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Regional Inspector General for Audit
Cairo, Egypt

**Audit of State Information Service (SIS) Local Expenditures
Incurred under Project Implementation Letter (PIL) No. 6
Related to the Information, Education and Communication
Center (IEC), a Sub-Project under USAID/Egypt
Population/Family Planning Project No. 263-0144**

**Report No. 6-263-94-006-N
December 2, 1993**



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INFORMATION IS RELEASED TO THE PUBLIC.**



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

December 2, 1993

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford
FROM : RIG/A/Cairo, *Philippe L. Darcy*
SUBJECT : Audit of State Information Service (SIS) Local Expenditures Incurred under Project Implementation Letter (PIL) No. 6 Related to the Information, Education and Communication Center (IEC), a Sub-Project under USAID/Egypt Population/Family Planning Project No. 263-0144

The attached report dated July 8, 1993, by Hazem Hassan & Co. presents the results of a financial audit of State Information Service/Information, Education and Communication Center (SIS/IEC) locally incurred costs under Project No. 263-0144 funded by USAID/Egypt. IEC's purpose is to help reduce the rate of population growth in accordance with the Population and Family Planning Policy of the Government of Egypt (GOE). Its objectives are to (1) inform the public about family planning methods and correct use, and (2) explain and clarify the impact of population increase upon the nation's social and economic sectors.

We engaged Hazem Hassan & Co. to perform a financial audit of SIS/IEC's locally incurred expenditures of LE11,349,362 (equivalent to \$4,134,558) for the period January 15, 1987 through March 31, 1993 for PIL No. 6. The purpose of the audit was to evaluate the propriety of costs incurred during that period. In performing the audit, Hazem Hassan & Co. evaluated SIS/IEC's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Hazem Hassan & Co. questioned \$73,865 in costs billed to A.I.D. by SIS/IEC (including \$17,782 of unsupported costs). These questioned costs included entertainment costs, renewal of vehicle licenses, bonuses and incentives, costs in excess of the approved budget and training costs. Hazem Hassan & Co. noted internal control weaknesses related to SIS/IEC's control environment such as: lack of a detailed accounting manual, lack of insurance on equipment and

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vehicles, inadequate controls over cash and the absence of a fixed asset register. Additionally, they noted four instances of noncompliance relating to deduction of salary tax on incentives and bonuses, deduction of withholding taxes for purchases to private sector suppliers, purchase of equipment in excess of approved budget and non-competitive procurement for some training courses.

Hazem Hassan & Co. has reviewed SIS/IEC'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 SIS/IEC 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 Inspector General's recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Egypt resolve questioned costs of \$73,835 consisting of ineligible costs of \$56,083 and unsupported cost of \$17,782 as detailed on pages 13 and 14 of the audit report.

This recommendation is considered unresolved and can be resolved when we receive 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 USAID are paid by SIS/IEC.

Recommendation No. 2: We recommend that USAID/Egypt require SIS/IEC to address the inadequate internal control procedures as detailed on pages 18 through 21 of the audit report.

This recommendation is considered "resolved" as USAID/Egypt has requested SIS/IEC to address its internal control weaknesses. The recommendation can be closed when RIG/A/Cairo has assessed SIS/IEC's response and USAID/Egypt's follow-up for adequacy.

Recommendation No. 3: We recommend that USAID/Egypt require SIS/IEC to address the non-compliance issues as detailed on pages 26 and 27 of the audit report.

This recommendation is considered "resolved" as USAID/Egypt has requested SIS/IEC to address its compliance deficiencies identified in the report. The recommendation can be closed when RIG/A/Cairo has assessed SIS/IEC's response and USAID/Egypt's follow-up for adequacy.

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

FINANCIAL AUDIT OF
STATE INFORMATION SERVICE'S (SIS)
LOCAL EXPENDITURES INCURRED UNDER
PROJECT IMPLEMENTATION LETTER (PIL) No. 6 RELATED TO
THE INFORMATION, EDUCATION, AND COMMUNICATION CENTER
(IEC)
UNDER THE POPULATION FAMILY/PLANNING PROJECT
No. 263-0144

STATE INFORMATION SERVICE'S (SIS)
LOCAL EXPENDITURES INCURRED UNDER
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THE INFORMATION, EDUCATION, AND COMMUNICATION CENTER
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UNDER THE POPULATION FAMILY/PLANNING PROJECT
No. 263-0144

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STATE INFORMATION SERVICE'S (SIS)
LOCAL EXPENDITURES INCURRED UNDER
PROJECT IMPLEMENTATION LETTER (PIL) NO. 6 RELATED TO
THE INFORMATION, EDUCATION, AND COMMUNICATION CENTER
(IEC)
UNDER THE POPULATION FAMILY/PLANNING PROJECT
NO. 263-0144

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Mr. Philippe L. Darcy
Regional Inspector General for Audit
United States Agency for
International Development
Mission to Egypt
Cairo, Egypt
October 24, 1993

Dear Mr. Darcy:

This report presents the result of our financial audit of the State Information Service's (SIS) local expenditures which were incurred under Project Implementation Letter (PIL) No. 6 related to the Information, Education and Communication Center (IEC) under USAID/Egypt's Population/Family Planning Project No. 263-0144 for the period from January 15, 1987 through March 31, 1993.

Background

The Information, Education and Communication Center (IEC) was officially established by the Minister of Information Decree No.718 in 1980. IEC was established as a component of the State Information System (SIS). SIS is an authority working under the auspices of the Ministry of Information.

IEC was established to help in achieving the national goal of reducing the rate of population growth in accordance with the Population and Family Planning Policy (PFPP) of the Government of Egypt (GOE) as outlined in the National Strategy Framework of Population, Human Resource Development and the Family Planning Program. The objectives of IEC are to (1) inform the public about family planning methods and their correct use, and (2) explain and clarify, for opinion leaders and the general public, the impact of population increase upon the nation's social and economic sectors. Major media organizations, such as TV, radio, cinema and newspapers are used as well as exhibits and printed materials.



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IEC is mainly operated by funding from USAID provided by the Project Implementation Letter (PIL) No. 6 dated January 2, 1987. This PIL and its amendments committed USAID funds to SIS. The funds guaranteed in PIL No. 6 are to be used to carry out the objectives of IEC. USAID funds may also be used in working towards the organizational development goals of IEC by (1) strengthening planning, management, and reporting capabilities, (2) increasing staff capabilities through training, (3) expanding creative capability through the use of the Egyptian private sector including advertising agencies, and (4) improving the effectiveness of IEC local offices in planning and implementing their own program initiatives.

IEC uses the cash basis to account for its expenditures and revenues. The accounting system is manual.

Based on the approved budget, IEC obtained an advance from USAID to finance the agreed activities. This advance was deposited in a revolving 180 non-interest-bearing bank account maintained in the National Investment Bank (NIB). For replenishment purposes, IEC submits a monthly voucher to USAID showing the total disbursements during the month, the balance in the revolving account and the cash required for the next month or quarter.

Audit objectives and scope

The principle objective of this audit engagement was to conduct a financial audit of USAID/Egypt funds provided to SIS/IEC pursuant to PIL No. 6. The specific objectives were to determine whether:

1. The fund accountability statement of IEC represents fairly, in all material respects, project revenues and costs incurred in conformity with generally accepted accounting principles or another comprehensive basis of accounting;
2. The costs reported as incurred under the PIL are, in fact, allowable, allocable, and reasonable in accordance with the terms of the PIL, USAID regulations and the umbrella grant agreement;
3. The internal controls, the accounting system and the management practices of IEC are adequate for USAID/Egypt agreements; and

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

Preliminary planning and review procedures were started in May 1993 and consisted of:

- Discussion with RIG/A/C;
- Reviewing the umbrella grant agreement and the PIL;
- Interviewing the IEC key personnel and discussing with them the grant status, accomplishments during the period, the statutory reporting requirements, the grant budget and actual expenditures, and reimbursement procedures from USAID.
- Reviewing the IEC's organizational structure, procurement and personnel manuals, financial and accounting policies and procedures manual.

The field work was completed in July, 1993. The scope of our work was to audit USAID's disbursements to IEC and costs incurred by IEC under PIL No. 6. Within each budget line item, we selected disbursements for testing on a judgmental basis. We tested disbursements of LE4,787,583 (42%) out of total disbursements of LE11,349,362.

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

1. Reconciling all cash receipts to USAID records;
2. Reconciling IEC's accounting records to invoices submitted to USAID/Egypt, and testing of costs for allowability, allocability, reasonableness, and appropriate support;
3. Visiting seven centers out of the IEC's 58 centers to make physical inspections and a count of project assets and to establish the adequacy of IEC's control over these assets.

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 statement is free of material misstatement.

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

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

Results of audit

Fund accountability statement

Our audit identified LE202,760 (equivalent to US\$73,865) in questionable costs, including LE48,811 (equivalent to US\$17,782) of unsupported costs.

Internal control structure

Our audit identified the following findings:

- IEC does not maintain a detailed accounting manual;
- Lack of insurance for IEC's assets;
- Controls over the safeguarding of cash and productive assets are not independently verified;
- A fixed assets register is not maintained;
- Bank reconciliations are not reviewed, approved or authorized;
- The internal auditor plays no role in reviewing the accounting controls and
- Fidelity insurance is not maintained.

We recommend that IEC address the above internal control weaknesses.

Compliance with agreement terms and applicable laws and regulations

No material items of noncompliance were noted. However, we found the following instances of noncompliance:

- IEC did not subject its employees' incentives and bonuses to the salaries tax.

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- IEC did not deduct withholding taxes from amounts paid for purchases, supplies or services to private sector supplies.
- IEC purchased certain training courses by direct purchase method

Management Comments

We have reviewed IEC's response to the financial cost-incurred audit which is included as Appendix III. Where applicable, we have provided further clarification of our position in Appendix IV. The responses provided by IEC have not changed our understanding of the facts underlying the questioned costs of the fund accountability statement, reportable conditions in the Report on Internal Control Structure or findings in the Report on Compliance with Laws and Regulations.

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

Hazem Hassan & Co.

M. K. K. K.
Cairo, Egypt.



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying fund accountability statement of State Information Service's (SIS) local expenditures incurred under Project Implementation Letter (PIL) No. 6 related to the Information, Education and Communication Center (IEC) under USAID/Egypt's Population/Family Planning Project No. 263-0144 for the period from January 15, 1987 through March 31, 1993. This statement is the responsibility of IEC's management. Our responsibility is to express an opinion on this statement based upon our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) 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 statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the fund accountability statement. We believe that our audit provides a reasonable basis for our opinion.

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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 (1988 Revision), since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

As described in Note 1, the accompanying fund accountability statement has been prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than the generally accepted accounting principles.

The fund accountability statement, referred to above, does not include the cost of USAID/Egypt's direct procurement of vehicles, equipment, and technical assistance provided by USAID/Egypt directly to IEC or the total revenues of and the costs incurred by IEC on an organization-wide basis.

Included in the fund accountability statement are questioned costs amounting to \$73,865. The basis for questioning these costs is more fully described in the "Details of Questioned Costs" section of this report.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the fund accountability statement, referred to above, presents fairly, in all material respects, the local revenues and expenditures incurred, translated to US dollars, by IEC related to PIL No. 6 under USAID/Population/Family Planning Project No. 263-0144 for the period from January 15, 1987, through March 13, 1993, in conformity with the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the fund accountability statement, translated to US dollars, for the period from January 15, 1987 through March 31, 1993. The supplemental information included in Appendix I is presented for the purpose of additional analysis and is not required as a part of the basic fund accountability statement of IEC. Such information has been subjected to the auditing procedures applied in the audit of the basic fund accountability statement and, in our opinion, is fairly

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stated in all material respects in relation to the basic fund
accountability statement taken as a whole.

Hazem Hassan & Co.

M. K. K. K.

-Cairo, Egypt
July 8, 1993

INFORMATION, EDUCATION AND COMMUNICATION CENTER

Fund Accountability Statement
Project Implementation Letter No. 6
Pursuant to USAID/EGYPT Project
No. 263-0144

For The Period From January 15, 1987 Through March 31, 1993

Revenue

Cash received during
the period \$4,282,858

\$4,282,858

Expenditures

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Audit</u>
	<u>\$</u>	<u>\$</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Finding</u>
			<u>\$</u>	<u>\$</u>	<u>Reference</u>
Mass Media	2,414,135	1,343,877			
Support Information					
Production	1,159,854	606,008			
Local Activities	1,271,878	953,331	22,864	14,868	item I, II Pg.13
Training	240,801	131,862		2,914	item III Pg.13
Research/Evaluation	151,548	74,612			
Administration	728,204	620,947	14,174		item IV Pg.14
Equipment	327,519	295,245	15,060		item V Pg.14
Other activities	50,273	34,096			
Vehicles	42,441	42,058	3,985		item VI Pg.14
Office Repairs and Maintenance.	83,934	32,522			
	<u>6,470,587</u>	<u>4,134,558</u>	<u>56,083</u>	<u>17,782</u>	

USAID Fund Available
as of March 31, 1993

148,300
=====

The accompanying footnotes are an integral part of the fund
accountability statement.

INFORMATION, EDUCATION AND COMMUNICATION CENTER

NOTES TO THE
FUND ACCOUNTABILITY STATEMENT

Note 1: Accounting Basis

The fund accountability statement of IEC is prepared on the basis of cash receipts and disbursements. Consequently, costs are recognized when paid rather than when the obligation is incurred and revenues are recognized when received rather than when earned. The accounting basis of cash receipts and disbursements is a comprehensive basis of accounting other than generally accepted accounting principles.

Note 2: Basis of Presentation

The first two columns "Budget" and "Actual" of the fund accountability statement are the representation of IEC's management and are the responsibility of the said management. The "Questioned Costs" columns represent the audit results and are included in the fund accountability statement for presentation purposes only.

Note 3: Reporting Currency

IEC maintains its books and accounts in Egyptian pounds (LE) as a functional currency. The functional currency was translated into US dollars (\$) as a reporting currency. The period average exchange rate method was used to translate the fund accountability statement. This exchange rate is \$1 = LE2.745.

Note 4: Budget

The "Budget" column includes USAID/Egypt's approved costs for PIL No.6 amendment No. 14. This amendment covers the period from March 1, 1993 through December 31, 1993.

Note 5: Expenditures Classification

Mass Media represents production costs of social drama, inserts, talks on TV and radio. It represents also advertising in newspapers, medical publications and investigative reports.

Support Information Production represents production costs of video films for TV, printed and promotional materials.

Interpersonal Communications and Local Activities represents costs of community meetings, three-day meetings, conferences and others.

Training represents on-the-job training for local IEC staff. Expenditures do not include training costs which are paid directly by USAID for training abroad.

Research / Evaluation represents costs of pre-testing major media products, small audience surveys, monitoring local office activities and sample surveys of governorates.

Administration includes salary supplements for IEC staff, incentives, rents, utilities and maintenance, and transportation.

Equipment includes screens, TV sets, videos, flip charts, projectors, magnetic boards, generators, computers and video cameras.

Other Activities represents innovative activities and contests.

Vehicles includes costs of customs clearance of new vehicles, garage rent, maintenance and fuel.

Note 6: Ineligible and Unsupported Costs

Questioned costs are presented in two separate categories - ineligible costs and unsupported costs - and consist of audit findings proposed on the basis of the terms of PIL No. 6, the umbrella grant agreement and USAID regulations. Costs in the column labeled "Ineligible" are supported by vouchers or other documentation, but are ineligible for reimbursement because they are not program related,

not reasonable, prohibited by the PIL, the umbrella grant agreement, or applicable laws and regulations. Costs in the column labeled "Unsupported" are also formally included in the classification of "Questioned Costs" and relate to costs that are not supported by adequate documentation or do not have the required prior approvals or authorization. All questioned costs are detailed in the "Details of Questioned Costs" section of this report.

Note 7: Subsequent Events

On June 9, 1993, amendment No. 14 pursuant to PIL No. 6 was signed. The purpose of this amendment is to extend the completion date of the project to December 31, 1993.

Details of Questioned Costs

I The eligibility of certain local activities costs amounting to \$22,864 is questionable

1. Entertainment costs of \$4,760 (Schedule No.1) were paid by IEC and reimbursed from USAID.
2. IEC paid \$18,104 (Schedule No.1) for renewing the licenses of vehicles. These costs are ineligible since section B.4 of the Project Grant Standard Annex 2 states that

(a) This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Grant, and any property or transaction relating to such contracts and (2) any commodity procurement transaction financed under the Grant, are not exempt from identifiable taxes, tariffs, duties or other levies imposed under laws in effect in the territory of the Grantee, the Grantee will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Grant.

II Documents supporting certain local activities costs amounting to \$14,868 are inadequate

IEC issued cheques of \$32,422 for the local activities project in Minia. Only documents supporting \$17,555 were found. Therefore, an amount of \$14,868 is not supported by adequate documents (Schedule No.1).

III Documents supporting certain training costs amounting to \$2,914 are inadequate

IEC paid \$2,914 (Schedule No.2) as training costs. No offers or quotations from other training firms were available to support the conclusion that these were the best offers. Prudent business practice requires that there be at least three offers to choose from.

IV The eligibility of certain administration costs amounting to \$14,174 is questionable

1. IEC paid bonuses and incentive costs of \$12,025 (Schedule No.3) to directors and key individuals in the Television Broadcasting Corporation. No additional activities were undertaken by those individuals over and above their regular work.
2. IEC paid bonuses of \$2,149 (Schedule No.3) to employees who are working in the office of the Minister of Information. These bonuses were paid for monitoring and evaluating IEC's activities.

We consider these bonuses ineligible because :

- (i) These employees were not given any extra responsibilities and
- (ii) The payment of bonuses affects the independence required for monitoring and evaluating purposes.

V The eligibility of certain equipment costs amounting to \$15,060 is questionable

IEC incurred costs in excess of the approved budget. The budget of equipment for 1987 was \$28,521 but IEC incurred costs amounting to \$43,581. The difference is \$15,060. IEC did not provide us with USAID approval to exceed the budget line item "Equipment". Accordingly, we consider the amount of \$15,060 ineligible (Schedule No. 4).

VI The eligibility of certain vehicles costs amounting to \$3,985 is questionable

IEC paid \$3,985 (Schedule No. 5) as costs of renewing the licenses of vehicles. These costs are ineligible according to section B.4 of the Project Grant Standard Annex 2 as mentioned in Section I above.

INTERNAL CONTROL STRUCTURE



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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying fund accountability statement of State Information Service's (SIS) local expenditures incurred under Project Implementation Letter (PIL) No. 6 related to the Information, Education and Communication Center (IEC) under USAID/Egypt's Population/Family Planning Project No. 263-0144 for the period from January 15, 1987 through March 31, 1993, and have issued our report thereon dated July 8, 1993.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by Paragraph 46 of Chapter 3 of Government Auditing Standards (1988 Revision), 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 (1988 Revision), is not material because we participate in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

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In planning and performing our audit of IEC, we considered its internal control structure related to PIL No.6 funded by USAID/Egypt in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of IEC 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 a fund accountability statement in accordance with the cash basis of accounting.

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 in the following categories:

- Financial accounting system;
- Cash receipts and banks;
- Equipment; and
- Expenditures.

For all of the control categories listed above, we obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation, and assessed the control risk.

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

consistent with the assertions of management in the fund accountability statement. Our audit disclosed the following reportable conditions:

1. IEC does not maintain a detailed accounting manual

We noted that IEC does not maintain a detailed accounting manual; it depends on the budget line items to allocate the expenditures.

Since the budget line items do not include a detailed description of what should be charged on each line item, certain costs were misclassified. For example:

	<u>Date</u>	<u>Cheque No.</u>	<u>Amount</u> \$
Cost of printing 50,000 copies of family planning booklets classified as "Local Activities" rather than "Support Information Production."	1987	425595	3,495
Production cost of T.V. drama classified as "Innovation Activities" rather than "Mass Media."	1988	761448 769731	19,308
Production cost of spots classified as "Other Activities" rather than "Mass Media."	1989	814002	9,290
Bonuses classified as "Office Repairs" rather than "Administration."	1992	1194927	459
Bonuses classified as "Expenditures Related to Vehicles" rather than "Administration."	1992	117879	590

Recommendation I

We recommend that IEC develop an accounting manual detailing what types of costs are included in each budget line item.

2. Lack of insurance for IEC's assets

We noted that productive assets such as equipment, vehicles and cash were not insured. This exposes IEC to assets and operating losses.

Recommendation 2

We recommend that a comprehensive insurance policy be purchased covering all significant assets for which the IEC assumes the responsibility for maintenance and safekeeping.

3. Controls over the safeguarding of cash and productive assets are not independently verified.

During our audit, we noted that IEC does not document the cash counts and there are no written instructions for conducting such counts; there are no safety boxes to safeguard cash in certain centers, and the main warehouse is not well organized, nor does it include fire extinguishers. It was also noted that a vehicle of the East Alexandria Center is parked, after working hours, outside a garage. This may expose the vehicle to damage and theft. The log of the vehicle used by the Ministry of Information is not reviewed or followed-up by the management of IEC.

Recommendation 3

We recommend that IEC enhance controls over the protection of productive assets. Specific measures that should be taken are:

- All cash counts and related transactions should be documented .
- Cash kept in IEC's centers should be locked in safety boxes.
- When not in use on project business, vehicles should be kept in garages.
- The log of the vehicle used by the Ministry of Information should be reviewed.
- IEC,s warehouses should be organized and furnished with proper safety equipment.

4. A fixed assets register is not maintained

Instead of keeping a register of fixed assets, IEC keeps warehouse receiving forms in a loose leaf file. As a result, we noted two television sets in the "East of Alexandria Center" which do not have receiving forms in Cairo. Lack of a register of fixed assets may lead to waste, loss, unauthorized use, and misappropriation of IEC's equipment.

Recommendation 4

We recommend that IEC record all warehouse receiving forms in a register which includes description, manufacturer's serial number or other identification number, source, acquisition date, cost, location, custodian and whether title is vested in the IEC or in USAID. The fixed assets register should be compared with the physical counts and any differences should be investigated or adjusted.

5. Bank reconciliations are not reviewed, approved or authorized

Although IEC prepares a bank reconciliation on a monthly basis, there is no evidence indicating that such reconciliation was reviewed or approved.

Bank reconciliations are a major internal control tool and improper preparation may affect the accuracy of the cash balance in the financial report submitted to USAID.

Recommendation 5

We recommend that IEC's management review, approve and authorize bank reconciliations.

6. The internal auditor plays no role in reviewing the efficiency and effectiveness of operational, or accounting controls

We noted that the internal auditor, who is directed by the financial manager, is preparing and processing the financial data and has no audit functions.

The function of the internal audit is to assist the management in safeguarding the assets and to ensure the reliability of the financial records.

Recommendation 6

We recommend that IEC assign internal audit functions to the internal auditor rather than involve him in processing and preparing the financial data.

7. Fidelity insurance is not maintained

IEC does not maintain a fidelity insurance for its employees involved in inventory, cash, or cash in transit.

Recommendation 7

We recommend that fidelity coverage be purchased to cover all employees involved in custodial activities.

* * * * *

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

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

REF ID: A66666
REF ID: A66666 Hazem Hassan & Co.

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

Hazem Hassan & Co.

M. K. M. M. M.

Cairo, Egypt
July 8, 1993.

COMPLIANCE WITH AGREEMENTS,
AND APPLICABLE LAWS AND
REGULATIONS



Hazem Hassan & Co.

Accountants & Consultants

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Mohandiseen, Cairo
Egypt.

Telephone: 3499588 - 3499677
Telex : 93796 - 20457 HHCO UN
Telefax : 3497224 - 3487819

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying fund accountability statement of State Information Service's (SIS) local expenditures incurred under Project Implementation Letter (PIL) No. 6 related to the Information, Education and Communication Center (IEC) under USAID/Egypt's Population/Family Planning project No. 263-0144 for the period from January 15, 1987 through March 31, 1993 and have issued our report thereon dated July 8, 1993

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) 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 statement of IEC is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 46 of Chapter 3 of Government Auditing Standards (1988 Revision), 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 (1988 Revision), is not material because we participate in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

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Compliance with laws, regulations, contracts, grants and binding policies and procedures applicable to IEC is the responsibility of IEC's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of IEC's compliance with certain provisions of laws, regulations, contracts, grants, and binding policies and procedures. However, our objective was not to provide an opinion on compliance with such provisions. Our testing of transactions and records disclosed certain instances of noncompliance with those laws and regulations which are identified in the "Report on Compliance-Audit Findings" section of this report.

The results of our tests indicated that, with respect to the items tested, IEC 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 IEC had not complied, in all material respects, with these provisions.

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

Hazem Hassan & Co.


Cairo, Egypt
July 8, 1993.

REPORT ON COMPLIANCE
AUDIT FINDINGS

The following instances of noncompliance with applicable laws, regulations, PIL's budget and agreements came to our attention during the audit:

1. Instances of noncompliance with the tax laws in Egypt

- IEC did not subject its employees' incentives and bonuses to the salaries tax
- IEC did not deduct withholding taxes from amounts paid for purchases, supplies or services to private sector suppliers

Recommendation 1

We recommend that IEC :

- compute and provide for the salary taxes to be paid, on the employees' incentives and bonuses, to the appropriate tax authority
- deduct withholding taxes from any amount, exceeding LE10, paid for purchases, supplies or services to private sector supplies.

2. Instances of noncompliance with PIL's budget.

During our audit we noted that IEC incurred costs in excess of the approved budget for 1987. These costs amounted to \$15,060 (see item V in the "Details of Questioned Costs" section of this report)

Recommendation 2

- We recommend that IEC take the necessary corrective action in order to be in compliance with the approved budget.

3. Instances of noncompliance with prudent procurement procedures

IEC contracted with a training firm to conduct certain courses. We noted that no offers or quotations from other training firms were obtained. Hence the

opportunity to obtain the best price, terms or quality was forfeited, (see item III in the "Details of Questioned cost" section of this report)

Recommendation 3

We recommend that IEC obtain at least three bids from reputable companies or institutions to be considered when awarding contracts.

APPENDIX I

SUPPLEMENTARY FUND ACCOUNTABILITY
STATEMENT

INFORMATION, EDUCATION AND COMMUNICATION CENTER
Fund Accountability Statement
Project Implementation Letter No. 6
Pursuant to USAID/EGYPT Project
No. 263-0144

For The Period From January 15, 1987 Through March 31, 1993

Revenue

Cash Received During
The Period L.E 11,756,444

11,756,444

Expenditures

	<u>Budget</u> <u>LE</u>	<u>Actual</u> <u>LE</u>	<u>Ineligible</u> <u>LE</u>	<u>Unsupported</u> <u>LE</u>	<u>Schedule</u> <u>No.</u>
Mass Media	6,626,800	3,688,943			
Support Information					
Production	3,183,800	1,663,491			
Local Activities	3,491,305	2,616,893	62,761	40,811	(1)
Training	661,000	361,960		8,000	(2)
Research/Evaluation	416,000	204,810			
Administration	1,998,920	1,704,500	38,909		(3)
Equipment	899,041	810,449	41,341		(4)
Other activities	138,000	93,595			
Vehicles	116,500	115,448	10,938		(5)
Office Repairs and Maintenance.	230,400	89,273			
	<u>17,761,766</u>	<u>11,349,362</u>	<u>153,949</u>	<u>48,811</u>	

USAID Fund Available
as of March 31, 1993 407,082

APPENDIX II

SCHEDULES OF QUESTIONED AND
UNSUPPORTED COSTS

Schedule No. (1)

Local Activities

Ineligible Costs

	<u>Date</u>	<u>Cheque NO</u>	<u>LE</u>	<u>Amount</u> \$
Entertainment Costs	1987	433883	3,900	1,421
	"	436207	1,500	546
	"	429930	2,881	1,050
	"	380193	300	109
	1988	745669	2,386	869
	1990	828061	2,100	765
			<u>13,067</u>	<u>4,760</u>
Trip tickets and	1992	79216	43,856	15,977
Fees for license	1993	134917		
renewal for vehicles	1993	134920	5,838	2,127
			<u>49,694</u>	<u>18,104</u>
Total Ineligible Costs			<u>62,761</u>	<u>22,864</u>
			=====	=====

Unsupported Costs

Advances paid for	1992	1139077	12,000	4,372
El Minia local	"	1194959	19,200	6,995
activity project	"	16405	39,400	14,353
	1993	134915	18,400	6,703
			<u>89,000</u>	<u>32,423</u>
Less : amount supported by adequate documents			(48,189)	(17,555)
Total Unsupported Costs			<u>40,811</u>	<u>14,868</u>
			=====	=====

TRAINING

Unsupported Costs

	<u>Date</u>	<u>Cheque No.</u>	<u>LE</u>	<u>Amount</u> <u>\$</u>
Training courses procured by direct purchase method.	1992	114908	4,000	1,457
	1993	79282	4,000	1,457
 Total Unsupported Costs			<u>8,000</u> =====	<u>2,914</u> =====

Schedule No. (3)

ADMINISTRATION

Ineligible Costs

	<u>Date</u>	<u>Amount</u>	
		<u>LE</u>	<u>\$</u>
Bonuses and incentives paid to directors and key individuals in the Television Broadcasting Corporation.	1987	1,956	713
	1988	3,825	1,393
	1989	7,860	2,863
	1990	5,904	2,151
	1991	6,624	2,413
	1992	6,840	2,492
		<u>33,009</u>	<u>12,025</u>
Bonuses and incentives paid to employees in the office of the Minister of Information.	1988	3,600	1,311
	1991	2,300	838
		<u>5,900</u>	<u>2,149</u>
Total Ineligible		<u>38,909</u>	<u>14,174</u>

Schedule No. (4)

EQUIPMENT

Ineligible Costs

	<u>Date</u>	<u>Amount</u>	
		<u>LE</u>	<u>\$</u>
Cost incurred in excess of the approved budget	1987	41,341	15,060
Total Ineligible Costs		<u>41,341</u> =====	<u>15,060</u> =====

VEHICLES

Ineligible Costs

	<u>Date</u>	<u>Cheque No.</u>	<u>Amount</u>	
			<u>LE</u>	<u>\$</u>
Fees for license	1990	836627	6,069	2,211
renewal for vehicles	1992	117880	2,417	881
	1992	61023	2,452	893
 Total Ineligible Costs			<u>10,938</u> =====	<u>3,985</u> =====

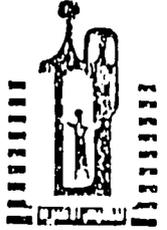
APPENDIX III

IEC'S MANAGEMENT COMMENTS

STATE INFORMATION SERVICE

I.E.C. CENTER

3 Tahrir Square, Cairo - Egypt - Tel.: 3550865 / 3545586



MESSRS HAZEM HASSAN,
72 MOHI EL DIN ABU EL EZZ STREET,
MOHANDESSEEN,
CAIRO.

OCTOBER 13, 1993

Dear sirs,

This letter is in answer to the findings of the draft financial audit report of the State Information Service (SIS) local expenditures incurred under Project Implementation Letter (PIL) No.6 related to the Information, Education and Communication Center (IEC) under USAID/Egypt Population/Family Planning Project No. 263-0144 for the period from January 15, 1987 through March 31, 1993.

Background:

The Information, Education and Communication Center (IEC) is a government of Egypt (GOE) entity established by a decree from the Minister of Information in 1980. The SIS/IEC Center was established as a component of the State Information Service, which is an authority forming part of the Ministry of Information. Since its establishment, the SIS/IEC Center has been responsible for promoting family planning in Egypt. Through its mass media campaigns on TV, radio and the national and regional press, and with its Inter-Personal Communication activities carried out through its 58 Local Information Centers (LICs) it has succeeded in increasing family planning knowledge and contraceptive awareness and practice.

Although its activities are mainly funded by USAID, the SIS/IEC Center nevertheless is bound by GOE financial rules and regulations. Accordingly, the SIS/IEC Center recognizes the importance of maintaining a sound, effective financial system to ensure that GOE funds as well as donor agency grant funds are protected and spent on activities and items which have been authorized by the GOE and donor grant awards. The SIS/IEC Center realizes that an essential component of a sound financial management structure relates to maintaining an effective internal control structure with procedures set up to ensure that assets are safeguarded, accounting data are reliable and accurate, efficient operations are promoted and adherence to managerial policies are encouraged.

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In the SIS/IEC Center's continuing efforts to improve its financial management system, the Center intends to adopt a procedure manual conforming to both GOE regulations and USAID rules and regulations. The procedures will include but will not be limited to the following:

1. Accounting record keeping procedures.
2. Cash disbursement and control procedures.
3. Check control procedures.
4. Purchasing procedures.
5. Financial reporting and monitoring procedures.
6. Specific USAID policies and procedures.

After this manual is adopted, the appropriate financial management staff at the SIS/IEC Center will be formally trained in its use.

The recommendations of the audit report are made up of the two following chapters, which I shall endeavor to answer:

Details of Questioned Costs:

I The eligibility of certain local activity costs amounting to \$ 22,863 is questionable:

1. Entertainment costs of \$ 4,760 (Schedule No.1) were paid by IEC and reimbursed from USAID.

Answer:

In Schedule No.1, mention is made of the following:

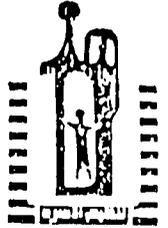
Local Activities

Ineligible costs	Date	Cheque No	Amount	
			LE	\$
Entertainment Costs	1987	43383	3,900	1,421
	1987	436207	1,500	546
	1987	429930	2,881	1,050
	1987	380193	300	109
	1988	745669	2,386	869
	1990	828061	2,100	765
	Total			13,067.00

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The so-called "entertainment costs" were actually costs of promotional campaigns through symposiums, conferences and seminars to which members of organizations engaged in FP activities, specifically media people, were invited to become acquainted with, discuss and deliberate over the population problem, with special emphasis on FP.

** In the CY 1987 Workplan, approved by PIL No.6 in the letter addressed to Dr. M. El Beltagi by Mr. Bernard Wilder, Associate Director, Human Resources and Development Cooperation is the following:

Under Line item: Mass Media, sub-line item A-4 Other Expenses Related to Media Activities A-4.1 Fees for celebrities to sponsor campaign LE 100,000

It was seen at the time of implementation that instead of offering a fee to a celebrity to sponsor the campaign, it was preferable to gather together media people etc.. at a seminar and/or presentation etc.. and repeat the experience 4 times to induce the largest number of media people to adopt the FP issue. However, the item was misallocated in the IEC Center account books and entered under "Local Activities" instead of "Other Expenses Related to Mass Media", on the assumption that seminars, conferences etc.. normally come under the line item "Local Activities".

** In the CY 1988 workplan, approved by PIL No.6 in the letter dated November 22, 1987 addressed to Dr. Beltagi by Mr. William F. Gelabert, Associate Director, Human Resources, there is the following:

C. Interpersonal Communication (Local Activities)
C.6. Organize two symposiums/seminars for policy makers: LE
10,000 x 2 =20,000

The Cheque in question concerns a round-table held by the IEC Center for members of the 13th International Conference for Statistics, Social and Population Researches from 22 institutions in Egypt. As the number of participants was large, it was necessary to hold the round table on premises outside the Center.

The entry in the IEC account books under line item "Local Activities" is therefore in conformity with the 1988 Workplan.

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** In the CY 1990 Workplan, approved by PIL No.6, Amendment No.5, in the letter dated December 19,1989, addressed to Dr. Beltagi by Mr. William Gelabert, Associate Director, Human Resources, there is the following:

- C. Interpersonal Communication and Local Activities.
- C.1. Activities organized by the IEC Center.
- C.1.1.Organize concentrated campaigns (4000 x 4) LE 16,000.

The cheque in question concerns a symposium for members of the International Conference for Statistics, Social and Population Researches attended by members of 22 institutions in Egypt. Again it was found necessary to hold the symposium on premises outside the IEC Center.

The entry in the SIS/IEC Center account books under the line item "Local Activities" is therefore correct, as this is an activity of the concentrated campaigns organized by the IEC Center itself.

For the six above mentioned cheques , the Arabic entry in the SIS/IEC Center account books is "entertainment costs" which is a loose translation covering a wide variety of activities, such as leasing premises, services etc.. The entry is also probably influenced by the hotel invoice which bills it in Arabic as "entertainment".

The SIS/IEC Center now discerns how these expenditures are misinterpreted and will properly budget and account for this kind of expenditure in its workplans and accounts in the future.

- 2. IEC paid \$ 18,103 (Schedule No.1) for renewing the licenses of vehicles:

Answer:

In Schedule No.1, there is mention of the following:

Ineligible costs	Date	Cheque No	Amount	
			LE	\$
Trip tickets and fees for vehicle license renewals	1992	79216	43,856	15,977
	1993	134917		
	1993	134920	5,838	2.126

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In the CY 1990 Workplan (PIL No.6, Amendment No.5) and in the CY 1991 Workplan (PIL No.6, Amendment No.6) there is the line item I in the former, stating the following under sub-line item I.1.2:

"Costs of clearing vehicles from customs and license plates
LE 24,000"

In the latter there is line item H.1. which states clearly:

"Cost of clearing vehicles from customs and license plates and
renewal of temporary license LE 48,000"

Again, according to the CY 1992 Workplan approved by PIL No.6, Amendment 9 and extended until end of February 1993) there is the following line item "Cost of Clearing New Vehicles".

This clearly shows that ever since the arrival of the vehicles there has been clear USAID approval for renewal of license plates etc..

It should be noted that a ministerial decree from the Minister of Finance was issued on April 12, 1993 exempting all the 36 SIS/IEC vehicles procured from USAID from customs duties and consumption tax. All the SIS/IEC project-funded vehicles have government plates at present and no further fees are paid by the grant.

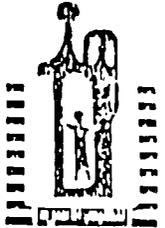
II Documents supporting certain local activity costs amounting to \$ 14,867 are questionable:

1. The SIS/IEC Center agrees that this amount should not have been vouchered as it is an advance from SIS/IEC Center to the Minya LIC.
2. The SIS/IEC Center will deduct this amount from the next financial report submitted to USAID and will enter it as credit to USAID.
3. Complying with USAID regulations, once all expenditure reports are submitted from the LICs, the SIS/IEC Center submits a reclaim voucher seeking USAID reimbursement.

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III Documents supporting certain training costs amounting to \$ 2,914 are inadequate:

Both training courses were by the same training firm "Team Misr" which has a long and successful history with the SIS/IEC Center and with training on communication skills and program planning for LIC personnel. Moreover, as this was a small type transaction the SIS/IEC Center complied with GOE regulations and sought the "competitive bidding" by telephone, and was satisfied by the quotation/service of the firm.

On the whole, the workshop is for 5 days, with 6 hours of sessions every day. A brief breakdown of the services offered by the firm will show the following:

Training staff fees	30 hrs. x LE 100	=	LE 3,000
Lease of hall	5 days x LE 100/day	=	LE 500
Tea breaks	twice daily	=	LE 500
Documentation	for 25 participants	=	LE 500
Audio/visual aids			LE 500
Total			LE 4,500

It should be noted that SIS/IEC Center paid only LE 4,000 for each workshop.

The SIS/IEC Center endeavors to procure written "competitive bidding" for every training course as per your recommendation.

IV The eligibility of certain administration costs amounting to \$14,174 is questionable:

Answer:

IV.1. & 2. Bonuses and incentives paid to directors and key individuals in the Egyptian Radio and TV Union (ERTU) and to employees in the Office of the Minister of Information:

These costs were actually honoraria paid to them, but on a more or less regular basis, in return for attending external technical artistic production committees at the Center which review TV and radio scripts, books etc.. produced by the Center, all outside their normal functions.

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This in no way prejudices their functions in their original posts, as they are not responsible for monitoring or evaluating IEC activities, but are ERTU administrative staff. However, the Center found it beneficial to avail itself of their expertise in the field.

Services offered by TV personnel also included ensuring the airing of spots etc.. at peak times, etc.. These payments were misallocated and should have been placed under the line item "Honoraria" which is present in each workplan. This will be taken into consideration in the future.

V The eligibility of certain equipment costs amounting to \$15,060 is questionable:

Answer:

The equipment in question was composed of one transaction of 14 TV sets and 12 VCRs for the LICs costing approximately LE 40,000.

According to the financial provisions at the time, the SIS/IEC Center was allowed to exceed the approved budget for this line item, which was LE 78,658 by 20% which is approximately LE 15,658. SIS/IEC Center received USAID approval to purchase the equipment as is evident from the attached memo written by the head of the Cinema/Video Section to the SIS/IEC Director.

If required, however, the SIS/IEC Center will seek USAID retroactive approval for this transaction.

VI The eligibility of certain vehicle costs amounting to \$3,985 is questionable:

Answer:

Same as in I.2.

Internal Control Structure

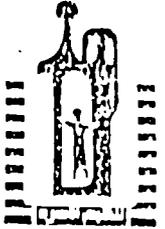
1. IEC does not maintain a detailed accounting manual:

As has already been stated at the outset of this letter, the SIS/IEC Center intends to adopt a procedures manual conforming with both GOE and USAID rules and regulations.

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2. Lack of insurance of IEC assets:

Insurance is not required for assets according to GOE regulations, and there is no line item in the USAID approved workplans for such a stipulation. We intend to discuss this matter further with USAID.

3. Controls over the safeguarding of cash and productive assets are not independently verified:

** The SIS/IEC Center realizes that an essential aspect of internal control systems lies in the importance of documenting all cash accounts and related transactions.

** Most LICs have cash boxes provided by the SIS, and the SIS/IEC Center will recommend that the remaining LICs be provided with safety boxes.

** Most vehicles are kept in garages and the SIS/IEC Center shall see to it that all LICs abide by that rule.

** Project log books for vehicles as well as the warehouse will be better organized.

4. A fixed assets register is not maintained:

The SIS/IEC Center has already sent a monitoring and tracking mission to all LICs as of August 1993 and is in the process of establishing a fixed assets register for each LIC to maintain an effective internal control system for SIS/IEC Center equipment.

5. Bank reconciliation are not reviewed, approved or authorized:

Appropriate review and approval of bank reconciliations will be implemented.

6. The internal auditor plays no role in reviewing the efficiency and effectiveness of operational or accounting controls:

The SIS/IEC Center will assign ^{such} internal financial control ^{functions} to the internal auditor _x _x

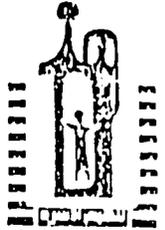
7. Fidelity insurance is not maintained:

Such a measure is not applied in any of the GOE establishments and there is no provision for such expenditure in the USAID approved workplans.

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The SIS/IEC Center is sure that with the development and application of the procedures manual, better procedures will be implemented to ensure that the appropriate documentation is maintained to explain all expenditures of funds and adjustments, and that each transaction has the required signature approvals. This will make the internal controls in the SIS/IEC Center even more efficient.

Sincerely,

Director, SIS/IEC Center

Sawsan Bakly

Sawsan El Bakly

APPENDIX IV

AUDITOR'S RESPONSE

AUDITOR'S RESPONSE

GENERAL

Our responses below address the Information, Education and Communication Center (IEC) management comments relating only to those situations where we believe additional information or clarification is warranted.

Note: our responses follow the format used by IEC in Appendix III.

FJND ACCOUNTABILITY STATEMENT

I The eligibility of certain local activities costs amounting to \$22,864 is questionable: PP. 1-2 in the auditee response

I.1 Entertainment cost:

We did not question the Arabic translation of the accounting entry but we questioned the nature, type and description of the documents given in evidence of costs incurred in Cairo and for entertainment activities.

I.2 & VI Cost incurred for renewing vehicles licenses

One of the criteria used to determine whether costs incurred are eligible is the grant agreement. The agreement prevails over the work-plan in determining the criteria. According to the agreement, all identifiable taxes, tariffs or other levies imposed are ineligible. Renewing vehicles licenses costs is one of the above ineligible items.

III Documents supporting certain training costs are inadequate.

The IEC's management asserted that the firm which undertook the training was the only one which could provide such services and facilities. We believe that, to reach that conclusion, offers should have been obtained among which to choose. However, our test revealed that IEC did not document the required offers.

IV 1&2 The eligibility of certain administration costs amounting to \$14,174

All bonuses and incentives were paid on a monthly basis regardless of attendance at meetings of technical committees. Additionally, USAID/Egypt approval for hiring of these recipients was not obtained. Minutes of the meetings of the technical committees were not provided to us. Therefore, we continue to assert that this item is a questioned cost.

V The eligibility of certian equipment costs amounting to \$15,060 is questionable.

According to the financial provisions of the agreement, IEC should have obtained USAID/Egypt's approval before exceeding the approved budget. IEC has not provided us yet with such an approval. Accordingly, our position remains the same.

INTERNAL CONTROL STRUCTURE

1. 2, 3 and 7 Lack of insurance. PP. 4 in the auditee response

Although insurance may not be required by the Government of Egypt, the IEC's management is responsible for safeguarding USAID - financed assets. One of the methods of achieving this is to purchase an insurance policy covering all significant assets. Our position remains unchanged.

Conclusion

IEC's comments did not cause us to change our position. All questionable costs, reportable internal control conditions and instances of noncompliance, remain unchanged.



CAIRO, EGYPT

December 1, 1993

MEMORANDUM

DEC 1 1993
10 10 33 AM

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

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

SUBJECT: NFA Report on State Information Service (SIS) Local Expenditures Incurred under Project Implementation Letter No. 6 Related to the Information, Education and Communication Center (ICE) under USAID/Egypt Population/Family Planning Project No. 263-0144 - Draft Report

Mission has received ICE's response to the recommendations included in subject report, assessed the response and attached documents, and has made partial determination. However, Mission is still working with the implementing Agency to obtain further supporting documents and justifications. We are therefore, unable to resolve Recommendation No. 1 at this time. Attached is a copy of a letter to SIS dated November 16, 1993, requesting them to address Recommendations 2 and 3 on internal control and compliance. Based on this action, Mission requests resolution of Recommendations 2 and 3. Please issue the final report.

XC: C. Carpenter-Yaman, HRDC/P
T. Khalil, HRDC/P

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CAIRO, EGYPT

Office of Financial Management
USAID - American Embassy
106 Kasr El Eini Street,
Cairo Center,
Garden City, Cairo

November 16, 1993

Mrs. Sawsan El Bakly
Director
Information, Education &
Communication Center
State Information Service
3, Tahrir Square, Egypt

Subject: NFA Report on the State
Information Service (SIS) Local
Expenditures Incurred under
Project Implementation Letter
(PIL) No. 6 Related to the
Information, Education and
Communication Center (IEC) under
USAID/Egypt Population/Family
Planning Project No. 263-0144

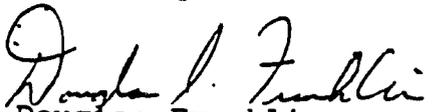
Dear Mrs. Sawsan:

Attached is a copy of the Final Draft Audit Report on SIS's locally incurred costs under USAID/EGYPT PIL No. 6, Information, Education and Communication Project (SIS/IEC), a subproject of Population/Family Planning II Project No. 263-0144 issued by Hazem Hassan & Co. The report contains three recommendations. Recommendation No. 1 is detailed on pages 13 and 14 of the audit report and will require USAID/EGYPT to work with the SIS/IEC project to resolve the questioned costs including the unsupported costs.

Recommendations No. 2 and No. 3 are detailed on pages 18 through 21 and pages 26 through 27 of the subject report, respectively. USAID will be carefully evaluating the SIS/IEC's actions described in your letter of October 13, 1993 included as Appendix III of the report in alleviating the internal control deficiencies included in subject report. As your letter of October 13, 1993 did not specifically address the measures taken, or to be taken, to correct the compliance issues identified in the report, we herewith request a separate letter from SIS/IEC Center detailing those measures.

USAID will be happy to assist the SIS/IEC Center in strengthening its financial management procedures that comply with USAID rules and regulations.

Sincerely,



Douglas Franklin
Associate Director
Financial Management

Attachment: a/s

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APPENDIX VI

REPORT DISTRIBUTION

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