

Regional Inspector General for Audit  
Cairo, Egypt

9/10/94

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**Audit of Principal Bank for Development and  
Agricultural Credit (PBDAC) Costs Incurred under Project  
Implementaion Letters (PILs) No. 7, 27, 32, and 35 on  
USAID/Egypt's Agricultural Production and Credit Project  
(APCP) No. 263-0202 for the Period from March 1, 1987  
through March 31, 1993**

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Report No. 6-263-94-017-N  
August 18, 1994



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REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF  
18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY  
INFORMATION IS RELEASED TO THE PUBLIC.**



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



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

August 18, 1994

MEMORANDUM FOR D/USAID/Egypt, John R. Westley  
FROM: RIG/A/Cairo, *Philippe L. Darcy*  
SUBJECT: Financial Audit of Principal Bank for Development and Agricultural Credit (PBDAC) Costs Incurred under Project Implementation Letters (PILs) No. 7, 27, 32, and 35 on USAID/Egypt's Agricultural Production and Credit Project (APCP) No. 263-0202 for the Period from March 1, 1987 through March 31, 1993.

The attached report dated November 18, 1993, by Hazem Hassan & Co. presents the results of a financial audit of the Agricultural Production and Credit Project (APCP) Project Implementation Letters (PILs) No. 7, 27, 32 and 35 funded by USAID/Egypt. APCP's directive is to increase agricultural productivity, agricultural investment, and farm income in Egypt by supporting deregulation of the agricultural sector and introduction of a market-based incentive system.

We engaged Hazem Hassan & Co. to perform a financial audit of the PBDAC incurred expenditures of LE5,337,624 (equivalent to \$1,835,755) for the period March 1, 1987 through March 31, 1993. The purpose of the audit was to evaluate the propriety of costs incurred. Hazem Hassan & Co. evaluated PBDAC internal controls and compliance with applicable laws, regulations and grant terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Hazem Hassan & Co. questioned LE577,265 (equivalent to \$186,756 in costs billed to USAID by PBDAC (including \$180,505 in unsupported costs). The questioned costs included training, procurement, and professional services. Hazem Hassan & Co. noted no material weaknesses in PBDAC internal controls. They noted one instance of material noncompliance relating to procurement procedures.

Hazem Hassan & Co. reviewed PBDAC's response to the findings. Where applicable they have made adjustments in their reports or provided further clarification of their position.

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*a*

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

**Recommendation No. 1:** We recommend that USAID/Egypt resolve questioned costs of \$186,756 consisting of ineligible costs of \$6,251 and unsupported costs of \$180,505 as detailed on pages 14 and 15 of the audit report.

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

**Recommendation No. 2:** We recommend that USAID/Egypt require PBDAC to address the material non-compliance issue detailed on page 24 of the audit report.

Based on the Mission's response requesting PBDAC to address the material non-compliance issue, this recommendation is considered resolved. This recommendation can be closed when RIG/A/C has assessed PBDAC's response and USAID/Egypt's follow-up for adequacy. With regard to the non-material compliance issues, these can be handled directly between the Mission and the grantee.

RIG/A/Cairo is not including recommendations relating to internal controls in the Office of the Inspector General's audit recommendation follow-up system because none of the internal control issues were considered to be material. With regard to the six reportable conditions, they can be handled directly between the Mission and the grantee.

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

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FINANCIAL AUDIT OF  
PRINCIPAL BANK FOR DEVELOPMENT AND  
AGRICULTURAL CREDIT (PBDAC)  
ON PROJECT IMPLEMENTATION LETTERS (PILs) No. 7, 27, 32 and 35  
UNDER THE USAID/EGYPT'S AGRICULTURAL PRODUCTION AND  
CREDIT PROJECT (APCP) No. 263 - 0202  
FOR THE PERIOD FROM MARCH 1, 1987 THROUGH MARCH 31, 1993

**PRINCIPAL BANK FOR DEVELOPMENT AND  
AGRICULTURAL CREDIT (PBDAC)  
PROJECT IMPLEMENTATION LETTERS (PILs) NO. 7, 27, 32 AND 35  
UNDER THE USAID/EGYPT'S AGRICULTURAL PRODUCTION AND  
CREDIT PROJECT (APCP) NO. 263 - 0202**

**TABLE OF CONTENTS**

<b><u>INTRODUCTION</u></b>	<b><u>PAGE</u></b>
Background	1
Audit objectives and scope	2
Results of audit	4
Management comments	5
 <b><u>COMBINED FUND ACCOUNTABILITY STATEMENT</u></b>	
Independent auditor's report	7
Combined fund accountability statement and notes	9
Details of questioned costs	14
 <b><u>INTERNAL CONTROL STRUCTURE</u></b>	
Independent auditor's report	16

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PRINCIPAL BANK FOR DEVELOPMENT AND  
AGRICULTURAL CREDIT (PBDAC)  
PROJECT IMPLEMENTATION LETTERS (FILs) NO. 7, 27, 32 AND 35  
UNDER THE USAID/EGYPT'S AGRICULTURAL PRODUCTION AND  
CREDIT PROJECT (APCP) NO. 263 - 0202

TABLE OF CONTENTS (cont.)

<u>COMPLIANCE WITH AGREEMENTS AND APPLICABLE LAWS AND REGULATIONS</u>	<u>PAGE</u>
Independent auditor's report	22
Report on compliance audit findings	24

APPENDICES

Appendix	I: Supplementary fund accountability statements
Appendix	II: Schedule of questioned and unsupported costs
Appendix	III: PBDAC's management response
Appendix	IV: Auditor's comments
Appendix	V: Mission's comments



# Hazem Hassan & Co.

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

June 30, 1994

Dear Mr. Darcy:

This report represents the results of our financial audit of Principal Bank for Development and Agricultural Credit (PBDAC) on Project Implementation Letters (PILs) No. 7, 27, 32 and 35 under the USAID/Egypt's Agricultural Production and Credit Project (APCP) No. 263-0202 for the period from March 1, 1987 through March 31, 1993.

## **Background**

The PBDAC is a holding company for 17 Governorate banks, which implement the policies of the Government of Egypt (GOE) on credit, input distribution and the marketing of agricultural products.

On September 30, 1986, GOE and USAID signed a grant agreement No. 263-0202 for the Agricultural Production and Credit Project (APCP). The goal of the project is to support reforms in the agricultural sector and to strengthen market-based incentives.

APCP is divided into two components. The policy reform component consists of US dollar transfers to GOE in support of agreed changes in agricultural policies. The second component supports the strengthening of institutions which provide technical assistance, training and commodities.

The in-country training and local procurement of commodities and technical assistance are financed through PILs. PIL No.7 finances in-country training; PIL No.27 finances the refurbishing of training sites; PIL No.32 finances procurement of training equipment and furniture; and PIL No. 35 finances technical services to study private sector cotton trading in Egypt and the feasibility study for PBDAC's inputs and outputs warehouse system.



Payments under PIL No.7, from 1987 through 1990, were made through periodic revolving advances; after 1990, the PIL became a cost reimbursable one. Payments under PILs No.27, 32 and 35 were all made on a cost reimbursable basis.

PBDAC uses the cash basis to account for USAID funds. The accounting system is manual.

**Audit objectives and scope**

The principle objective of this audit was to conduct a financial audit of USAID/Egypt funds provided to PBDAC pursuant to PILs No. 7, 27, 32 and 35 for the period from March 1, 1987 through March 31, 1993. The specific objectives were to:

1. express an opinion on whether the fund accountability statement for the USAID-financed project of PBDAC presents fairly, in all material respects, project revenues received and costs incurred and reimbursed for the period under audit in conformity with the applicable accounting principles;
2. determine whether the direct and indirect costs billed to USAID/Egypt by PBDAC under the project are, in fact, allowable, allocable and reasonable in accordance with the terms of the PILs (and applicable PILs clauses);
3. evaluate and obtain a sufficient understanding of the internal control structure of the organization; assess control risk and identify reportable conditions, including material internal control weaknesses;
4. determine whether PBDAC complied, in all material respects, with agreement terms and applicable laws and regulations; and express positive assurance on those items tested and negative assurance on those items not tested. All material instances of noncompliance and all indications of illegal acts should be identified;
5. perform an audit of the indirect cost rate if the organization has been authorized to charge indirect costs to USAID using provisional rates and USAID has not yet negotiated final rates with the organization; and
6. determine if PBDAC has taken adequate corrective action on prior audit report recommendations.

Since PBDAC has not billed indirect cost to USAID, all costs incurred and subsequently reimbursed by USAID were direct cost. Also, PBDAC was not subjected to prior audits.

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

- Discussion with RIG/A/C;
- Reviewing the project agreement and the PILs;
- Interviewing the PBDAC key personnel and discussing with them the project status, accomplishments during the period, the statutory reporting requirements, the project budget and actual expenditures, and reimbursement procedures from USAID.
- Reviewing the organization structure, procurement, training and personnel manuals, financial and accounting policies and procedures manual.

The field work was completed on November 18, 1993. Within each budget line item, we selected disbursements for testing on a judgmental basis. We tested disbursements of LE2,596,717 (49%) out of total disbursements of LE5,337,624.

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

1. Reconciling PBDAC's accounting records to invoices submitted to USAID/Egypt;
2. Testing of costs for allowability, allocability, reasonableness and appropriate support;
3. Visiting five PBDACs, out of sixteen PBDACs financed under PIL No. 27, to make physical inspections and a count of project assets and to establish the adequacy of PBDAC's control over these assets.
4. Verifying the current status of the consultant's recommendations stated in prior internal control and contracting assessment reports.

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

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

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

### Results of audit

#### Combined fund accountability statement

Our audit identified LE577,265 (equivalent to US\$186,756) in questionable costs, including LE559,548 (equivalent to US\$180,505) of unsupported costs.

#### Internal control structure

Our audit identified the following weaknesses:

- PBDAC does not maintain a detailed accounting manual;
- Project grants are not recorded in PBDAC accounts;
- Inadequate records are kept for PILs No. 27, 32 and 35;
- Inadequate control over filing system;
- No system for accumulating contracting files
- The internal audit department did not involve itself in reviewing the efficiency and effectiveness of operational or accounting controls related to the PILs.

We also noted other matters involving the internal control structure and its operation that we reported to the PBDAC's management in a separate management letter dated November 18, 1993.

#### Compliance with agreement terms and applicable laws and regulations

Our audit identified material instances of noncompliance with procurement procedures and other instances of noncompliance which have been reported in the compliance report.

**Management Comments**

We discussed the findings and recommendations in this report throughout the engagement, and at the conclusion of the audit on November 18, 1993, we held a close-out meeting with PBDAC's management. Additionally, we discussed the report with USAID's RIG/A/C. Their comments on the draft report have been considered in finalizing the report.

On June 15, 1994, we received PBDAC's response to the audit which is included as Appendix III. We have reviewed the response and provided further clarification of our position in Appendix IV.

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

 Hazem Hassan & Co.

Cairo, Egypt

INDEPENDENT AUDITOR'S REPORTS



# Hazem Hassan & Co.

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined fund accountability statement of the Principal Bank for Development and Agricultural Credit (PBDAC) on Project Implementation Letters (PILs) No. 7, 27, 32 and 35 under the USAID/Egypt's Agricultural Production and Credit Project (APCP) No. 263 - 0202 for the period from March 1, 1987 through March 31, 1993. This statement is the responsibility of PBDAC's management. Our responsibility is to express an opinion on this statement based on our audit.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 46 of Chapter 3 of Government Auditing Standards (1988 Revision), since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the KPMG worldwide internal quality control program. This program



requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

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

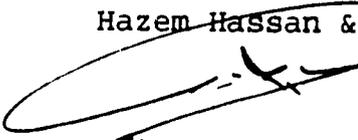
The combined fund accountability statement, referred to above, does not include the cost of USAID/Egypt's direct procurement of vehicles, equipment, and technical assistance provided by USAID/Egypt directly to PBDAC or the total revenues of and the costs incurred by PBDAC on the organization-wide basis.

Included in the combined fund accountability statement are questioned costs amounting to \$186,756. The basis for questioning these costs is more fully described in the "Details of Questioned Costs" section of this report.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the combined fund accountability statement, referred to above, presents fairly, in all material respects, the PBDAC's disbursements related to PILs No. 7, 27, 32 and 35 under USAID/Egypt's Agricultural Production and Credit Project (APCP) No. 263 - 0202 for the period from March 1, 1987 through March 31, 1993 in conformity with the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the combined fund accountability statement described in the first paragraph and expressed in US dollars. The supplemental information included in Appendix I is presented for the purpose of additional analysis and is not required as a part of the basic combined fund accountability statement of PBDAC. Such information has been subjected to the auditing procedures applied in the audit of the basic combined fund accountability statement and, in our opinion, is fairly stated in all material respects in relation to the basic combined fund accountability statement taken as a whole.

Hazem Hassan & Co.



Cairo, Egypt.  
November 18, 1993

PRINCIPAL BANK FOR DEVELOPMENT AND  
AGRICULTURAL CREDIT (PBDAC)  
Combined Fund Accountability Statement  
Project Implementation Letters No. 7, 27, 32 and 35  
Under the USAID/Egypt's Agricultural Production  
and Credit Project (APCP) No. 263 - 0202  
For the Period From March 1, 1987 through March 31, 1993

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Audit</u>
	\$	\$	<u>Ineligible</u>	<u>Unsupported</u>	<u>Finding</u>
			\$	\$	<u>Reference</u>
<b><u>Project Implementation</u></b>					
<b><u>Letter No. 7</u></b>					
Local procurement of training	257,761	232,882	4,582	21,932	Item I,II Pg. 14
In-country training	994,180	945,400		5,305	Item III Pg. 14
Other miscellaneous cost	128,208	46,670			
English language courses	<u>34,508</u>	<u>16,862</u>			
Subtotal	1,414,657	1,241,814			
<b><u>Project Implementation</u></b>					
<b><u>Letter No. 27</u></b>					
Refurbishing of computer sites	135,191	135,191			
Refurbishing of training sites	187,249	187,249			
Computer furniture	<u>50,000</u>	<u>31,228</u>			
Subtotal	372,440	353,668			

PRINCIPAL BANK FOR DEVELOPMENT AND  
AGRICULTURAL CREDIT (PBDAC)  
Combined Fund Accountability Statement  
Project Implementation Letters No. 7, 27, 32 and 35  
Under the USAID/Egypt's Agricultural Production  
and Credit Project (APCP) No. 263 - 0202  
For the Period From March 1, 1987 through March 31, 1993

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Audit</u>
	\$	\$	<u>Ineligible</u>	<u>Unsupported</u>	<u>Finding</u>
			\$	\$	<u>Reference</u>
<b><u>Project Implementation</u></b>					
<b><u>Letter No. 32</u></b>					
Training furniture	<u>159,321</u>	<u>159,321</u>	1,669	105,765	Item IV,V Pg. 14, 15
Subtotal	159,321	159,321			
<b><u>Project Implementation</u></b>					
<b><u>Letter No. 35</u></b>					
a) Study of private sector cotton trading	52,155	47,503		47,503	Item VI Pg. 15
b) Cotton supply response study	24,955	21,509			
c) Feasibility study and operating plan for storage system	<u>59,701</u>	<u>11,940</u>			
Subtotal	136,811	80,952			
<b>Total PILs</b>	<u>2,083,229</u>	<u>1,835,755</u>	<u>6,251</u>	<u>180,505</u>	

**PRINCIPAL BANK FOR DEVELOPMENT AND AGRICULTURAL CREDIT**  
**(PBDAC)**

**NOTES TO THE**  
**COMBINED FUND ACCOUNTABILITY STATEMENT**

**Note 1: Accounting Basis**

The combined fund accountability statement of PBDAC is prepared on the basis of cash disbursements. Consequently, costs are recognized when paid rather than when the obligation is incurred. The accounting basis of cash disbursements is a comprehensive basis of accounting other than generally accepted accounting principles.

**Note 2: Basis of Presentation**

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

**Note 3: Reporting Currency**

PBDAC maintains its books and accounts in Egyptian pounds (LE) as a functional currency. The functional currency was translated into US dollars (\$) as a reporting currency. The period average exchange rate method was used to translate the Egyptian Pounds as follows:

PIL No. 7, \$1 = 2.745  
PIL No. 27, \$1 = 3.300  
PIL No. 32, \$1 = 3.079  
PIL No. 35  
(a, b and c)\$1 = 3.350

**Note 4: Project Implementation Letter (PIL) No. 7**

The PIL was signed on March 3, 1987. The budget was amended several times to cover the period through September 30, 1995. The last invoice reimbursed by USAID, that fell within our scope, was dated January 1993 and was reimbursed in March 1993. Expenditures included costs of transportation, accommodation, teaching courses, material development, rentals, training materials, copying and printing.

**Note 5: Project Implementation Letter (PIL) No. 27**

The PIL was signed on February 20, 1991 and extended to cover the period ending April 1, 1992. The PIL financed the refurbishing of 14 training and computer sites for governorate banks (PBDACs), the eighth floor of PBDAC (Head Office) and the store-house in Helwan.

**Note 6: Project Implementation Letter (PIL) No. 32**

The PIL was signed on June 17, 1990 to finance the purchase of training equipment and furniture. Expenditures were reimbursed by USAID on June 29, 1992. Expenditures included tables, chairs, cabinets, desks, bookshelves, screens and other equipment.

**Note 7: Project Implementation Letter (PIL) No. 35**

PIL No. 35 consists of sections (a), (b) and (c).

Section (a) represents the cost of the private sector cotton trading study. The PIL No. 35 (a) was signed on March 12, 1992 and the last reimbursement made by USAID in this respect was made on February 4, 1993.

Section (b) represents the cost of the cotton supply response study. The PIL was signed in 1992. All costs were paid by PBDAC about October 1992 and reimbursed by USAID before March 31, 1993.

Section (c) represents advance payment for a feasibility study and an implementable operating plan for PBDAC's inputs and outputs warehouse and storage system. The PIL was signed on January 27, 1993 and the first payment was made on March 22, 1993.

**Note 8: Ineligible and Unsupported Costs**

Questioned costs are presented in two separate categories - ineligible costs and unsupported costs. They consist of audit findings proposed on the basis of the terms of the PILs, the project agreement and USAID regulations. Although costs in the column labeled "Ineligible" are supported by vouchers or other documentation, they are ineligible for reimbursement because they are not program related, not reasonable or they are prohibited by the PILs, the project agreement or applicable laws and regulations. The costs in the column labeled "Unsupported" are also formally included in the classification of "Questioned Costs" and relate to costs that are not

supported by adequate documentation or do not have the required prior approvals or authorization. All questioned costs are detailed in the "Details of Questioned Costs" section of this report.

DETAILS OF QUESTIONED COSTS

- I The eligibility of certain local procurements of training materials amounting to \$4,582 is questionable (Schedule No. 1)

The costs of maintaining photocopying machines were all charged to USAID funds. PIL No. 7 amendment No. 5 stated that "PBDAC will finance one-third of total costs of such sub-contract training in financial year 1992 and two-thirds of the total cost of such training cost in financial year 1993". Accordingly, USAID should be charged for only those fractions of the maintenance costs. We considered the difference between USAID's share and the total cost charged to USAID as unallocable costs.

- II Approval of certain local procurement of training materials amounting to \$21,932 is not documented (Schedule No. 1)

PBDAC charged USAID with the cost of computer terminals, printers, Hard Disk and cable lines amounting to \$21,932. The cost was charged as training materials. Those materials were not included in the training plan and PBDAC did not provide us with USAID approval of such procurement. Accordingly we considered the \$21,932 as a questionable cost.

- III Approval of certain costs of in-country training courses amounting to \$5,305 is not documented (Schedule No. 2)

We noted that there was no written approval by the project executive manager for certain costs of in-country training courses. We considered the amount reimbursed by USAID for these costs as a questionable cost.

- IV Documents supporting certain costs of training furniture amounting to \$105,765 are inadequate (Schedule No. 3)

Regarding the training furniture financed under PIL No. 32, PBDAC stated certain specifications for the chairs. Chairs conforming to these specifications are only made by one manufacturer whose bid was substantially lower than those of other manufacturers. The other manufacturers were either unable or unwilling to alter their standard designs to conform with PBDAC's requirements. Since USAID requires that there be a choice of at least three bids, the procurement expert recommended that a new set of specifications be drawn up which

conformed to the chairs available on the market and that new bids be invited. The Chairman of PBDAC approved these recommendations.

We noted that PBDAC did not develop new specifications nor did they invite new bids. The chairs were bought from the only manufacturer that produced chairs of the original specifications. We did not find any documents which justified this non-compliance with the procurement specialist's recommendations. Therefore, we considered the \$105,765 to be inadequately supported.

V The eligibility of certain equipment costs amounting to \$1,669 is questionable (Schedule No. 3)

PBDAC billed and was reimbursed by USAID in an amount of LE164,898 (the equivalent of \$53,556) for certain training furniture financed under PIL No.32. PBDAC actually paid the vendor an amount of LE159,759 (the equivalent of \$51,887). Since PIL No.32 is cost reimbursable, we considered the difference between the amount reimbursed by USAID and the amount actually paid to the vendor (i.e. \$1,669) to be an unallowable cost.

VI Documents supporting the costs, amounting to \$47,503, for certain professional services are inadequate (Schedule no. 4)

Under PIL No. 35(a), PBDAC contracted with a professional institution to conduct a study on the private sector cotton trading in Egypt. The contract was cost reimbursable. However, we noted that PBDAC paid the total contract amount based on a claim submitted by the professional institution without any time-sheets or bio-data sheets showing time and effort exerted or the daily rates of the professionals who conducted the study. The bill for a cost reimbursable contract should be supported by adequate documents showing the actual cost incurred. Accordingly, we considered \$47,503 as unsupported costs.



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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined fund accountability statement of the Principal Bank for Development and Agricultural Credit (PBDAC) on Project Implementation Letters (PILs) No. 7, 27, 32 and 35 under the USAID/Egypt Agricultural Production and Credit Project (APCP) No. 263 - 0202 for the period from March 1, 1987 through March 31, 1993 and have issued our report thereon dated November 18, 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 combined fund accountability statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization, as required by Paragraph 46 of Chapter 3 of Government Auditing Standards (1988 Revision), since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards (1988 revision) is not material because we participate in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

In planning and performing our audit of PBDAC, we considered its internal control structure related to the PILs No. 7, 27, 32 and 35 funded by USAID/Egypt in order to determine our auditing procedures for the purpose of expressing an opinion on the combined fund accountability statement and not to provide assurance on the internal control structure.



The management of PBDAC is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of a combined fund accountability statement in accordance with the cash basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Procurement and receiving;
- Cash disbursements; and
- Equipment control.

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

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

1. PBDAC does not maintain a detailed accounting manual for P/L No. 7

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

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

	<u>Date</u>	<u>Check No.</u>	<u>Amount</u> \$
Cost of renting two laboratories for training classified as In-country Training rather than Other Miscellaneous Cost "rentals"	May 1991	703055 & 703056	7,437
Cost of training materials classified as Accommodation rather than Cost of Local Procurement of Training Material	March 1992 July 1992 Jan. 1992 Dec. 1991	737487 703418 734438 726548	2,430 1,310 1,279 2,676

Recommendation 1

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

2. Project's grants are not recorded in PBDAC accounts

We noted that PBDAC does not give any accounting recognition, in its statutory accounts, to the project's grants either as cash receipts or expenditures, equipment and inventory.

Sound accounting principles and internal control structure require that PBDAC account for, record, process, summarize and report the project's grants consistently with the assertions of the management in the statutory financial statements. Furthermore, failure to record property may lead to insufficient control and misuse of the project's equipment.

**Recommendation 2**

We recommend that PBDAC account for the project's grant in its statutory financial records.

**3. PBDAC does not maintain detailed ledgers of the budgets and actual expenses of PILs No. 27, 32 and 35**

We noted that PBDAC does not maintain detailed ledgers of PILs No. 27, 32 and 35 although payments under the PILs were made frequently and should be adequately controlled. Also expenditures under PIL No. 7 show no link (e.g. cross reference) between the detailed ledger and the supporting documents or between accommodation expenses and training course costs.

Lack of such detailed ledgers may affect PBDAC's ability to summarize and report the financial data.

**Recommendation 3**

We recommend that PBDAC establish detailed ledgers for the above mentioned PILs. Although some of the PILs were completed and closed, the detailed ledgers will significantly help the management of PBDAC refer to any disbursements under these PILs should the need arise.

**4. Inadequate control over the filing system**

During our audit, the staff members of PBDAC were unable to locate numerous documents. A sound internal control system would require that all significant events and transactions be clearly documented and available for examination. For instance, we found that supporting documents for PIL No. 27 were not centrally located; PBDAC Head Office prepared the claim for reimbursement based only upon debit notes received from PBDACs in the governorates. Some offers, approved training plans and remittance advice were not located with the journal entries nor cross-referenced to other locations. We believe that PBDAC's inability to locate certain financial documents at the proper time and the overall disorganization of the records of PIL No. 27 are attributable to inadequate control over the filing system and inadequate assignment of responsible staff in order to maintain complete and organized files.

**Recommendation 4**

We recommend that PBDAC use a filing system designed specifically for their operations; one that is documented, sufficiently controlled, and, that tracks documents or files throughout the transaction process. PBDAC should ensure that all records, books and supporting documents are maintained and readily available for review.

**5. No system for accumulating contracting files**

During our audit, we noticed that the project's files which include contracts, payment vouchers, tenders, evaluation, planning etc. are not accumulated and organized. That may be attributed to dividing the responsibilities for implementing project grants among representatives from different departments.

**Recommendation 5**

We recommend that PBDAC's management should either set up central project files or clearly delineate who is responsible for accumulating and organizing files related to each PIL.

**6. The internal audit department plays no effective role in reviewing the efficiency and effectiveness of operational controls or accounting controls relating to the PILs**

During our audit, we noted that the internal audit department does not involve itself in reviewing the efficiency and effectiveness of either the operational controls or the accounting controls related to the PILs.

Establishing and maintaining an internal control structure is an important management responsibility. Management often establishes an internal audit department to assist in fulfilling this responsibility.

The ineffective role of the internal audit department in implementing the PILs affects PBDAC's ability to safeguard the assets, ensure the reliability of the financial records and ensure the efficiency of the operation of the internal control structure.

Recommendation 6

We recommend that the internal audit department have an effective role in implementing the PILs.

\* \* \* \* \*

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 combined fund accountability statement being audited, may occur and not be detected, within a timely period, by employees in the normal course of performing their assigned functions.

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

We also noted other matters involving the internal control structure and its operation that we reported to the management of PBDAC in a separate management letter dated November 18, 1993.

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

  
Hazem Hassan & Co.

Cairo, Egypt  
November 18, 1993



# Hazem Hassan & Co.

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying combined fund accountability statement of the Principal Bank for Development and Agricultural Credit (PBDAC) on Project Implementation Letters (PILs) No. 7, 27, 32 and 35 under the USAID/Egypt's Agricultural Production and Credit Project (APCP) No. 263 - 0202 for the period from March 1, 1987 through March 31, 1993 and have issued our report thereon dated November 18, 1993.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined fund accountability statement of PBDAC is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 46 of Chapter 3 of Government Auditing Standards (1988 Revision), since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards (1988 Revision) is not material because we participate in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

Compliance with laws, regulations, contracts, grants and binding policies and procedures applicable to PBDAC is the responsibility of PBDAC's management. As part of obtaining reasonable assurance about whether the combined fund accountability statement is free of



material misstatement, we performed tests of PBDAC's compliance with certain provisions of laws, regulations, contracts, grants, and binding policies and procedures. However, our objective was not to provide an opinion on compliance with such provisions.

Material instances of noncompliance are violations of laws, regulations, contracts, grants or binding policies and procedures that cause us to conclude that the aggregation of misstatements, resulting from those violations, is material to the combined fund accountability statement. The results of our tests of compliance disclosed the following material instance of noncompliance, the effects of which have been reflected in the PBDAC's combined fund accountability statement.

The material instance of noncompliance is that PBDAC did not follow the proper procurement procedures, as stated in the procurement specialist's recommendations, with regard to a number of goods procured under PIL No. 32 (see item IV in the "Details of Questioned Cost" section of this report).

We considered this material instance of noncompliance in forming our opinion on whether PBDAC's combined fund accountability statement is presented fairly, in all material respects, in conformity with the cash basis of accounting. This report does not affect our report dated November 18, 1993 on the combined fund accountability statement.

Our testing of transactions and records disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found are identified in the accompanying schedule of findings.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, PBDAC complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that PBDAC had not complied, in all material respects, with those provisions.

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

  
Hazem Hassan & Co.

Cairo, Egypt  
November 18, 1993

REPORT ON COMPLIANCE

AUDIT FINDINGS

The following instances of noncompliance with applicable laws, regulations and the terms of the PILs came to our attention during the audit:

I. MATERIAL INSTANCE OF NONCOMPLIANCE

1. PBDAC did not follow proper procurement procedures regarding the purchasing of training furniture financed under PIL No. 32 (see item IV in the details of questioned cost section of this report). The procurement procedures conducted by PBDAC management impaired the opportunity to obtain the most advantageous terms and prices available in the market.

Recommendation 1

We recommend that PBDAC management follow sound procurement procedures should PBDAC receive any further fund from USAID/Egypt.

II. REPORTABLE INSTANCES OF NONCOMPLIANCE

1. Noncompliance with the project grant agreement

- PBDAC was reimbursed by USAID for sales taxes paid within amounts disbursed under the PILs.

Recommendation 2

We recommend that PBDAC:

- Does not reimburse sales taxes from USAID/Egypt in accordance with Article B, Section B.4 of the project grant standard provisions which stated that "This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee".

2. Instances of noncompliance with the project grant agreement

No financial audit has been made of the fund disbursement under the PILs in accordance with Section B.5.c. of the project grant standard provision which stated that "If \$25,000 or more is disbursed directly to the Grantee in any one calendar year under the Grant, the Grantee shall have financial audits made of the funds disbursed to the Grantee under the Grant".

Recommendation 3

We recommend that PBDAC conduct such an audit, when applicable, for the remainder of the project.

APPENDIX I

SUPPLEMENTARY FUND ACCOUNTABILITY STATEMENTS

PRINCIPAL BANK FOR DEVELOPMENT AND  
AGRICULTURAL CREDIT (PBDAC)  
Fund Accountability Statement  
Project Implementation Letters No. 7, 27, 32 and 35  
Under the USAID/Egypt's Agricultural Production  
and Credit Project (APCP) No. 263 - 0202  
For the Period From March 1, 1987 through March 31, 1993

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Schedule</u>
			<u>LE</u>	<u>LE</u>	
	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>NO.</u>
<u>Project Implementation</u>					
<u>Letter No. 7</u>					
Local procurement of training	707,554	639,262	12,578	60,202	(1)
In-country training	2,729,025	2,595,124		14,562	(2)
Other miscellaneous cost	351,930	128,110			
English language courses	<u>94,725</u>	<u>46,285</u>			
Subtotal	3,883,234	3,408,781			
<u>Project Implementation</u>					
<u>Letter No. 27</u>					
Refurbishing of computer sites	446,131	446,131			
Refurbishing of training sites	617,922	617,922			
Computer furniture	<u>165,000</u>	<u>103,053</u>			
Subtotal	1,229,053	1,167,106			

PRINCIPAL BANK FOR DEVELOPMENT AND  
AGRICULTURAL CREDIT (PBDAC)  
Fund Accountability Statement  
Project Implementation Letters No. 7, 27, 32 and 35  
Under the USAID/Egypt's Agricultural Production  
and Credit Project (APCP) No. 263 - 0202  
For the Period From March 1, 1987 through March 31, 1993

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Schedule</u>
			<u>LE</u>	<u>LE</u>	
	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>NO.</u>
<u>Project Implementation</u>					
<u>Letter No. 32</u>					
Training furniture	<u>490,548</u>	<u>490,548</u>	5,139	325,650	(3)
Subtotal	490,548	490,548			
<u>Project Implementation</u>					
<u>Letter No. 35</u>					
a) Study of private sector cotton trading	174,719	159,134		159,134	(4)
b) Cotton supply response study	83,600	72,055			
c) Feasibility study and operating plan for storage system	<u>200,000</u>	<u>40,000</u>			
Subtotal	458,319	271,189			
Total PILs	<u>6,061,154</u>	<u>5,337,624</u>	<u>17,717</u>	<u>559,548</u>	

PRINCIPAL BANK FOR DEVELOPMENT AND  
AGRICULTURAL CREDIT (PBDAC)  
Fund Accountability Statement  
Project Implementation Letter No. 7  
Under the USAID/Egypt's Agricultural Production  
and Credit Project (APCP) No. 263 - 0202  
For the period from March 1, 1987 through March 31, 1993

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Audit</u> <u>Finding</u> <u>Reference</u>
			<u>\$</u>	<u>\$</u>	
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	
<u>Project Implementation</u>					
<u>Letter No. 7</u>					
Local procurement of training	257,761	232,882	4,582	21,932	Item I, II pg. 14
In-country training	994,180	945,400		5,305	Item III pg. 14
Other miscellaneous cost	128,208	46,670			
English language courses	<u>34,508</u>	<u>16,862</u>			
Total PIL	<u>1,414,657</u>	<u>1,241,814</u>	<u>4,582</u>	<u>27,237</u>	

PRINCIPAL BANK FOR DEVELOPMENT AND  
AGRICULTURAL CREDIT (PBDAC)  
Fund Accountability Statement  
Project Implementation Letter No. 27  
Under the USAID/Egypt's Agricultural Production  
and Credit Project (APCP) No. 263 - 0202  
For the period from February 20, 1991 through April 1, 1992

	<u>Budget</u>	<u>Actual</u>
	\$	\$
<u>Project Implementation</u>		
<u>Letter No. 27</u>		
Refurbishing of computer sites	135,191	135,191
Refurbishing of training sites	187,249	187,249
Computer furniture	<u>50,000</u>	<u>31,228</u>
Total PIL	<u>372,440</u>	<u>353,668</u>

PRINCIPAL BANK FOR DEVELOPMENT AND  
AGRICULTURAL CREDIT (PBDAC)  
Fund Accountability Statement  
Project Implementation Letter No.32  
Under the USAID/Egypt's Agricultural Production  
and Credit Project (APCP) No. 263 - 0202  
For the period from June 17, 1990 through June 30, 1992

<u>Project Implementation</u> <u>Letter No. 32</u>	<u>Budget</u> \$	<u>Actual</u> \$	<u>Questioned Costs</u>		<u>Audit</u> <u>Finding</u> <u>Reference</u>
			<u>Ineligible</u> \$	<u>Unsupported</u> \$	
Training furniture	159,321	159,321	1,669	105,765	Item IV, V pg. 14, 15
Total PIL	<u>159,321</u>	<u>159,321</u>	<u>1,669</u>	<u>105,765</u>	

PRINCIPAL BANK FOR DEVELOPMENT AND  
AGRICULTURAL CREDIT (PBDAC)  
Fund Accountability Statement  
Project Implementation Letter No. 35  
Under the USAID/Egypt's Agricultural Production  
and Credit Project (APCP) No. 263 - 0202  
For the Period From March 12, 1992 through March 31, 1993

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Audit</u>
	\$	\$	<u>Ineligible</u>	<u>Unsupported</u>	<u>Finding</u>
			\$	\$	<u>Reference</u>
<u>Project Implementation</u>					
<u>Letter No. 35</u>					
a) Study of private sector cotton trading	52,155	47,503		47,503	Item VI Pg. 15
b) Cotton supply response study	24,955	21,509			
c) Feasibility study and operating plan for storage system	<u>59,701</u>	<u>11,940</u>			
Total PIL	<u>136,811</u>	<u>80,952</u>		<u>47,503</u>	

APPENDIX II

SCHEDULE OF QUESTIONED AND UNSUPPORTED COSTS

Schedule No. 1

Project Implementation Letter No. 7  
Local Procurement of Training Material

Ineligible Cost

	<u>Date</u>	<u>Check No.</u>	<u>LE</u>	<u>Amount</u> <u>\$</u>
Total maintenance cost charged to USAID fund is LE15,875. During that period, USAID financed only 2/3 of total cost. Therefore, 1/3 of LE15,875 (LE5,291) is unallocable.	June 28, 1992	750017 & 750018	5,291	1,927
Total maintenance cost charged to USAID fund is LE10,931. During that period USAID only financed 1/3 of total cost. Therefore, 2/3 of LE10,931 (LE7,287) is unallocable	Jan. 3, 1993	763876 & 763877	7,287	2,655
			<u>12,578</u>	<u>4,582</u>

Unapproved Cost

Cost of computer terminals, printers, Hard Disk and cable line.	Jan. 8, 1992	733541	60,202	21,932
			<u>60,202</u>	<u>21,932</u>

Schedule No. 2

Project Implementation Letter No. 7  
In-country training courses

<u>Unapproved</u>	<u>Check</u> <u>No.</u>	<u>Amount</u>	
		<u>LE</u>	<u>\$</u>
The approval of the	643383	9,400	3,424
project executive	648690	1,968	717
manager is not documented	648291	1,349	492
	April 11,	<u>1,845</u>	<u>672</u>
	1990	<u>14,562</u>	<u>5,305</u>

Schedule No. 3

Project Implementation Letter No. 32  
Training Furniture

<u>Unsupported</u>	<u>Date</u>	<u>Check No.</u>	<u>Amount</u>	
			<u>LE</u>	<u>\$</u>
Training furniture	Dec. 12, 1991	2636379	162,825	52,882
	June 6, 1992	2705357	148,976	48,385
	Nov. 16, 1992	Cash	3,492	1,134
	July 15, 1993 <sup>(1)</sup>	168744	3,256	1,058
	<sup>(2)</sup>	<sup>(2)</sup>	7,101	2,306
			<u>325,650</u>	<u>105,765</u>

Ineligible

	<u>Date</u>	<u>Check No.</u>	<u>Amount</u>	
			<u>LE</u>	<u>\$</u>
Actual amounts	Dec. 12, 1991	636372	82,449	26,778
paid to the vendor	Dec. 13, 1992	310683	50,000	16,239
	Dec. 13, 1992	302977	22,133	7,188
	July 15, 1993 <sup>(1)</sup>	168745	1,649	536
	Sep. 19, 1993 <sup>(1)</sup>	7249228	3,528	1,146
Total amount paid.			<u>159,759</u>	<u>51,887</u>
Less: amount reported to and reimbursed by USAID			<u>164,898</u>	<u>53,556</u>
Over reimbursements			<u>5,139</u>	<u>1,669</u>

(1) The amount has been reported to and reimbursed by USAID before March 31, 1993.

(2) The dates and checks numbers are not available in PBDAC's records.

Schedule No. (4)

Project Implementation Letter No. 35(a)  
Study of the Private Sector Cotton  
Trading in Egypt

Unsupported

	<u>Date</u>	<u>Check No</u>	<u>LE</u>	<u>Amount</u> <u>\$</u>
Fees for the private sector cotton trading study paid to the professional institute and subsequently reimbursed by USAID	July 9, 1992	3034705	43,680	13,039
	Aug. 16, 1992	3035000	43,680	13,039
	Dec. 30, 1992	305843	71,774	21,425
			<u>159,134</u>	<u>47,503</u>

APPENDIX III

PEDAC's MANAGEMENT RESPONSE

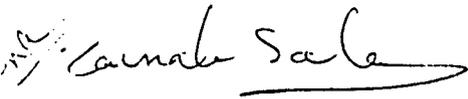
Messrs. Hazem Hassan & Co.

Dear Sirs:

Attached please find our reply to your comments regarding PILs 7, 27, 32 and 35 under the Agricultural Production and Credit Project.

Please be advised.

Best Regards

*E. Hassan*  
  
Eng. Zeinab Salem  
Vice Chairman and  
APCP Executive Manager

CC: Mr. David Alverson, USAID

Answers to Comments in the Report of  
the Project Auditors, Hazem Hassan & Co.

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Page 14 - Item (1) - Photocopying machines maintenance costs charged to PIL 7:

According to the Contract signed between the Bank and USAID, the Bank should finance one third of the training expenses during 1992 and two thirds during 1993. After that date the Bank should finance its share of such expenses as per the contract and that is different from what was done later when certain programs were decided to be financed by USAID without being included in the total training activity costs. We also would like to clarify that the photocopying machines whose maintenance costs were charged to USAID do not constitute all the photocopiers used by Training in the production of training materials as there is a number of other photocopiers whose maintenance costs were not charged to PIL 7. ak

Page 14 - Item (2) - The value will be charged to the APCP account with the Bank.

Page 14 - Item (3) - This document has been completed and signed by the Project Executive Manager. He was receiving medical treatment overseas during that period and this is the only case

where he did not sign. Moreover, this course is included in the training plan previously approved by USAID and Project Executive Manager. Also please be advised that at present a study is being conducted to re-determine project counterparts.

Page 14 - Item (4) - Re. procurement of chairs for training

PIL 32:

In respect of the instructions and procedures of the invitation of bids, the following was done:

- (1) At first, the invitation of bids for the procurement of chairs and the required specifications were included in the invitation of bids for furniture. Yet, the lowest bid, that of Alaa Eldin Company, stated as a condition that the specifications be modified according to their standard designs and this was refused by the concerned procurement committee.
- (2) Accordingly, the committee demanded that new bids be invited for chairs only separate from other training furniture. This was actually done and three bids were received from:
  1. General International Trade Co. (GITCO)
  2. Office Equipment and Requirements Co. "Bemo"
  3. Modern Building Carpentry Co. (MOBICA)

1/0

\* Attached are copies of each of these bids signed by the tender committee.

(3) The committee examined the bids from both the technical and price-related aspects.

The successful bid selected was that of Modern Building Carpentry Company (MOBICA) being the best technically and the lowest bid in accordance with the Bank's tender regulations and USAID procedures controlling procurement operations.

Attached is a copy of the memo of the Vice Chairman and Project Executive Manager including approval of the committee's decision to purchase the said chairs from MOBICA. Also attached is the meeting minutes of the technical committee for procurement of training equipment.

Page 15 - Item (5) - Reimbursement of an excess amount of LE 5139 for the procurement of chairs: Due to MOBICA's tardiness in supplying the chairs contracted for, the Bank incurred large costs as a result of renting chairs from some contractors. The above amount was used in bank's accounts as reimbursement of part of the rental costs.

Page 15 - Item (6) - Re. Egyptian cotton liberalization study  
PIL 85:

Disbursement is made according to the contract concluded between AUC and the project's management. This contract stipulates that disbursement be made in parts according to progress in the conduct of the study based on reports indicating that progress which are approved by project officials. Attached is the total time sheet of the study specialists.

AUC is currently being contacted to provide us with the following documents which we will then forward to you immediately.

- 1) Detailed time sheets for each specialist
- 2) Bio-date sheets for each specialist

Page 18 - Item (1)

- \* Cheque No. 703055 on 22/4/91 in the amount of LE 10000 for the Egyptian Institute for Accountants and Auditors
- \* Cheque No. 703056 on 22/4/91 in the amount of Le 10415 for the Egyptian Institute for Accountants and Auditors.

10/1

Disbursement was made, in accordance with the contract, from the training course costs account. These were classified as teaching and relevant costs indicated in the project's records and were not included in the item for "rentals".

Re. CMD cheques, disbursement was made in accordance with the contract. On future courses under PIL 7, classification will be made according to the actual items of expenditure.

Page 18 - Item (2) - APCP grants are recorded in the Bank's books and reflected in its accounts which have been approved by the Central Authority for Auditing.

The assets purchased under the grant will be registered after the end of the project period according to the terms of the contract, taking into consideration that these assets are registered in PBDAC/BDACs statistical records.

Page 19 - Item (3) - There are subsidiary ledgers maintained by the project's financial unit for each of PIL 32 and PIL 35. PIL 27 ledger will be completed when the required data is received from the implementing BDACs which undertook disbursement.

Page 19 - Item (4) - The files will re-arranged and re-organized.

Page 20 - Item (5) - Recommendation to be followed - and this to be observed in the future.

Page 20 - Item (6) - An accounting office has been contracted to study the Bank's internal audit system including the project. Accordingly, the Bank's Internal Audit Dept. will play an effective role in reviewing PILs.

Page 24 - Item (1) - Re. tax deduction, the deducted tax is not a sales tax. Rather, deduction is made, according to the law, of 1%-3% depending on the activity, under the commercial profit tax account. If there are deducted amounts that have been reimbursed by USAID, these will be determined and repaid to USAID.

Page 24 - Item (2) - Re. having an external auditor audit project operations - The Central Authority for Auditing undertakes auditing of project activities within the process of auditing the overall operations of the Bank.

APPENDIX IV

AUDITOR'S COMMENTS

Auditor's Comments

General

Our comments below address PBDAC's management's responses relating to those situations where we believe additional information or clarification is warranted.

Note: Our comments follow the format used by PBDAC in Appendix III. Attachments to PBDAC's management response are not included in Appendix III, because most of them are in Arabic. These attachments are available to be submitted upon request.

Fund Accountability Statement

Page 14 - Item 1: Maintenance costs for photocopying machines charged to PIL 7.

PBDAC's Management did not provide us with the base of calculation of the photocopying costs charged to USAID/Egypt, or a list and budget of training programs that USAID decided to finance. Accordingly, our position remains the same.

Page 14 - Item 2: Approval of certain local procurement of training materials is not documented.

The auditee agreed to finance such cost from PBDAC's account rather than USAID fund.

Page 14 - Item 3: Approval of certain costs is not documented.

Approving the documents after the date of the event is after the fact approval. Accordingly, our opinion remains the same.

Page 14 - Item 4: Regarding procurement of chairs for training, PIL 32:

According to the management's response, paragraph 2 under the above item, new bids were invited for the furniture; however, the management did not follow sound procurement practices such as advertising the availability of invitation bids, and public opening of sealed bids. The management only obtained three offers, one from a

manufacturer and two from distributors, by hand delivery without a base of selection for those suppliers. The new procurement procedures conducted by PBDAC management impaired the opportunity to obtain the most advantageous terms and prices available in the market. Accordingly our position remains the same.

Page 15 - Item 5: The eligibility of certain equipment costs is questionable.

According to PIL No. 32 amendment No. 1, USAID reimburses the actual amount paid to the suppliers. Accordingly, we still consider the difference between the amount reimbursed by USAID and the amount actually paid to the vendor to be an unallowable cost.

Page 15 - Item 6: Regarding the Egyptian cotton liberalization study:

The management did not provide us with the required supporting documents such as time sheets and bio-data sheets for each specialist. Accordingly our position remains the same.

#### Internal Control Structure

Page 18 - Item 1: Details of accounting manual for PIL No. 7.

Our point is that PBDAC does not maintain a detailed accounting manual. Since the USAID will continue to finance the training costs in the future under different line items, a detailed accounting manual is essential. Our position remains the same.

Page 18 - Item 2: Project grants are not properly recorded in PBDAC accounts.

PBDAC recorded the grants and related costs in a suspense account. The project's grants, whether cash receipts or disbursements, should be recorded and disclosed in PBDAC's financial records and statements. PBDAC's management did not provide us with the terms of the agreement that state that the assets purchased under the

47

grant will be registered after the end of the project period. The assets purchased under the grant should be registered in an "asset register" at acquisition and not after the end of the project. Thus our position remains the same.

Page 19 - Item 3: PBDAC does not maintain detailed ledgers of the budgets and actual expenses of PILs No. 27, 32, and 35.

PBDAC provided us with detailed ledgers of PILs 32 and 35. However a ledger of PIL No. 27 is essential to account for and record cost incurred under such PIL. Our position remains the same until the completion of the required ledger.

Items 4 through 6, pages 19 and 20:

PBDAC's management concurs with those findings and shall start to implement the relevant recommendations.

#### Compliance with Laws and Regulations

Page 24 - Item 1: Regarding tax deductions.

We reported on the sales taxes and not on withholding taxes. In addition to discussions conducted during the normal course of the audit, examples of sales taxes were communicated at a meeting dated June 12, 1994, with the management. Our position remains the same.

Page 24 - Item 2: Regarding having external auditors.

According to Section B.5.c. of the project grant standard provision, the audit should be conducted in accordance with the "Guidelines for Financial Audit Contracted by Foreign Recipients" issued by the USAID Inspector General. Audits conducted by the Central Authority of Auditing normally do not meet the requirements of the above guidelines. Our position remains the same.

Conclusion

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

APPENDIX V

MISSION'S COMMENTS



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

August 16, 1994

MEMORANDUM:

RECEIVED  
16 AUG 1994

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

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

SUBJECT: Financial Audit of Principal Bank for Development and Agricultural Credit (PBDAC) costs Incurred under Project Implementation Letters (PILS) 7, 27, 32 and 35 on USAID/Egypt's Agricultural Production and Credit Project (APCP) No. 263-0202 for the period from March 1, 1987 through March 31, 1993 - Draft Report.

Mission is reviewing the supporting documents provided by PBDAC to resolve the questioned costs identified under Recommendation No. 1 of the subject audit report, and have no comments to offer at this time.

Under Recommendation Nos. 2 of the subject audit report, it is stated that the recommendation can be resolved when Mission provides RIG/A/C with a copy of its request to PBDAC to address non-compliance issues. Attached is a copy of a letter dated August 15, 1994, from the OD/FM/FA to PBDAC, requesting them to address these two recommendations. Based on this action, Mission requests that Recommendation 2 be resolved.

Please issue the final report.

Att: a/s



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

August 15, 1994

Mrs. Zeinab Salem  
Vice Chairman,  
PBDAC, and APCP Executive Manager  
110 Kasr El Aini St.,  
Cairo, Egypt

Subject: Financial Audit of Principal Bank for Development and Agricultural Credit (PBDAC) Costs Incurred under Project Implementation Letters (PILS) 7, 27, 32 and 35 on USAID/Egypt's Agricultural Production and Credit Project (APCP) No. 263-0202 for the period from March 1, 1987 through March 31, 1993 - Draft Report.

Dear Mrs. Salem

You have been provided earlier with a copy of the draft report on the subject audit. The audit report contains two recommendations.

Recommendation No. 1 deals with ineligible and unsupported costs, and Recommendation No. 2 deals with material non-compliance issues identified in the audit report.

Please review the recommendations, and submit to me your response by September 18, 1994, explaining the corrective actions planned or taken by PBDAC to address Recommendation No. 2

Thank you for your cooperation.

Sincerely,

Amanda Levenson,  
Office Director  
Financial Analysis Division  
USAID/Cairo

**APPENDIX VI****REPORT DISTRIBUTION**

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