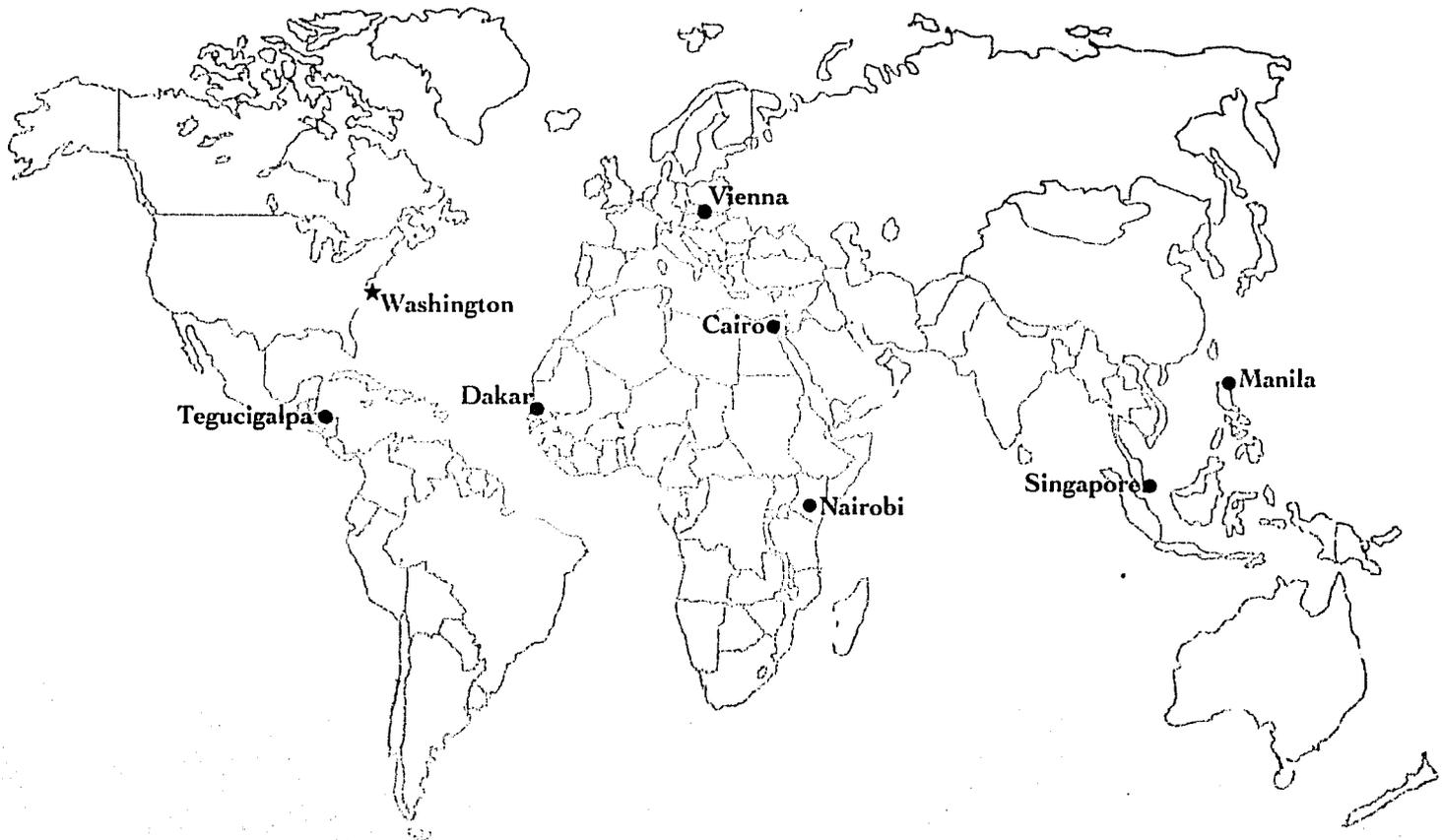


Regional Inspector General for Audit
Cairo, Egypt

Audit of Ministry of Higher Education (MOHE) Local Expenditures Incurred under Project Implementation Letters (PILs) Nos. 11, 12, 14 and the FT-800 Agreement Related to Peace Fellowship Project No. 263-0125.1, the first Component of the Development Training Grant Agreement No. 263-0125

Report No. 6-263-94-004-N
November 4, 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

November 4, 1993

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford
FROM : RIG/A/Cairo, Philippe L. Darcy
SUBJECT : Audit of Ministry of Higher Education (MOHE) Local Expenditures Incurred under Project Implementation Letters (PILs) Nos. 11, 12, 14 and the FT-800 Agreement Related to Peace Fellowship Project No. 263-0125.1, the first component of the Development Training Grant Agreement No. 263-0125

The attached report dated May 20, 1993, by Allied Accountants presents the results of a financial audit of Peace Fellowship Project No. 263-0125.1 locally incurred costs under the Development Training Grant Agreement No. 263-0125 funded by USAID/Egypt. Peace Fellowship's directive is to provide scholarships to Egyptians for primarily graduate level study in the United States in several disciplines identified as critical to the country's economic growth and development.

We engaged Allied Accountants to perform a financial audit of MOHE/Peace Fellowship's locally incurred expenditures of LE7,020,086 (equivalent to \$2,437,530) for the period August 8, 1988 to August 7, 1991 for PIL No. 11, August 8, 1988 to December 31, 1992 for PIL No. 12, February 1, 1989 to December 31, 1992 for PIL No. 14 and November 1, 1988 to December 31, 1992 for the FT-800 Agreement. The purpose of the audit was to evaluate the propriety of costs incurred during those periods and to ascertain whether required counterpart contributions have been provided in accordance with the agreement. In performing the audit, Allied Accountants evaluated MOHE/Peace Fellowship's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Allied Accountants questioned \$201,576 in costs billed to A.I.D. by MOHE/Peace Fellowship (including \$160,559 in unsupported costs). The questioned costs included travel and per diem, excess baggage, bank charges and training. Allied Accountants noted weaknesses in

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MOHE/Peace Fellowship's internal controls relating to cash management, fixed assets, time sheet preparation/retention and the written financial management policies and procedures. Additionally, they noted three instances of noncompliance relating to documentation of required counterpart contributions, preparation of realistic annual budgets and payment of taxes in violation of the grant.

Allied Accountants reviewed MOHE/Peace Fellowship's response to the findings. Where applicable they have made adjustments in their reports or provided further clarification of their position. For those items not addressed, the response provided by MOHE 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 Controls and Compliance.

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

Recommendation No. 1: We recommend that USAID/Egypt resolve questioned costs of \$201,576 consisting of ineligible costs of \$41,017 and unsupported costs of \$160,559 as detailed on pages 13 through 32 of the audit report.

This recommendation is considered unresolved and can be resolved when RIG/A/C receives the Mission's formal determination as to the amounts sustained or not sustained. The recommendation can be closed when any amounts determined to be owed to A.I.D. are paid by the MOHE.

Recommendation No. 2: We recommend that USAID/Egypt require MOHE/Peace Fellowship to address the inadequate internal control procedures as detailed on pages 35 through 37 of the audit report.

This recommendation is considered resolved because the Mission has provided our office with a copy of its request to MOHE to address Peace Fellowship's internal control weaknesses. The recommendation can be closed when RIG/A/C has assessed MOHE's response and USAID/Egypt's follow-up for adequacy.

Recommendation No. 3: We recommend that USAID/Egypt require MOHE/Peace Fellowship to address the non-compliance issues detailed on pages 40 through 42 of the audit report.

This recommendation is considered resolved because the Mission has provided our office with a copy of its request to MOHE to address Peace Fellowship's noncompliance issues. This recommendation can be closed when RIG/A/C has assessed MOHE's responses 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 Allied Accountants and to our office.

b

**Ministry Of Higher Education
Audit Of Local Expenditures Under
Peace Fellowship Component No. 263-0125.1
Of USAID/Egypt's Development Training Grant
Project Implementation Letter Nos. 11,12,14 and the FT-800 Agreement**

**Fund Accountability Statements
For The Period August 8, 1988 to December 31, 1992**

Ministry of Higher Education
Audit Of Local Expenditures Under
Peace Fellowship Component No. 263-0125.1
Under USAID/Egypt's Development Training Grant

Table of Contents

	<u>Page</u>
<u>Transmittal Letter</u>	
Background	1
Audit Objectives, Scope and Methodology	1
Results of Audit	3
Management Comments	4
<u>Fund Accountability Statements</u>	
Independent Auditor's Report	5
Fund Accountability Statements and Notes	7
Audit Findings	13
<u>Internal Control Structure</u>	
Independent Auditor's Report	33
Audit Findings	35
<u>Compliance with Agreement Terms and Applicable Laws and Regulations</u>	
Independent Auditor's Report	38
Audit Findings	40
<u>Appendices</u>	
Appendix A: Fund Accountability Statements Presented in Egyptian Pounds and US Dollars	43
Appendix B: Details of Questioned Costs	47
Appendix C: Ministry of Higher Education Management Comments	57
Appendix D: Auditor's Response to Management Comments	73

d.

ALLIED ACCOUNTANTS

Ragheb, Sherif, Istambouli & El Kilany
A Member Firm of **ARTHUR ANDERSEN & Co. SC**
Public Accountants & Business Advisors
Fellows and Members of the Egyptian Society of Accountants and Auditors



المحاسبون المتضامنون

رابع ، شريف ، اسطنبولي والكيلاني
مراسلو آرثر أندرسن وشركاه
محاسبون قانونيون وخبراء تنظيم وإدارة
زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

July 20, 1993

Mr. Phillippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development
Cairo, Egypt

Dear Mr. Darcy :

This report presents the results of our financial incurred cost audit of the Peace Fellowship Project No. 263-0125.1 funded by the United States Agency for International Development Mission in Egypt under USAID/Egypt's Development Training Grant Agreement No. 263-0125. Funding is being provided through three Project Implementation Letters and an FT-800 Agreement covering the period August 8, 1988 to December 31, 1992.

Background

The purpose of the Peace Fellowship Program is to provide scholarships to Egyptians for primarily graduate level study in the United States in several disciplines identified as critical to the country's economic growth and economic development.

The anticipated output of the Peace Fellowship Program is 1,250 individuals trained over the life of the project. The project completion date is September 25, 1995 per the latest amendment to the project agreement.

The Ministry of Higher Education is responsible for implementing the Peace Fellowship Program.

Audit Objectives, Scope and Methodology

The objective of this engagement was to conduct a financial audit of USAID/Egypt resources managed by the Ministry of Higher Education pursuant to Project Implementation Letters (PILs) No. 11, 12, 14 and the FT-800 Agreement related to the Peace Fellowship Project No. 263-0125.1 under the first component of the Development Training Grant Agreement No. 263-0125. The specific objectives of this audit were to :

1. Express an opinion on whether the fund accountability statements for the USAID/Egypt financed project of MOHE presents fairly, in all material respects, project revenues received and costs incurred for the period under audit in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including the cash receipts and disbursements basis and modifications of the cash basis;

2. Determine if the costs reported as incurred under the PILs are in fact allowable, allocable, and reasonable in accordance with the terms of the PILs;
3. Evaluate and obtain a sufficient understanding of the internal control structure of MOHE, assess control risk, and identify reportable conditions, including material internal control weaknesses; and
4. Perform tests to determine whether MOHE complied, in all material respects, with PIL's terms and applicable laws and regulations.

The scope of our financial cost-incurred audit was all expenditures incurred and required counterpart contributions under Grant Agreement No. 263-0125.1 for the period August 8, 1988 to August 7, 1991 for PIL No. 11, August 8, 1988 to December 31, 1992 for PIL No. 12, February 1, 1989 to December 31, 1992 for PIL No. 14 and November 1, 1988 to December 31, 1992 for the FT-800 Agreement.

The methodology of our audit consisted of an internal control evaluation, testing of expenditures incurred under the financing agreements, assessing the host country contribution and testing compliance by the MOHE with specific provisions/requirements of various agreements and regulations/laws.

Our testing included sampling costs incurred for each budget line item within each financing agreement. We tested costs by financing agreement as follows :

<u>Agreement</u>	<u>Total cost</u>	<u>Tested Amt.</u>	<u>Percent</u>
PIL 12	\$ 143,290	\$ 14,250	10
PIL 14 (LE)	169,346	106,686	63
PIL 14 (\$)	77,043	77,043	100
FT-800 Agreement/PIL 11	2,047,851	91,717	4

In addition we tested counterpart contributions provided by the Government of Egypt.

Our testing program encompassed, but was not limited to the following major steps :

1. Reviewed direct project costs billed to and reimbursed by USAID/Egypt. General ledgers and cash journals were reconciled to billings submitted to USAID/Egypt.
2. Prepared proofs of cash to assure recording of transactions and reviewed procedures used to control cash.
3. Reviewed travel costs to determine if they are adequately documented and approved.
4. Reviewed procurement procedures to determine that sound commercial practices including competition were used.
5. Determined whether advances of funds were justified with documentation, including reconciling funds advanced, disbursed and available.

We reviewed and evaluated the organization's internal control structure to obtain an understanding of the design of relevant control policies and procedures, and whether those policies and procedures have been placed in operation. We obtained a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing and extent of tests to be performed.

The agreement terms and pertinent laws and regulations applicable to the project were reviewed and audit procedures were designed to test for material noncompliance.

Initial planning began with an entrance conference attended by RIG/A/C personnel, MOHE management staff and the Mission project officer. The grant agreement and related project implementation letters were reviewed to gain an understanding of the agreements' terms and cost principles.

Except as discussed in the following 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality 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 Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

Results of Audit

Fund Accountability Statements

Our audit identified \$ 201,576 in questioned costs, including \$160,559 in unsupported costs. The details of costs questioned are presented in the Fund Accountability Statements - Findings Section of this report.

Internal Control

In our evaluation of internal control we noted deficiencies in controls over cash management, fixed assets, time sheet preparation/retention and no written financial management policies and procedures. We assess these deficiencies as being material weaknesses in the system of internal control. The details of these weaknesses are presented in the Internal Control Structure - Findings Section of this report.

Compliance with Agreement Terms and Applicable Laws and Regulations

In performing our audit we noted that the Ministry of Higher Education has not documented the required host country contribution, not prepared realistic annual budgets and has paid Egyptian taxes in violation of the Project Grant Agreement. Details related to non-compliance are set forth in the Compliance - Findings Section of this report.

Management Comments

The management of the Ministry of Higher Education has provided a response to costs questioned in our report. The summary pages of their response are included in this report in Appendix C. Detailed supporting documents included with the MOHE response are not included herein because of the volume, but are maintained in our files for further inspection if necessary. Our comments related to the MOHE response are included in Appendix D.

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

Arthur Anderson

ALLIED ACCOUNTANTS

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زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

Mr. Phillippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development
Cairo, Egypt

Independent Auditor's Report

We have audited the fund accountability statements of the Ministry Of Higher Education related to project funds received and costs incurred by the Peace Fellowship Component No. 263-0125.1 under the Development Training Project financed by the US Agency for International Development for the period August 8, 1988 to August 7, 1991 for PIL No. 11, August 8, 1988 to December 31, 1992 for PIL No. 12, February 1, 1989 to December 31, 1992 for PIL No. 14 and November 1, 1988 to December 31, 1992 for the FT-800 Agreement. These fund accountability statements are the responsibility of the Ministry of Higher Education management. Our responsibility is to express an opinion on these fund accountability statements based on our audit.

Except as discussed in the following 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement. Our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. Our audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall fund accountability statements 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 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 Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

As described in Note 1, the accompanying fund accountability statements have been prepared on the cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Included in the fund accountability statements are questioned costs of \$ 201,576 relating to the Peace Fellowship Component No. 263-0125.1 of the Development Training Project. The bases for questioning costs are set forth in the "Fund Accountability Statements-Findings Sections" of this report.

In our opinion, except for questioned costs of \$ 201,576, the fund accountability statements referred to above present fairly, in all material respects, the Ministry of Higher Education's project funds received and costs incurred for the Peace Fellowship Component No. 263-0125.1 for the period August 8, 1988 to August 7, 1991 for PIL No. 11, August 8, 1988 to December 31, 1992 for PIL No. 12, February 1, 1989 to December 31, 1992 for PIL No. 14, and November 1, 1988 to December 31, 1992 for FT-800 Agreement in conformity with the cash basis of accounting described in Note 1.

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

This report is intended for the information of the management and others within the Ministry of Higher Education 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.

Arthur Anderson

May 20, 1993

Ministry of Higher Education
 Fund Accountability Statement (Note 1)
 FT-800 Agreement and Project Implementation Letter No. 11
 Peace Fellowship Component No. 263-0125.1
 Under USAID/Egypt's Development Training Grant
 For the period August 8, 1988 to December 31, 1992

	<u>Actual</u>	<u>Questioned Cost</u>		<u>Note</u>
		<u>Ineligible</u>	<u>Unsupported</u>	
Receipts	\$ 2,081,409	\$	\$	
Expenditures:				
Travel	1,958,366		9,400	Findings 1, 2, 3 * Findings 4, 5 Finding 6 Finding 7
Excess baggage	89,386	332	88,937	
Bank charges	99	99		
Taxes		518		
Total expenditures	<u>2,047,851</u>	<u> </u>	<u> </u>	
Net balance	<u>33,558</u>	<u>949</u>	<u>98,337</u>	
		<u>99,286</u>		

* Findings 1 through 7 can be found on pages 13 through 18.

See accompanying notes to the fund accountability statements.

Ministry of Higher Education
 Fund Accountability Statement (Note 1)
 Project Implementation Letter No. 12
 Peace Fellowship Component No. 263-0125.1
 Under USAID/Egypt's Development Training Grant
 For the period August 8, 1988 to December 31, 1992

	<u>Actual</u>	<u>Questioned Cost</u>		<u>Note</u>
		<u>Ineligible</u>	<u>Unsupported</u>	
Receipts:				
USAID	\$ 142,750	\$		
Interest	2,299	2,299		Finding 1 *
Total receipts	<u>145,049</u>			
Expenditures:				
Maintenance Allowance	142,650	1,950		Finding 2
Bank charges	640	640		Finding 3
Total expenditures	<u>143,290</u>	<u> </u>		
Net balance	<u>1,759</u>	<u>4,889</u>		

* Findings 1 through 3 can be found on pages 19 through 21.

See accompanying notes to the fund accountability statements.

Ministry of Higher Education
 Fund Accountability Statement (Note 1)
 Project Implementation Letter No. 14 US Dollars
 Peace Fellowship Component No. 263-0125.1
 Under USAID/Egypt's Development Training Grant
 For the period February 1, 1989 to December 31, 1992

	<u>Questioned Cost</u>			
	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Note</u>
Receipts	\$ 47,788	\$	\$	
Expenditures				
Training	14,708			
Per diem and allowances	62,248	200	62,048	Findings 1,2 * Finding 2
Bank charges	87	87		
Total expenditures	<u>77,043</u>	_____	_____	
Net Balance	<u>(29,255)</u>	287	62,048	
		=====	62,335	
			=====	

* Findings 1 and 2 can be found on pages 22 through 23.

See accompanying notes to the fund accountability statements.

Ministry of Higher Education
 Fund Accountability Statement (Note 1)
 Project Implementation Letter No. 14 LE
 Peace Fellowship Component No. 263-0125.1
 Under USAID/Egypt's Development Training Grant
 For the period February 1, 1989 to December 31, 1992

	<u>Actual</u>	<u>Questioned Costs</u>		
		<u>Ineligible</u>	<u>Unsupported</u>	<u>Note</u>
Receipts	\$ 178,898	\$	\$	
Expenditures:				
Honoraria	23,619	6,841		Finding 1 *
Office supplies				
Telephone system	660			
Equipment	5,815			
Office furniture	13,798			
Photocopiers	6,210			
Typewriters	4,364			
Computer accessories	10,305			
Stationery	22,459			
Maintenance	21,233			
Telecopier				
Total office supplies	<u>84,844</u>			
Int'l communications	11,084	89		Finding 2
Local expenditures				
Internal transport/services	5,919	3,469	174	Findings 3,4,5,6
Computer personnel training	3,361	2,705		Finding 7
First consultant	5,174	947		Findings 8,9
Assistant consultant	<u>2,472</u>			
Total local expenditures	<u>16,926</u>			
Other				
Publishing & advertising	32,775			
Bank charges	<u>98</u>	98		Finding 10
Total other	<u>32,873</u>			
Taxes		20,743		Finding 11
Total expenditures	<u>169,346</u>	-----	-----	
Net balance	<u>9,552</u>	<u>34,892</u>	<u>174</u>	
	=====	=====	=====	
		35,066		
		=====		

* Findings 1 through 11 can be found on pages 24 through 32.

See accompanying notes to the fund accountability statements.

Ministry of Higher Education
Notes To The Fund Accountability Statements

Note 1 : Basis Of Presentation

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

Note 2 : Source Of Data

The data included under "actual" was taken from the books of the Peace Fellowship Project as implemented by the Ministry of Higher Education. In certain instances we have reclassified minor expenditures between budget line items or have made adjustments to record bank charges and interest income which were not booked. These adjustments have been added to the project's amounts producing the "actual" amounts reflected in the fund accountability statements.

Note 3 : Project Activities

The USAID Mission financed various expenditures of the Peace Fellowship Component through different financing agreements, however, the activities are under one contiguous project. The FT-800 Agreement and Project Implementation Letter No. 11 are used to pay air travel and excess baggage for participants attending training in the US. Financing was originally provided under PIL No. 11 for a brief period but was replaced by the FT-800 Agreement. These agreements were funded in local currency. Financing under PIL No. 12, in US Dollars, was used to provide a \$ 300 advance to each participant sent to the US for training. Funding under PIL No. 14 was partially funded in US Dollars which paid for MOHE employees' training in the US. PIL No. 14, financed in local currency, was provided to pay for administrative expenses incurred in Egypt by the MOHE.

Note 4 : Net Balances

The net balance of \$ 33,558 on the fund accountability statement for the FT-800 Agreement and PIL No. 11 represents the reconciled balance of cash in the bank at December 31, 1992.

The fund accountability statement net balance of \$ 1,759 for PIL No. 12 represents the reconciled balance of cash in the bank at December 31, 1992. The net balance does not include a \$ 300 transfer of funds to PIL No. 14, US Dollars.

The net balance of (\$ 29,255) on the fund accountability statement for PIL No. 14 in US Dollars is comprised of the balance of cash in the bank of \$ 413 less \$ 200 of estimated bank charges and \$ 29,168 of expenses booked and vouchered to USAID/Egypt. As of December 31, 1992 USAID/Egypt had not reimbursed the MOHE for the \$ 29,168, consequently the transfer to repay the Egyptian Cultural and Education Bureau in Washington, D.C. for these incurred costs had not been made. The net balance also does not include a \$ 300 transfer of funds from PIL No. 12.

The fund accountability statement net balance of \$ 9,552 for PIL No. 14, administrative costs, represents the reconciled balance of cash in the bank at December 31, 1992.

Note 5 : Exchange Rate

Expenditures incurred in local currency (LE) have been converted to US Dollars at an average exchange rate of LE 2.88/\$.

Note 6 : Questioned Cost

Incurred questioned costs are presented in two categories: ineligible and unsupported costs. Questioned costs are those expenditures we have determined to not be in accordance with the project agreement, the project implementation letters or other applicable USAID/Egypt regulations or because they are not supported with adequate documentation. "Ineligible" costs are deemed to be unallowable because they are prohibited by the project agreement, PILs or USAID/Egypt regulations/policies. These costs are supported by adequate documentation. "Unsupported" costs are expenditures which are not supported by adequate documentation or were not authorized/approved by the proper officials.

The basis for questioning specific costs are set forth in the "Finding Sections" of this report.

**Fund Accountability Statement
Audit Findings**

FT 800 Agreement and Project Implementation Letter No. 11

Questioned Cost Summary - Travel

	<u>Ineligible</u>	<u>Unsupported</u>
Finding 1		\$ 4,960
Finding 2		2,443
Finding 3		1,997
Total per fund accountability statement		<u>9,400</u> =====

Findings 1 through 3 follow:

Finding 1 - Travel

Condition :

Travel for three MOHE staff attending training in the U.S. in 1991 and 1992 lack sufficient documentation to allow an audit for reasonableness, allowability and allocability. Travel was paid from the FT-800 Agreement. (See Findings 1 and 2, PIL 14 US Dollars.)

Criteria :

Expenditures invoiced to USAID/Egypt require adequate documentation for auditing reasonableness, allowability and allocability of the costs.

Cause :

MOHE documentation for this travel consists of two blanket invoices from Misr Travel indicating the participants' names and a request for a round trip economy ticket to the USA. There are no dates listed on the invoice to verify travel dates, and no copies of the airline ticket to verify that tickets were actually issued. Also, there are no expense reports available which would provide verification that travel to the United States was accomplished.

Effect :

USAID/Egypt has been invoiced for unverifiable travel costs.

1 participant - 1991 - LE 3,774	=	\$ 1,310
2 participants - 1992 - LE 10,510	=	3,650
		<u>4,960</u> =====

Recommendation :

The MOHE should reimburse USAID/Egypt for \$ 4,960 unless adequate supporting documentation is provided.

Finding 2 - Travel

Condition :

A professor of the Faculty of Medicine, Ain Shams University, traveled to the USA to supervise a Ph.D. candidate who was under joint supervision with a US faculty member. He traveled using Peace Fellowship funds.

Criteria :

There is no provision in the grant agreement or the FT-800 Agreement which funds a professor's travel to supervise a student who is studying in the US.

Cause :

The MOHE approved paying for the travel from Peace Fellowship funds.

Effect :

The MOHE invoiced USAID/Egypt for ineligible travel costs of LE 7,037 or \$ 2,443.

Recommendation :

The MOHE should reimburse USAID/Egypt the travel costs of \$ 2,443.

Finding 3 - Travel

Condition :

A participant flew to the US on Lufthansa. There was a letter from Misr Travel stating the non-availability of Egypt Air for travel on the date required; however there was no mention of non-availability of an American carrier.

Criteria :

Section 8 of Trust Fund Agreement between the United States Agency for International Development and the Government of the Arab Republic of Egypt states, "To the extent available, international air travel shall be on Egyptian air carrier; if not available by Egyptian air carrier, to the extent available, international air travel shall be by US flag carrier."

Cause :

According to the Chief Accountant of the Peace Fellowship Project, the MOHE interpretation of the criteria is that flights to the US would be on an Egyptian carrier and all flights within the US would be on a US carrier. Any deviations from this would require documentation of non-availability. The MOHE did not interpret Section 8 to require a US flag carrier for travel from Egypt to the US if an Egyptian carrier was not available.

Effect :

When the non-availability of Egypt Air was communicated to the MOHE for the travel of a participant, they wrote back to Misr Travel requesting tickets on any foreign airline. A ticket was purchased on Lufthansa. The price of the ticket was (LE 5,752) \$ 1,997.

Recommendation :

We recommend that the MOHE provide documentation that a US carrier was not available for the flight to the US. If the documentation is not available, we recommend the MOHE refund the (LE 5,752) \$ 1,997 to USAID/Egypt.

Questioned Cost Summary - Excess Baggage

	<u>Ineligible</u>	<u>Unsupported</u>
Finding 4	\$ 332	
Finding 5		\$ 88,937
Total per fund accountability statement	<u>332</u>	<u>88,937</u>

Findings 4 and 5 follow :

Finding 4 - Excess Baggage

Condition :

A participant returning to Egypt incurred LE 1,295 in excess baggage costs. That cost was paid by the MOHE and invoiced to USAID/Egypt. Per the MOHE Chief Accountant, the participant is supposed to refund LE 955 to the program by June 30, 1993. The costs were incurred in 1991 and invoiced to USAID/Egypt in February 1992.

Criteria :

The FT-800 Agreement budgets excess baggage at 10% of the ticket cost. However, the MOHE policy is an excess baggage allowance of LE 340 (approximate depending on the exchange rate).

Cause :

The MOHE did not have procedures in place which would have denied the participant the ability to charge additional excess baggage costs over the allowed excess baggage amount to the program. Also there are no procedures which could identify and segregate this charge as a receivable from the participant and therefore not invoice USAID/Egypt for the cost.

Effect :

USAID/Egypt was invoiced (LE 955) \$ 332 for costs in excess of allowed cost per the MOHE policy.

Recommendation :

The MOHE should collect this cost from the participant. USAID/Egypt should be refunded the \$ 332.

Finding 5 - Excess Baggage

Condition :

On return tickets to Egypt a flat fee of approximately LE 350 (dependent on exchange rates) is added for excess baggage by Egypt Air. The excess baggage ticket is non-refundable/non-cancelable. There is no way to verify whether or not each participant used the excess baggage ticket.

Criteria :

Per the FT-800 Agreement, excess baggage is allowed up to 10% of the price of the air ticket.

Cause :

The MOHE, in assessing the excess baggage requirements of returning participants, found two methods of determining excess baggage. Participants leaving Egypt had baggage/excess baggage determined by weight. However, in the US when the participants were returning to Egypt, the baggage/excess baggage is determined by the number of pieces (2 allowed). Therefore, participants who left Egypt with 3 pieces of luggage but with a total weight of less than 70 KG were within limit. On returning, they exceeded the baggage allowance by one piece. According to the MOHE Chief Accountant, the majority of the participants fall into this category. In order to standardize the allowance for excess baggage, and since the FT-800 Agreement budgeted a 10% excess baggage allowance, the MOHE had Egypt Air issue, as part of the return ticket, a LE 350 excess baggage ticket per participant.

Effect :

The MOHE has invoiced to USAID/Egypt unsupported excess baggage costs.

Recommendation :

The MOHE provide documentation verifying the use of the excess baggage tickets provided to the participants. If the MOHE is not able to do this, the MOHE should reimburse USAID/Egypt the \$ 88,937.

Finding 6 - Cash Management

Condition :

During the audit it was determined that bank charges were not booked into the cash journal.

Criteria :

Prudent financial management practices and generally accepted accounting principles require the timely recording of bank charges in the cash journal and general ledger. The budgets for the FT-800 Agreement and PIL 11 do not include a budget line for bank charges. There is also no criteria regarding the allowability of bank charges.

Cause :

The MOHE's bank reconciliation procedures do not reconcile the bank balance to the general ledger or cash journal. According to the Chief Accountant, the bank charges and other reconciling items would be identified and booked upon project close out.

Effect :

Bank charges of LE 284 or \$ 99 have not been booked to the cash journal and general ledger.

Recommendation :

MOHE and USAID/Egypt should determine the allowability of bank charges and, if allowable, develop appropriate procedures for invoicing these costs to USAID/Egypt. In addition, the MOHE should record all adjustments in the cash journal and general ledger in a timely manner.

Finding 7 - Taxes

Condition :

Egyptian source taxes are being invoiced to USAID/Egypt.

Criteria :

According to the Peace Fellowship Project Grant Agreement No. 263-0125.1, Annex 2, Section B.4 - Taxation, the grant will be free from any taxation or fees imposed under laws in effect in Egypt.

Cause :

The Ministry of Finance is requiring the Ministry of Higher Education to pay all taxes according to Egyptian law and the Ministry of Higher Education is invoicing USAID/Egypt for these costs.

Effect :

The MOHE has invoiced USAID/Egypt for taxes paid from PIL 11 and the FT-800 Agreement in the amount of (LE 1,491) \$ 518.

Recommendation :

The Ministry of Higher Education should reimburse USAID/Egypt for \$ 518.

**Fund Accountability Statement
Audit Findings**

Project Implementation Letter No. 12

Finding 1- Cash Management

Condition :

Interest income was earned on the Bank Misr account, not refunded to USAID/Egypt and not booked into the cash journal or general ledger.

Criteria :

Interest earned on funds advanced by USAID/Egypt should be reimbursed to USAID/Egypt. This is detailed in the Project Grant Agreement, Annex 2, Section D. 2 (e). Also, prudent financial management practices and generally accepted accounting practices require the timely recording of receipts in the cash journal and general ledger.

Cause :

The MOHE had planned to address the interest income at project close out.

Effect :

Interest income earned and not booked into the cash journal or general ledger or refunded to AID is \$ 2,299.

Recommendation :

The MOHE should book the receipt in the cash journal/general ledger and refund the interest earned on advances to USAID/Egypt.

Finding 2 - Maintenance Advance

Condition :

A professor of the Faculty of Medicine, Ain Shams University travelled to the USA to supervise a Ph.D. candidate who was studying in Cedar Rapids, Iowa. This student was under the supervision of two faculty members, one located in the USA and the Egyptian professor who travelled using Peace Fellowship funds.

Criteria :

Participant training is funded by Peace Fellowship. There is no provision in the Grant Agreement or the PILs which funds a professor's travel to supervise a student who is training in the USA.

Cause :

The MOHE approved the professor's travel and the per diem.

Effect :

Travel and per diem were paid for a person not meeting the criteria of the Grant Agreement. (See related travel finding, FT-800 Agreement, finding 2, page 14).

The amount of ineligible per diem is \$ 1,950.

Recommendation :

The MOHE should reimburse USAID/Egypt the \$ 1,950.

Finding 3 - Cash Management

Condition :

In preparing a proof of cash for PIL 12 it was determined that :

1. Checks were written from the wrong account (wrong PIL) and although the money was transferred at a later date extra bank charges were incurred.
2. Funds necessary to close out the former Peace Fellowship Project bank accounts were not available in Bank Misr accounts; therefore Bank Misr charged the fee against the new Peace Fellowship Bank Misr account.
3. Bank commissions and services charges were incurred and not booked in the cash journal and general ledger.
4. Money was transferred to open the PIL 14 US Dollar account and not returned to the PIL 12 account.

Criteria :

Funds advanced by USAID/Egypt for PIL 12 should only be used for expenditures associated with this specific PIL. Prudent financial management practices and generally accepted accounting principles require the timely recording of bank charges in the cash journal and general ledger. The budget for PIL 12 does not include a budget line for bank charges. There is also no criteria regarding the allowability of bank charges.

Cause :

The MOHE believed that, as long as the funds were transferred within PILs relating to the same project and the funds were returned to the appropriate account, they were not violating the regulations concerning fund expenditures. The MOHE had planned to address the bank charges at project close out.

Effect :

	US\$
1. Bank charges incurred when checks were written on the wrong account	95
2. Bank charges for close out of Peace Fellowship 110 account	12
3. Bank charges on current account	533
	<hr/>
	640
	<hr/> <hr/>
4. Funds of \$ 300 were transferred to the PIL 14 US Dollar bank account from the PIL 12 bank account.	

Recommendation :

1. MOHE should ensure that USAID/Egypt is not charged for the \$ 95 of bank charges.
2. MOHE should ensure that PIL 12 does not get invoiced for the bank charges of \$ 12 associated with the former Peace Fellowship 110 account.
3. MOHE and USAID/Egypt should determine the allowability of the \$ 533 of bank charges and, if allowable, develop appropriate procedures for invoicing these costs to USAID/Egypt. In addition, the MOHE should record all adjustments in the cash journal and general ledger in a timely manner.
4. The MOHE should return to the PIL 12 bank account the \$ 300.

**Fund Accountability Statement
Audit Findings**

Project Implementation Letter No. 14 (US Dollars)

Finding 1 - Per Diem and Allowances

Condition :

The Peace Fellowship Project has been invoiced by the Egyptian Cultural and Educational Bureau in Washington for per diem, book allowance, freight allowance, transportation allowance, excess baggage, and medical insurance for MOHE staff who attended training in Washington in 1991 and 1992. There is no documentation in Egypt to verify that the participants were actually paid per diem. Also, there is no documentation to verify if there was a requirement for a book, freight, transportation or excess baggage allowance or if medical insurance was actual purchased for the participants.

Criteria :

Adequate documentation is required for USAID/Egypt funded expenditures to allow determination of accuracy of invoicing and allowability, allocability and reasonableness of the expenditures.

Cause :

Adequate back up documentation was not collected at the time of the expenditure. Per the Chief Accountant, MOHE Mission, all documentation that is available is in Washington, DC. Also, per the Chief Accountant, these allowances were paid to each participant with no stipulation requiring subsequent documentation or expense reports.

Effect :

USAID/Egypt has been invoiced for unverifiable costs :

	<u>1991</u>	<u>1992</u>	<u>Total</u>
Per diem	\$ 29,850	\$ 26,760	\$ 56,610
Book allowance	600	480	1,080
Freight allowance	600	480	1,080
Transportation allowance	120	96	216
Excess baggage	990	792	1,782
Medical insurance	720	560	1,280
Total Allowances	<u>32,880</u> =====	<u>29,168</u> =====	<u>62,048</u> =====

Recommendation :

The MOHE should provide adequate documentation for all training allowance costs invoiced to USAID/Egypt.

Finding 2 - Cash Management

Condition :

In preparing a proof of cash for PIL 14 US Dollars, it was determined that :

1. The money that was used to open the bank account was transferred from the PIL 12 bank account.
2. Bank commissions and service charges incurred were not booked in the cash journal or ledger. Estimated bank charges were invoiced to USAID/Egypt under the accommodations and per diem budget line.

Criteria :

USAID/Egypt requires funds to be used for the purpose stated in the financing agreement. Prudent financial management practices and generally accepted accounting principles require the timely recording of bank charges in the cash journal and general ledger.

Cause :

The MOHE does not perform a monthly reconciliation of the bank statement to the cash journal and book any required adjustments. MOHE had planned to address bank charges at project close out. PIL 14 has no budget line for bank charges.

Effect :

1. The PIL 12 funds (\$ 300) used to open the bank account have not been recorded in the PIL 14 US Dollar cash journal or general ledger or returned to the PIL 12 account.
2. Actual bank charges of \$ 87 have not been recorded in the cash journal or ledger, however, \$ 200 of estimated bank charges is included under the budget line for accommodations and per diem and has been invoiced to USAID/Egypt.

Recommendation :

1. MOHE should transfer \$ 300 to the PIL 12 bank account.
2. MOHE should record all adjustments in the cash journal and ledger in a timely manner. MOHE and USAID/Egypt should determine the allowability of bank charges and, if allowable, develop appropriate procedures for invoicing these costs to USAID/Egypt. Estimated bank charges of \$ 200 should be removed from the accommodations and per diem budget line.

**Fund Accountability Statement
Audit Findings**

Project Implementation Letter No. 14 (LE)

Finding 1 - Honoraria

Condition :

MOHE staff working on Peace Fellowship, as a part of the internal committee, have been paid a percentage of their base salaries for the extra work incurred when a participant selection cycle occurs. No time sheets were available to verify the staff who worked, per the MOHE Chief Accountant, because of the lapse in time between when the work was accomplished and this audit. Approximately 250 staff were paid. The internal committee put together files, cataloged information, and directed the files to the correct reviewers. The internal committee included administrative, technical and financial staff.

Criteria :

Per PIL 14, Honoraria payments will be made to university staff for reviewing study plans of fellows, outside their normal duties, and occasionally to other GOE employees, provided such payments are clearly for functions outside their normal duties and are not performed during working hours or otherwise conflict with official duties. This amount excludes overtime payments for staff members. Also, according to the grant agreement, the MOHE was to provide adequately trained staff as a part of the GOE in-kind contribution to the project.

Cause :

The payments were made in accordance with memos issued by the Project General Manager or a MOHE Undersecretary of State and approved by the First Undersecretary of State.

Effect :

The MOHE invoiced USAID/Egypt for costs which were not in accordance with the criteria set out in PIL 14. It should instead have been booked against the GOE in-kind contribution to the project.

LE 19,703 or \$ 6,841

Recommendation :

We recommend the MOHE refund to USAID/Egypt the \$ 6,841 in questioned costs.

Finding 2 - International Communications

Condition :

In September 1990 a MOHE telephone bill (not Peace Fellowship) was paid from PIL 14 funds and USAID/Egypt was invoiced for the expenditure. Subsequently, the MOHE detected the error and refunded the money to the PIL 14 account. In December 1990 an adjustment was made and a refund returned to USAID/Egypt. However, the MOHE netted the telephone refund with bank charges due on the Misr Bank account which was being closed out. The refund to USAID/Egypt was the netted amount along with an additional amount withheld to cover any additional bank charges that might be incurred while the checks cleared and the account could be closed.

Criteria :

Per PIL 14 the funds expended are required to be for the project. MOHE is required to refund to USAID/Egypt all monies funded by USAID/Egypt that were not expended on the project.

Cause :

The original payment and invoicing to USAID/Egypt appear to be an error. The full amount of the error should have been refunded. There is no budget line for bank charges and no criteria available defining where the bank charges should be booked - if allowable by USAID/Egypt.

Effect :

The total refund amount should have been (LE 1,595) \$ 554 with the (LE 229) \$ 80 of bank charges invoiced separately to USAID/Egypt, if allowable.

	LE
Telephone bill invoiced in error	1,595
Refunded to USAID/Egypt	(1,338)
Due to USAID/Egypt	<u>257</u> = \$ 89 ===

Recommendation :

The MOHE should refund to USAID/Egypt (LE 257) \$ 89 for the telephone bill invoiced in error. MOHE and USAID/Egypt should determine the allowability of bank charges and, if allowable, develop appropriate procedures for invoicing these costs to USAID/Egypt.

Questioned cost summary - Internal Transportation and Services

	<u>Ineligible</u>	<u>Unsupported</u>
Finding 3	\$ 28	
Finding 4	3,094	
Finding 5		\$ 174
Finding 6	347	
Total per fund accountability statement	<u>3,469</u>	<u>174</u>
Findings 3 through 6 follow :	<u>=====</u>	<u>=====</u>

Finding 3 - Internal Transportation and Services

Condition :

USAID/Egypt has been invoiced from petty cash for drink and flower expenditures.

Criteria :

Per US government regulations drinks and flowers are unallowable costs.

Cause :

Expenditures were not adequately reviewed for allowability.

Effect :

USAID/Egypt was invoiced for unallowable cost: drinks (LE 13) and plants (LE 68) totaling LE 81 or \$ 28.

Recommendation :

The MOHE should reimburse USAID/Egypt for the \$ 28.

Finding 4 - Internal Transportation and Services

Condition :

The MOHE has booked and invoiced USAID/Egypt for additional salary (a % of monthly salary) for MOHE staff who worked on purchasing, receiving, information system development, participant follow-up and budget development. Some of these costs were identified as overtime.

Criteria :

Although PIL 14 has a provision under the line item Honoraria for occasional Honoraria payments to other GOE employees, the GOE is required, by the grant agreement, to provide staff as a part of their in-kind contribution to the project. Overtime was specifically excluded in PIL 14.

Cause :

Payments made to MOHE staff were paid by USAID/Egypt funds in accordance with memos signed by MOHE management requiring the cost to be booked in the Peace Fellowship Project.

Effect :

Amounts were invoiced to USAID/Egypt that should have been included as part of the GOE in-kind contribution. In addition, there is a question of the reasonableness of LE 6,039 for computer purchasing. As of December 31, 1992 only LE 29,679 had been expended on computers and accessories.

	<u>LE</u>	
Computer purchasing	6,039	
Participant follow-up	842	
Overtime - budgeting	1,000	
Purchasing & budgeting	1,029	
	<u>8,910</u>	= \$ 3,094
	====	

Recommendation :

MOHE should refund to USAID/Egypt the \$ 3,094 and book it against the in-kind contribution.

Finding 5 - Internal Transportation and Services

Condition :

An advance of petty cash was invoiced to USAID/Egypt. The only documentation was an approval memo for payment. The amount was paid to the administrative affairs manager.

Criteria :

Adequate documentation is required for all expenditures invoiced to USAID/Egypt.

Cause :

Prudent business practices were not followed by the MOHE by not requiring adequate support documentation prior to payment and invoicing USAID/Egypt.

Effect :

USAID/Egypt was invoiced for undocumented cost: LE 500 = \$ 174

Recommendation :

MOHE should provide adequate documentation for this amount or refund the \$ 174 to USAID/Egypt.

Finding 6 - Internal Transportation and Services

Condition :

Ten MOHE staff members received an allowance for pre-departure transportation prior to travelling to the US for training.

Criteria :

PIL 14 is to provide funds for administrative costs. Pre-departure costs for training are not budgeted in PIL 14.

Cause :

MOHE did not review these costs for allowability prior to invoicing to USAID/Egypt.

Effect :

USAID/Egypt was invoiced for unallowable cost: 10 staff @ LE 100 each = LE 1,000 = \$ 347

Recommendation :

The MOHE should reimburse the \$ 347 to USAID/Egypt.

Finding 7 - Computer Personnel Training

Condition :

Expenditures invoiced to USAID/Egypt include bonuses for MOHE staff who attended in house computer training. The bonus is calculated as a percentage of salary. Personnel can attend the training more than once and receive a bonus each time training is attended.

Criteria :

The detailed PIL 14 budget for computer personnel training states, for example on the 10/1/1992 to 9/30/1993 estimated administrative budget, 3 persons @ LE 200. From this information, an assumption was made that the intent was to train 3 people at a professional (outside MOHE) course.

Cause :

People were selected to attend internal training and, as a bonus for attending, they were rewarded with a percentage of their salary.

Effect :

Bonuses billed to USAID/Egypt for computer personnel training is: LE 7,790 = \$ 2,705

Recommendation :

MOHE refunds \$ 2,705 to USAID/Egypt.

Questioned cost summary - Computer personnel training

	<u>Ineligible</u>	<u>Unsupported</u>
Finding 8	\$ 222	
Finding 9	725	
Total per fund accountability statement	<u>947</u>	
	<u>====</u>	

Findings 8 and 9 follow:

Finding 8 - First Consultant

Condition :

One first consultant is being paid for hours in excess of what his contract with MOHE stipulates.

Criteria :

MOHE, according to prudent business practices, should only pay according to contract terms which was LE 20 / hr for 4 hrs/wk for an indefinite period.

Cause :

The MOHE paid according to the time sheets submitted and did not disallow costs that were outside the provisions of the contract.

Effect :

MOHE over billed USAID/Egypt LE 640 calculated as follows :

13 months x 20 hr / month x LE 20	LE 5,200
* Maximum available to bill = 57 weeks x 4 hrs / wk x LE 20	LE (4,560)
	LE <u>640</u> = \$222
	===

* The maximum is based on no vacation time and a 52 week year with 5 weeks added. 52 + 5 = 57 weeks.

Recommendation :

MOHE refund \$ 222 to USAID/Egypt.

Finding 9 - First Consultant

Condition :

Bonuses were paid by the MOHE for work done by first consultants. First consultants teach the computer training course and review computer input and documentation.

Criteria :

The MOHE contracts with first consultants stipulate hours to be worked and a rate per hour. There are no provisions in the contracts for a bonus.

Cause :

MOHE paid bonuses based on a percentage of salary. The term first consultant applies to a number of people who filled the position. The person in the position was to review work done for Peace Fellowship and to teach staff computing skills. Several staff who took the course subsequently taught the training.

Effect :

MOHE paid bonuses amounting to (LE 2,088) \$ 725

Recommendation :

MOHE refund to USAID/Egypt \$ 725.

Finding 10 - Cash Management

Condition :

In preparing a proof of cash it was determined that bank charges were not booked into the cash journal/general ledger.

Criteria :

The budget for PIL 14 LE does not include a budget line for bank charges. There is no criteria regarding the allowability of bank charges. Also, prudent financial management practices and generally accepted accounting principles require the timely recording of bank charges in the cash journal/general ledger.

Cause :

The MOHE does not require a monthly adjustment of the cash journal or general ledger to reflect bank charges. MOHE had planned to address bank charges at project close out.

Effect :

Bank charges not recorded in the cash journal or general ledger and incurred through December 31, 1992 equals (LE 281): \$ 98.

Recommendation :

The MOHE and USAID/Egypt should determine the allowability of bank charges and, if allowable, develop appropriate procedures for invoicing these costs to USAID/Egypt. In addition, the MOHE should record all adjustments in the cash journal and general ledger in a timely manner.

Finding 11 - Taxes

Condition :

Egyptian taxes including source tax and social insurance are being invoiced to USAID/Egypt.

Criteria :

According to the Peace Fellowship Project Grant Agreement No. 263-0125.1, Annex 2, Section B.4 - Taxation, the grant will be free from any taxation or fees imposed under laws in effect in Egypt.

Cause :

The Ministry of Finance is requiring the Ministry of Higher Education to pay all taxes according to Egyptian law and the Ministry of Higher Education is invoicing USAID/Egypt for these costs.

Effect :

The MOHE has invoiced USAID/Egypt for taxes paid from PIL 14 funds in the amount of (LE 59,739): \$ 20,743.

Recommendation :

The Ministry of Higher Education should reimburse USAID/Egypt for \$ 20,743.

ALLIED ACCOUNTANTS

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المحاسبون المتضامنون

راغب ، شريف ، اسطنبولي والكيلاني
مراسلو آرثر أندرسن وشركاه
محاسبون قانونيون وخبراء تنظيم وإدارة
زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

Report on Internal Control Structure Independent Auditor's Report

We have audited the fund accountability statements of the Ministry of Higher Education related to the Peace Fellowship Component No. 263-0125.1 under the Development Training Project financed by the US Agency for International Development for the period August 8, 1988 to August 7, 1991 for PIL No. 11, August 8, 1988 to December 31, 1992 for PIL No. 12, February 1, 1989 to December 31, 1992 for PIL No. 14, and November 1, 1988 to December 31, 1992 for the FT-800 Agreement, and have issued our report thereon dated May 20, 1993.

Except as discussed in the following 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality 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 Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

In planning and performing our audit of the Ministry of Higher Education we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statements and not to provide assurance on the internal control structure.

The management of the Ministry of Higher Education 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 the fund accountability statements in accordance with generally accepted accounting principles. 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 have classified the significant internal control structure policies and procedures as being: cash receipts, cash disbursements, financial reporting and procurement. For the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit disclosed the following matters which we believe are material weaknesses as defined above.

Bank accounts are not reconciled properly nor are adjustments recorded, fixed asset records are not properly maintained, time sheets are not prepared or maintained in all instances and financial management policies/procedures are not written and distributed.

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

A. H. M. ...

May 20, 1993

Internal Control Structure

Audit Findings

1. Cash Management

Bank reconciliations are prepared which reconcile bank activity with detailed transactions in the cash book, however, the cash book and general ledger are not adjusted for interest earned and bank charges incurred. Therefore, the balance of cash per the cash book does not agree with actual cash available.

Also, cash has been transferred between bank accounts and these transactions are not reflected in the cash book or general ledger. Additionally, we noted several instances where checks were written on one bank account to pay expenses which should have been paid from another account. In some cases bank charges have been incurred during this process. This is not in accordance with AID regulations pertaining to proper financial management. Funds provided by USAID/Egypt are designated for specific purposes as detailed in the financing agreement under which funds are made available. Therefore, these funds are to be maintained in individual accounts and not commingled.

Recommendation

We recommend that bank accounts be reconciled monthly. Furthermore, adjustments resulting from the reconciliation process should be booked timely in the cash book and general ledger. We recommend that funds not be commingled.

2. Bank Account

The original PIL 14 (LE) bank account at Misr Bank was replaced by an account at the National Investment Bank. The Misr Bank account has not been closed. As of December 31, 1992, there were checks carried as outstanding, however, the balance was insufficient to cover these checks. We understand these checks were cancelled.

Recommendation

We recommend the account be closed and related bank charges entered into the books.

3. Fixed Asset Register

AID regulations require fixed assets to be properly safeguarded and used for the benefit of the project. To properly account for fixed assets a register or some form of permanent record should be maintained which details, at a minimum, the following information :

- Asset description and serial number
- Cost
- Date acquired
- Purchase order or invoice number
- Inventory number
- Location/user
- Vendor

The register currently maintained does not properly reflect the above data for all assets acquired through AID funds. We are aware that a detailed inventory has been taken of all AID financed assets.

Recommendation

We recommend a fixed asset register be completed using information supplied through the inventory corroborated with a physical inspection if necessary.

4. Written Policies/Procedures

The Peace Fellowship Program is a large project which must be administered in accordance with AID regulations and Government of Egypt policies/procedures. We did not find a policy/procedures manual which defines allowable costs, operating procedures, approval/review policies or financial management procedures.

Recommendation

We recommend a policy and procedures manual be prepared and distributed to MOHE employees who work on any aspect of the Peace Fellowship Program.

5. Time sheets

In performing our audit, we noted instances where individuals are paid from project funds for performing certain tasks such as computer training and administrative functions. The time/effort expended on these tasks is not documented by time sheets or other acceptable forms of documentation as required by AID regulations.

Recommendation

We recommend that employees or other individuals who are to be paid salaries, bonuses or consulting fees prepare time sheets indicating date, hours worked and task performed. These time sheets should be reviewed and approved by the supervisor prior to payment. Time sheets should be maintained until three years after project completion.

6. Reclassification entries

In the course of auditing administrative expenses for PIL 14, we noted costs which were incorrectly recorded to the wrong ledger account. Consequently, these costs were invoiced to USAID/Egypt in the wrong budget line items. The incorrect entries/amounts are as follows:

- a. Costs of LE 364 for telegrams were improperly booked to the stationery line item. This cost should have been recorded in the local transportation and services ledger account.
- b. Fax charges of LE 2,784 were booked in the maintenance ledger account rather than communications cost.

- c. Computer personnel training costs of LE 103 were improperly booked to the first consultant budget line. This cost should have been recorded in the computer personnel training account.
- d. Honoraria costs of LE 149 were improperly booked to the internal transportation and services line item. This cost should have been recorded in the Honoraria account.

The fund accountability statements presented in our audit report dated May 20, 1993 reflects the reclassification of these costs to the proper budget line item.

Recommendation

We recommend the costs noted above be reclassified to the proper general ledger account and the voucher/CFR billing to USAID/Egypt be corrected to reflect the reclassification.

7. CFR errors

In the course of our work, we noted minor clerical errors in preparing the December CFR for PIL 14 US Dollars. The total amount invoiced was correct, however, the balances brought forward were in error by \$ 88.

Recommendation

We recommend the CFR be corrected and supervisory personnel review the CFR for accuracy prior to submission to USAID/Egypt.

8. Publishing cost

In February 1992 USAID/Egypt was invoiced for LE 73,656 in publishing costs, however, this amount exceeded the available budget and was disallowed. Later the budget was increased to cover the disallowance plus additional costs, but the MOHE has not reinviced USAID/Egypt for the previously disallowed amount.

Recommendation

We recommend USAID/Egypt be invoiced for the LE 18,492 disallowed on the February 1992 invoice.

ALLIED ACCOUNTANTS

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زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

Report on Compliance With Agreement Terms and Applicable Laws and Regulations Independent Auditor's Report

We have audited the fund accountability statements of the Ministry of Higher Education related to the Peace Fellowship Component No. 263-0125.1 under the Development Training Project financed by the US Agency for International Development for the period August 8, 1988 to August 7, 1991 for PIL No. 11, August 8, 1988 to December 31, 1992 for PIL No. 12, February 1, 1989 to December 31, 1992 for PIL No. 14, and November 1, 1988 to December 31, 1992 for the FT-800 Agreement and have issued our report thereon dated May 20, 1993.

Except as discussed in the following 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality 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 Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

Compliance with laws, regulations, contracts, grants, and binding policies and procedures applicable to the Ministry of Higher Education is the responsibility of the Ministry of Higher Education's management. As part of our audit, we performed tests of the Ministry of Higher Education's compliance with certain provisions of laws, regulations, contracts, 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 fund accountability statements are 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 instances of noncompliance with those laws and regulations. All instances of noncompliance that we found and the matters to which they relate, are identified in the accompanying schedule of findings.

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

This report is intended for the information of the management and others within the Ministry of Higher Education 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.

Arthur Anderson

May 20, 1993

**Compliance with Agreement Terms
and Applicable Laws and Regulations**

Audit Findings

Finding 1 - GOE Contribution

Condition :

MOHE has no documentation available to verify/audit the GOE in-kind contribution.

Criteria :

The Peace Fellowship Project Paper details the expected GOE in-kind contribution. It includes: office space, capital costs, if required, adequately prepared and appropriate counterpart staff, computer facilities and information transfer from all appropriate GOE agencies.

Cause :

MOHE has not quantified any contributions or kept any ledger regarding GOE in-kind contributions.

Effect :

We have not been able to determine what, if anything, has been contributed to the project. Without documentation we have to question the entire GOE in-kind contribution required by the grant agreement. This totals LE 120,000 for the life of the project.

Recommendation :

The MOHE should provide the documentation necessary to allow an audit of the GOE in-kind contribution.

Finding 2 - Budgets

Condition :

Annual detail budgets are provided by line item for PIL No. 14. Specific budget lines detail the number of units to be purchased and a unit price. However, items are purchased for a lesser price than budgeted and a larger number of units are acquired with a total expenditure that approximates the total budgeted expenditure for the line item. It appears that the unit price in the budget is substantially over budgeted.

Examples from the February 1, 1989 to September 30, 1989 budget for PIL 14.

	<u>Units</u>	<u>Cost / Unit</u> <u>L.E.</u>	<u>Total</u> <u>L.E.</u>
MAINTENANCE			
(Painting of rooms)			
Budgeted	5	3,000	15,000
Purchased	Approx 40	376	15,057
PHOTOCOPIER			
Budgeted	1	25,000	25,000
Purchased	2	8,942	17,885
TYPEWRITERS			
Budgeted	5	1,200	6,000
Purchased	10	671	6,715

In the PIL 14 detailed budget for the period October 1, 1992 to September 30, 1993 typewriters were budgeted at a unit cost of LE 1,500. In May 1991 typewriters of the same type were acquired for LE 731 and at an inflation rate of 15% the budgeted cost should not exceed LE 975. Also, included in the same budget is a photocopier budgeted at LE 24,000. MOHE purchased a photocopier in October 1990 for LE 6,050. With 15% inflation the budgeted cost should not have exceeded LE 8,000.

Criteria :

Prudent business practices require a budget to accurately reflect the projected units required and the projected cost per unit.

Cause :

MOHE has developed budgets that do not accurately reflect the current unit prices available on the local economy even adjusted for inflation. After the budget was approved, the MOHE purchased a number of units greater than the budgeted amount. In some instances it appears that the number of units purchased was the greatest number of units possible while not exceeding total dollars budgeted for the budget line item.

Effect :

The MOHE has not provided to USAID/Egypt an accurate detailing of what equipment, supplies and services are required to implement the Peace Fellowship project. This prevents AID from making informed decisions concerning budgetary requirements and future fund allocations.

Recommendation :

The MOHE provide budgets to USAID/Egypt using realistic current and projected requirements and accurate pricing information.

Finding 3 - Taxes

Condition :

Egyptian taxes including source tax and social insurance are being invoiced to USAID/Egypt.

Criteria :

According to the Peace Fellowship Project Grant Agreement No. 263-0125.1, Annex 2, Section B.4 - Taxation, the grant will be free from any taxation or fees imposed under laws in effect in Egypt.

Cause :

The Ministry of Finance is requiring the Ministry of Higher Education to pay all taxes according to Egyptian law and the Ministry of Higher Education is invoicing USAID/Egypt for these costs.

Effect :

The MOHE has invoiced USAID/Egypt for taxes which are not allowable according to the project grant agreement.

Recommendation :

The Ministry of Higher Education should cease billing USAID/Egypt for taxes.

Appendices

12A

Appendix A

Ministry of Higher Education
Fund Accountability Statement
FT-800 Agreement and Project Implementation Letter No. 11
Peace Fellowship Component No. 263-0125.1
Under USAID's Development Training Grant
For the period August 8, 1988 to December 31, 1992

Supplemental Information
Fund Accountability Statement Presented
In Egyptian Pounds And US Dollars

<u>Budget Element</u>	<u>Actual Expenditures Incurred In LE</u>	<u>LE Expenditures Converted to US\$</u>
Receipts	5,994,459	2,081,409
Expenditures :		
Travel	5,640,094	1,958,366
Bank charges	257,433	89,386
Excess baggage	284	99
Net balance	<u>96,648</u>	<u>33,558</u>

Ministry of Higher Education
Fund Accountability Statement
Project Implementation Letter No. 12
Peace Fellowship Component No. 263-0125.1
Under USAID's Development Training Grant
For the period August 8, 1988 to December 31, 1992

Supplemental Information
Fund Accountability Statement
Expressed In US Dollars

<u>Budget Element</u>	Actual Expenditures Incurred In US \$
Receipts	145,049
Expenditures :	
Maintenance advance	143,290
Net balance	<u>1,759</u> =====

Ministry of Higher Education
Fund Accountability Statement
Project Implementation Letter No. 14 US Dollars
Peace Fellowship Component No. 263-0125.1
Under USAID's Development Training Grant
For the period February 1, 1989 to December 31, 1992

Supplemental Information
Fund Accountability Statement
Expressed In US Dollars

<u>Budget Element</u>	Actual Expenditures Incurred In US \$
	<hr style="width: 100%;"/>
Receipts	47,788
Expenditures :	
Training	14,708
Per diem and allowances	62,248
Bank charges	87
 Net balance	 <u>(29,255)</u> =====

Ministry of Higher Education
Fund Accountability Statement
Project Implementation Letter No. 14 LE
Peace Fellowship Component No. 263-0125.1
Under USAID's Development Training Grant
For the period February 1, 1989 to December 31, 1992

Supplemental Information
Fund Accountability Statement Expressed
In Egyptian Pounds And US Dollars

<u>Budget Element</u>	Actual Expenditures Incurred In LE	LE Expenditures Converted to US\$
Receipts	515,227	178,898
Expenditures :		
Honoraria	68,023	23,619
Office supplies:		
Telephone system	1,900	660
Equipment	16,746	5,815
Office furniture	39,738	13,798
Photocopier	17,885	6,210
Typewriters	12,567	4,364
Computer accessories	29,679	10,305
Stationery	64,682	22,459
Maintenance	61,152	21,233
Telecopier	-	-
Total office supplies	<u>244,349</u>	<u>84,844</u>
International communications	31,923	11,084
Local expenditures :		
Internal transportation & services	17,047	5,919
Computer personnel training	9,680	3,361
First consultant	14,900	5,174
Assistant consultant	7,120	2,472
Total local expenditures	<u>48,747</u>	<u>16,926</u>
Other :		
Publishing and advertising	94,392	32,775
Bank charges	281	98
Total other	<u>94,673</u>	<u>32,873</u>
Total expenditures	487,715	169,346
Net balance	<u>27,512</u> =====	<u>9,552</u> =====

Ministry of Higher Education
 Peace Fellowship Component No. 263-0125.1
 FT-800 Agreement and Implementation Letter No. 11

Supplemental Information
 Details Of Questioned Costs
 For the period August 8, 1988 to December 31, 1992

Our audit identified the following items that are questioned as being ineligible or unsupported.

Finding	Amount Incurred In LE	Converted To US \$	Amount Incurred In US\$	Questioned Costs US \$
1. Administrative staff travel was paid from project funds which is not documented.	3,774	1,310		1,310
Invoices examined are :				
Date : April 23, 1991	10,510	3,650		3,650
Carrier : Egypt Air				
Amount : LE 3,774				
Date : December 1992				
Payee : Misr Travel				
Invoice No. : 32002 (Misr Travel)				
Amount : LE 10,510				

	Amount Incurred In LE	Converted To US \$	Amount Incurred In US\$	Questioned Costs US \$
2. A professor from Ain Shams University traveled to the USA which is not permitted under the Project Agreement. Documentation examined is : Date : October 1990 Ticketed passenger : Professor	7,037	2,443		2,443
3. A participant traveled to the USA on an unauthorized airline in contravention of the Trust Fund Agreement between the US and Egypt. Detailed documentation is as follows : Date : 1991 Ticketed passenger : Participant 1 Amount : LE 5,752	5,752	1,997		1,997
4. A participant returning to Egypt incurred excess baggage costs which were invoiced to USAID/Egypt. Supporting documentation is as follows : Participant : Participant 2 Invoice Number : 310002 (Egypt Air) Check No. : 598377 Date : February 1992 Amount : LE 955	955	332		332
5. The MOHE authorized Egypt Air to charge for excess baggage for which there is insufficient documentation. Source of information includes all Misr Travel invoices for flights originating in the USA.	256,138	88,937		88,937

	Amount Incurred In LE	Converted To US \$	Amount Incurred In US\$	Questioned Costs US \$
6. Bank charges are not booked, but those charges have been deducted from the bank account balances. We question their allowability in the absence of criteria specifically addressing such costs. Documentation is the various bank statements received daily, weekly or monthly.	284	99		99
7. The MOHE has invoiced USAID/Egypt for taxes which are not allowable costs according to the Project Grant Agreement. Documentation is the amounts booked by the MOHE in the cash journal. The entries include all checks disbursed which include a deduction for taxes.	1,491	518		518
				<u>99,286</u>

Ministry of Higher Education
Peace Fellowship Component No. 263-0125.1
Project Implementation Letter No. 12

Supplemental Information
Details Of Questioned Costs
For the period August 8, 1988 to December 31, 1992

Our audit identified the following items that are questioned as being ineligible or unsupported.

Finding	Amount Incurred In LE	Converted To US \$	Amount Incurred In US\$	Questioned Costs US \$
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
1. Interest was earned on AID advances. The documentation is the various bank statements received daily, weekly or monthly.			2,299	2,299
2. A professor's travel to the USA was paid from Peace Fellowship Program funds. Documentation is :			1,950	1,950
MOHE Voucher No. : 271 Date : 10/11/90 Payee : Professor Check Number : 629015 Check amount : \$ 1,950				
3. Bank charges were not addressed in the detailed budget. We question their allowability in the absence of criteria specifically addressing such costs. The documentation is the various bank statements.			640	640
				<u> </u>
				<u>4,889</u> <u>====</u>

Ministry of Higher Education
Peace Fellowship Component No. 263-0125.1
Project Implementation Letter No. 14 US \$

Supplemental Information
Details Of Questioned Costs
For the period February 1, 1989 to December 31, 1992

Our audit identified the following items that are questioned as being ineligible or unsupported.

Finding	Amount Incurred In LE	Converted To US \$	Amount Incurred In US\$	Questioned Costs US \$
1. The Peace Fellowship Project has been invoiced by the Egyptian Cultural and Educational Bureau in Washington, D.C. for certain allowances paid to individuals who were attending training in the US. Details are as follows : Date : May 1991 Payee : Egyptian Cultural & Educational Bureau Amount : \$ 32,880			32,880 29,168	32,880 29,168
Date : December 1992 Payee : Egyptian Cultural & Educational Bureau Amount : \$ 29,168				
2. The MOHE invoiced USAID/Egypt for estimated bank charges prior to incurrence. There is no supporting detail for these estimated charges except that the charge was invoiced in May 1991. Bank charges were not addressed in the detailed budget. We question their allowability in the absence of criteria specifically addressing such costs. Documentation is the various bank statements received daily, weekly or monthly.			200 87	200 87
				<u>62,335</u> =====

Ministry of Higher Education
Peace Fellowship Component No. 263-0125.1
Project Implementation Letter No. 14 LE

Supplemental Information
Details Of Questioned Costs
For the period February 1, 1989 to December 31, 1992

Our audit identified the following items that are questioned as being ineligible or unsupported.

				<u>Amount Incurred In LE</u>	<u>Converted To US \$</u>	<u>Amount Incurred In US\$</u>	<u>Questioned Costs US \$</u>
Finding							
1. MOHE administrative staff were paid for work performed during selection cycle. Details of payments made are :				19,703	6,841		6,841
<u>Date</u>	<u>Amount</u>	<u>Check Number</u>	<u>MOHE Voucher Number</u>				
Nov. 1989	LE 4,432						
Apr. 1990	13,940	526471	76				
Jul. 1990	1,331	626276	172				
Total	LE <u>19,703</u>						

	Amount Incurred In LE	Converted To US \$	Amount Incurred In US\$	Questioned Costs US \$
2. Telephone bill invoiced to USAID/Egypt in error. A full refund was not made because bank charges were netted against the refund. Details are as follows :	257	89		89
Invoiced to USAID/Egypt : Date : September 1990 Amount : LE 1,595 Check Number : 627628 MOHE voucher No. : 224				
Refund to USAID/Egypt per Commitment liquidation record. Transaction date : 3/21/91 Reference No. : A 1217523 Description : Refund of expenses Amount : LE 1,338				
3. USAID/Egypt has been invoiced for flowers and drinks which are not allowable costs. Details are as follows :	81	28		28
Date : September 1990 Amount : LE 13 Amount : LE 68 Check number : 627619 MOHE voucher number : 215				

	<u>Amount Incurred In LE</u>	<u>Converted To US \$</u>	<u>Amount Incurred In US\$</u>	<u>Questioned Costs US \$</u>
4. USAID/Egypt was invoiced for overtime paid to administrative staff for performing various routine office functions.	8,910	3,094		3,094

Details are :

<u>Date</u>	<u>Amount</u>	<u>Check Number</u>	<u>MOHE Voucher Number</u>
09/90	LE 490	627614	210
11/90	1,476	627649	241
11/90	107	633102	244
11/90	1,539	633106	248
11/90	910	633119	256
03/91	842	982510	269
06/91	462	982543	303
06/91	572	982548	308
08/92	1,000	1192111	411
11/92	945	1192144	441
11/92	567	1192150	446
	<u>LE 8,910</u>		

5. USAID/Egypt was invoiced for funds disbursed to set up a petty cash account. Documentation is as follows : Date : March 1991 Amount : LE 500 Check number : 982504 MOHE voucher number : 263	500	174		174
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	<u>Amount Incurred In LE</u>	<u>Converted To US \$</u>	<u>Amount Incurred In US\$</u>	<u>Questioned Costs US \$</u>
6. MOHE staff members were paid a predeparture allowance prior to going to the US for training. Funds were not budgeted in PIL 14. Details are : Date : April 1991 Amount : LE 1,000 Check number : 982518 MOHE voucher number : 277	1,000	347		347
7. Bonuses were paid to MOHE employees for attending computer training. Details are as follows :	7,790	2,705		2,705
	<u>Date</u>	<u>Amount</u>	<u>Check Number</u>	<u>MOHE Voucher Number</u>
	June 90	LE 1,599	620613	108
	Nov. 90	1,526	633101	243
	May 91	3,210	982509	268
	April 91	1,455	982517	276
		<u>LE 7,790</u> =====		
8. A first consultant was paid amounts in excess of his contract. This is a cumulative calculated amount.	640	222		222

			<u>Amount Incurred In LE</u>	<u>Converted To US \$</u>	<u>Amount Incurred In US\$</u>	<u>Questioned Costs US \$</u>
9. Bonuses were paid to first consultants in violation of their contracts. Documentation reviewed was :			2,088	725		725
<u>Date</u>	<u>Amount</u>	<u>Check Number</u>	<u>MOHE Voucher Number</u>			
June 90	LE 968	105798	102			
June 90	1,120	620611	106			
	<u>2,088</u> =====					
10. Bank charges were not addressed in the detailed budget. We question their allowability in the absence of criteria specifically addressing such costs. Documentation is the various bank statements received daily, weekly or monthly.			281	98		98
11. USAID/Egypt has been invoiced for taxes which are not allowable according to the Project Grant Agreement. Documentation is the amounts booked by the MOHE in the cash journal. The entries include all checks disbursed which include a deduction for taxes.			59,739	20,743		20,743
Total questioned costs						<u>35,066</u> ===== 201,576 =====

Ministry of Higher Education
Peace Fellowship
Management Comments

Arab Republic of Egypt
Ministry of Higher Education
Missions Department

بسم الله الرحمن الرحيم

جمهورية مصر العربية
وزارة التعليم العالي
الإدارة العامة للبعثات
وحدة منح السلام

Mrs. Mona Kaldas
Project Officer
Peace Fellowship Project
Office Of Education and Training
US AID
C A I R O

Refer to the meeting in A.I.O office on 7/28/1993 to discuss Allied Accountants report.

Please find enclosed our response and comments for the questioned costs of U.S.D 239 027.

We also attach copies of the documents for the unsupported costs of \$ 198010.

With best regards...



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Ministry of Higher Education
Peace Fellowship
Management Comments

FT-800 Agreement and Project Implementation Letter No. 11

Finding 1

27703 5

MOHE staff: training in U.S.A in 1991 - 1992

There is no dates listed on the invoices to verify travel dates and Copies of airline tickets.

* Attached you will find copies of the participants' passports showing the departure date from Cairo- The arrival date to New York and same dates of departure and arrival Back to Cairo.

The shown dates are put on each passport by the airport of Cairo and New York.

Finding 2 F.T 800

2443 5

A prof from Ain Shams Univ traveled to the states and is not permitted under the project.

There is no provision in the grant agreement which funds a prof's travel to supervise a student who is training in U.S.A.

These two payments were done upon decree of the minister of education "See attached" as the trip was to supervise peace fellow.

A memo is prepared requesting the refund of these payments to AID the refund will be done on Egyptian pounds for the two payments.

Ministry of Higher Education
Peace Fellowship
Management Comments

Finding 3

1.997 5

A participant flew to U.S.A. on Iufthanasa. I.e 350 excess baggage is added on return tickets by Egypt air.

Finding inclosed a copy of the AID letter dated 1.29. 1989.

Including that AID will make payments to MOHE in accordance with the budget. Travel will be permitted with use of these funds only on Egypt Air carriers for Egypt/ U.S.A and it is not including the American Carriers. In ministry which arrange this matter as follows:

"all participants must use Egypt air to the last point it arrives at and foreign air lines after these points to this place of study". The American Carriers. In this case we have to use the decree of the prime ministry which arrange this matter as follows:

"all participants must use Egypt Air to the last point it arrives at and foreign air lines after these points to his place of study". The American Carriers is not mentioned.

Fining 4

3328

We have deposited the amount of L.E. 955 to F.T 800 account by chek No. 9334276 dated 4 Jul. 93 "attachement 1".

Ministry of Higher Education
Peace Fellowship
Management Comments

Finding 5

THE EXCESS BAGGAGE

Per F.T. 800 agreement excess baggage is allowed up to L.E. 350" Budget attached" as part of return ticket to cover the excess weight of Books documents- Scientific Reports.....

There is no way to know whether or not each participant used the excess Baggage ticket.

However mission department will suggest to refund the invoices of excess baggage upon presentation of Air company invoice or ticket and not upon receiving the order of E.C.E.B.

Finding N. 6

F.T.800

99 s

The Bank Charges not recorded in the cash journal or general ledger.

We record in the Cash journal all expenditures paid by cheques and from daily journal to general ladger on which we record the expenditures of each line item of the Budget.

Their is no line item for Bank charges there fore it is not registerd in our books.

WE SUGGEST:

To add the amount of bank charges on 6.30.1993 to the total expend on the cash journal to show the real expend, exist with the Bank statement on the same date-and then in july report to AID. or by the begining of the new year we ask AID to add a new line item for this matter.

Ministry of Higher Education
Peace Fellowship
Management Comments

Finding N. 7

5185

According to the peace fellowship project grant the grant will be free from any Taxation or fees imposed under laws in Egypt.

Attached a Copy of letter from Taxation Department Ministry of finance including that all amounts paid from the grant must be taxed. in accordance with the president of Egyptian Republic decree No. 458-1978 including that the exemption is only for foreigners and not for the Egyptians. They added also that these amounts are not paid from foreignfunds as the G.O.E. Covers a part of project resoureses.

We were following the Egyptian system of taxation for international project agreements. However the subject is discussed with the ministry of international Co-Operation and expecting their advice. Please follow up with the same Ministry.

Ministry of Higher Education
Peace Fellowship
Management Comments

Project Implementation Letter No. 12

Finding N.1 Pil 12

2299 \$

The cash journal/general ledger are designed for the expend only, and not for the interest earned.

However we are going to refund this amount to AID as it was established in the old project No. 110.

The new account in Barclays Bank is open without any interest.

A prof from ain Shams univ traveled to the states and is not permitted under the project.

Finding 2 Pil 12

1950 \$

There is no provision in the grant agreement which funds a prof's travel to supervise a student who is training in U.S.A.

These two payments were done upon decree of the minister of education "See attached" as the trip was to supervise peace fellow.

A memo is prepared requesting the refund of these payments to AID the refund will be done on Egyptian pounds for the two payments.

Ministry of Higher Education
Peace Fellowship
Management Comments

Finding N. 3

Pil 12

640 \$

The Bank Charges not recorded in the cash journal or general ledger.

We record in the Cash journal all expenditures paid by cheques and from daily journal to general ledger on which we record the expenditures of each line item of the Budget.

There is no line item for Bank charges therefore it is not registered in our books.

WE SUGGEST:

To add the amount of bank charges on 6.30.1993 to the total expenditure on the cash journal to show the real expenditure, exist with the Bank statement on the same date—and then in July report to AID. or by the beginning of the new year we ask AID to add a new line item for this matter.

Ministry of Higher Education
Peace Fellowship
Management Comments

Project Implementation Letter No. 14 (US Dollars)

Finding 1 14708 \$

English language training in Washington

Find enclosed copies of the two participants' passports showing the remainder of their time in Washington through the date of arrival and departure to and from Washington.

The cost of the English course was 708 \$

Concerning the voucher of 14000 \$

It was not a language course. It was a course of planning-management - Computer. "See attached 1".

The two courses were approved by the director of E.C.E.B. in Washington to up-grade the abilities of trainees in that field.

One participant was unable to leave Egypt in time because of personal health problems.

He attended the training course later as he arrived to U.S.A. one week later "See attached 2".

Ministry of Higher Education
Peace Fellowship
Management Comments

Finding 2

62048 s

There is no document to verify that the participants were actually in U.S.A or for how long etc

Attached you will find copies of participants Pasports showing that they were actually in U.S.A for one month.

Concerning the requirment fof books freight medical insurance According to Hand book 10 books are elligable for staff training and no receþts are demanded from trainees..

Medical ins: Health ins. is paid by E.C.E.B to the insurance Company which issues insurance card for each individual.

All documents concerning these matters are kept in the E.C.E.B. in washington according to the agreement.

Ministry of Higher Education
Peace Fellowship
Management Comments

Finding N. 3 Pil 14 \$ 87 \$

The Bank Charges not recorded in the cash journal or general ledger.

We record in the Cash journal all expenditures paid by cheques and from daily journal to general ledger on which we record the expenditures of each line item of the Budget.

There is no line item for Bank charges therefore it is not registered in our books.

WE SUGGEST:

To add the amount of bank charges on 6.30.1993 to the total expend on the cash journal to show the real expend, exist with the Bank statement on the same date—and then in july report to AID. or by the begining of the new year we ask AID to add a new line item for this matter.

Finding 3 300\$

On opening the account of pil 14 \$ in Bank Misr, The bank did not accept without dpositing a sum of U.S.D in the account.

Then we transfered 300 \$ from pil 12 account to pil 14\$. After receiving the Budget we ~~had~~ transfered this amount again to pil 12 "See attach".

Ministry of Higher Education
Peace Fellowship
Management Comments

Project Implementation Letter No. 14 (LE)

HONORARIA

Finding 1

6481 \$

Internal Committee, extra work incurred when selection of participants.

These payments were for functions outside of normal duties and are not performed during work hours.

It was not overtime payments calculated by hours and time sheets but it is a percentage of base salaries paid as bonuses for efforts done to assist committees from Universities for the selection of participants.

Finding 2.

89 \$

In sept 1990 a tel bill "not peace fellowship" was paid from pil 14 funds amount paid was 1595 L.E + 3.50 L.E. accepted cheque the total was 1598, 50 L.E "See attached (1)"

In December 90 Refund was done by the amount of 1595 L.E. "See attached 2".

There is misunderstanding on this matter the amount of 1338 L.E. was the Balance of Bank misr account. Pil 14 on Jan, 31 1991 under consideration. Of the out standing cheques. This amount 1337.63 was refunded to AID by our cheque No. 633123 dated 13.3.1991 " See attached 3".

Ministry of Higher Education
Peace Fellowship
Management Comments

Finding 4

3094\$

To achieve the project goals it was sometimes necessary to do the project works after the time work the G.O.E is required by the grant agreement to provide staff as a part of their in - kind contribution to the project.

We did not pay overtime from pil 14 but we rewarded the staff per a percentage of their salaries to cover their internal transportation such as the committee of computer purchasing and the participants follow up.

Occurred upon the approval of the project manager to achieve the project goals.

Finding 5

174 \$

The petty Cash

The petty cash is a sum of money kept on cash to cover the urgent payments of miscellaneous.

When Starting the project we issue a cheque according to a memo. Accepted by the manager.

We register it only in the daily book and not in the ledger every month approximately we do replenishment for the amount expended and on this time when we have the documents we register it in the daily book and the general ledger and we issue a cheque with the amount expended. By the end of the project we register the documents expended without issuing cheque and we deposit the money rest in the Bank account.

This is the Egyptian system except that the closing is done by the end of every fiscal year.

Ministry of Higher Education
Peace Fellowship
Management Comments

Finding 6

347\$

MOHE staff were paid a predeparture allow. 10 Staff
100 L.E each = L.E 1000 = 347 \$

This payment was not predeparture allow. It is internal transportation for a job they done the line item of internal transportation and servies is for all MOHE staff Working in the peace fallow unit.

This amount was paid upon the approval of the first ander sec of state as internal trans. and not predeparture allow.

"See attach (1)".

Finding 7

2705 \$

Bonuses for MOHE staff attended in computer training people selected to attend internal training rawarded with a percentage of their salary.

It was not internal training but it was a project for completing and developing data system and designing of accounting system of Mission Depart in our Computer unit.

Concering MOHE Staff they were rewarded with 40% of their salarias upon the approoel of the minister of education to acheive this project : "See attach." 1".

Ministry of Higher Education
Peace Fellowship
Management Comments

Finding 8

222 \$

One first consultants is being paid for hours in excess the estimated budget of this line item is L.E 6000 year and L.E. 500 Per month "attach. 1".

The payments were done upon time sheets including the number of hours worked and approved by the project manager.

The number of hours Were:-

March	90	20h	x	L.E. 20	=	L.E. 400
April	90	16h	x	L.E 20	=	L.E. 320
May	90	20h	x	L.E 20	=	L.E 400

"Find enclosed Copies of time sheets attach, 2".

Finding 9

725 \$

One first consultants is being paid for hours in excess the estimated budget of this line item is L.E 6000 year and L.E. 500 Per month "attach. 1".

The payments were done upon time sheets including the number of hours worked and approved by the project manager.

The number of hours Were:-

March	90	20h	x	L.E. 20	=	L.E. 400
April	90	16h	x	L.E 20	=	L.E. 320
May	90	20h	x	L.E 20	=	L.E 400

"Find enclosed Copies of time sheets attach, 2".

Ministry of Higher Education
Peace Fellowship
Management Comments

Finding N. 11

207438

According to the peace fellowship project grant the grant will be free from any Taxation or fees imposed under laws in Egypt.

Attached a Copy of letter from Taxation Department Ministry of finance including that all amounts paid from the grant must be taxed. in accordance with the president of Egyptian Republic decree No. 458-1978 including that the exemption is only for foreigners and not for the Egyptians. They added also that these amounts are not paid from foreignfunds as the G.O.E. Covers a part of project resoureses.

We were following the Egyptian system of taxation for international project agreements. However the subject is discussed with the ministry of international Co-Operation and expecting their advice. Please follow up with the same Ministry.

Ministry of Higher Education
Auditor's Response to
Management Comments

Our comments below address the Ministry of Higher Education management's responses relating to conditions where we did not find sufficient information required to document certain transactions. Our response follows the format in which the findings were presented in the audit report. The MOHE's management response is presented in Appendix C.

FT-800 Agreement and Project Implementation Letter No. 11

Finding 1 - Travel

The MOHE provided copies of passports indicating visa and departure/arrival dates for staff members who attended training in the USA. There were three passport copies missing. The course dates agree with dates in the staff passports.

Because the staff traveled to the US, we will assume a ticket was purchased even though they were not available for audit purposes.

The costs associated with three staff members whose passport copies were not provided is still questioned. The breakdown of the remaining questioned costs is : first group-one participant \$ 1,310 and second group-two participants \$ 3,650.

Finding 2 - Travel

The response indicates the travel cost will at some point in time be refunded to AID. Our finding remains as presented because, according to the response, the refund has not been made.

Finding 3 - Travel

The response provided does not address whether an American air carrier was available. Our position taken in the original finding remains as presented.

Finding 4 - Excess Baggage

A copy of the June bank statement for the FT - 800 Agreement was provided indicating a deposit for LE 954.56. There is no supporting documentation as to what the deposit was for. Our finding remains as originally presented.

Finding 5 - Excess Baggage

The documentation provided by the MOHE did not address this finding. The finding as originally presented is unchanged.

Finding 6 - Cash Management

We agree that bank charges through June 30, 1993 should be booked. The response provides no definitive action to address the allowability issue, therefore our finding has not been addressed and remains as presented.

Finding 7 - Taxes

Our analysis of the MOHE response seems to indicate that the issue is under discussion with the Ministry of International Cooperation. The finding remains as originally presented.

Project Implementation Letter No. 12

Finding 1 - Cash Management

We interpret the MOHE's response to say that interest income cannot be booked and we disagree with that position. Also, it indicates that the interest will be refunded to AID at some time in the future. Therefore, our original finding remains the same.

Finding 2 - Maintenance Advance

The response provided by the MOHE indicates a refund of the \$ 1,950 will be made to AID at some future date. Our finding remains unchanged because the refund has not been made.

Finding 3 - Cash Management

We agree that bank charges through June 30, 1993 should be booked. however the response provides no definitive action to address the allowability issue. Therefore, our finding has not been addressed and remains as presented in the draft report.

Project Implementation Letter No. 14 (US Dollars)

Finding 1 - Training

The MOHE provided copies of invoices from the training providers in the USA and copies of the participants' passports, except for three, which indicate their entry into the US and return to Cairo. There were no attendance sheets, however we believe the documentation provided is adequate therefore the finding has been removed from our report.

Finding 2 - Per Diem and Allowances

The documentation provided does not indicate whether the trainees received the allowances or what expenditures were incurred. The documentation provided was a copy of Attachment 11 D (1), Handbook 10 dated December 4, 1991. Our finding as originally presented remains in the report.

Finding 3 - Cash Management

The documentation provided was a letter dated 8/1/93 requesting the transfer of \$ 300 from the PIL 14 bank account to the PIL 12 bank account. There was no evidence of the actual transfer provided. The bank charge allowability issue was not addressed. The finding presented in our report remains unchanged.

Project Implementation Letter No. 14 (LE)

Finding 1 - Honoraria

The documentation provided by the MOHE merely restates the facts presented in our original report finding, therefore the finding remains in our report.

Finding 2 - International Communications

The documentation provided by the MOHE does not address the estimated bank charges which is being questioned. Our finding remains as originally presented.

Finding 3 - Internal Transportation and Services

The MOHE did not respond to this finding, therefore it remains as present in the original report.

Finding 4 - Internal Transportation and Services

The documentation does not provide any additional support for the \$ 3,094 questioned. The finding remains in the report.

Finding 5 - Internal Transportation and Services

It is evident the MOHE did not understand the issue because the response does not address the point. Our finding remains unchanged.

Finding 6 - Internal Transportation and Services

We find it a coincidence that the payment was made just prior to the staff travelling to the US for training. The documentation originally provided terms the payment "departure allowance". The MOHE response calls it "internal transportation". We find the documentation inadequate because the purpose of such transportation was not explained. Our finding is still valid and remains in the report.

Finding 7 - Computer Personnel Training

The documentation conflicts with original information examined and within the response itself. The documentation does not convince us that our finding is in error, therefore it remains as presented in our original report.

Finding 8 - First Consultant

The documentation provided by the MOHE does not adequately address the issue. We are not sure what the MOHE is trying to explain, but we interpret it as being insufficient for purposes of resolving the finding. The finding remains as presented in the original report.

Finding 9 - First Consultant

The documentation provided by the MOHE does not address the issue. Our finding remains as presented in the original report.

Finding 10 - Cash Management

We agree that bank charges through June 30, 1993 should be booked, however the response provides no definitive action to address the allowability issue. Therefore, our finding was not address and remains as presented in our original report.

Finding 11 - Taxes

Our analysis of the MOHE response seems to indicate that the issue is under discussion with the Ministry of International Cooperation. The finding remains as originally presented.



CAIRO EGYPT

November 1, 1993

MEMORANDUM

2 NOV 1993

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

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

SUBJECT: NFA Report on the Ministry of Higher Education (MOHE) Local Expenditures Under Project Implementation Letters (PILs) 11, 12, 14, and FT-800 Agreement Related to Peace Fellowship Project No. 263-0125.01, the First Component of the Development Training Grant Agreement No. 263-0125 - Draft Report.

Mission is working with MOHE/PF to resolve the questioned costs identified under Recommendation No. 1 of the subject audit report, and have no comments to offer at this time.

Under Recommendation Nos. 2 & 3 of the subject audit report, it is stated that these recommendations can be resolved when Mission provides RIG/A/C with a copy of its request to ESA to address its inadequate internal control procedures and non-compliance issues. Attached is a copy of a letter dated November 1, 1993, from the OD/FM/FA to MOHE/PF, requesting them to address these two recommendations. Based on this action, Mission requests that Recommendation Nos. 2 and 3 be resolved.

Please issue the final report.

Att: a/s

11



CAIRO EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

November 1, 1993

Mr. Farouk Hassan
Undersecretary of State
Mission Department
Mogamaa El Tahrir Building
Seventh Floor
Cairo, Egypt

Subject: Draft Audit Report on Ministry
of Higher Education/Peace Fellowship
dated September 27, 1993

Dear Mr. Hassan:

You have previously been provided with a copy of the subject audit report by the Project Officer, and requested to respond to all recommendations. We are now requesting you to advise us of the actions you have taken or plan to take to address Recommendation No. 2 regarding inadequate internal control procedures, as well as Recommendation No. 3 regarding non-compliance issues identified in the audit report.

Please submit to me your response by November 30, 1993, explaining the corrective actions planned or taken by MOHE/PF to address these two recommendations, in order to enable us respond to our Regional Inspector General for Audits.

Thank you for your cooperation.

Sincerely,

Amanda Levenson
Office Director
Financial Analysis Division
USAID/Cairo

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