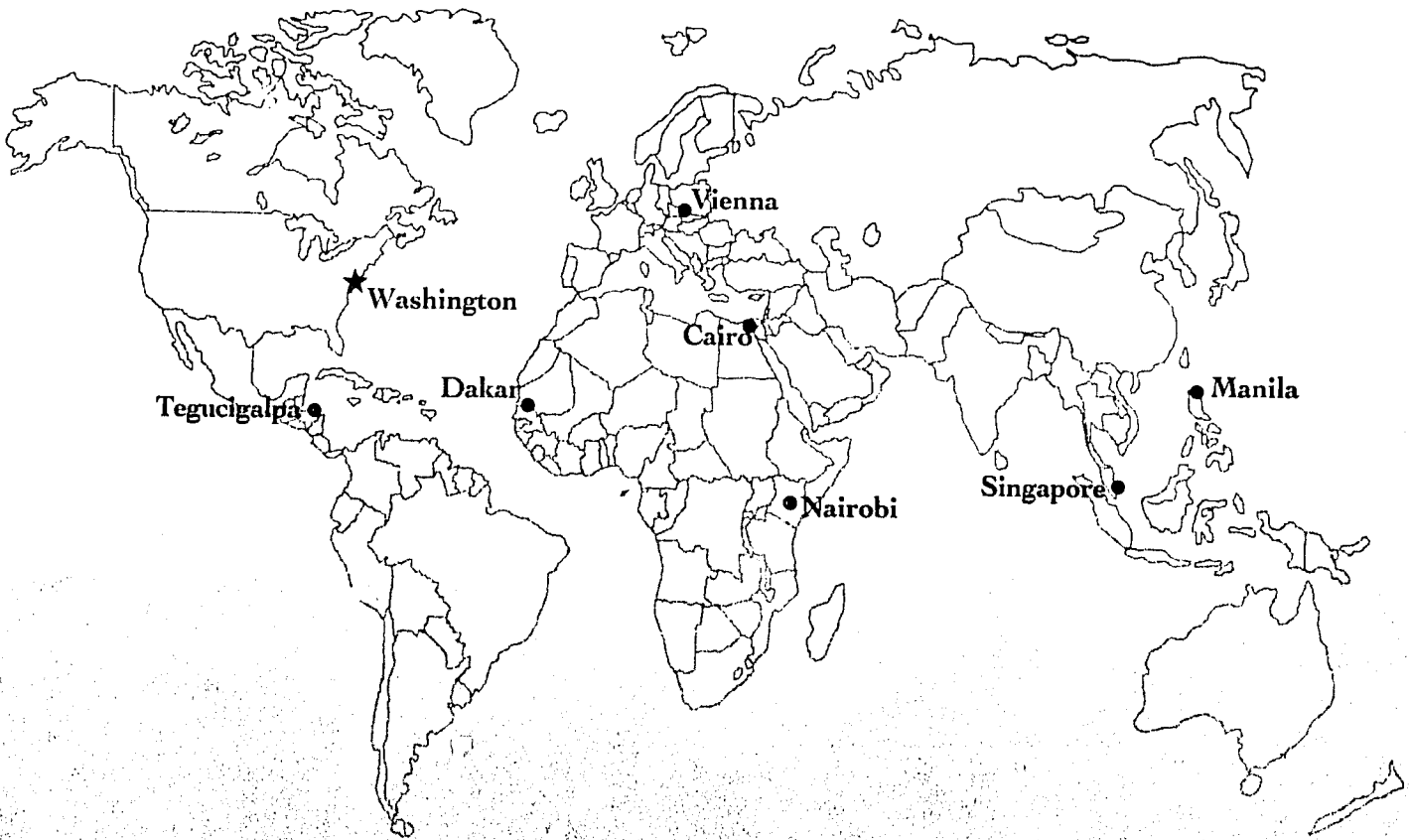


**Audit of Ministry of Public Works and Water Resources
(MPWWR) Project Implementation Letter (PIL) No. 101, Related
to the Preventive Maintenance Component of the USAID/Egypt
Irrigation Management Systems (IMS) Project No. 263-0132**

**Report No. 6-263-94-007-N
December 6, 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.**

**INSPECTOR
GENERAL**

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF INSPECTOR GENERAL
AUDIT INFORMATION REPORT

AUDIT REPORT TITLE: Audit of Ministry of Public Works and Water Resources (MPWWR) Project Implementation Letter (PIL) No. 101, Related to the Preventive Maintenance Component of the USAID/Egypt Irrigation Management Systems (IMS) Project No. 263-0132

TASK NO: 66201593 AUDIT CATEGORY: NFA

AUDIT REPORT NO: 6-263-94-007-N AMOUNT AUDITED:

DATE of ISSUE:	PROJECT NO. (if applicable)	AMOUNT (000's)
<u>December 6, 1993</u>	<u>263-0132</u>	<u>1,619</u>

AUDIT MANAGER AND CODE:
James B. Gaughran (GJB01)

AUDITOR-IN-CHARGE:
Price Waterhouse

REC. NO.	BRIEF DESCRIPTION OF FINDING	DEFICIENCY CODE (PPO Use)	TYPE OF REC.	AMT. OF SAVINGS
1	Questioned Cost		Recovery	\$262 ¹
2	Internal Control		Procedural	
3	Compliance		Procedural	

FOR FINANCIAL AUDITS ONLY

COST OF AGENCY CONTRACTED AUDIT: \$29,718 (LE99,853 @ \$1 to LE3.36)
 AID AUDIT COGNIZANCE? YES
 TYPE OF AUDIT: Agency TYPE OF OPINION: Qualified
 MAJOR I/C WEAKNESSES: 4 REPORTABLE I/C WEAKNESSES: 3
 MATERIAL NONCOMPLIANCE: 0 NONMATERIAL NONCOMPLIANCE: 5
 MINOR OR NO CHANGES TO REPORT BASED ON (1) DESK REVIEW OR (2) QCR? 1
 MAJOR CHANGES TO REPORT BASED ON (1) DESK REVIEW OR (2) QCR? NA

¹ Questioned costs of \$261,700 consist of \$143,049 ineligible and \$118,651 unsupported.

Price Waterhouse
A/RIG/A/C



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

December 6, 1993

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford
FROM : A/RIG/A/Cairo, Phillip C. Holt, Jr. *Phillip C. Holt, Jr.*
SUBJECT : Audit of the Ministry of Public Works and Water Resources (MPWWR) Project Implementation Letter (PIL) No. 101 Related to the Preventive Maintenance Component of the USAID/Egypt Irrigation Management Systems (IMS) Project No. 263-0132

The attached report dated July 22, 1993, by Price Waterhouse presents the results of a financial audit of MPWWR Preventive Maintenance locally incurred costs under Project No. 263-0132 funded by USAID/Egypt. The Preventive Maintenance component of the IMS Project No. 263-0132 is comprised of two phases. The initial phase involves the establishment of a preventive maintenance organization in the Gharbia Directorate. Once operating, this unit should serve as a model for extension to the other 18 Directorates in the irrigated areas. The second phase is to provide technical assistance for planning the system in the remaining Directorates and commodities for implementation in five Directorates.

We engaged Price Waterhouse to perform a financial audit of MPWWR's locally incurred expenditures of LE4,889,854 (equivalent to \$1,619,158) for the period July 7, 1989 through December 31, 1992 for PIL No. 101. The purpose of the audit was to evaluate the propriety of costs incurred during that period. In performing the audit, Price Waterhouse evaluated MPWWR's internal controls and compliance (related to the Preventive Maintenance component) with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Price Waterhouse questioned \$261,700 in costs billed to USAID by MPWWR (including \$118,651 of unsupported costs). These questioned costs included cash that is unaccounted for, procurement without competitive bidding, items purchased that were not authorized in

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the approved work plan and excess per diem. Price Waterhouse noted internal control weaknesses related to MPWWR's control environment such as: accounting for advances, recording USAID disallowances of expenditures, safeguarding project assets and incomplete personnel files. Additionally, they noted five instances of non-compliance relating to payment of costs to be paid by other sources, inconsistency in obtaining competitive bids, payment of stamp and sales taxes, expenditures not in accordance with the approved work plan and assets not marked with the required USAID emblem.

Price Waterhouse has reviewed MPWWR'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 MPWWR 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 \$261,700 consisting of ineligible costs of \$143,049 and unsupported cost of \$118,651 as detailed on pages 9 through 15 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 MPWWR.

Recommendation No. 2: We recommend that USAID/Egypt require MPWWR to address the inadequate internal control weaknesses as detailed on pages 17 through 21 of the audit report.

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

Recommendation No. 3: We recommend that USAID/Egypt require MPWWR to address the non-compliance issues as detailed on pages 24 through 25 of the audit report.

This recommendation is considered unresolved and can be resolved when the Mission provides our office with a copy of its request that MPWWR take the necessary actions to correct the compliance deficiencies. The recommendation can be closed when RIG/A/Cairo has assessed MPWWR's response and USAID/Egypt's follow-up for adequacy.

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

A small, handwritten mark or signature in the bottom right corner of the page, consisting of a few cursive-like strokes.

**MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION**

**RELATED TO PROJECT IMPLEMENTATION
LETTER NO. 101 FOR THE PREVENTIVE
MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS
PROJECT NO. 263-0132**

**FOR THE PERIOD FROM
JULY 7, 1989 THROUGH DECEMBER 31, 1992**

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
FUND ACCOUNTABILITY STATEMENT AND ADDITIONAL INFORMATION
RELATED TO PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132
FOR THE PERIOD FROM JULY 7, 1989 THROUGH DECEMBER 31, 1992

TABLE OF CONTENTS

	<u>PAGE</u>
<u>INTRODUCTION</u>	
Background	1
Audit objectives and scope	2
Results of audit	3
Management comments	4
<u>FUND ACCOUNTABILITY STATEMENT</u>	
Report of independent accountants	5
Fund accountability statement and notes	7
<u>INTERNAL CONTROL STRUCTURE</u>	
Report of independent accountants	16
<u>COMPLIANCE WITH LAWS AND REGULATIONS</u>	
Report of independent accountants	22
<u>APPENDICES</u>	
Appendix A. Fund accountability statement detail of amounts as incurred in Egyptian pounds	
Appendix B. Questioned costs detail of amounts as incurred in Egyptian pounds and U.S. Dollars	
Appendix C. Management comments on the financial-related audit	
Appendix D. Auditor comments	

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Price Waterhouse



October 19, 1993

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

Dear Mr. Darcy:

This report presents the results of our financial cost-incurred audit of resources managed by the Ministry of Public Works and Water Resources ("MPWWR") on Project Implementation Letter ("PIL") No. 101 related to the Preventive Maintenance component of the USAID/Egypt Irrigation Management Systems Project No. 263-0132 ("umbrella grant agreement"). The audit encompassed all costs incurred in Egypt for the period from July 7, 1989 through December 31, 1992.

Background

The Irrigation Management Systems Project No. 263-0132 with the Ministry of Public Works and Water Resources is designed to assist the Egyptian Government in improving the operating efficiency of the total irrigation system and strengthening the government's operational, maintenance and planning capabilities. Funds were provided so that the Project could plan and design a country-wide structural replacement program, plan and improve operations and maintenance in the irrigation system, support feasibility studies and management and technical development programs, and provide other irrigation-related support. The umbrella grant agreement, originally dated September 22, 1981 and amended eight times through December 31, 1992, specifies a project completion date of September 21, 1995 and approves financing of \$ 313 million.

The Preventive Maintenance component of the Irrigation Management Systems Project No. 263-0132 is comprised of two phases. The initial phase involved the establishment of a preventive maintenance organization in the Gharbia Directorate. Once operating, this unit served as a model for extension to the other 18 Directorates in the irrigated areas. The second phase is to provide technical assistance for planning the system in the remaining Directorates and commodities for implementation in five Directorates.

USAID/Egypt assistance will focus on technical assistance, equipment, and vehicles for the MPWWR, and support for bringing the private sector into the channel maintenance program through procurement of mesqa and small channel improvement equipment. USAID/Egypt is supporting this activity by providing technical assistance, training and additional commodities.

The latest amendment to the umbrella grant agreement provided for a \$ 29 million commitment to the preventive maintenance component. PIL No. 101, amended six times through January 3, 1993, specifies a USAID/Egypt budget for the preventive maintenance component of LE 7,271,398 through the fiscal year ending June 30, 1993.



The Egyptian Ministry of Public Works and Water Resources manages the preventive maintenance component, which employs approximately twenty-two persons: twelve full time staff paid by USAID/Egypt, and ten part-time staff compensated by the Government of Egypt. The Preventive maintenance component conducts its operations in six governorates: Gharbia, Dakahlia, Kaliopia, Behera, Menofia and Menia. The project secretariat is located in a satellite office of the MPWWR headquarters in Imbaba.

Audit Objectives and Scope

The objective of this engagement was to perform a financial cost-incurred audit of USAID/Egypt resources managed by MPWWR on PIL No. 101 related to the Preventive Maintenance component of the Irrigation Management Systems Project No. 263-0132. The audit encompassed all costs incurred in Egypt for the period from July 7, 1989 through December 31, 1992. Specific objectives were to determine whether:

1. The fund accountability statement for PIL No. 101 presents fairly, in all material respects, revenues and costs incurred and reimbursed for the project in conformity with the applicable accounting principles;
2. The costs reported as incurred by MPWWR for the project are in fact allowable, allocable, and reasonable in accordance with the terms of the umbrella grant agreement, PIL No. 101 and USAID regulations;
3. The internal controls, accounting systems, and management practices of MPWWR are adequate for USAID/Egypt agreements; and
4. MPWWR is in compliance, in all material respects, with the umbrella grant agreement, PIL terms, and applicable laws and regulations.

Preliminary planning and review procedures began in March 1993 and consisted of discussions with RIG/A/C personnel, MPWWR officials and review of the applicable umbrella grant agreement and PIL No. 101. Fieldwork started in April 1993 and was completed in July 1993.

The scope of our work was all costs incurred by MPWWR in Egypt for PIL No. 101 related to the Preventive Maintenance component of the USAID/Egypt Irrigation Management Systems Project No. 263-0132 agreement between USAID/Egypt and the MPWWR. We selected incurred costs for testing on a judgmental basis to test a substantial percentage of such costs. We tested locally incurred-costs of LE 2,177,317 out of total costs incurred of LE 4,889,854. Costs tested were incurred during the period from July 7, 1989 through December 31, 1992.

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

1. Reconciling MPWWR's project accounting records to invoices issued to USAID/Egypt, and testing of costs for allowability, allocability, reasonableness, and appropriate support;
2. Determining that personnel costs were appropriate and conformed with the terms of the agreements and relevant regulations;



3. Determining that travel and transportation charges were adequately supported and approved; and
4. Establishing the adequacy of MPWWR's control over project equipment.

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

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

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

Results of Audit

Fund accountability statement:

Our audit identified LE 790,328 (converted to \$ 143,049 in ineligible costs and \$ 118,651 in unsupported costs at applicable exchange rates) in questionable costs.

Internal control structure:

We recommended that MPWWR adopt procedures to 1) address weaknesses in the accounting system for controlling advances to the governorates; 2) record disallowances in the project accounting records; 3) implement a management review by the project director and financial manager of all financial records and reports; 4) establish a fixed asset register that includes all project fixed assets and that a complete physical inventory of all assets be performed periodically; 5) address weaknesses in the system of internal controls in the accounting system by establishing a reference library and making project accounting staff aware of its contents, and providing pre-numbered forms for vouchers, petty cash transactions and purchase orders; 6) strengthen control over payroll by implementing time sheets and ensuring that all employee files are current and complete; and 7) cancel invoices upon payment.



Compliance with agreement terms and applicable laws and regulations:

Our audit found 1) amounts that have been agreed to be paid from sources other than USAID/Egypt have been charged to USAID/Egypt, 2) the project does not consistently follow its policy to obtain competitive bids, 3) miscellaneous stamp and sales taxes are paid from USAID/Egypt funds, 4) expenditures are made that are not in accordance with the approved work plan, and 5) USAID/Egypt funded equipment is not properly marked with the required USAID emblem noting that the item was purchased with USAID funds.

Management Comments

We have reviewed MPWWR's response to the financial cost-incurred audit which is included as Appendix C. Where applicable we have made adjustments in our reports or provided further clarification of our position in Appendix D. For those items not addressed in Appendix D, the responses provided by MPWWR 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 use by the United States Agency for International Development and may not be suitable for any other purpose.

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Price Waterhouse



REPORT OF INDEPENDENT ACCOUNTANTS

July 22, 1993

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

We have audited the accompanying fund accountability statement of the Ministry of Public Works and Water Resources ("MPWWR") relating to costs incurred in Egypt on Project Implementation Letter ("PIL") No. 101 for the Preventive Maintenance component of USAID/Egypt Irrigation Management Systems Project No. 263-0132 for the period from July 7, 1989 through December 31, 1992. The fund accountability statement is the responsibility of MPWWR's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

As described in Note 3, the accompanying fund accountability statement has been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying fund accountability statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.



Included in the fund accountability statement are questioned costs of \$ 261,700. The basis for questioning these costs is more fully described in the "Fund Accountability Statement - Audit Findings" section of this report.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in all material respects, MPWWR's costs incurred in Egypt on PIL No. 101 for the Preventive Maintenance component of USAID/Egypt Irrigation Management Systems Project No. 263-0132 for the period from July 7, 1989 to December 31, 1992 in conformity with the basis of accounting described in Note 3.

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

Price Waterhouse

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES

PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD FROM JULY 7, 1989 THROUGH DECEMBER 31, 1992

	Budget (NOTE 2)	Actual (NOTE 2)	Reclassification (NOTE 5)	Questioned Costs		Audit Findings Reference
				Ineligible (NOTE 4)	Unsupported (NOTE 4)	
USAID/Egypt funds received	\$ N/A	\$ 1,755,415	\$ -	\$ 121,025	\$ 35,529	Finding A, page 9
Transportation	107,794	93,487	17,922	898	21,249	Finding B, page 10
Office renovation	52,001	31,812	-	102	1,060	Finding C, page 10
Office equipment	285,516	169,446	(32,631)	-	-	
Office furniture	49,147	46,435	-	837	17,643	Finding D, page 11
Office supplies and expenses	74,468	65,868	31,195	1,303	-	Finding E, page 11
Drinking water and sanitation	117	117	-	-	-	
Technical contracts	67,656	47,334	-	4,765	1,834	Finding F, page 12
Travel and per diem	94,796	77,219	(14,477)	692	1,192	Finding G, page 12
Laboratory, etc, costs	2,516	2,252	-	-	-	
Structural equipment O&M costs	949,251	676,366	271	315	7,128	Finding H, page 13
Heavy equipment O&M costs	136,579	139,185	(18,584)	8,394	29,166	Finding I, page 14
Miscellaneous	330,436	234,291	16,304	4,718	-	Finding J, page 14
Local commodity support	<u>257,471</u>	<u>35,346</u>	<u>-</u>	<u>-</u>	<u>3,850</u>	Finding K, page 15
Total costs	\$ <u>2,407,748</u>	<u>1,619,158</u>	\$ <u>-</u>	\$ <u>143,049</u>	\$ <u>118,651</u>	
Funds available		\$ <u>136,257</u>				

The accompanying notes are an integral part of these financial statements.

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES (MPWWR)
PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE (PM) COMPONENT
OF USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF AUDIT:

The fund accountability statement of MPWWR includes all costs incurred in Egypt on Project Implementation Letter ("PIL") No. 101 related to the Preventive Maintenance component of Irrigation Management Systems Project No. 263-0132 for the period from July 7, 1989 through December 31, 1992.

NOTE 2 - SOURCE OF DATA:

The column, labeled "Actual" is the responsibility of MPWWR and represents the cumulative charges billed and reimbursed from USAID/Egypt for the period from July 7, 1989 through December 31, 1992. The column labeled "Budget" includes budgeted costs approved by USAID/Egypt through June 30, 1993 and is presented for informational purposes only.

NOTE 3 - BASIS OF PRESENTATION:

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

NOTE 4 - QUESTIONED COSTS:

Questioned costs are presented in two separate categories - ineligible and unsupported costs - and consist of audit findings proposed on the basis of the terms of PIL No. 101, the umbrella grant agreement, and USAID/Egypt regulations which prescribe the nature and treatment of reimbursable costs not specifically defined in the agreements. Costs in the column labeled "Ineligible" are supported by vouchers or other documentation but are ineligible for reimbursement because they are not program related, are unreasonable, or prohibited by the agreement or applicable laws and regulations. Costs in the column labeled "Unsupported" are also formally included in the classification of "questioned costs" and relate to costs that are not supported with adequate documentation or did not have the required prior approvals or authorizations. All questioned costs are detailed in the "Fund Accountability Statement - Audit Findings" section of this report.

NOTE 5 - RECLASSIFICATION:

Certain costs associated with various budget line items as presented in the "Actual" column were misclassified. The costs were related to certain budget line items but were charged to an unrelated line item. These amounts under this heading reclassify the costs to their proper budget line item.

NOTE 6 - FOREIGN EXCHANGE

Amounts originally incurred in Egyptian pounds have been translated at the average rate of LE 3.02 to one U.S. dollar for all costs incurred from July 7, 1989 through December 31, 1992.

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES

PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132

FUND ACCOUNTABILITY STATEMENT
AUDIT FINDINGS

	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>

A. USAID/Egypt funds received

1. Amounts were paid by USAID/Egypt relating to budget line items in which the GOE had committed to fund up to a certain amount of costs but did not. Amounts that total less than the GOE commitment should be paid entirely by the GOE. The amounts paid by USAID/Egypt for costs which total less than the GOE commitment are considered ineligible.	\$ 120,841	\$ -
2. An amount was received as a refund of sales taxes paid by the project. This amount was not credited back to the project when received. The amount was originally paid for taxes on advertising expenses.	184	-
3. Upon comparing the project's total income and related expenses with the reconciled bank balance, this amount was unaccounted for. Although the project maintains that this amount is either in petty cash accounts of the project or has been advanced to the governorates, the lack of controls surrounding petty cash and advances (as documented as material weaknesses in our Report on Internal Controls) makes this amount unsupported.	<u>-</u>	<u>35,529</u>
Total USAID/Egypt funds received	<u>121,025</u>	<u>35,529</u>

B. Transportation

1. Various items billed under this budget line item were not supported with adequate documentation, including an invoice, check copy or receipt. The amounts were incurred from November 1990 to November 1992.	-	20,218
2. Several instances were noted in which the value of vouchers and checks in the project's ledgers did not sum to the total as stated in the ledger. The overstatements noted involved the governorates' expense reporting. These amounts are considered unsupported.	-	1,031

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132

FUND ACCOUNTABILITY STATEMENT
AUDIT FINDINGS

	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
B. Transportation (Cont.)		
3. Based on information presented subsequent to the issuance of the draft report, this finding has been removed.	\$ -	\$ -
4. According to project grant agreements and other correspondence from USAID/Egypt to the project, the purchase of items solely to fulfill a requirement of a local law or regulation should not be paid for from USAID/Egypt funds. Customs duties and fire extinguishers are considered to be such items and are ineligible for reimbursement.	<u>898</u>	<u>-</u>
Total Transportation	<u>898</u>	<u>21,249</u>
C. Office renovation		
1. Various items billed under this budget line item were not supported with adequate documentation, including an invoice, check copy or receipt. The amounts were incurred in December 1990 and December 1992.	-	1,060
2. Based on information presented subsequent to the issuance of the draft report, this finding has been removed.	-	-
3. Certain items were purchased for the Menofia governorate which were not included in the approved annual work plan. The items also lacked adequate documentation. Because the items are not in the work plan and no other prior approval was given for the items, they are considered to be ineligible.	102	-
4. Based on information presented subsequent to the issuance of the draft report, this finding has been removed.	<u>-</u>	<u>-</u>
Total Office renovation	<u>102</u>	<u>1,060</u>

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132

FUND ACCOUNTABILITY STATEMENT
AUDIT FINDINGS

Questioned Costs
Ineligible Unsupported

D. Office furniture

1. Several items including carpets, air conditioners and fans were purchased in February, March and May 1990 for various governorates. These items were not included in the annual work plan and do not advance the objectives of the project. As such, they are considered to be ineligible.	\$ 837	\$ -
2. Tables and chairs were purchased in February and March 1990 without the benefit of any bidding procedures. For larger value items such as these, competitive bids should have been obtained. Therefore, the amount is considered to be unsupported.	-	9,021
3. Various items billed under this budget line item were not supported with adequate documentation, including an invoice, check copy or receipt. The amounts were incurred in March, May and August 1990.	<u>-</u>	<u>8,622</u>
Total Office furniture	<u>837</u>	<u>17,643</u>

E. Office supplies and expenses

1. An amount was billed to USAID/Egypt in July 1992 which was incurred and billed originally in May 1992. The amount billed in July is double-billed and is considered ineligible.	<u>1,303</u>	<u>-</u>
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F. Technical contracts

1. Several payments were made for technical contracts without adequate supporting documentation including time sheets and payroll sheets with signatures verifying receipt of funds. These amounts are considered unsupported.	-	1,834
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MINISTRY OF PUBLIC WORKS AND WATER RESOURCES

**PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132**

**FUND ACCOUNTABILITY STATEMENT
AUDIT FINDINGS**

	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
F. Technical contracts (Cont.)		
2. A number of employees in the Gharbia governorate are paid with project funds but have contracts for employment relating to other projects. These amounts paid to non-project employees are considered to be ineligible.	\$ 2,129	\$ -
3. The employer's share of social insurance taxes were paid with USAID/Egypt funds. According to the project agreements, the amounts related to GOE taxes should not be paid with USAID/Egypt funds.	<u>2,636</u>	<u>-</u>
Total Technical contracts	<u>4,765</u>	<u>1,834</u>
G. Travel and per diem		
1. Amounts were paid to participants for per diems exceeding the number of days approved by USAID/Egypt for a workshop in Alexandria. The amounts in excess of those approved by USAID/Egypt should be borne by the GOE. As such, the amounts are considered ineligible.	119	-
2. Amount related to overtime expenses under the travel and per diem budget line item were not supported by adequate documentation, including destination, project-related reason for travel, and the date and time of departure and return. The amounts incurred in June and August 1992 are considered unsupported costs.	-	1,192
3. According to project Higher Committee rules, overtime per diems are to be allowed for work days in excess of ten hours when traveling is required. The project pays this per diem to individuals regardless of whether the travel requirement is met or not. As such, the amount paid to individuals who do not meet the travel requirement is considered ineligible.	<u>573</u>	<u>-</u>
Total Travel and per diem	<u>692</u>	<u>1,192</u>

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES

**PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132**

**FUND ACCOUNTABILITY STATEMENT
AUDIT FINDINGS**

	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>

H. Structural equipment O&M costs

1. Items relating to iron grates over garage doors and sanitary sewage materials were charged to the project although they are not included in the approved annual work plan. As such, they are considered to be ineligible.	\$ 262	\$ -
2. Various items billed under this budget line item were not supported with adequate documentation, including an invoice, check copy or receipt. These amounts are considered unsupported.	-	7,128
3. Sales taxes were charged to USAID/Egypt. Any amounts related to taxes, duties or levies imposed by any governmental body of the GOE are not to be paid with USAID/Egypt funds. The amounts billed to USAID/Egypt are considered ineligible.	<u>53</u>	<u>-</u>
Total Structural equipment O&M costs	<u>315</u>	<u>7,128</u>

I. Heavy equipment O&M costs

1. According to project grant agreements and other correspondence from USAID/Egypt to the project, the purchase of items solely to fulfill a requirement of a local law or regulation should not be paid for from USAID/Egypt funds. Customs duties and fire extinguishers are considered to be such items and are ineligible for reimbursement	8,394	-
2. Various items billed under this budget line item were not supported with adequate documentation, including an invoice, check copy or receipt. These amounts were incurred from February through June 1990 and are considered unsupported.	-	10,051
3. Amounts were paid for several large value items without the benefit of any competitive bidding procedures. For larger value items such as these, competitive bids should have been obtained. Therefore, the amount is considered to be unsupported.	-	18,989

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES

PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132

FUND ACCOUNTABILITY STATEMENT
AUDIT FINDINGS

	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
I. Heavy equipment O&M costs (Cont.)		
4. During May and June 1990, the project charged USAID/Egypt for an amount that was actually returned to the bank. This amount is considered unsupported.	\$ <u>-</u>	\$ <u>126</u>
Total Heavy equipment O&M costs	<u>8,394</u>	<u>29,166</u>
J. Miscellaneous		
1. According to project grant agreements and other correspondence from USAID/Egypt to the project, the purchase of items solely to fulfill a requirement of a local law or regulation should not be paid for from USAID/Egypt funds. Customs duties and fire extinguishers are considered to be such items and are ineligible for reimbursement.	3,234	-
2. The project charged expenses for off-loading and handling equipment as is was being imported into the country. According to an agreement with the project and USAID/Egypt, USAID will only finance fifty percent of these costs. The amounts were charged in February 1992 at one hundred percent. As such, fifty percent of these costs are considered to be ineligible	<u>1,484</u>	<u>-</u>
Total Miscellaneous	<u>4,718</u>	<u>-</u>
K. Local commodity support		
1. When this budget line item was established in December 1992, amounts were transferred from other accounts to be properly reflected within this new line item. However, when the amounts transferred-in from other line items were added to the amounts currently incurred under the new line item, an amount in excess of the costs that could be accounted for was billed to USAID/Egypt. This difference is considered to be unsupported.		828

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES

PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132

FUND ACCOUNTABILITY STATEMENT
AUDIT FINDINGS

Questioned Costs
Ineligible Unsupported

K. Local commodity support (Cont.)

2. The finding in the draft report listed seven facsimile machines billed under this budget line item and sent to the governorates which were not supported with an original invoice or supporting documentation to evidence receipt of the items. Subsequent to the issuance of the draft report, supporting documentation regarding six of the machines was presented. This amount relates to the seventh machine and was incurred in December 1992 and remains unsupported.

\$ _____ \$ 3,022

Total Local commodity support

_____ 3,850

Total Questioned costs

\$ 143,049 \$ 118,651

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Price Waterhouse



**REPORT OF INDEPENDENT ACCOUNTANTS
ON INTERNAL CONTROL STRUCTURE**

July 22, 1993

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

We have audited the fund accountability statement of the Ministry of Public Works and Water Resources ("MPWWR") relating to costs incurred in Egypt on Project Implementation Letter ("PIL") No. 101 for the Preventive Maintenance component of USAID/Egypt Irrigation Management Systems Project No. 263-0132 for the period from July 7, 1989 through December 31, 1992, and have issued our report thereon dated July 22, 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 since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

In planning and performing our audit of MPWWR, we considered its internal control structure related to PIL No. 101 funded by USAID/Egypt in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of MPWWR 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 in accordance with the terms of the agreements, and recorded properly to permit the preparation of reliable fund accountability statements and to



maintain accountability over the entity's assets. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we determined the significant internal control structure policies and procedures to be in the categories of cash and fund custody, expenditure disbursements, project accounting, and equipment and supplies procurement and safeguarding. For these internal control structure categories cited, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a 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 audit disclosed the following conditions which we believe constitute material weaknesses:

MATERIAL WEAKNESSES

1. **The project accounting system does not track amounts advanced to the project's governorate offices.** Specifically, we noted that the project accounting system does not:
 - Monitor advances given to the governorates through an advance account or any other sub-ledger maintained in the course of the normal accounting system.
 - Reconcile amounts advanced to governorates to the amount reported as received by the governorates.
 - Prepare governorate expense reports or require each governorate to prepare expense reports which would summarize expenses and advances issued to that governorate.
 - Ensure that amounts are actually incurred by the governorates before they are billed to USAID/Egypt. Currently, amounts are reported to USAID/Egypt as expenditures when remitted to the governorates without regard to whether they are actually subsequently disbursed by the governorates.
 - Establish limits for each governorate on the amount of funds that can be advanced without proper financial reporting for the respective governorate.

By not adequately tracking funds advanced to the governorates, expenditures that are unauthorized or amounts that are not actually disbursed for project related purposes may be billed to USAID/Egypt. The project accounting system is to be designed to ensure that project funds are expended in a manner consistent with the rules and regulations of the grant agreement between USAID/Egypt and the MPWWR.



Recommendation 1

The project should implement the following procedures designed to adequately control the amount of funds advanced to the governorates.

- 1.a. Establish subsidiary account records which are reconciled to the cash disbursement records.
- 1.b. Require that each governorate submit a standardized expense report using voucher references for all reported project expenditures.
- 1.c. Establish procedures that will ensure that no amounts are reported as expenditures to USAID/Egypt before they are actually disbursed by the governorates.
- 1.d. Establish limits to the amount of advances each governorate can receive based on the level of transactions in each governorate.

* * * * *

2. **The project does not record disallowances of expenditures made by USAID/Egypt against billings submitted by the project.** Because of this, amounts disallowed by USAID/Egypt may be rebilled by the project or disallowed amounts may not be properly refunded to USAID/Egypt from funds provided by the GOE. In the past, amounts disallowed have been subsequently allowed by USAID/Egypt thus there is no questioned costs related to this item. However, proper recording of expenditures may be impaired in the future for disallowed costs.

Recommendation 2

The project should establish procedures to properly record all disallowed costs in the project ledgers. In addition, the project should ensure that any amounts that are disallowed are deducted from the submitted financial reports and that USAID funds have been properly credited back to the project funds.

* * * * *

3. **No management review by the project director or the financial manager is performed of the following project documentation:**

- Billings to USAID/Egypt,
- accounting records and project ledgers and vouchers, and
- Bank reconciliations prepared by the project accountants.

A good system of internal controls should include the involvement of project management to ensure that entries into the accounting system are valid, supported and advance the objectives of the project. As the management of the project establishes the control environment, their direct involvement will help ensure that proper controls are followed by all project personnel.



Recommendation 3

We recommend that the project director and/or the financial manager review all project vouchers, ledgers, billings to USAID/Egypt and bank reconciliations. This review should be performed on at least a monthly basis with any exceptions or discrepancies reviewed for proper follow-up.

* * * * *

4. **The project controls surrounding the recording and accounting for fixed assets contains weaknesses that impair the project's ability to adequately monitor project assets.** In particular we noted that no physical counts of project-related office equipment and furniture are performed (the project only performs supplies inventory counts), and that the fixed asset registers of the project do not include any furniture purchased with USAID/Egypt funds. Additionally, the items in the fixed asset registers do not contain the cost of the items, making reconciliation with the financial information impossible.

Recommendation 4

We recommend that the project improve the system of controls surrounding project assets. Specifically, the project should:

- 4.a. Perform periodic counts of all project fixed assets at least on an annual basis by individuals independent of the fixed asset recording or custodial functions. Accordingly, project assets should be labeled as such for easy identification during these counts.
- 4.b. Ensure that all project assets are recorded in the project asset registers, including furniture, and that the value of the assets be recorded in the ledger so that procedures can be implemented to reconcile the asset registers to the financial ledgers.

* * * * *

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

REPORTABLE CONDITIONS

5. **The system of internal accounting controls surrounding the accounting function of MPWWR contains several weaknesses.** A well-designed and functioning system of internal controls is required of all projects financed by USAID/Egypt. The weaknesses noted in the current system of internal accounting control may reduce the system's ability to adequately monitor and control the processing, accumulating and reporting of financial information. Specifically, we noted that:



- The project does not maintain adequate reference sources, namely copies of the P+L, USAID staff notices, rules and regulations, a copy of the procurement policy and the protocol for cash advances. Without these reference sources, the project personnel cannot adequately research allowability and accounting treatment of project transactions.
- The project does not maintain prenumbered forms to control vouchers and journal entries, purchase orders, and petty cash disbursements. Because there are no prenumbered forms for these transactions, the project has no way to ensure that all and only project-related transactions are being processed.
- Cash is handled by project personnel who are not bonded. Even though there are bonded personnel employed by the project accounting department, unbonded personnel transport and maintain cash in the project offices. Also, no periodic surprise cash counts are performed by the project's accounting department supervisors to ensure that all project cash funds are properly accounted for.
- The project's filing system is organized by check number only. This system makes it very difficult to trace items from the general ledger to the actual journal voucher. In addition, because a significant portion of checks issued are used to reimburse governorates, many details that may exist in the vouchers and ledger for these expenditures are not reflected in the actual check used to remit funds to the governorates.

Recommendation 5

We recommend that the management of MPWWR implement procedures designed to address the internal accounting control weaknesses outlined above. In particular, we recommend the following:

- 5.a. A library of USAID/Egypt and other project related reference sources should be maintained and the project staff should become familiar with the contents and location of relevant items.
- 5.b. The project should prepare accounting documents that are prenumbered, including 1) vouchers for use in recording transactions, 2) purchase orders, and 3) petty cash disbursements. The numerical sequence of these forms should be accounted for on a periodic basis by the project director or finance manager.
- 5.c. Cash should only be transported and maintained by project personnel who are bonded. The project should also implement a policy of surprise petty cash counts to ensure that all project funds are accounted for.
- 5.d. The filing system should be improved to reference journal vouchers to the general ledger. This would provide a clear link between the ledger entries and the related supporting documentation. The referenced journal vouchers should then state the location (for the central office and the governorates) and purpose of the expenditure and contain all necessary supporting documentation.



6. The project contains two weakness surrounding the payroll and personnel control system.

Specifically, we noted that project staff are neither required to complete time sheets that would substantiate their project-related time charges nor are the project personnel files complete with proper employment documentation.

During our audit we noted that project staff do not complete time sheets. As a result, management of the project is not able to monitor time spent on the project. An accurate record of employee and consultant time spent performing various tasks of the project may assist management to achieve the proper level of employees and ensure that the project employs all and only those resources necessary to achieve its goals. We also noted that the project personnel files do not always contain employment contracts and that employees' eligibility documentation is either incomplete or supported by photocopies only.

Recommendation 6

We recommend that the project implement procedures to address the weakness noted above. In particular, the project should ensure that all employees complete time sheets that describe the project task on which the employee is working. The project should also ensure that the personnel files contain 1) current employee contracts that document salary and project responsibilities, and 2) original documentation of all required employee certifications.

* * * * *

7. Invoices are not being defaced with a "paid" stamp at the time they are approved for payment.

We noted during our testing of vouchers that invoices in each voucher package were intact. This may lead to a situation where an invoice can be inadvertently processed for payment more than once.

Recommendation 7

We recommend that all invoices be defaced with a "paid" stamp at the time they are processed for payment.

* * * * *

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

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REPORT OF INDEPENDENT ACCOUNTANTS
ON COMPLIANCE WITH LAWS AND REGULATIONS

July 22, 1993

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

We have audited the fund accountability statement of the Ministry of Public Works and Water Resources ("MPWWR") relating to costs incurred in Egypt on Project Implementation Letter ("PIL") No. 101 for the Preventive Maintenance component of USAID/Egypt Irrigation Management Systems Project No. 263-0132 for the period from July 7, 1989 through December 31, 1992, and have issued our report thereon dated July 22, 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 since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

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

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



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

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

Price Waterhouse

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132

REPORT ON COMPLIANCE
AUDIT FINDINGS

The following instances of noncompliance with laws and regulations and agreements came to our attention during the audit:

1. **Several items that should be paid by the GOE were charged to USAID/Egypt.** The project agreement, as amended, specifies that a certain portion of the funding of the agreement is to come from the GOE. The agreements also document other items that either the GOE has agreed to fund or that USAID/Egypt has refused to fund. Items in this category include customs clearing charges (although certain amounts are to be shared 50:50 between USAID and the GOE) and statutorily required items (e.g., fire extinguishers for vehicles operating in Egypt). Expenses relating to the preceding unallowable items were charged to USAID/Egypt. These items, numbered as they are presented in the "Fund Accountability Statement - Audit Findings" section of this report, are presented below.

Finding A.1 relating to under-budget contributions by the GOE	\$ 120,841
Finding B.4 amounts paid for customs duties and fire extinguishers for project vehicles	898
Finding I.1 amounts paid for customs duties and fire extinguishers for project vehicles	8,394
Finding J.1 amounts paid for fire extinguishers for project vehicles	3,234
Finding J.2 customs off-loading and handling charges for project vehicles	<u>1,484</u>
	<u>\$ 134,851</u>

Recommendation 1

We recommend that MPWWR comply with the agreement terms which dictate that certain types of expenses are to be paid from sources other than USAID/Egypt.

* * * * *

2. **The project has not followed competitive bidding procedures on a number of equipment and supplies procurement transactions.** During our audit we noted that no competitive bids were obtained for a number of larger purchases that should have been covered under the bidding requirements of the project. These items, numbered as they are presented in the "Fund Accountability Statement - Audit Findings" section of this report, are presented as follows.

Finding D.2 paid for office furniture tables and chairs	\$ 9,021
Finding I.3 relating to heavy equipment O&M costs	<u>18,989</u>
	<u>\$ 28,010</u>

Recommendation 2

We recommend that MPWWR follow project policy that requires competitive bidding procedures be followed when purchasing larger value equipment and supplies.

* * * * *

- 3. The project has paid several amounts relating to taxes assessed by the GOE.** Under the agreement between the GOE and USAID/Egypt, expenditures by USAID-financed projects and contractors are exempt from taxation in Egypt. Therefore, any amounts relating to stamp taxes, employer-share payroll taxes and sales taxes should not be incurred by the project or reimbursed by USAID/Egypt. During our audit we noted several instances where taxes were billed to USAID/Egypt. These items, numbered as they are presented in the "Fund Accountability Statement - Audit Findings" section of this report, are presented below.

Finding A.2 amounts relating to sales taxes refunded and not recorded in project accounts	\$ 184
Finding F.3 amounts relating to employer social insurance taxes under technical contracts	2,636
Finding H.3 amounts relating to sales taxes paid for structural equipment O&M costs	<u>53</u>
	\$ <u>2,873</u>

Recommendation 3

We recommend that MPWWR establish procedures related to invoice processing to ensure that no GOE taxes are billed to USAID. By making the accounting staff aware of the provision of the grant agreement exempting project expenditures from taxation, the project can ensure that all amounts related to such taxes are not paid or billed to USAID/Egypt.

* * * * *

- 4. The project has expended funds for a number of projects and items that are not included in the project work plan approved by USAID/Egypt and MPWWR.** The approved project work plan specifies how the project will meet grant objectives on a yearly basis. The project should work within the specifications of the work plan. Certain expenditures made by the project were not in accordance with the approved work plan and therefore may not further project objectives. These items, numbered as they are presented in the "Fund Accountability Statement - Audit Findings" section of this report, are presented below.

Finding C.3 items relating to office renovations for the Menofia governorate	\$ 102
Finding D.1 cost of various office furniture items for two governorates	837
Finding H.1 items relating to structural equipment O&M costs in the Gharbia governorate	<u>262</u>
	\$ <u>1,201</u>

Recommendation 4

The project should ensure that all expenditures are within the scope of the project as defined in the annual work plan. Specifically, the project should disseminate the work plan to all individuals responsible for approving project expenditures to ensure that no funds for items not envisaged by the work plan are expended.

* * * * *

- 5. Assets funded by USAID/Egypt are not marked with the USAID emblem.** According to USAID rules, all equipment and vehicles funded with USAID resources should be labeled with the USAID emblem in a prominent place to give proper recognition to USAID. We noted during our audit that the project is not labeling equipment purchased with USAID/Egypt funds.

Recommendation 5

The project should comply with USAID/Egypt regulations that require all items purchased with USAID funds display the USAID emblem.

* * * * *

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES

APPENDIX A
Page 1 of 1

PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132

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

FOR THE PERIOD FROM JULY 7, 1989 THROUGH DECEMBER 31, 1992

	Budget	Actual	Reclassification	Questioned Costs	
				Ineligible	Unsupported
USAID/Egypt funds received	LE N/A	LE 5,301,353	LE -	LE 365,497	LE 107,298
Transportation	325,539	282,330	54,125	2,713	64,171
Office renovation	157,042	96,073	-	307	3,200
Office equipment	862,258	511,726	(98,545)	-	-
Office furniture	148,423	140,235	-	2,527	53,280
Office supplies and expenses	224,893	198,921	94,206	3,934	-
Drinking water and sanitation	354	354	-	-	-
Technical contracts	204,320	142,948	-	14,390	5,540
Travel and per diem	286,283	233,200	(43,720)	2,090	3,600
Laboratory, etc, costs	7,599	6,800	-	-	-
Structural equipment O&M costs	2,866,739	2,042,626	819	950	21,526
Heavy equipment O&M costs	412,469	420,339	(56,124)	25,351	88,081
Miscellaneous	997,917	707,558	49,239	14,248	-
Local commodity support	<u>777,562</u>	<u>106,744</u>	<u>-</u>	<u>-</u>	<u>11,625</u>
Total costs	LE <u>7,271,398</u>	<u>4,889,854</u>	LE <u>-</u>	LE <u>432,007</u>	LE <u>358,321</u>
Funds available		LE <u>411,499</u>			

16

**MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132**

ADDITIONAL INFORMATION
QUESTIONED COSTS DETAIL OF AMOUNTS AS INCURRED IN EGYPTIAN POUNDS AND U.S. DOLLARS

	<u>As incurred in Egyptian Pounds</u>	<u>Questioned Costs Ineligible</u>	<u>Unsupported</u>
A. USAID/Egypt funds received			
1. Amounts were paid by USAID/Egypt relating to budget line items in which the GOE had committed to fund up to a certain amount of costs but did not. Amounts that total less than the GOE commitment should be paid entirely by the GOE. The amounts paid by USAID/Egypt for costs which total less than the GOE commitment are considered ineligible.	LE 364,941	\$ 120,841	\$ -
2. An amount was received as a refund of sales taxes paid by the project. This amount was not credited back to the project when received in January 1991 and recorded as other income. The amount was originally paid for taxes on advertising expenses.	556	184	-
3. Upon comparing the project's total income and related expenses with the reconciled bank balance, this amount was unaccounted for. Although the project maintains that this amount is either in petty cash accounts of the project or has been advanced to the governorates, the lack of controls surrounding petty cash and advances (as documented as material weaknesses in our Report on Internal Controls) makes this amount unsupported.	<u>107,298</u>	<u>-</u>	<u>35,529</u>
Total USAID/Egypt funds received	<u>472,795</u>	<u>121,025</u>	<u>35,529</u>
B. Transportation			
1. Various items billed under this budget line item were not supported with adequate documentation, including an invoice, check copy or receipt. The amounts were incurred from November 1990 to November 1992.	61,058	-	20,218

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**MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132**

**ADDITIONAL INFORMATION
QUESTIONED COSTS DETAIL OF AMOUNTS AS INCURRED IN EGYPTIAN POUNDS AND U.S. DOLLARS**

	<u>As incurred in Egyptian Pounds</u>	<u>Questioned Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
B. Transportation (Cont.)			
2. Several instances were noted in which the value of vouchers and checks in the project's ledgers did not sum to the total as stated in the ledger. The overstatements noted involved the governorates' expense reporting, in particular:			
Dakahlia for November 1990	LE 500		
Behera for May 1991	1,365		
Menofia for May 1991	200		
Dakahlia for June 1991	50		
Menofia for June 1991	289		
Giza for November 1992	10		
Dakahlia for November 1992	699		
These amounts are considered unsupported.	LE 3,113	\$ -	\$1,031
3. Based on information presented subsequent to the issuance of the draft report, this finding has been removed.			
	-	-	-
4. According to project grant agreements and other correspondence from USAID/Egypt to the project, the purchase of items solely to fulfill a requirement of a local law or regulation should not be paid for from USAID/Egypt funds. Customs duties and fire extinguishers are considered to be such items. The items noted were:			
Gharbia in June 1991	LE 110		
Giza in November 1992	1,140		
Dakahlia in November 1992	572		
Gharbia in November 1992	891		
These items are considered ineligible.	<u>2,713</u>	<u>898</u>	<u>-</u>
Total Transportation	<u>66,884</u>	<u>898</u>	<u>21,249</u>

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132

ADDITIONAL INFORMATION
QUESTIONED COSTS DETAIL OF AMOUNTS AS INCURRED IN EGYPTIAN POUNDS AND U.S. DOLLARS

	<u>As incurred in Egyptian Pounds</u>	<u>Questioned Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
C. Office renovation			
1. Various items billed under this budget line item were not supported with adequate documentation, including an invoice, check copy or receipt. The amounts were incurred in December 1990 and December 1992 as follows:			
Behera in December 1990	LE 107		
Gharbia in December 1990	109		
Check no. 957421 on 12/8/90	67		
Check no. 957399 on 12/5/90	110		
Check no. 957414 on 12/17/90	2,500		
Menofia in December 1992	307		
These amounts are considered unsupported.	LE 3,200	\$ -	\$ 1,060
2. Based on information presented subsequent to the issuance of the draft report, this finding has been removed.	-	-	-
3. Certain items were purchased for the Menofia governorate which were not included in the approved annual work plan. The items also lacked adequate documentation. Because the items are not in the work plan and no other prior approval was given for the items, they are considered to be ineligible. Items were purchased with check no. 684818 on 2/26/92.	307	102	-
4. Based on information presented subsequent to the issuance of the draft report, this finding has been removed.	-	-	-
Total Office renovation	<u>3,507</u>	<u>102</u>	<u>1,060</u>

D. Office furniture

- Several items including carpets, air conditioners and fans were purchased in February, March and May 1990 for various governorates. These items were not included in the annual work plan and do not advance the objectives of the project. The items were incurred as follows:

DA

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
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ADDITIONAL INFORMATION
QUESTIONED COSTS DETAIL OF AMOUNTS AS INCURRED IN EGYPTIAN POUNDS AND U.S. DOLLARS

		<u>As incurred in Egyptian Pounds</u>	<u>Questioned Costs</u>	
			<u>Ineligible</u>	<u>Unsupported</u>
D. Office furniture (Cont.)				
Menofia for May 1990	LE 1,082			
Behera for May 1990	1,445			
These items are considered to be ineligible.		LE 2,527	\$ 837	\$ -
2. Tables and chairs were purchased in February (check nos. 114206 and 114207) and March 1990 (check no. 155906) without the benefit of any bidding procedures. For larger value items such as these, competitive bids should have been obtained. Therefore, the amount is considered to be unsupported.		27,242	-	9,021
3. Various items billed under this budget line item were not supported with adequate documentation, including an invoice, check copy or receipt.				
Check no. 114214 in March 1990	LE 6,080			
Check no. 114209 in March 1990	11,175			
Dakahlia in May 1990	6,997			
Menia in May 1990	818			
Behera in August 1990	968			
The amounts are considered unsupported.		<u>26,038</u>	<u>-</u>	<u>8,622</u>
Total Office furniture		<u>55,807</u>	<u>837</u>	<u>17,643</u>
E. Office supplies and expenses				
1. An amount was billed to USAID/Egypt in July 1992 which was incurred and billed originally in May 1992. The amount billed in July is double-billed and is considered ineligible.		<u>3,934</u>	<u>1,303</u>	<u>-</u>
F. Technical contracts				
1. Several payments were made for technical contracts without adequate supporting documentation including time sheets and payroll sheets with signatures verifying receipt of funds. These amounts are considered unsupported.		5,540	-	1,834

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132

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	<u>As incurred in Egyptian Pounds</u>	<u>Questioned Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
F. Technical contracts (Cont.)			
2. A number of employees in the Gharbia governorate are paid with project funds but have contracts for employment relating to other projects. These amounts paid to non-project employees are considered to be ineligible.	LE 6,429	\$ 2,129	\$ -
3. The employer's share of social insurance taxes was paid with USAID/Egypt funds. According to project agreements, the amounts related to GOE taxes should not be paid with USAID/Egypt funds.	<u>7,961</u>	<u>2,636</u>	<u>-</u>
Total Technical contracts	<u>19,930</u>	<u>4,765</u>	<u>1,834</u>
G. Travel and per diem			
1. Amounts were paid to participants for per diems exceeding the number of days approved by USAID/Egypt for a workshop in Alexandria. The amounts were included in the amount of LE 20,835 originally reported in July 1991. The amounts in excess of those approved by USAID/Egypt should be borne by the GOE. As such, the amounts are considered ineligible.	360	119	-
2. Amount related to overtime expenses under the travel and per diem budget line item were not supported by adequate documentation, including destination, project-related reason for travel, and the date and time of departure and return. The amounts incurred in June and August 1992 are considered unsupported costs.	3,600	-	1,192
3. According to project Higher Committee rules, overtime per diems are to be allowed for work days in excess of ten hours when traveling is required. The project pays this per diem to individuals regardless of whether the travel requirement is met or not. As such, the amount paid to individuals who do not meet the travel requirement is considered ineligible.	<u>1,730</u>	<u>573</u>	<u>-</u>
Total Travel and per diem	<u>5,690</u>	<u>692</u>	<u>1,192</u>

31

**MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
OF THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132**

ADDITIONAL INFORMATION
QUESTIONED COSTS DETAIL OF AMOUNTS AS INCURRED IN EGYPTIAN POUNDS AND U.S. DOLLARS

	<u>As incurred in Egyptian Pounds</u>	<u>Questioned Costs Ineligible</u>	<u>Unsupported</u>
H. Structural equipment O&M costs			
1. Items relating to iron grates over garage doors and sanitary sewage materials (in the Gharbia governorate in May 1990 for LE 499 and June 1990 for LE 291 respectively) were charged to the project although they are not included in the approved annual work plan. As such, they are considered to be ineligible.	LE 790	\$ 262	\$ -
2. Various items billed under this budget line item were not supported with adequate documentation, including an invoice, check copy or receipt. These amounts are considered unsupported.	21,526	-	7,128
3. Sales taxes were charged to USAID/Egypt. Any amounts related to taxes, duties or levies imposed by any governmental body of the GOE are not to be paid with USAID/Egypt funds. The amounts billed to USAID/Egypt (incurred as part of an invoice amount of LE 1,682 in January 1992) are considered ineligible.	<u>160</u>	<u>53</u>	<u>-</u>
Total Structural equipment O&M costs	<u>22,476</u>	<u>315</u>	<u>7,128</u>
I. Heavy equipment O&M costs			
1. According to project grant agreements and other correspondence from USAID/Egypt to the project, the purchase of items solely to fulfill a requirement of a local law or regulation should not be paid for from USAID/Egypt funds. Customs duties and fire extinguishers are considered to be such items and are ineligible for reimbursement.	25,351	8,394	-
2. Various items billed under this budget line item were not supported with adequate documentation, including an invoice, check copy or receipt. These amounts were incurred from February through June 1990 and are considered unsupported.	30,353	-	10,051

2/2

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
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	<u>As incurred in Egyptian Pounds</u>	<u>Questioned Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
I. Heavy equipment O&M costs (Cont.)			
3. Amounts were paid for several large value items without the benefit of any competitive bidding procedures. For larger value items such as these, competitive bids should have been obtained. Therefore, the amount is considered to be unsupported.	LE 57,348	\$ -	\$ 18,989
4. During May and June 1990, the project charged USAID/Egypt for an amount that was actually returned to the bank.			
Dakahlia in May 1990	LE 22		
Dakahlia in May 1990	35		
Dakahlia in June 1990	24		
Menolia in June 1992	299		
These amounts are considered unsupported.	<u>380</u>	<u>-</u>	<u>126</u>
Total Heavy equipment O&M costs	<u>113,432</u>	<u>8,394</u>	<u>29,166</u>
J. Miscellaneous			
1. According to project grant agreements and other correspondence from USAID/Egypt to the project, the purchase of items solely to fulfill a requirement of a local law or regulation should not be paid for from USAID/Egypt funds. Fire extinguishers (paid in October 1991) are considered to be such items and are ineligible for reimbursement.	9,766	3,234	-
2. The project charged expenses for off-loading and handling equipment as is was being imported into the country. According to an agreement with the project and USAID/Egypt, USAID will only finance fifty percent of these costs. The amounts were charged in February 1992 at one hundred percent. As such, fifty percent of these costs are considered to be ineligible.	<u>4,482</u>	<u>1,484</u>	<u>-</u>
Total Miscellaneous	<u>14,248</u>	<u>4,718</u>	<u>-</u>

7/5

**MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE COMPONENT
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	<u>As incurred in Egyptian Pounds</u>	<u>Questioned Costs Ineligible</u>	<u>Unsupported</u>
K. Local commodity support			
1. When this budget line item was established in December 1992, amounts were transferred from other accounts to be properly reflected within this new line item. However, when the amounts transferred-in from other line items were added to the amounts currently incurred under the new line item, an amount in excess of the costs that could be accounted for was billed to USAID/Egypt. This difference is considered to be unsupported.	LE 2,500	\$ -	\$ 828
2. The finding in the draft report listed seven facsimile machines billed under this budget line item and sent to the governorates which were not supported with an original invoice or supporting documentation to evidence receipt of the items. Subsequent to the issuance of the draft report, supporting documentation regarding six of the machines was presented. This amount relates to the seventh machine and was incurred in December 1992 and remains unsupported.	<u>9,125</u>	<u>-</u>	<u>3,022</u>
Total Local commodity support	<u>11,625</u>	<u>-</u>	<u>3,850</u>
Total Questioned costs	LE <u>790,328</u>	\$ <u>143,049</u>	\$ <u>118,651</u>

- 2/4 -

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES (MPWWR)
PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE (PM) COMPONENT
OF USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132

MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

Ministry of Public Works and Water Resources
Preventive / Channel Maintenance Project
Ministry Building 11th. Floor
Imbaba - Cairo - Egypt Tel : 3038226

P		P
M	M	M
C		P

وزارة الاشغال العامة والموارد المائية
مشروع الصيانة الوقائية للمجارى المائية
مبنى الوزارة - الدور السابع
امبابة . القاهرة ت : ٣٠٣٨٢٢٦

October 16, 1993

Letter: PMP/AID-259

PRICE WATERHOUSE
Attn: Mr. Michael Nelson
USAID, Cairo Center
Cairo, A. R. E.

Subject: Response To USAID NFA PM/CM Project Audit Report
By PRICE WATERHOUSE Dated September 9, 1993

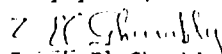
Dear Mr. Nelson,

Enclosed is the Ministry Of Public Works And Water Resources project response to the USAID NFA audit report performed on the Preventive Maintenance/ Channel Maintenance Project by PRICE WATERHOUSE. This is the response required by the project within thirty (30) days following the USAID and auditors exit conference held on September 16, 1993.

The project has responded with comments and supporting documents to a number of items in the audit report, while a few items have been marked 'DEFERRED' to allow the project time to fully provide the necessary documents at a later date. It is noted that the auditors have been requested to provide more detailed explanation to a number of the report items.

We await the auditors comments and concurrence.

Sincerely yours,


Eng: Zenab El-Gharbly
PMP/CMP Project Director.

CC: Mable Pangle, USAID - Cairo
Russel Backus, USAID - Cairo

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES (MPWWR)
PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE (PM) COMPONENT
OF USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132

MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE (PM) COMPONENT
OF USAID/EGY. IRRIGATION MANAGEMENT SYSTEMS PROJECT N.263-0132
FOR THE PERIOD FROM JULY, 1989 THROUGH DECEMBER 31, 1992
MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

APPENDIX B - AUDIT FINDING

A. USAID/EGYPT FUND RECEIVED

* PARAGRAPH 1, PAGE 1 OF 9
and Price Waterhouse fax dated September 19, 1993
and PIL no. 101 element no. 3, amendment no. 1.

PIL no. 1 amendment no. 1 sets forth funding of the PMP/CMP Project for the local operating budget for the FY 1990/91 by the MPWWR and USAID in a previously agreed upon percentage. The Price Waterhouse auditors have arbitrarily interpreted that the PIL expresses a procedure for spending budgeted funds where the project must fully spend GOE funds before utilizing USAID funds.

This Interpretation not only disagrees with the facts and the tone as presented in the PIL language, but becomes mute with the accepted practice which has prevailed for the past four (4) years. Funds have been committed each FY by both parties, although the willing expectations of the project were not fully realized.

The project does not agree with the auditors rationale and is not aware of anything written that specifically limits means of spending the project's budgeted funds as expressed in their interpretation. It is inappropriate that the auditors would declare unexpended GOE funds be applied against the expended USAID funds and that there be an ineligible determination.

* PARAGRAPH 2
Under investigation, answering this paragraph deferred until later.

* PARAGRAPH 3
Requires further clarification from auditors.

2/8

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES (MPWWR)
PROJECT IMPLEMENTATION LETTER NO. 101
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MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

B. TRANSPORTATION

* PARAGRAPH 1

This declares L.E. 61,058 unsupported costs, project investigation identified documents covering about L.E. 58,000 remaining amount under inquiry. This item deferred until later.

* PARAGRAPH 2

Under investigation, this paragraph deferred until later.

* PARAGRAPH 3

B-3 Total amount questioned by the auditors and considered unsupported while lacking competitive bids. These items are of small value for different purchases under the allowed direct procured limit which is L.E. 3000 per purchase. There is an exception of 2 invoices each L.E. 4500 for purchase of fuel. Fuel has a fixed governmental price at all fuel stations and does not require bidding procedures.

* PARAGRAPH 4

Under investigation, this paragraph deferred until later.

C. OFFICE RENOVATION

* PARAGRAPH 1

Under investigation, this paragraph deferred until later.

* PARAGRAPH 2

Copy of required document attached

* PARAGRAPH 3

Under investigation, this paragraph deferred until later.

* PARAGRAPH 4

Attached action memo. approves renovation expenditures.

D. OFFICE FURNITURE

* Under investigation, this paragraph deferred until later.

E. OFFICE SUPPLIES AND EXPENSES

* The amount declared in auditor report as ineligible costs L.E. 3934 is a faulty ledger entry.

F. TECHNICAL CONTRACT

* Copies submitted from auditors finding conference held on September 16, 1993 are not legible. Verification required from auditors for individuals, locations, periods and comments.

* In this section too, paragraph 3, the auditors have arbitrarily determined that social insurance payments for local contract employees is not reimbursable by USAID. The

31

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES (MPWWR)
PROJECT IMPLEMENTATION LETTER NO. 101
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MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

social insurance premium payments are reimbursable for the period prior to July 3, 1991 when the IMS seventh amendment in section 5.18, paragraph (a) deletes social insurance premium payments as a reimbursable item and the MPWWR agrees to "pay or reimburse the same with funds other than those provided under the grant".

G. TRAVEL AND PER DIEM

* PARAGRAPH 1

The amount mentioned in auditors report (L.E. 360) as ineligible costs was for staff travel to Alexandria for pre-workshop preparation and was registered in the financial ledgers with the total expenditures for this workshop.

* PARAGRAPH 2 & 3

Under investigation and deferred later.

H. STRUCTURAL EQUIPMENT O & M COSTS

* PARAGRAPH 1

Under investigation, this paragraph deferred until later.

* PARAGRAPH 2

Under investigation, this paragraph deferred until later.

* PARAGRAPH 3

Under investigation, this paragraph deferred until later.

I. HEAVY EQUIPMENT O & M COSTS

Under investigation, this paragraph deferred until later.

J. MISCELLANEOUS

Under investigation, this paragraph deferred until later.

K. LOCAL COMMODITY SUPPORT

* PARAGRAPH 1

Under investigation, this paragraph deferred until later.

* PARAGRAPH 2

Supporting documents for this item attached.

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES (MPWWR)

**PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE (PM) COMPONENT
OF USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132**

AUDITOR COMMENTS

This appendix presents our comments on management's response to the draft audit report issued on September 16, 1993. Prior to the September 16, 1993 exit conference with MPWWR project personnel, we had discussed each questioned cost with the accounting staff and interested management personnel during our fieldwork. Any items not adequately explained or sufficiently documented at the close of our audit fieldwork were included in the draft report. At the September 16, 1993 exit conference, in the presence of RIG/A/C, we presented additional information from our working papers (which due to their length could not be included in Appendix B) related to the findings in the draft report. We also offered to make PW staff available to project personnel throughout the thirty-day response period to answer any additional questions or clarify any points in the draft report. We received no inquiries or other correspondence from the project during the response period.

In response to management's comments, we reviewed additional supporting documents and evaluated management's comments. Where applicable we have noted where adjustments were made in the final report or provided further clarification of our position relating to items discussed in Appendix C. For those items that management noted were still under investigation, we have provided no response. Please note that management has responded only to the questioned costs presented in the fund accountability statement and not the internal control and compliance findings. The numbering of this appendix follows the numbering and amounts of the findings as presented in Appendix B of this report.

- A.1 As we discussed with project personnel during the audit and in a fax provided to the project on September 19, 1993, Amendment 1 to PIL No. 101, Element 3 states, "The Ministry of Public Works and Water Resources (MPWWR) has agreed to gradually assume responsibility for local operating costs. With regard to PM, the Ministry agreed to assume additional Transportation Costs up to LE 36,000 and additional Heavy Equip/Vehicle O&M costs up to LE 131,000 for the GOE FY 1990/91. USAID will finance the balance of LE 2,192,240." The subsequent years' budget amendments are worded in a similar manner. We see no basis in the amendment for management's comment which discusses the GOE funding in terms of "a previously agreed upon percentage." We have not arbitrarily interpreted the amendment, but have arrived at our position through the common business understanding of the wording of the amendment. The PIL amendments' phrase, "USAID will finance the balance....," makes it explicit that GOE pledged funds should be spent for the agreed upon line items first. Past accepted practice should not overrule the proper intended language of the project agreements.

Based on the explanation provided by management and the specific project agreements, our position concerning these costs is unchanged.

- A.3 As the finding states, the project bank balances at December 31, 1992 should equal the amount of funds received by the project less incurred expenditures. Our testing of the bank balance showed that the bank account balance was less than project revenues minus project expenses by the amount presented in the finding. All of this information should be available to the project through its bank statements, USAID/Egypt billings and general ledger and should not need further clarification. If management did require further clarification, such inquiries should have been made prior to their formal response provided on the thirtieth day of the response period so we could have specifically addressed those questions.
- B.1 Although management states that they have located documentation supporting approximately LE 58,000 of the amounts questioned, this information was not included in their response or made available to us in the response period. As such, our position is unchanged.

34

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES (MPWWR)

**PROJECT IMPLEMENTATION LETTER NO. 101
FOR THE PREVENTIVE MAINTENANCE (PM) COMPONENT
OF USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132**

AUDITOR COMMENTS

- B.3 Upon consideration of management's comments and review of project agreements and procedures, this finding has been removed from the final report.
- C.2 Upon review of supporting documentation presented in management's response, this finding has been removed from the final report.
- C.4 Upon review of the action memorandum from USAID/Egypt approving the disbursements questioned in the draft report, this finding has been removed from the final report.
- E. Management appears to concur with this finding as the faulty ledger entry was billed to USAID/Egypt. As such, our position is unchanged.
- F.1 through F.3

The schedules we provided management detailed all questioned amounts in the findings. The schedules we provided were actual copies of our working papers with clarifying notes written on them. If this documentation was illegible, we would have provided new copies immediately. However, we were not contacted during the response period to do so. Further, if we could have determined the information concerning individuals, locations, periods and comments from the project's documentation, we would not be questioning the items. We provided what information we were allowed to examine, which included all information recorded in the project ledgers. As such, we feel it is the onus of management to produce support for the items charged to USAID/Egypt in the project ledgers.

Regarding the employer's share of social insurance payments, management implies that the umbrella grant agreement allows these taxes to be charged to USAID/Egypt prior to amendment no. 7. However, the original umbrella grant agreement signed on September 22, 1981 states in Annex 2, section B.4 Taxation, "(a) This Agreement and 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...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 (sic) to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Grant." This provision of the umbrella grant agreement makes it clear that these social insurance taxes are not to be reimbursed by USAID/Egypt. The umbrella grant agreement's seventh amendment serves only to clarify this issue. As such, our position is unchanged.

- G.1 All costs associated with any workshop should be included in the proposal sent to USAID/Egypt for approval. As substantial costs may be incurred for a workshop in the planning and preparation period, these cost may affect USAID/Egypt's decision to approve the workshop. Therefore, all and only costs approved by USAID/Egypt for a workshop should be charged to the project. As such, our position is unchanged.
- K.2 Management provided invoices and other supporting documentation for six facsimile machines in their response. As such we have removed the amount related to these invoices in the amount of LE 54,750 (\$ 18,129). However, no documentation was provided for the seventh machine. As such, the amount of LE 9,125 (\$ 3,022) remains as a questioned cost in the fund accountability statement.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

November 30, 1993

MEMORANDUM

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

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

SUBJECT: NFA Report on the Ministry of Public Works and Water Resources (MPWWR) Project Implementation Letter No. 101 Related to the Preventive Maintenance (PM) Component of the USAID/Egypt's Irrigation Management Systems Project No. 263-0132 - Draft Report

RECEIVED
1 DEC 1993

Mission is working with the implementing agency to resolve and close all the recommendations under the subject audit, and has no comments to offer at this time. Please issue the final report.

41

APPENDIX F

REPORT DISTRIBUTION

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