 72264 |
| Dec. 91 | 100 | 1125781 |
| Dec. 91 | 100 | 1125782 |
| Feb. 92 | 350 | 1145944 |
| Feb. 92 | 350 | 1145947 |
| June 92 | 68 | 9760 |
| June 92 | 40 | 9763 |

| | | |
|---|---|---|
| Total travel and per diem | - | 2,392 |
| **E. Workshops/training/conferences:** | | |
| (1) Numerous charges for meals at conferences unsupported with attendance sheets. | | 18,517 |
| Total direct | 13,047 | 130,340 |
| **F. Indirect cost:** | | |
| (1) Unsupported indirect costs billed to USAID/Egypt for May and June 1992 prior to remitting amounts to DRTPC. | | 30,365 |

| Item Description | Questioned Costs | |
|---|---|---|
| | Ineligible | Unsupported |
| **F. Indirect cost (Cont.):** | | |
| (2) Recovery of indirect cost at the provisional indirect cost rate of 38.5% on questioned direct costs of LE 13,047 and LE 130,340, respectively. | LE 5,023 | LE 50,181 |
| Total indirect | 5,023 | 80,546 |
| **Total questioned costs** | LE 18,070 | LE 210,886 |
| | $ 228,956 | |

# DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

## MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

جامعة القاهرة – مركز بحوث التنمية والتخطيط التكنولوجي
DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER
مشروع تنشيط وتحسين كفاءة استخدام الطاقة
ENERGY CONSERVATION & EFFICIENCY PROJECT (ECEP)

May 9, 1993

Price Waterhouse
4, Road 261
New Maadi, Cairo

Dear Sirs,

Please find attached ECEP/DRTPC Management Response to the various items reported in your Draft report on Financial-Related Audit and all the relevant supporting documents.

Sincerely yours,

Prof. Samer L. El-Haw
Executive Director
ECEP/DRTPC

CC. Mr. Marc Madland, Project Officer.

Mail: P.O.Box: 38, Giza, Egypt — Telex: 93532 CU TPP UN — Fax.: (202) 728811 — 617205 — Tel.: 728633 — 728532 — 728811 — 617696

# DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

## MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

جامعة القاهرة - مركز بحوث التنمية والتخطيط التكنولوجي
DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER
مشروع ترشيد وتحسين كفاءة استخدام الطاقة
ENERGY CONSERVATION & EFFICIENCY PROJECT (ECEP)

**Management Comments on the Financial-Related Audit**

We have received the draft of the report on fund accountability statement for the Energy Conservation and Efficiency Project No. 263-0140.3/ Development Research And Technological Planning Center on April 15, 1993, during the exit conference held at AID, Cairo. After reviewing the report, we would like to express our appreciation to the effort done to produce the report.

We took note of all the recommendations provided regarding the internal control structure, and they will be given serious consideration for implementation. Regarding your audit result concerning the one instance of noncompliance with laws, regulations and PIL's (pp 33 in the report), we do not think that we double counted the required GOE project contribution as a component of overhead.

Regarding the result of your audit report which identified $64,050 in questionable costs, including $ 59,392 of unsupported costs, please find in what follows all the supporting documents for all the reported questionable costs provided item by item in the same order written in your report.

Mail: P.O.Box: 38, Giza, Egypt -- Telex: 93532 CU TPP UN — Fax.: (202) 728811 — 627205 — Tel.: 728833 — 728532 — 728811 — 627696

**DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER**

**MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT**

ITEM DESCRIPTION AND RESPONSE

A. GENERAL:

1- Amount paid for taxes and withheld from vendors for the amount of LE. 3072 by check #980119 on February 13, 1991.

RESPONSE

This check has been lost by the tax administration and canceled from the outstanding checks. It was replaced by check #60192 on November 16, 1992 by the same amount. Copy of the documents for the replaced check is attached.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

B. SALARIES:

1- Employee salary, November, 89 of LE. 644.00 was unsupported by the employee signature.

RESPONSE

Document has been completed and signed. See the attached completed copy.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

B. SALARIES

2- Labor Day Bonus, May 90 of LE. 75 was unsupported by the employee signature.

RESPONSE

It has been completed and signed. See attached signed copy.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

B. SALARIES

3- Executive director Salary, October 90, of LE. 15091 was unsupported by the Executive Director signature.

RESPONSE

Signature is obtained and document completed. See the attached signed copy.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

B. SALARIES

- Numerous employee transportation without receipts for the amount of LE. 603.00.

RESPONSE

The amounts are LE. 600 and not 603 and were paid as monthly transportation allowances to two employees and added to their salaries in the amounts of LE. 20 and LE. 30 per month. Those allowances were ordered and approved by the executive director. Attached are the payrolls indicating these allowances and having the approval of ECEP/DRTPC management and the signature of the two employees (Receipts).

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

B. SALARIES

5- Employee bonus paid for October 91, December 91, and April 92 of LE. 52.398.

RESPONSE

Employee bonuses and awards were wage benefits and payroll costs within the approved AID salary budget. and approved and concurred with by AID project officer. Attached are the FAST reports. and the approval and concurrences of AID.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

B. SALARIES

6- Social Insurance for three employees paid in excess of gross salary stated in their contract for the amount of LE. 2221.00.

RESPONSE

Social insurance payments for these three employees were determined as salary allowances by an executive order within the approved AID salary budget. The executive order was issued to amend the existing contracts and thus constitute an integral part of them. Attached are the executive order and the approved AID budget. Also find attached as an example one employee contract and associated executive order, which together amend the contract.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

B. SALARIES

7- Management Salaries that exceed the USAID approved budget for May 91 - June 92 for the amount of LE. 14770.00.

RESPONSE

Management salaries were adjusted by an executive order. After amending the contracts by executive order the total did not exceed USAID/ECEP approved salary budget. Attached are the executive order amending the contracts and the approved USAID/ECEP budget.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

B. SALARIES

8- Employers share of social insurance for the entire audit period in the amount of 10,826 LE. Project is exempt from taxes.

RESPONSE

A review of all project documents does not indicate that Employer share of social insurance is tax. Attached is a memorandum from AID dated May 13, 1992 that clearly indicates that social insurance charges paid by Egyptian entities are considered a cost of doing business and not as a tax, duty, or similar levy prohibited by the AID bilateral or by Project Agreement (Pro Ag) standard provisions. As such, these costs are elligible for reimbursement by USAID.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

B. SALARIES

9- Salaries in excess of the USAID/EGYPT approved budget in effect at the time the salaries were paid in the amount of LE. 14,050. and USAID/EGYPT approval for the excess was not obtained.

RESPONSE

Salaries were adjusted for all the project staff and redistribution of the various budget line items were suggested by ECEP/DRTPC management to cover that. and USAID/EGYPT approval for that was obtained on November. 1989 before effecting the adjustments in December 1989. Attached are the budget before and after the redistribution and the approval of USAID/EGYPT.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

C. CONSULTANT FEES

| DATE | AMOUNT (LE.) | CHECK No. |
|---|---|---|
| Sept. 89 | 80 | 26314 |
| Sept. 89 | 624 | 26315 |
| Sept. 89 | 240 | 26316 |
| Sept. 89 | 600 | 26317 |

The above amounts were paid to Dr. Z. Safar and associates. Attached are Dr. Safar contract and the invoice for the above amounts.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

C. CONSULTANT FEES

1- Numerous fees paid to consultants without the benefit of a formal contract. and in the total amount of LE. 39.320.

RESPONSE

All consultants were working with the benefit of formal contracts and get paid in accordance with them. The relevant supporting documents and explanations follow for the various reported checks in item C.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

C. CONSULTANT FEES

| DATE | AMOUNT (LE.) | CHECK No. |
|---|---|---|
| Sept. 89 | 6.743 | 26321 |

Please find attached the contract and relevant supporting documents.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

C. CONSULTANT FEES

| DATE | AMOUNT (LE.) | CHECK No. |
|---|---|---|
| Dec. 89 | 150 | 56436 |

This amount was paid to Eng. A. Mansour for preforming services made to the project during a month and was paid according to a memo from technical manager and approved by executive director. Please find relevant supporting documents.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

C. CONSULTANT FEES

| DATE | AMOUNT (LE.) | CHECK No. |
|---|---|---|
| December 89 | 2200 | 56437 |
| December 89 | 4163 | 56431 |
| December 89 | 690 | 56467 |

All of the above payments were made through the benefit of a formal contract with Wafa. Attached are the contract and relevant documents.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

C. CONSULTANT FEES

| DATE | AMOUNT (LE.) | CHECK No. |
|---|---|---|
| December 89 | 9900 | 56529 |

The above was paid to Prof. Shaker through the benefit of a formal contract. Attached are contract and relevant documents.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

C. CONSULTANT FEES

| DATE | AMOUNT (LE.) | CHECK No. |
|---|---|---|
| January 90 | 1445 | 117351 |
| November 90 | 750 | 72208 |

The above were paid to Tabin Institute for Metallurgical Studies (TIMS) as fees for using their energy measurements bus in accordance with the received invoices from TIMS and the activities performed. Attached are the invoices and the activities performed.

**DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER**

**MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT**

ITEM DESCRIPTION AND RESPONSE

C. CONSULTANT FEES

| DATE | AMOUNT (LE.) | CHECK No. |
|---|---|---|
| November 90 | 944 | 72195 |
| November 90 | 370 | 72197 |
| November 90 | 236 | 72198 |
| November 90 | 330 | 72199 |
| November 90 | 85 | 72200 |
| November 90 | 57 | 72201 |
| January 91 | 3506 | 3969083 |
| January 91 | 91 | 3969087 |
| January 91 | 62 | 3969088 |

The above amounts were paid to Prof. S. Khader and his associates through a formal contract between ECEP/DRTPC and Dr. S. Khader.

Attached are the contract and invoice and all supporting documents.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

C. CONSULTANT FEES

| DATE | AMOUNT (LE.) | CHECK No. |
|---|---|---|
| February 91 | 378 | 980125 |

The above was paid to Dr. A. Ragab assistant with the benefit of a contract between ECEP/DRTPC and Dr. A. Ragab.

Attached is the contract and the relevant supporting documents.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

C. CONSULTANT FEES

| DATE | AMOUNT (LE.) | CHECK No. |
|---|---|---|
| January 92 | 4,713 | 1145906 |

The above was paid to Dr. H. Abdallah with the benefit of a formal contract.

Attached is the contract.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

C. CONSULTANT FEES

| DATE | AMOUNT (LE.) | CHECK No. |
|---|---|---|
| January 90 | 661 | 117364 |

The above amount was paid to Eng. K. El-Farra for screening services to the project during 3 months. and paid in accordance with a memo from the executive director outlining his work and duration.

Attached are copies of the relevant supporting documents.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

C. CONSULTANT FEES

| DATE | AMOUNT (LE.) | CHECK No. |
|---|---|---|
| June 90 | 302 | 117379 |

The above amount was paid to Social Insurance Organization and misclassified into the consultant line item. Attached is the relevant document. Measures are taken to correct it.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

D. TRAVEL AND PER DIEM

1- Car rental expenses not supported with travel vouchers

| DATE | AMOUNT (LE.) | CHECK No. |
|---|---|---|
| January 92 | 72 | 1145916 |
| January 92 | 694 | 1225752 |
| january 92 | 232 | 1145907 |
| December 90 | 149 | 72267 |
| June 89 | 87 | 26218 |

All travel vouchers concerning the above payments have been completed and attached.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

D. TRAVEL AND PER DIEM

2- Miscellaneous travel and per diem expenses

| DATE | AMOUNT (LE.) | CHECK No. |
|---|---|---|
| January 91 | 150 | 72264 |
| January 92 | 100 | 1125781 |
| January 92 | 100 | 1125782 |
| February 92 | 350 | 1145944 |
| February 92 | 350 | 1145947 |
| June 92 | 68 | 9760 |
| June 92 | 100 | 9763 |

All travel and per diem expenses vouchers related to the above amounts have been completed and attached.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

D. TRAVEL AND PER DIEM:

3- Unallowable tax payments

| DATE | AMOUNT (LE.) | CHECK No. |
|---|---|---|
| July 90 | 4 | 117434 |
| November 90 | 103 | 1145999 |
| June 92 | 81 | 1170814 |

All of the above taxes are vendor taxes withheld from origin. Attached are the supporting documents showing the amounts which are withheld from the vendor invoices.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

E. WORKSHOP/TRAINING/CONFERENCE:

1- Numerous charges at the amount of LE. 18,517 for needs at conferences unsupported with attendance sheets.

RESPONSE

All documents related to charges for needs at conferences have been completed and supported by attendance sheets. See attached documents.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

E. WORKSHOP/TRAINING/CONFERENCE:

2- Unallowable tax and customs payments

| DATE | AMOUNT (LE.) | CHECK No. |
|---|---|---|
| May 91 (reported wrongly in the report Jan.91) | 10 | 1013995 |
| September 91 | 75 | 1014098 |
| March 92 | 174 | 1145999 |
| June 92 | 12 | 1170814 |

RESPONSE

The first one and the last two are vendor taxes withheld at origin. Attached are the supporting documents. The second amount are fees and no customs or taxes are included.

Attached are the various receipts showing that.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

F. OFFICE EQUIPMENT AND RENOVATIONS:

1- Unallowable tax and custom payments

| DATE | AMOUNT (LE.) | CHECK No. |
|---|---|---|
| March 92 | 82 | 1145999 |
| November 90 | 37 | 72210 |
| December 91 | 19 | 1125720 |
| February 90 | 249 | 56573 |

RESPONSE

All of the above amounts are vendor taxes withheld at the origin. Attached are all the supporting documents.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

G. MATERIALS AND SUPPLIES:

1- Unallowable taxes paid for April and May 1990 at the amount of LE. 57.

RESPONSE

The above were vendor taxes withheld at the origin. Attached are the supporting documents.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

G. MATERIALS AND SUPPLIES:

2- Overbilling due to miscalculation of amount paid for brochures in April 89.

RESPONSE

Offers were obtained from 3 companies for printing brochures in April 1989. The least offer of 900 LE. was chosen and company was asked to do extra work, so invoice was obtained at the amount of LE. 1000 which was paid by ECEP/DRTPC. So the amount paid was the amount invoiced and no overbilling or miscalculation occurred. Note also that the offer of 1000 LE. was still less than the other two offers. Attached are all the supporting documents.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER

MANAGEMENT COMMENTS ON THE
FINANCIAL-RELATED AUDIT

ITEM DESCRIPTION AND RESPONSE

H. INDIRECT COST:

1- Unsupported indirect cost billed to USAID/EGYPT for May and June 1992 in the amount of 30,365 LE.

RESPONSE

The indirect costs for May and June 1992 in the above amounts were given to DRTPC in August and September 1992.

Attached are documents showing the above amounts paid to DRTPC. Measures have been taken so that no indirect costs are billed to AID before actually paying them to DRTPC.

# DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER
# AUDITOR'S RESPONSE

Our response below addresses the DRTPC management response for the audit of Project Implementation Letter (PIL) No. 4 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 the DRTPC management response.

Note: Our response follows the format used by DRTPC in Appendix C.

## A. General

Amounts paid for taxes

DRTPC has provided documentation supporting a check issued to the tax authorities equal to the amount questioned. DRTPC has not provided evidence that the questioned cost is supported by a cancelled check.

Based on documentation provided, we continue to question the cost.

Further, before approval of monthly bank reconciliations, DRTPC management should consider cancellation of outstanding checks over 6 months old and refund previously billed amounts to USAID/Egypt.

## B. Salaries

Employee salary

Questioned cost was removed from the final report following receipt of appropriate documentation.

Labor day bonus

Questioned cost was removed from the final report following receipt of appropriate documentation.

Executive director salary

Questioned cost was removed from the final report following receipt of appropriate documentation.

Numerous employee transportation

DRTPC pays fixed sums to employees for job-related travel within Cairo. Transportation costs billed to USAID/Egypt should be supported with, at a minimum, consistently prepared expense reports detailing the time, place, mode, cost, and purpose of travel accompanied by, when practical, receipts. Expense reports should be signed by the employee and approved by the employee's immediate supervisor, the Financial Manager, and the Executive Director. Employees should not be authorized to approve their own expenses.

DRTPC provided documentation lacking one or more of the above elements of support; therefore, we continue to question employee transportation costs.

Employee bonuses paid

Our audit of salary costs reimbursed by USAID/Egypt was based on a comparison of salary paid to each DRTPC

employee with the cooresponding position listed in the DRTPC detailed budget and the employee's contract, on a test basis. Bonuses, social insurance, and salary payments excluding exceeding either the budget or the employee's contract that were not specifically approved by USAID/Egypt for the audit period were questioned.

DRTPC's response includes coorespondence with USAID/Egypt dated September, 1992. Payroll procedures approved by the USAID/Egypt project officer will be on a proactive basis unless otherwise stated. Management comments in that same memo state".... four secretarial positions are approved for ECEP/DRTPC, however, all work is being handled successfully by one." DRTPC uses budget under runs for certain positions to cover excesses in others. DRTPC should not net oversized salaries with vacant or under paid positions. The focus is not to fill the budget line item, but to pay reasonable, justifiable salaries to qualified personnel. If the budget is overstated, DRTPC in cooperation with USAID/Egypt should develop a more realistic budget to suit DRTPC's needs.

DRTPC has also submitted Financial Analysis Support Team (FAST) communications. The FAST completed a financial review of DRTPC. A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, (FAST) communications cannot be considered.

We continue to question salary costs in excess of budget.

Further, considerations should be given to the G.O.E. employees on a leave of absence to ensure that their current salary is within a reasonable range of past salaries.

Social insurance for three employees

Social insurance tax was paid to 3 employees over the gross salary while the employee contracts state that salary includes all taxes. These payments were approved by a DRTPC management decree without USAID/Egypt approval. The DRTPC response includes the contract of only one of the three employee contracts in question.

DRTPC has also included an internal memo dated November, 1992 applying to costs incurred subsequent to our audit period which has no bearing on the questioned costs.

See auditor response at Section B under Employee bonuses paid for disposition of this finding.

Management salaries

See auditor response at Section B under Employee bonuses paid for disposition of this finding.

Employer's share of social insurance

DRTPC has provided page 1 of a memo entitled "Legal Advice on Financial Analysis Support Team (FAST) Findings" written by Ted Carter, USAID/Egypt legal advisor. Pages 2 and 3 of the same memo, included elsewhere in the DRTPC response, states as follows:

> "..... although projects may not be exempted from G.O.E. taxes at the onset, AID furnished funds may not be used to pay those Egyptian taxes or similar ..... In short, the G.O.E. contribution to the project should cover the above charges not USAID/Egypt."

Our position regarding the employer's share of social security taxes is unchanged in line with the intent of USAID/Egypt not to pay taxes assessed by the host country; therefore, we continue to question costs related to the employer's share of social insurance.

Salaries in excess

See auditor response at Section B under Employee bonuses paid for disposition of this finding.

**C. Consultant Fees**

Numerous fees paid to consultants

DRTPC has provided some documentation related to consultant fees. Consultant fees billed to USAID/Egypt must be supported with documentation containing the following elements to be a contractually correct and a reimbursable cost:

1. A contract containing a statement of the work to be performed, time frame, and a proposed budget signed by the Executive Director and the consultant.

2. A report stating the details of the work performed.

3. A billing from the consultant approved by the project employee responsible for monitoring the consultant's work, the Executive Director, and the Financial Manager.

4. Evidence that the amount was paid to the consultant and cleared through the project's bank account.

Several questioned costs were removed from the final report following receipt of appropriate documentation; however, we continue to question costs totalling LE 24,538 lacking one of more of the above elements of support.

**D. Travel and Per diem**

Car rental expenses

DRTPC has provided some documentation related to car rental expenses.

Transportation costs billed to USAID/Egypt must be supported with documentation containing the elements listed in the auditor response, Section B under Numerous employee transportation.

Costs questioned in this category are lacking one or more of the required elements of support and, in several cases, we consider the charges unreasonable as compared to the local market rate for transportation services. For example, a charge of LE 149 is supported with a log stating that the cost is for two trips to Helwan from Cairo University, while the market rate is much less.

We continue to question car rental expenses which are inadequately supported or are unreasonable or both.

Miscellaneous travel and per diem

DRTPC has submitted internally prepared "Local Travel Advance" and "Travel Expense Voucher" forms which are apparently based on USAID/Egypt Contractor Notice Rates. The USAID/Egypt Contractor Notice rates for perdiems follows the "Lodging Plus System" which breaks perdiem into a maximum for lodging and a flat rate for meals and incidental expenses. Reimbursement for lodging is eligible only upon submission of appropriate lodging receipts. Lodging receipts or transportation receipts were not included to support the respective portions of the perdiem paid to employees. Further, two amounts were supported by a hotel price quotation which includes meals billed to USAID/Egypt under the Conference budget line item resulting in a double billing of these costs.

Questioned costs of LE 60 out of 100 have been removed from the June 92 billing representing the meals and incidental expenses portion allowable for the FSN 1-5 category in Contractor Notice 31-91 applicable to that payment.

Normally G.O.E. - affiliated entities use an internally approved per diem rate which is generally lower than the USAID/Egypt per diem rate. DRTPC should obtain an USAID/Egypt approval for the use of Contractor Notice Rates.

Unallowable tax payments

DRTPC has provided some documentation related to tax payments.

Tax payments related to the vendor tax withholding are allowable as they are assessed on the vendor who is not tax exempted. We noted, however, as a result of the DRTPC response that stamp taxes are being withheld also. Stamp and custom taxes are not eligible for reimbursement as they are assessed of the project which is tax exempted. Quantification of these amounts by auditors would require a large sample and would not be cost-effective. We encourage DRTPC management to ensure that only eligible tax payments are withheld and billed to USAID/Egypt.

We have removed questioned costs related to vendor tax withholding. We continue to question custom duties of LE 75 questioned in the Workshops budget line item. Stamp taxes for this sample are immaterial.

**E. Workshops/training/conferences**

Numerous charges for meals at conferences

DRTPC has responded to amounts other than the amounts questioned except for: LE 7,634 and 920.

A conference meal cost with 60 attendees was LE 7,634, excluding beverages, which is LE 127 per person. We consider LE 127 per person to be an unreasonable charge for a conference meal cost. DRTPC has also provided an attendee list of 61 persons while the meal charge was for 110 persons as support for LE 920.

We continue to question workshop costs for the unreasonable charges, excess meals, and unresponded to amounts.

Unallowable tax and customs

See auditor response at Section D under Unallowable tax payments for disposition of this finding.

**F. Office Equipment and Renovations**

Unallowable tax and custom payments

See auditor response at Section D under Unallowable tax payments for disposition of this finding.

**G. Materials and Supplies**

Unallowable taxes paid

See auditor response at Section D under Unallowable tax payments for disposition of this finding.

Overbilling due to miscalculation

Questioned cost was removed from the final report following receipt of appropriate documentation.

**H. Indirect Costs**

PIL No. 4 is a cost-reimbursable agreement which, by definition, requires that DRTPC incur and expend funds prior to requesting reimbursement from USAID/Egypt. That is, the purpose of reimbursing allowable costs the term "costs" includes only those recorded costs that, at the time of the request for reimbursement, DRTPC has paid by cash, check, or other form of actual payment. DRTPC invoices USAID/Egypt prior to the outlay of funds. Specifically, indirect costs are billed to USAID/Egypt prior to actual disbursement; therefore, we continue to question the cost related to the advance billing.

**DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER**
**INDIRECT COST RATE CALCULATION**
**FOR THE PERIOD FROM MARCH 1, 1989 THROUGH JUNE 30, 1992**

| Description | Amount | Reclassification | Questioned Costs | | Indirect Cost Pool |
|---|---|---|---|---|---|
| | | | Ineligible | Unsupported | |
| Indirect cost | $ 159,821 | $ (599) | $ 1,677 | $ 26,893 | $ 130,652 |
| Direct cost | $ 416,837 | $ 599 | $ 4,356 | $ 43,520 | $ 369,560 |

**Indirect cost rate calculation:**

$$\frac{\text{Indirect cost}}{\text{Direct cost}} \quad \frac{\$\ 130{,}652}{369{,}560} = 35.3535\%$$

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

USAID

CAIRO, EGYPT

August 26, 1993

29 AUG 1993

# MEMORANDUM

**TO:** Phillip Holt, A/RIG/A/C

**FROM:** Amanda Levenson, OD/FM/FA

**SUBJECT:** Audit of Development Research and Technological Planning Center (DRTPC) Local Expenditures Incurred Under PIL No. 4, Relating to USAID/Egypt Project No. 263-0140.03, for the Energy Conservation and Efficiency Project (ECEP) - Draft Report

Mission has no comments to offer at this time on the subject draft report. Please issue the final report.

Thank you for your cooperation.

**APPENDIX G**

## REPORT DISTRIBUTION

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