

**Regional Inspector General for Audit  
Cairo, Egypt**

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**Information Report on the Status of USAID/Egypt's  
Implementation of the Audit Management and  
Resolution Program (AMRP)**

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**Report No. 6-263-94-001-I  
August 16, 1994**





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

August 16, 1994

MEMORANDUM FOR USAID/Egypt Director, John R. Westley

FROM : RIG/A/Cairo, *Philippe L. Darcy*  
SUBJECT : Information Report on the Status of USAID/Egypt's Implementation of the Audit Management and Resolution Program (AMRP)

This report presents information on the status of USAID/Egypt's implementation of the audit management and resolution program. It does not include any recommendations.

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## **Background**

In the last several years, USAID management has taken a more active role in using audit to ensure financial accountability for its programs. USAID amended its standard provisions for grant agreements to include new recipient audit requirements and established the Audit Management and Resolution Program (AMRP) to oversee the Agency's financial audit program. The AMRP is important to USAID because accountability is dependent upon audit verification of the proper use of funds provided to grantees and contractors within developing countries. When audits required by this Program are not performed, accountability is not reasonably assured. The AMRP should help reduce after-the-fact questioning of costs, because the regular annual audits required by the Program allow early correction of problems before they worsen.

Good accountability is also a fundamental aspect of USAID's development strategy to strengthen the democratic processes in developing countries. USAID's audit requirements must be considered an integral part of its development efforts because it makes grantees accountable for the money USAID gives them for development purposes. Accountability promotes responsible leadership and acts to instill public trust in leaders and institutions.

The new audit provisions went into effect May 17, 1991 for non-U.S. nongovernmental grantees (USAID Handbook 13), and May 1, 1992 for grant agreements with foreign governments (USAID Handbook 3). These provisions require annual audits of recipients of USAID grant

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funds of \$25,000 or more. USAID raised the threshold for non-U.S. nongovernmental grantees from \$25,000 to \$100,000 effective March 8, 1994, but this change did not significantly affect the number of audits required in Egypt.

The AMRP General Notice, dated April 3, 1992 establishes a framework for USAID's audit management responsibilities. It assigns specific responsibilities to overseas missions, including USAID/Egypt, for implementing the foreign recipient-contracted audit program as well as the agency-contracted audit program.

Under the AMRP, overseas missions are responsible for ensuring audit coverage of grantees and contractors within the host country and ensuring that audit recommendations are implemented. As of June 30, 1993, USAID/Egypt was responsible for audit coverage of local grantees and contractors with funding commitments of about \$339 million. (USAID/Washington is responsible for ensuring audit coverage of U.S.-based grantees and contractors.)

The role of the Office of the Regional Inspector General for Audit/Cairo (RIG/A/Cairo) under the AMRP is to ensure that financial audits of local grantees and contractors are conducted in accordance with applicable auditing standards and to verify that recommendations are followed up. RIG/A/Cairo assists USAID/Egypt with other aspects of the AMRP including preparing contract statements of work for audit services.

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## **Information Objective**

This is one of a series of reviews of the Agency's implementation of the AMRP. The purpose of the review was to answer the following question:

What is the status of USAID/Egypt's implementation of the Audit Management and Resolution Program?

Appendix I contains a complete discussion of the scope and methodology for this review.

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## **Information on USAID/Egypt's Implementation of the Audit Management and Resolution Program**

USAID/Egypt has taken several steps to fully implement the Audit Management and Resolution Program. The Mission has established a data base and an automated system to track non-Federal audits of indigenous grantees and contractors. This data base included 86 entities requiring audit (after adjustments we made as part of our review—see Appendix II). By May 31, 1994, 29 of these entities has been audited and 18 more audits were underway. The completed audits were approved by RIG/A/C as meeting required auditing standards.

In accordance with the AMRP General Notice issued on April 3, 1992, USAID/Egypt (1) established a Mission Management Control Review Committee chaired by the Associate Director for Financial Management and including the Mission's Associate Directors and the Director of the Contract Services Office and (2) designated the Director of the Financial Analysis Office as its Audit Management Officer. In February 1993, the Mission incorporated the AMRP requirements in a Mission Order.

The Management Control Review Committee periodically reviews the status of AMRP implementation. The Audit Management Officer helps develop a yearly audit plan and ensures that the Mission contracts for individual audits through four local audit firms in Egypt. Also, the Mission has a system of recommendation follow up to ensure that audit report recommendations are properly implemented by grantees and contractors.

In its 1993 Internal Control Assessment, the Mission reported it could not fully comply with USAID's policy that audits of local grantees be performed annually. This is primarily due to two factors: (1) the lack of capacity of Egyptian audit firms to perform additional audits and (2) the limited Mission staff available to follow up on recommendations.

With regard to the capacity of Egyptian audit firms, only four audit firms have been approved by RIG/A/Cairo as being capable of providing audit services in accordance with USAID requirements. These firms can perform about 25 audits each year. So, with a total inventory of 86 local grantees and contractors requiring audit, it would take more than three years to audit each entity one time.

With regard to the ability of the Mission to follow up on recommendations, the Mission has long contended that its staff resources are stretched to the limit by current workload. Therefore, it does not have the staff to follow up on the additional recommendations which would likely ensue if the number of audit reports were to increase significantly. Although we have not assessed the capability of Mission staff to handle additional workload, we believe, based on our overall audit activities, that the Mission's contention is generally correct.

Aware of these limitations, the Mission is seeking ways to increase audit coverage and minimize workload. The Mission wants to:

- improve grantees' internal controls to reduce audit findings and the need for recommendations,
- educate grantees through RIG/A/Cairo to better understand the audit process,
- simplify recommendation closure requirements for recommendations dealing with small amounts of questioned costs or less significant internal control and compliance findings, and

- use the Government of Egypt's Central Audit Organization to conduct financial audits of government agency recipients.

We fully support the Mission's actions in these areas.

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## **Management Comments and Our Evaluation**

USAID/Egypt had no comments on our draft report. USAID/Egypt's response to the draft report is presented in Appendix III.

## SCOPE AND METHODOLOGY

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### Scope

As of June 30, 1993, USAID/Egypt's portfolio included 86 indigenous recipients who had received funding commitments of \$25,000 or more. This included 66 grantees and 20 contractors. Funding commitments for these recipients totaled \$339 million as of the same date.

We used a questionnaire to assess whether USAID/Egypt had generally met its responsibilities under the requirements of the AMRP; included required standard audit provisions (clauses) in grants, cooperative agreements, and contracts over which it had monitoring responsibility; developed and maintained an up-to-date mission audit inventory data base system for monitoring/tracking to ensure that required audits were performed; and obtained the required audits. The answers/information provided by USAID/Egypt in response to our questionnaire were not verified, except for the number of entities requiring audit as of June 30, 1993 (the latest information available on entities receiving more than \$25,000 in USAID funding) and the number of audits issued and in process as of May 31, 1994.

We conducted our fieldwork primarily at USAID/Cairo, Egypt. Our field work began May 19, 1994 and concluded July 13, 1994.

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### Methodology

To answer the information objective, we obtained and reviewed the answers to our questionnaire. We followed up with the Mission on any answers that appeared incorrect based on our knowledge of the Mission or were inconsistent with other information provided in the questionnaire. We performed tests to verify the information provided in the response to question

No. 34 of the questionnaire, "How many recipient audit reports were due by May 31, 1994, and how many reports were received that met the recipient audit requirements?" In responding to our request for this information, the Mission pointed out that, due to the limited capability of local audit firms, the Mission has not implemented recipient-contracted audits. Instead, the Mission contracted directly for non-Federal audits for all recipients.

Therefore, the Mission provided us with a list of non-Federal audits completed and in progress as of May 31, 1994. We interviewed USAID/Egypt's Audit Management Officer and the financial analysts who are responsible for managing the recipient audit program to verify the audit universe as of June 30, 1993. We compared the audit universe to the audit universe database, noted the commitments which were not picked up for the audit universe and discussed with the financial analysts their reasons for excluding the missing commitments. Also, we interviewed non-Federal audit coordinators in RIG/A/Cairo to verify the number of audit reports issued and the number in process as of May 30, 1994. Finally, we reviewed USAID/Egypt's fiscal year 1993 internal control assessment to determine whether it disclosed any material weaknesses in the implementation of the AMRP.

**Adjustments to Audit Universe of Indigenous Entities as of June 30, 1993  
and Audits Completed and in Process as of May 31, 1994**

<i>Description</i>	<i>Audit Universe</i>	<i>Audit Completed</i>	<i>Audit in Process</i>
As reported by USAID/Egypt	78	29	17
Adjustments:			
Project No. 263-0140.01, PILs 4 and 5 - Reported as only one entity in the audit universe but two completed audit reports (one for each PIL) were reported. For consistency, two entities requiring audit should be reported.	1		
Project No. 263-0132, PILs 99 and 101 - Same reason as above.	1		
Project No. 0139.01, PILs 9 and 10 - Reported as only one entity in the audit universe but there are two separate audits. One audit which was completed was correctly reported. The other audit, which is in process, was not reported.	1		1
Project No. 263-0152, PIL PA 1, 2, 3 - Not included in the audit universe as an entity requiring audit, although an audit in process was reported.	1		
Project No. 263-0152, PIL SEED 3, 4 - Same reason as above.	1		
Project No. 263-0152, PIL TT 2, 3, 4 - Same reason as above.	1		
Project No. 263-0152, PIL RES 10, 14, 23, 28 - Same reason as above.	1		
Project No. 263-0152, PIL M/NI 1, 3, 8 - Same reason as above.	1		
<b>Adjusted totals</b>	<b>86</b>	<b>29</b>	<b>18</b>

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

August 14, 1994

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**MEMORANDUM:**

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

FROM: Douglas S. Franklin, AD/FM *CS*

SUBJECT: Draft Information Report on the Status of USAID/Egypt's  
Implementation of the Audit Management and Resolution  
Program.

Mission has completed its review of the subject draft report, and has no comments to offer at this time. Please issue the final report.

xc: D. Miller, D/DIR  
V. Moore, AD/LEG  
R. Jordan, AD/PDS  
J. Dunlap, OD/DIR/CS

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