

Regional Inspector General for Audit  
Cairo, Egypt

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**Audit of the Water Research Center Project Implementation  
Letter No. 90 under the USAID/Egypt Irrigation  
Management Systems Project No. 263-0132**

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**Report No. 6-263-95-008-N  
December 27, 1994**



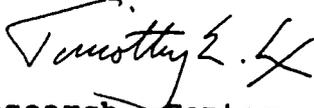
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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

December 27, 1994

MEMORANDUM FOR D/USAID/Egypt, John R. Westley

FROM : A/RIG/A/Cairo, Timothy Cox 

SUBJECT : Audit of the Water Research Center Project  
Implementation Letter No. 90 under the USAID/Egypt  
Irrigation Management Systems Project No. 263-0132

The attached report, dated June 8, 1994, by Price Waterhouse presents the results of a financial audit of the Water Research Center. The audit concerns Project Implementation Letter (PIL) No. 90 under the Irrigation Management Systems Project No. 263-0132. The project's main goal is to provide research services for the rest of the IMS Projects, as well as carrying out research on irrigation and water related problems.

We engaged Price Waterhouse to perform a financial audit of WRC incurred expenditures of LE3,173,408 (equivalent to \$1,109,582) for the period from January 14, 1988 through June 30, 1993. The purpose of the audit was to evaluate the propriety of costs incurred during that period. Price Waterhouse also evaluated WRC's internal controls and compliance with applicable laws, regulations, and grant terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Price Waterhouse questioned LE79,971 (equivalent to \$27,962) in costs billed to USAID by WRC. The questioned costs included in-country training, equipment, local support staff, travel, communications, maintenance, office supplies, and other direct costs. The auditors also noted four material weaknesses in WRC's internal controls and three material instances of noncompliance.

In response to the draft report, WRC provided documentation and/or gave more explanation to the questioned costs, and agreed with most of the internal control and compliance findings. Price Waterhouse reviewed WRC's response to the findings and where applicable, made adjustments to the report or provided further clarification of their position.

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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 \$27,962 as detailed on pages 9 through 12 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 WRC.

**Recommendation No.2:** WE recommend that USAID/Egypt require WRC to address the material internal control weaknesses as detailed on pages 14 through 16 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 WRC address its material internal control weaknesses. The recommendation can be closed when RIG/A/C has assessed WRC's response and USAID/Egypt's follow-up for adequacy. With regard to the reportable conditions, they can be handled directly between the Mission and WRC.

**Recommendation No. 3:** We recommend that USAID/Egypt require WRC to address the material noncompliance issues detailed on pages 20 and 21 of the audit report.

This recommendation is considered unresolved and may be resolved when the Mission provides our office with copies of its request that WRC address its material noncompliance issues. This recommendation can be closed when RIG/A/C has assessed WRC's responses and USAID/Egypt's follow-up for adequacy.

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

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**WATER RESEARCH CENTER**

**FUND ACCOUNTABILITY  
STATEMENT AND ADDITIONAL INFORMATION**

**PROJECT IMPLEMENTATION LETTER NUMBER 90  
UNDER THE USAID/EGYPT  
IRRIGATION MANAGEMENT SYSTEMS PROJECT  
NO. 263-0132**

**FOR THE PERIOD FROM JANUARY 14, 1988  
THROUGH JUNE 30, 1993**

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**WATER RESEARCH CENTER**  
**FUND ACCOUNTABILITY**  
**STATEMENT AND ADDITIONAL INFORMATION**  
**PROJECT IMPLEMENTATION LETTER**  
**NUMBER 90**  
**UNDER THE USAID/EGYPT**  
**IRRIGATION MANAGEMENT SYSTEMS**  
**PROJECT NO. 263-0132**  
**FOR THE PERIOD FROM JANUARY 14, 1988**  
**THROUGH JUNE 30, 1993**

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*Price Waterhouse*



June 15, 1994

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-related audit of project costs incurred by the Water Research Center ("WRC") under the Project Implementation Letter ("PIL") No. 90 related to the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Irrigation Management Systems Project No. 263-0132 ("grant agreement") funded by USAID/Egypt. The audit encompassed project costs incurred by the WRC and funded by USAID/Egypt during the period from January 14, 1988 through June 30, 1993.

#### Background

The Irrigation Management Systems ("IMS") Project No. 263-0132 with the Ministry of Public Works and Water Resources ("MPWWR") 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 grant agreement, originally dated September 22, 1981 and amended nine times through September 27, 1993, specifies a project completion date of September 21, 1995 and approves financing of \$ 336 million.

The IMS Project consists of ten components of which the Water Research Center is one. The WRC is intended to provide research services for the rest of the IMS Project as well as carrying out research into irrigation and water related problems in its own right. It consists of eleven institutes (nine at Qanatir, one in Alexandria and one in Giza) as well as a head office in Cairo. The research institutes are Water Distribution and Methods of Irrigation, Drainage, Water Resources Development, Side Effects of High Aswan Dam, Hydraulics and Sediment, Weed Control and Waterway Maintenance, Ground Water, Soil Mechanics and Foundations, Surveying, Mechanical and Electrical, and Coastal Protection.

USAID/Egypt's assistance to the WRC includes technical assistance, commodities, and long and short term training concentrated on building the WRC's core capability for carrying out research programs. PIL No. 90, dated January 14, 1988, represents budget element No. 7 and provides assistance to the WRC in the areas of training (in-country training, library materials and books), procurement of equipment (equipment and office facilities, laboratory equipment and materials, furniture) and local services (travel and per diem, communications, maintenance and operating costs, other support costs). PIL No. 90 has been amended eight times through October 14, 1992 and approves financing of \$ 1,368,197.



### **Audit Objectives and Scope**

The objective of this engagement was to perform a financial-related audit of project costs incurred by the WRC under the PIL No. 90 related to the USAID/Egypt's Irrigation Management Systems Project No. 263-0132 and funded by USAID/Egypt during the period from January 14, 1988 through June 30, 1993. Specific objectives were to determine whether:

1. the fund accountability statement for the WRC presents fairly, in all material respects, project costs incurred under the PIL No. 90 and funded by USAID/Egypt in conformity with generally accepted accounting principles or another comprehensive basis of accounting;
2. the costs reported as incurred by the WRC under PIL No. 90 and funded by USAID/Egypt are in fact allowable, allocable, and reasonable in accordance with the terms of the grant agreement, the PIL and USAID/Egypt regulations;
3. the internal controls, accounting systems, and management practices of the WRC are adequate for USAID/Egypt agreements; and
4. the WRC is in compliance, in all material respects, with the grant agreement, PIL, and applicable laws and regulations.

Preliminary planning and review procedures began in January, 1994 and consisted of discussions with RIG/A/C personnel, the WRC Project officials, and a review of the applicable grant agreement and PIL No. 90. Fieldwork commenced in March, 1994 and was completed in June, 1994.

The scope of the financial-related audit was project costs incurred by the WRC under PIL No. 90 and funded by USAID/Egypt. On a judgmental basis, we selected incurred costs of LE 1,583,374 out of total incurred costs of LE 3,173,408 or 49.9% of project costs incurred during the period from January 14, 1988 through June 30, 1993.

Our tests of project costs incurred by the WRC under PIL No. 90 and funded by USAID/Egypt included, but were not limited to, the following:

1. reconciling project accounting records to invoices issued by the WRC to USAID/Egypt, and testing of project costs incurred and funded by USAID/Egypt for allowability, allocability, reasonableness, and appropriate support;
2. determining that fixed asset purchases were appropriate and conformed with the terms of the grant agreement, the PIL, and relevant procedures and regulations; and



3. establishing the adequacy of the project's control procedures to safeguard USAID/Egypt-funded 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 33 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 and firms.

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

#### **Results of Audit**

##### **Fund accountability statement:**

Our audit identified \$ 27,962 in questionable costs, including \$ 11,987 of unsupported costs.

##### **Internal control structure:**

We noted four material weaknesses related to : (1) proper procurement of goods and services and establishment of detailed budgets; (2) WRC's control environment undermining the internal control structure's effectiveness; (3) lack of control over USAID/Egypt funded assets; and (4) commingling of PIL No. 90 funds with funds received under other PILs. We also noted six reportable conditions related to : (1) controls over receipt of and payment for goods and services; (2) procurement of goods and services; (3) consistency of accounting records; (4) controls over access to the computer; (5) lack of an accounting manual; and (6) use of prenumbered receiving reports.

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

We noted three material instances of noncompliance related to WRC's failure to: (1) follow proper procurement procedures; (2) keep adequate books and records; and (3) open a separate bank account for the Government of Egypt's contribution to the project.

We also noted certain immaterial instances of noncompliance that we have reported to the management of WRC in a separate letter dated June 8, 1994.



**Management Comments**

**WRC project management comments have been obtained and are included in Appendix C of this report. We have provided further clarification of our position, where necessary, in Appendix D of this report or have adjusted our findings accordingly.**

**This report is intended for the information of WRC 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 FUND ACCOUNTABILITY STATEMENT**

June 8, 1994

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 project costs incurred by the Water Research Center ("WRC") under the Project Implementation Letter ("PIL") No. 90 related to the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Irrigation Management Systems Project No. 263-0132 ("grant agreement") funded by USAID/Egypt during the period from January 14, 1988 through June 30, 1993. The fund accountability statement is the responsibility of the WRC's management. Our responsibility is to express an opinion on this 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 presentation of the 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 33 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 and firms.

As described in Note 3, the accompanying fund accountability statement has been prepared on the basis of cash disbursements. Consequently, incurred costs are recognized when paid rather than when the obligation is entered into. 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.



**As more fully described in Note 6 to the fund accountability statement, the results of our tests disclosed the following questioned costs as detailed in the fund accountability statement: (1) \$ 15,974 in costs that are explicitly ineligible because they are not program related, unreasonable, or prohibited by the terms of the agreements; and (2) \$ 11,987 in costs that are not supported with adequate documentation or did not have the required prior approvals or authorizations.**

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, project costs incurred by the WRC under the PIL No. 90 related to USAID/Egypt's Irrigation Management Systems No. 263-0132 funded by USAID/Egypt during the period from January 14, 1988 to June 30, 1993 in conformity with the terms of the agreements and with the basis of accounting as described in Note 3.

Our audit was conducted for the purpose of forming an opinion on the fund accountability statement described in the first paragraph. The supplemental information included in Appendices A and B is presented for purposes of additional analysis and not as a required part of the basic fund accountability statement. This information has been subjected to the auditing procedures applied in the audit of the basic fund accountability statement and, in our opinion, except for the effects of the questioned costs as identified in Appendix B on the fund accountability statement expressed in Egyptian pounds in Appendix A, such information is fairly stated, in all material respects, in relation to the basic fund accountability statement taken as a whole.

This report is intended for the information of WRC 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.

*Pricewaterhouse*

**WATER RESEARCH CENTER**  
**PROJECT IMPLEMENTATION LETTER NO. 90**  
**UNDER THE IRRIGATION MANAGEMENT SYSTEMS**  
**PROJECT No. 263-0132**

**FUND ACCOUNTABILITY STATEMENT**  
**CASH DISBURSEMENT BASIS**  
**FOR THE PERIOD FROM JANUARY 14, 1988**  
**THROUGH JUNE 30, 1993**

	<u>Budget</u> <u>(Note 1)</u>	<u>Actual</u> <u>(Note 2)</u>	<u>Reclassification</u> <u>(Note 5)</u>	<u>Questioned Costs</u>		<u>Finding</u> <u>Reference</u>
				<u>Ineligible</u> <u>(Note 6)</u>	<u>Unsupported</u> <u>(Note 6)</u>	
<b>Net USAID/Egypt revenues</b>		<b>\$ 1,247,368</b>				
<b>Expenditures:</b>						
In-Country Training	\$ 60,016	37,128	\$ (12,633)	\$ -	\$ 979	Item A, Pg. 9
Library Materials and Books	21,892	20,599	3,001	-	-	
Equipment and Office Facilities	136,583	133,499	(1,940)	4,550	-	Item B, Pg. 9
Laboratory Equipment	28,773	28,742	30,221	70	-	Item C, Pg. 9
Furniture	166,047	154,201	(672)	-	-	Item D, Pg.10
Local Support Staff	99,137	73,050	17	2,715	-	Item E, Pg.10
Travel and Per Diem	150,541	145,866	(1,723)	602	-	Item F, Pg.10
Communications	51,875	42,158	(16,120)	910	-	Item G, Pg.11
Maintenance and Operating Costs	355,244	319,088	8,613	1,792	11,008	Item H, Pg.11
Office Supplies	102,878	66,835	(12,313)	97	-	Item I, Pg.12
Other Support Costs	125,281	88,416	3,549	5,239	-	Item J, Pg.12
Specific Research	<u>69,930</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Totals</b>	<b>\$ <u>1,368,197</u></b>	<b>\$ <u>1,109,582</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>15,975</u></b>	<b>\$ <u>11,987</u></b>	

The accompanying notes are an integral part of this fund accountability statement.

**WATER RESEARCH CENTER**

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT**

**NOTE 1 - BUDGET:**

The column, labeled "Budget" includes USAID/Egypt approved costs for the WRC under the PIL No. 90 through the audit period end. These amounts are based on the most recent budget amendment dated October 14, 1992 and are presented for informational purposes only.

**NOTE 2 - SOURCE OF DATA:**

The column, labeled "Actual" is the responsibility of the WRC management and represents cumulative project costs paid and billed to USAID/Egypt by the WRC under the PIL No. 90 during the period from January 14, 1988 through June 30, 1993.

**NOTE 3 - BASIS OF PRESENTATION:**

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

**NOTE 4 - FOREIGN EXCHANGE:**

Costs incurred in Egyptian pounds have been converted to U.S. dollars at the average monthly exchange rate during the period under audit of 2.86 Egyptian pounds to one U.S. dollar.

**NOTE 5 - RECLASSIFICATION:**

Certain expenditures included in the fund accountability statement have been reclassified to reflect the proper classification of costs incurred.

**NOTE 6- 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 the PIL, the grant agreement and USAID/Egypt regulations. Costs in the column labeled "Ineligible" are supported by vouchers or other documentation, but are ineligible for reimbursement because they are not program-related, are unreasonable, or are prohibited by the PIL, grant agreement, or applicable laws and regulations. Costs in the column labeled "Unsupported" are also formally included in the classification of "Questioned Costs" and relate to costs that are not supported with adequate documentation or did not have the prior USAID/Egypt required approvals or authorizations.

**NOTE 6 - QUESTIONED COSTS (CONT.):**

Our audit procedures identified the following costs billed to USAID/Egypt that are ineligible or unsupported:

<b><u>Item Description</u></b>	<b><u>Questioned Costs</u></b>	
	<b><u>Ineligible</u></b>	<b><u>Unsupported</u></b>
<b>A. In-Country Training:</b>		
(1) Costs of training courses unsupported with names and reasons for taking the course to prove allocability to PIL No. 90.	\$ -	\$ 973
<b>Total In-Country Training</b>	<u>-</u>	<u>973</u>
<b>B. Equipment and Office Facilities:</b>		
(1) In February 1993, the Soil Mechanics Institute purchased a vacuum cleaner for LE 1,650. They had previously received an offer for a vacuum cleaner that would have been adequate for their purposes for LE 785. Under standard provision C.4 of the project grant agreement "no more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the grant." The difference of LE 865 has been questioned.	302	-
(2) Expenditures were made for items not related to the project's objectives, such as wall clocks, flower pots and climate heaters. Such expenditures should be made from GOE funds.	1,890	-
(3) Consumption and sales taxes. Standard provision B.4 (a) of the project grant agreement states that "the grant will be free from any taxation or fees imposed under laws in effect in the territory of the grantee."	1,020	-
(4) Amounts relating to WRC rest houses. Expenses on rest houses had been previously disallowed by USAID/Egypt in letters dated January 3, 1989, January 12, 1989, February 7, 1989 and August 18, 1988.	<u>1,338</u>	<u>-</u>
<b>Total Equipment and Office Facilities</b>	<u>4,550</u>	<u>-</u>
<b>C. Laboratory Equipment:</b>		
(1) Sales tax paid on a purchase. The project grant agreement section B.4 (a) states that "the grant will be free from any taxation or fees imposed under laws in effect in the territory of the grantee."	<u>70</u>	<u>-</u>
<b>Total Laboratory Equipment</b>	<u>70</u>	<u>-</u>

**NOTE 6 - QUESTIONED COSTS (CONT.):**

<b><u>Item Description</u></b>	<b><u>Questioned Costs</u></b>	
	<b><u>Ineligible</u></b>	<b><u>Unsupported</u></b>
<b>D. Furniture:</b>		
(1) Based upon WRC management comments received subsequent to the issuance of the draft report, this finding has been removed.	\$ -	\$ -
<b>Total Furniture</b>	<u>-</u>	<u>-</u>
<b>E. Local Support Staff:</b>		
(1) Employees social security contributions. The project grant agreement, amendment # 7 section 5.18 (a) dated July 3, 1991 states "to the extent that... any transaction financed under the grant is not exempt from identifiable taxes, tariffs, duties or other levies (including social security assessments) imposed under laws in effect in the Arab Republic of Egypt, MPWWR shall, unless otherwise expressly provided in Project Implementation Letters pay or reimburse the same with funds other than those provided under the grant".	2,715	-
(2) Based on WRC management's comments received subsequent to the issuance of the draft report, this finding has been removed.	<u>-</u>	<u>-</u>
<b>Total Local Support Staff</b>	<u>2,715</u>	<u>-</u>
<b>F. Travel and Per Diem:</b>		
(1) Based on WRC management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-
(2) Excessive travelling billed by the Mechanical and Electrical Institute on January 30, 1993, check # 1132498. Nineteen different employees collected travelling expenses for 143 journeys between January 3, and January 18, 1993 delivering documents to and from a contractor regarding a proposal. The number of journeys (143) to perform these tasks bear no relationship to one another.	149	-
(3) Travel expenses related to unallowable items (renewing vehicle licenses, legal expenses).	213	-
(4) Travel related to a WRC employee's kidney dialysis treatment which is not allocable to PIL No. 90	123	-

**NOTE 6 - QUESTIONED COSTS (CONT.):**

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<b>F. Travel and Per Diem (Cont.):</b>		
(5) Costs of visas to Germany and Italy for WRC employees. Travel outside Egypt is not allocable to PIL No. 90.	\$ <u>117</u>	\$ <u>-</u>
<b>Total Travel and Per Diem</b>	<u>602</u>	<u>-</u>
<b>G. Communications:</b>		
(1) Sales taxes and deposit with the GOE telephone company. The project grant agreement section B.4 (a) states that "the grant will be free from any taxation or fees imposed under laws in effect in the territory of the grantee". In addition, deposits are refundable to WRC and therefore do not currently represent a reimbursable project cost.	<u>910</u>	<u>-</u>
<b>Total Communications</b>	<u>910</u>	<u>-</u>
<b>H. Maintenance and Operating Expenses:</b>		
(1) Customs and road taxes (tolls). The project grant agreement, amendment # 7 section 5.18 (a) dated July 3, 1991 states to the extent that... any transaction financed under the grant is not exempt from identifiable taxes, tariffs, duties or other levies (including social security assessments) imposed under laws in effect in the Arab Republic of Egypt, MPWWR shall, unless otherwise expressly provided in Project Implementation Letters pay or reimburse the same with funds other than those provided under the grant".	155	-
(2) Based upon WRC management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-
(3) Amounts for which no vehicle number was identified. As a result, we were unable to determine if the work was allocable to the project.	-	10,938
(4) Renovation and construction costs on the Qanatir building in the course of 1991 due to building being accepted in an unsatisfactory state. Construction of the Qanatir building was a GOE responsibility.	1,455	-
(5) Government taxes, licensing fees, customs clearance and administrative fees. The project grant agreement section B.4 (a) states that "the grant will be free from any taxation or fees imposed under laws in effect in the territory of the grantee."	182	-

**NOTE 6 - QUESTIONED COSTS (CONT.):**

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<b>H. Maintenance and Operating Expenses (Cont.):</b>		
(6) A bid for a service was received by the Soil Mechanics Institute for LE 485. However, another contractor was chosen for a price of LE 686, with no reason documented, which was billed in December 1988. Under Standard Provision C.4 of the project grant agreement "no more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the grant."	\$ -	\$ 70
<b>Total Maintenance and Operating Expenses</b>	<u>1,792</u>	<u>11,008</u>
<b>L. Office Supplies:</b>		
(1) Based on WRC's management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-
(2) Sales taxes on purchases. The project grant agreement section B.4 (a) states that "the grant will be free from any taxation or fees imposed under laws in effect in the territory of the grantee."	<u>97</u>	<u>-</u>
<b>Total Office Supplies</b>	<u>97</u>	<u>-</u>
<b>J. Other Support Costs:</b>		
(1) GOE taxes, fines, license fees and customs. The project grant agreement, Amendment # 7 section 5.18 (a) dated July 3, 1991 states "to the extent that... any transaction financed under the grant is not exempt from identifiable taxes, tariffs, duties or other levies (including social security assessments) imposed under laws in effect in the Arab Republic of Egypt, MPWWR shall, unless otherwise expressly provided in Project Implementation Letter pay or reimburse the same with funds other than those provided under the grant".	115	-
(2) Meals and entertainment expenses which do not further the aims of the project.	114	-
(3) Expenses on WRC's Shoubra building. The Shoubra building is the subject of another PIL, so the expenses are not allocable to PIL No. 90.	4,815	-
(4) Amounts spent on photoframes, vases and flower pots which do not further the aims of the project.	<u>195</u>	<u>-</u>
<b>Total Other Support Costs</b>	<u>5,239</u>	<u>-</u>
<b>TOTAL QUESTIONED COSTS</b>	\$ <u>15,975</u>	\$ <u>11,987</u>

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*Price Waterhouse*



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

June 8, 1994

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

We have audited the fund accountability statement of project costs incurred by the Water Research Center ("WRC") under the Project Implementation Letter ("PIL") No. 90 related to the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Irrigation Management Systems Project No. 263-0132 ("grant agreement") funded by USAID/Egypt during the period from January 14, 1988 through June 30, 1993 and have issued our report thereon dated June 8, 1994.

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 33 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 and firms.

In planning and performing our audit of the fund accountability statement of WRC, we considered its internal control structure related to PIL No. 90 in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of the WRC 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 financial reports 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 receipts and disbursements, fund custody, project accounting, constructing services, furniture procurement and safeguarding of assets. 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 reportable condition in which the design or operation of one or more 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit disclosed the following conditions which we believe constitute material weaknesses:

#### **Material Weaknesses**

- 1. WRC did not properly procure goods and services, nor did they establish budgets in sufficient detail to detect competitive bid purchases.**

##### **Competitive bids**

We found many instances of WRC failing to procure goods in a proper manner by not obtaining competitive bids for procurement. This procedure ensures that reasonable amounts are paid for goods and services, the best possible value is obtained and goods and services are procured on an arms length basis.

##### **Detailed budgets**

WRC also had no detailed budgets containing estimated amounts to be spent on individual goods and services; therefore, no comparison could be made between budgeted and actual expense on individual procurements.

As discussed in Statement of Auditing Standards No. 55, "Consideration of the Internal Control Structure in a Financial Statement Audit", an important element of an organization's control environment is its methods of management control. These methods affect management's direct control over the exercise of authority delegated to others and its ability to effectively supervise overall organization activities. Management control methods may include consideration of:

- Establishing planning and reporting systems that set forth management's plans and the results of actual performance. Such systems may include organization planning, budgeting and forecasting.
- Using such methods at appropriate management levels to investigate variances from expectations and to take appropriate and timely corrective action.



**WRC's lack of detailed budgets does not allow for a comparison of actual and budgeted expenditures. Such comparisons would highlight possible instances of unreasonable amounts being paid for goods and act as a further control ensuring that only appropriate amounts are spent.**

#### **Recommendation 1**

**We recommend that WRC establish comprehensive procurement procedures encompassing procurement limits, publicity required and bidding procedures. Particular emphasis should be placed on how WRC is to decide who wins a bid, and the documentation necessary at each stage of the process to support that adequate procurement procedures are adhered to by management.**

**We also recommend that WRC establish detailed budgets on an annual basis, listing items to be procured and estimated cost. Actual expenditures should be compared with the budgeted amounts periodically, and significant differences be investigated.**

#### **2. WRC's control environment undermines its internal control structure's effectiveness.**

**As discussed in Statement of Auditing Standards No. 55, "Consideration of the Internal Control Structure in a Financial Statement Audit", for the purpose of an audit of financial statements, a major element of an entity's control structure is the control environment. The control environment is defined as, "The collective effect of various factors on establishing, enhancing or mitigating the effectiveness of specific policies and procedures". Such factors include: management philosophy and operating style; organizational structure; the function of the board of directors and its committees; methods of assigning authority and responsibility; management control methods; the internal audit function; personnel policies and practices; and external influences concerning the entity.**

**The control environment reflects the overall attitude, awareness and actions of management and others concerning the importance of control and its emphasis in the entity, and has a pervasive effect on the entity's internal control structure. That is, has management set the appropriate "tone at the top."**

**Throughout our audit work we noted that the project staff were untrained for and unfamiliar with the specialized accounting and operational aspects of the USAID/Egypt project management, no one took overall effective control of the execution of PIL No. 90, and the WRC was unprepared to carry out all of its responsibilities under PIL No. 90 due to lack of preparation at the initiation of the project.**

#### **Recommendation 2**

**We recommend that the WRC establish a comprehensive training and information program for all relevant employees dealing with USAID/Egypt funds and other project requirements.**

**\* \* \* \* \***

#### **3. WRC does not exercise control over USAID/Egypt funded assets.**

**A sound internal control system would necessarily require that assets are properly accounted for and safeguarded against loss from unauthorized use or disposition.**



WRC has no control structure in place to provide sufficient safeguarding over USAID/Egypt funded assets. Specifically, the fixed asset register does not identify assets with serial numbers, contains numerous amounts not of a capital nature (sand, chemicals, ink), and does not include all capital purchases. In addition, no physical counts were made of USAID/Egypt assets to reconcile the contents of the register with assets actually held. Lack of such controls may result in loss to the project through theft or misplacement.

#### Recommendation 3

We recommend that the WRC implement procedures to ensure that all USAID/Egypt funded assets are adequately controlled and accounted for. This would entail identifying all USAID/Egypt funded assets and keeping record of their location in the fixed asset register. Periodic physical counts of USAID/Egypt funded assets should be performed by persons independent of the custody of the assets to ensure that items listed at each location are properly maintained and safeguarded.

\* \* \* \* \*

#### 4. Commingling of PIL No. 90 funds with other PILs.

We found that the same bank accounts were used for four different PILs of which the WRC was a beneficiary -PILs 90, 95, 112 and 134. Commingling of funds leads to a loss of control over PIL assets, and occurred because WRC staff were not aware of the weaknesses likely to be caused.

#### Recommendation 4

A separate bank account should be opened for each PIL and used exclusively for the purposes of that PIL.

\* \* \* \* \*

We also 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 judgement, could adversely effect the organization's ability to record, process, or 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

##### 1. Inadequate controls exist over the receipt of and payment for goods and services

We found a number of instances where expenditures had no documentation in the form of receiving reports to support them as received by WRC. We also found that WRC does not perform a check to ensure that goods received are those ordered. Lack of controls such as these could cause WRC to pay for goods or services not requested or received.

#### Recommendation 1

We recommend that a copy of the purchase order be sent, with no quantities, to the warehouse. When goods arrive, they should be counted and the amounts inserted on this slip which should then be sent to the accounting department to be matched with the purchase order and the invoice from the supplier. In this way, WRC could ensure that only goods requested and received are paid for.

\* \* \* \* \*



**2. Procurement of goods is executed in an inefficient manner.**

Institutes do not review their requirements for supplies and procure such supplies in bulk. Significant cost and efficiency savings could be made by co-ordinating all the institutes' procurement functions, inviting tenders and selecting lowest bids.

**Recommendation 2**

We recommend that the WRC establish a centralized procurement function and order goods in bulk, monthly or quarterly, on the basis of requirements of the individual institutes for the period. Such a function would obtain significant cost savings for the institutes as discounts would lower the unit costs of goods.

\* \* \* \* \*

**3. Inconsistent accounting records are maintained.**

Following disallowed expenses of LE 10,238 in April 1992, the cumulative billings figures were adjusted, but not the individual month's figures. Thus, the cumulative billings on the billing and disbursements records does not agree with the individual monthly billings when totalled. Such an inadequacy in the accounting records of the project leads to a loss of control over the project as a whole. We also found no evidence of senior level review of the accounting records.

**Recommendation 3**

More attention should be paid to the preparation of accounting records, and the work of the PIL No. 90 accountant should be more closely reviewed by senior management.

\* \* \* \* \*

**4. Inadequate controls exist over safeguarding WRC's computer.**

A sound internal control system would require that management apply safeguards over access to an EDP system. No password is required to access information held on the computer regarding PIL No. 90, increasing the possibility of unauthorized access to and manipulation of data stored.

**Recommendation 4**

We recommend that adequate controls, including but not limited to passwords be established over access to data stored on computer.

\* \* \* \* \*

**5. No accounting manual is used by the WRC for their accounting of PIL No. 90 funds.**

No accounting manual is in place to govern accounting and reporting of PIL No. 90 activities. Establishment of a comprehensive accounting manual would assist in preparation of accounts and compliance with USAID/Egypt and Government of Egypt regulations.



#### **Recommendation 5**

**We recommend that WRC develop a comprehensive accounting manual, including important points in the agreement with USAID/Egypt to be complied with and accounting controls that are to be put into operation to ensure safeguarding of assets and compliance with the terms of the agreement.**

**\* \* \* \* \***

#### **6. Prenumbered receiving reports are not used.**

**Prenumbered receiving reports are not used when goods entered WRC custody. Use of prenumbered reports is a control that ensures that records of goods held are complete and up to date. Not using prenumbered receiving reports reduces the reliability of the accounting records.**

#### **Recommendation 6**

**We recommend that prenumbered receiving reports be completed for all goods received into WRC custody.**

**\* \* \* \* \***

**This report is intended for the information of WRC 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.**

*Pricewaterhouse*

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**REPORT OF INDEPENDENT ACCOUNTANTS  
ON COMPLIANCE WITH LAWS AND REGULATIONS**

June 8, 1994

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

We have audited the fund accountability statement of project costs incurred by the Water Research Center ("WRC") under the Project Implementation Letter ("PIL") No. 90 related to the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Irrigation Management Systems ("IMS") Project No. 263-0132 funded by USAID/Egypt during the period from January 14, 1988 through June 30, 1993, and have issued our report thereon dated June 8, 1994.

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 33 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 and firms.

Compliance with laws, regulations, contracts and grants applicable to the WRC project is the responsibility of WRC management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of WRC's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the fund accountability statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in laws, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The result of our tests of compliance disclosed the following materials instances of noncompliance, the effect of which are included as questioned costs in the fund accountability statement of WRC for the period from January 14, 1988 through June 30, 1993.



**1. We found many instances where WRC did not follow proper procurement procedures.**

The Project Grant Agreement, Section 4.2 (c), states that "...the grantee will use standard Government of Egypt procurement procedures." Standard Government of Egypt procurement procedures, as expressed in Law No. 9, state that for procurements of greater than LE 2,000 sealed bids must be invited, the bids opened, examined by a decision making committee and the lowest bid accepted. In the absence of any criteria (e.g. detailed annual budgets, competitive bids, etc) on expenditure on such purchased items, we are unable to determine the portion of questionable costs.

In our audit sample we found twenty eight instances of non compliance with Law No. 9., with a total expenditure of LE 143,056 (\$ 50,020 at an exchange rate of \$ 1 = LE 2.86). We have included a material weakness regarding this matter in our report on the Internal Control Structure.

**Recommendation 1**

We recommend that WRC comply with the terms of the agreement and follow Law No. 9 procurement procedures.

\* \* \* \* \*

**2. Inadequate books and records are maintained.**

The Project Grant Agreement Standard Provision B.5 (b) states that "the grantee will maintain, or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records related to the project and this agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the grant."

The details of the questioned costs related to \$ 11,987 of unsupported costs are identified in audit findings in the accompanying "fund accountability statement" section of this report.

**Recommendation 2**

We recommend that the WRC comply with the terms of the Project Grant Agreement and maintain adequate books and records sufficient to show, without limitation, the receipt and use goods and services acquired under the grant.

\* \* \* \* \*

**3. Lack of a separate bank account for the government of Egypt's contribution to the project.**

Section 5.11 of the first amendment to the Project Grant Agreement, dated August 29, 1984 states that "the Ministry of Irrigation shall establish a separate special account in Egyptian pounds for each of the continuing and new project components. These accounts will constitute the Government of Egypt's contribution for operating costs and will be operated by the respective Project Directors". Under PIL No. 90, there are budgeted Government of Egypt contributions to the In-Country Training, Maintenance and Operating Costs and Other Support Costs line items. There is no special account in Egyptian pounds held by the WRC to deal with government of Egypt contribution to these line items.



### **Recommendation 3**

**We recommend that the WRC comply with the terms of the Project Grant Agreement and open a special account to deal with Government of Egypt contributions to the operating costs of PIL No. 90.**

\* \* \* \* \*

**We considered these material instances of noncompliance in forming our opinion on whether the fund accountability statement referred to above is presented fairly, in all material respects in accordance with the terms of the agreements and in conformity with the basis of accounting described in Note 3 to the fund accountability statement, and this report does not affect our report on the fund accountability statement dated June 8, 1994.**

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

**We noted certain immaterial instances of noncompliance that we have reported to the management of WRC in as separate letter dated June 8, 1994.**

**This report is intended for the information of WRC 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.**

*Pricewaterhouse*

**WATER RESEARCH CENTER**

**APPENDIX A**

**PROJECT IMPLEMENTATION LETTER NO. 90  
UNDER THE IRRIGATION MANAGEMENT SYSTEMS  
PROJECT NO. 263-0132**

**FUND ACCOUNTABILITY STATEMENT  
EXPRESSED IN EGYPTIAN POUNDS  
CASH DISBURSEMENT BASIS  
FOR THE PERIOD FROM JANUARY 14, 1988  
THROUGH JUNE 30, 1993**

	<u>Budget</u>	<u>Actual</u>	<u>Reclassification</u>	<u>Questioned Costs</u> <u>Ineligible</u> <u>Unsupported</u>	<u>Appendix B</u> <u>Finding</u>
<b>Net USAID/Egypt Revenues</b>		<b>LE 3,567,473</b>			
<b>Expenditures:</b>					
<b>In-Country Training</b>	LE 171,645	106,187	LE (36,129)	LE -      LE 2,800	Item A, Pg. 1
<b>Library Materials and Books</b>	62,611	58,914	8,584	-	
<b>Equipment and Office Facilities</b>	390,628	381,807	(5,549)	13,014	Item B, Pg. 1
<b>Laboratory Equipment</b>	82,290	82,203	86,427	199	Item C, Pg. 2
<b>Furniture</b>	474,893	441,014	(1,921)	-	Item D, Pg. 2
<b>Local Support Staff</b>	283,533	208,924	50	7,765	Item E, Pg. 3
<b>Travel and Per Diem</b>	430,548	417,176	(4,928)	1,723	Item F, Pg. 3
<b>Communications</b>	148,362	120,573	(46,103)	2,603	Item G, Pg. 4
<b>Maintenance and Operating Costs</b>	1,015,998	912,593	24,634	5,123	31,485
<b>Office Supplies</b>	294,232	191,148	(35,216)	276	Item H, Pg. 4
<b>Other Support Costs</b>	358,303	252,869	10,151	14,983	Item I, Pg. 6
<b>Specific Research</b>	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	Item J, Pg. 6
<b>Totals</b>	<b>LE <u>3,913,043</u></b>	<b>LE <u>3,173,408</u></b>	<b><u>-</u></b>	<b>LE <u>45,686</u>      LE <u>34,285</u></b>	

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**WATER RESEARCH CENTER  
PROJECT IMPLEMENTATION LETTER NO. 90  
RELATED TO THE IRRIGATION MANAGEMENT SYSTEMS  
PROJECT NO. 263-0132**

**ADDITIONAL INFORMATION**

**QUESTIONED COSTS  
DETAIL OF AMOUNTS  
AS INCURRED IN EGYPTIAN POUNDS**

**FOR THE PERIOD FROM JANUARY 14, 1988 THROUGH JUNE 30, 1993**

<u>Item Description</u>	<u>Converted to US \$</u>	<u>Questioned Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
<b>A. In-Country Training:</b>			
(1) Costs of training courses unsupported with names and reasons for taking the course to prove allocability to the PIL.			
<u>Institute</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>
Drainage	08/15/88	28779	LE 2,000
Drainage	08/15/88	28779	800
			Zagazig University
		<u>LE 2,800</u>	
	\$	<u>979</u>	LE <u>-</u>
			LE <u>2,800</u>
<b>Total In-Country Training</b>	<u>979</u>	<u>-</u>	<u>2,800</u>
<b>B. Equipment and Office Facilities:</b>			
(1) In February 1993, the Soil Mechanics Institutes purchased a vacuum cleaner for LE 1,650. They had previously received an offer for a vacuum cleaner that would have been adequate for their purposes for LE 785. The difference of LE 865 has been questioned.			
	302	865	-
(2) Expenditures were made for the following items which were not related to the project's objectives. Such expenditures should be made from GOE funds.			
<u>Institute</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>
Weed Control	08/03/88	28775	LE 547
Hydraulics	04/04/90	12219	1,880
Hydraulics	04/04/90	12219	546
Hydraulics	04/04/90	12219	230
Hydraulics	04/04/90	12219	112
Hydraulics	04/04/90	12219	120
Coastal Protection	11/30/91	980179	848
Soil Mechanics	Feb./93	132473	1,122
		<u>LE 5,405</u>	
	1,890	5,405	-

Converted to  
US \$

Questioned Costs  
Ineligible      Unsupported

Item Description

**B. Equipment and Office Facilities (Cont.):**

(3) Consumption and sales taxes. The project grant agreement section B.4 (a) states that "the grant will be free from any taxation or fees imposed under laws in effect in the territory of the grantee."

<u>Institute</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>
Survey	03/26/90	12218	LE 354
Water Distribution	06/08/91	980174	7
Research Services	05/31/92	1132466	1,069
Mechanical	05/31/92	1132459	884
Coastal Protection	05/31/92	1132453	<u>602</u>
			LE <u>2,916</u>

\$ 1,020LE      2,916      LE -

(4) Amounts relating to WRC rest houses. Expenses on rest houses had been previously disallowed by USAID/Egypt in letters dated August 18, 1988, January 3, 1989, January 12, 1989 and February 7, 1989.

<u>Institute</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>
Soil Mechanics	08/15/88	28778	LE 1,250
Soil Mechanics	08/15/88	28778	898
Soil Mechanics	08/15/88	28778	320
Soil Mechanics	08/15/88	28778	204
Soil Mechanics	08/15/88	28778	475
Soil Mechanics	08/15/88	28778	290
Soil Mechanics	08/15/88	28778	133
Soil Mechanics	08/15/88	28778	<u>258</u>
			LE <u>3,828</u>

1,338      3,828      -

**Total Equipment and Office Facilities**

4,550      13,014      -

**C. Laboratory Equipment:**

(1) Sales tax paid on a purchase. The project grant agreement section B.4 (a) states that "the grant will be free from any taxation or fees imposed under laws in effect in the territory of the grantee."

<u>Institute</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>
Coastal Protection	02/03/92	1132453	LE 199

70      199      -

**Total Laboratory Equipment**

70      199      -

**D. Furniture:**

(1) Based upon WRC management comments received subsequent to the issuance of the draft report, this finding has been removed.

-      -      -

**Total Furniture**

-      -      -



Converted to  
US \$      Questioned Costs  
Ineligible      Unsupported

**Item Description**

**F. Travel and Per Diem (Cont.):**

- (5) Costs of visas to Germany and Italy for WRC employees. Travel outside of Egypt is not allocable to PIL No. 90.

<u>Institute</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>				
Coastal Protection	11/30/89	1132490	LE 238				
Coastal Protection	11/30/89	1132490	<u>96</u>				
			LE <u>334</u>	\$	<u>117</u>	\$	<u>334</u>
						\$	<u>0</u>
<b>Total Travel and Per Diem</b>					<u>602</u>		<u>1,723</u>
							<u>0</u>

**G. Communications:**

- (1) Sales taxes and a deposit with the GOE telephone company. The project grant agreement section B.4 (a) states that "the grant will be free from any taxation or fees imposed under laws in effect in the territory of the grantee". In addition, deposits are refundable to WRC and therefore do not currently represent a reimbursable project cost.

<u>Institute</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>	<u>Description</u>			
Weed Control	06/15/89	28799	LE 2,500	Deposit			
Weed Control	06/15/89	28799	4	Sales tax			
Weed Control	06/15/89	28799	11	Sales tax			
Survey	04/30/92	1132458	54	Sales tax			
Drainage	05/31/93	106608	23	Sales tax			
Water Distribution	06/09/93	106638	<u>11</u>	Sales tax			
			LE <u>2,603</u>				
					<u>910</u>		<u>2,603</u>
							<u>0</u>
<b>Total Communications</b>					<u>910</u>		<u>2,603</u>
							<u>0</u>

**H. Maintenance and Operating Expenses:**

(1) Customs and road taxes (tolls). The project grant agreement, Amendment # 7 section 5.18 (a) dated July 3, 1991 states "to the extent that... any transaction financed under the grant is not exempt from identifiable taxes, tariffs, duties or other levies (including social security assessments) imposed under laws in effect in the Arab Republic of Egypt, MPWWR shall, unless otherwise expressly provided in Project Implementation Letter pay or reimburse the same with funds other than those provided under the grant".	155	443	0
(2) Based on WRC management's comments received subsequent to the issuance of the draft report, this finding has been removed.	<u>0</u>	<u>0</u>	<u>0</u>
(3) Amounts for which no vehicle number was identified. As a result, we were not able to determine if the work was allocable to PIL No. 90.	10,938	0	31,284

Converted to  
US \$      Questioned Costs  
Ineligible      Unsupported

**Item Description**

**H. Maintenance and Operating Expenses (Cont.):**

- (4) Renovation and construction costs on the Qanatir building in the course of 1991 due to the building being accepted in an unsatisfactory state. Construction of the Qanatir building was a GOE responsibility.

<u>Institute</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>	<u>Description</u>				
Water Distribution	05/31/91	980160	LE 1,000	Painting of Entrance				
Mechanical	05/31/91	12334	800	Wooden Frame				
Mechanical	05/31/91	12334	578	Painting				
Drainage	06/08/91	980163	550	Elevator Fixing				
Weed Control	06/09/91	980165	<u>1,232</u>	Painting				
			LE <u>4,160</u>		\$	1,455	LE 4,160	LE -

- (5) Government taxes, licensing fees, customs clearance and administrative fees. The project grant agreement section B.4 (a) states that "the grant will be free from any taxation or fees imported under laws in effect in the territory of the grantee."

<u>Institute</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>	<u>Description</u>				
Water Distribution	03/26/90	12215	LE 18	Licensing exp.				
Water Distribution	03/26/90	12215	17	Licensing exp.				
Water Distribution	03/26/90	12215	18	Licensing exp.				
Water Distribution	03/26/90	12215	18	Licensing exp.				
Hydraulics	07/11/90	12227	177	Admin. Fees				
Hydraulics	07/11/90	12227	32	Customs				
Hydraulics	08/31/91	980175	176	Licensing exp.				
Hydraulics	08/31/91	980175	16	Licensing exp.				
Hydraulics	08/31/91	980175	31	Licensing exp.				
Water Distribution	12/31/91	980200	6	Sales Tax				
Survey	09/30/92	1132476	<u>11</u>	Sales Tax				
			LE <u>520</u>			182	520	-

- (6) A bid for a service was received by the Soil Mechanics Institute for LE 485. However, another contractor was chosen for a price of LE 686, with no reason documented, which was billed in December 1988. Under Standard Provision C.4 of the Project Grant Agreement "no more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the grant."

<u>70</u>	<u>-</u>	<u>201</u>
<b><u>12,800</u></b>	<b><u>5,123</u></b>	<b><u>31,485</u></b>

**Total Maintenance and Operating Expenses**

27

Converted to  
US \$      Questioned Costs  
Ineligible      Unsupported

Item Description

**L. Office Supplies:**

(1) Based on WRC management's comments received subsequent to the issuance of the draft report, this finding has been removed.

\$      -      LE      -      LE      -

(2) Sales taxes on purchases. The project grant agreement section 8.4 (a) states that "the grant will be free from any taxation or fees imposed under laws in effect in the territory of the grantee."

<u>Institute</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>
Coastal Protection	11/30/91	980179	LE 71
Coastal Protection	11/30/91	980179	15
Coastal Protection	11/30/91	980179	9
Coastal Protection	11/30/91	980179	11
Coastal Protection	09/30/92	1132477	23
Coastal Protection	09/30/92	1132477	23
Coastal Protection	09/30/92	1132477	43
Coastal Protection	09/30/92	1132477	9
Water Distribution	09/30/92	1132479	13
Water Distribution	09/30/92	1132479	12
Drainage	12/31/92	1132496	20
Drainage	12/31/92	1132496	27
			LE 276

97      276      -

**Total Office Supplies**

97      276      -

**J. Other Support Costs:**

(1) GOE taxes, fines, license fees and customs. The project grant agreement, Amendment # 7 section 5.18 (a) dated July 3, 1991 states "to the extent that... any transaction financed under the grant is not exempt from identifiable taxes, tariffs, duties or other levies (including social security assessments) imposed under laws in effect in the Arab Republic of Egypt, MPWWR shall, unless otherwise expressly provided in Project Implementation Letter pay or reimburse the same with funds other than those provided under the grant".

<u>Institute</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>
Weed Control	03/07/88	28752	LE 65
Weed Control	03/07/88	28752	5
Water Distribution	03/07/88	28753	5
Water Distribution	03/07/88	28753	14
Water Distribution	03/07/88	28753	51
Water Distribution	03/07/88	28753	16
Water Distribution	03/07/88	28753	28
High Aswan Dam	03/15/88	28756	5
Hydraulics	05/22/88	28766	9
Water Distribution	06/20/88	28771	60
Survey	05/28/89	12207	50
Weed Control	08/08/89	28799	3
Water Distribution	03/26/90	12215	17
			LE 328

115      328      -

<u>Item Description</u>	<u>Converted to</u> <u>US \$</u>	<u>Questioned Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
<b>J. Other Support Costs (Cont.)</b>			
(2) Meals and entertainment expenses which do not further the aims of the project.			
<u>Institute</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>
Weed Control	03/07/88	28752	LE 199
Weed Control	03/07/88	28752	57
Water Distribution	03/07/88	28753	70
			LE 326
	\$	114	LE 326
			LE -
(3) Expenses on WRC's Shoubra building. The Shoubra building is the subject of another PIL, so the expenses are not allocable to PIL No. 90.			
<u>Institute</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>
Main Office	06/30/93	106630	LE 7,139
Main Office	05/30/93	106620	6,631
			<u>13,770</u>
	4,815	13,770	-
(4) Amounts spent on photoframes, vases and flower pots which do not further the aims of the project.			
<u>Institute</u>	<u>Date</u>	<u>Check #</u>	<u>Amount</u>
Water Distribution	08/15/89	28797	LE 154
Drainage	09/30/92	1132482	195
Research Services	06/30/93	106637	210
			LE 559
	<u>195</u>	<u>559</u>	<u>-</u>
<b>Total Other Support Costs</b>	<u>5,239</u>	<u>14,983</u>	<u>-</u>
<b>TOTAL QUESTIONED COSTS</b>	\$ <u>27,962</u>	LE <u>45,686</u>	LE <u>34,285</u>

WATER RESEARCH CENTER  
MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

WATER RESEARCH CENTER  
PROJECT IMPLEMENTATION LETTER NUMBER 90  
UNDER THE USAID/EGYPT  
IRRIGATION MANAGEMENT SYSTEMS  
PROJECT NO. 263-0132

MANAGEMENT RESPONSE TO  
THE PRICE WATERHOUSE AUDIT  
FOR THE PERIOD FROM JANUARY 14, 1988  
THROUGH JUNE 30, 1993

WATER RESEARCH CENTER  
MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

**WRC**

**WATER RESEARCH CENTER**

وزارة الأشغال العامة والاسكان  
مركز البحوث المائية

22 El-Galaa St., Suleia  
11811, Cairo, Egypt  
Tel: 780474  
Telex: 20275 WRCIM  
FAX: 773878

WRC

26 OCT 1994

File No. 57

شارع الحلاء - سولاق .  
11811 - القاهرة - مصر .  
تليفون : ٧٦٠٤٧٤  
WRCUN P. EGY  
فاكس : ٧٧٣٨٧٨

October 25, 1994

Mr. Jim Modzelewski  
Partner - Price Waterhouse  
4 Road 261  
New Maadi, Cairo, Egypt

Dear Mr. Modzelewski:

We are pleased to provide you with the Water Research Center Project Management's response to the Audit performed by Price Waterhouse, on the Project Implementation Letter No 90 under the Irrigation Management Systems Project No. 263-0132 funded by USAID/Egypt for the period from January 14, 1988 through June 30, 1993. You will find attached our management response along with 5 annexes containing supporting documentation.

Sincerely Yours,

*Mahmoud Abu-Zeid*  
Mahmoud Abu-Zeid  
Chairman

cc: Mr. Philippe Darcy, USAID/RIG/A

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**WATER RESEARCH CENTER  
MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT**

WATER RESEARCH CENTER

PROJECT IMPLEMENTATION LETTER NUMBER 90  
UNDER THE USAID/EGYPT  
IRRIGATION MANAGEMENT SYSTEMS  
PROJECT NO. 263-0132

MANAGEMENT RESPONSE TO  
THE PRICE WATERHOUSE AUDIT  
FOR THE PERIOD FROM JANUARY 14, 1988  
THROUGH JUNE 30, 1993

Many aspects of accountability, internal control, efficiency, effectiveness as well as achieving project objectives must be considered when managing development projects financed by many donors as well as the Egyptian government.

We are very aware that internal control and proper accountability are an important aspect of the management of such projects. If projects were integrated into the governmental accounting and control system they would be controlled significantly more. However, operationally things would slow down so much that project objectives would probably not be accomplished on a timely basis.

As with any profit making business, WRC must weigh the costs of administration and perfect internal control with the cost of the services being provided. The more controls there are the more the administrative costs increase and the cost/efficiency balance may become unbalanced.

You will note that even though the auditors question cost allowability based on supporting documentation and their interpretation of what should be allowed under the PIL, they found no indication of the misuse of USAID funds.

Supporting documentation has subsequently been provided for most unsupported costs. This is may be an indication of a need for a better filing system or lack of communication when the auditors were performing their audit.

As we reviewed the Internal Control Weaknesses set forth by the Auditors we can agree with most of their recommendations, but in several instances the cost of implementing their suggestions would outweigh the benefit. In other instances, their recommendations are not realistic and would be impossible to implement.

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**WATER RESEARCH CENTER  
MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT**

The material weaknesses and reportable conditions basically fall into 3 areas most development organizations find most challenging. 1. Procurement; 2. Inventory Control; 3. The Accounting and budgeting system. Each of these areas, to function in accordance with the requirements of ideal internal control, require significant administrative support which most donors underestimate significantly. When financing agencies require separate accountability for each activity and a related set of policies and procedures that meet their individual requirements it becomes a major project to keep track of it all.

The audit of one activity (PIL) that is only a very small part of the big picture does not provide auditors with the necessary background to make sweeping conclusion about the overall entity.

We are constantly trying to improve our internal control and the efficiency of undertaking our operational mandate.

It should also be noted that the PIL 90 that was audited expired September 30, 1994.

Following is our response to the questioned costs:

**QUESTIONED COSTS:**

**A. In-Country Training:**

(1) See Annex 1 for supporting documentation.

**B. Equipment and Office Facilities:**

(1) The vacuum purchased by the Soil Mechanics Institute for LE 1650 was a heavier duty unit with additional attachments necessary to do a complete cleaning of Institute facilities. The lesser priced vacuum although functional, and possibly useful for a small apartment, was judged to be inadequate for the needs of the institute.

(2) Most management schools consider employee moral and working conditions to be extremely important and necessary for productivity and job satisfaction. Clean and moderately decorated office facilities are reasonable and necessary cost of doing business. It is also important that employees be comfortable. When it is cold, what employer would not provide heaters for their employees? Considering the questioned items to be ineligible is totally unreasonable. I am sure USAID and Price Waterhouse employees have the benefit of wall clocks, cleaning, plants, pictures, heating and cooling, etc.

**WATER RESEARCH CENTER  
MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT**

The second vacuum cleaner for two institutes is well justified by the size and layout of their facilities.

(3) Regarding consumption and sales taxes, the project did not receive an exemption certificate from the sales tax authority until Sept. 23, 1992 after being provided with a letter from USAID informing the sales tax commission that the project is exempt and that an exemption should be provided. Sales taxes prior to this date should not be disallowed.

(4) The 3,828 LE questioned here for expenses relating to guest house is not correct. Of the expenses questioned only 898 LE related to a guest house. The other items were:

1,250 LE	Lumber for Institute probing works
320 LE	Lumber
204 LE	Lab Electric supplies
475 LE	Fans for 3 different Institute rooms
290 LE	Safe
133 LE	Electrical cable of lab
<u>258 LE</u>	Glass for desk tops
2,930 LE	

It should also be noted that not all expenses relating to guest houses had been disallowed by USAID.

PIL 90 was established to assist WRC with reasonable and necessary costs of doing business as allowed by AID Handbook 11, Chapter four. Maintaining guest houses in remote areas is a reasonable, necessary and efficient practice. If expenses related to maintaining guest hoses is not going to be allowed as a reasonable and necessary cost of doing business, please provide justification. The argument that it was not specifically mentioned in the PIL is not acceptable. It was not specifically disallowed either.

Also, anyone familiar with the AID process knows that line items established for budget purposes are general in nature and are not meant to identify every conceivable cost of doing business that may arise. It is unfortunate that projects have to wait till an audit to determine what costs are or are not allowable. It would be much more efficient and less costly from an audit standpoint if AID would, in the beginning, state which costs are not going to be allowed rather than waiting years in many cases to let people interpret the intentions of managers long gone.

**C. Laboratory Equipment:**

(1) The expenditure was made prior to USAID providing the necessary letter to the project enabling it to obtain the sales tax exemption.

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**WATER RESEARCH CENTER  
MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT**

**D. Furniture:**

- (1) Invoice has been provided for the 7,000 LE expenditure.  
See Annex 2.

**E. Local Support Staff:**

- (1) The auditors finding misrepresents the Grant Agreement Amendment =7. Section 5.18 in question clearly excepts Egyptian employees from the provision. This article talks about Egyptian social security charged on any expatriate employee's wages paid by the project "not citizens or permanent residents of the Arab Republic of Egypt". We are convinced that it is not the intent of the amendment, as it was originally written, to exempt the project from the payment of Social Security benefits allowed by AID Handbook 11, Chapter 4 A4.4.b. Under Egyptian Law every employer must provide their Egyptian employees with social security benefits.

The 7,765 LE questioned as ineligible are in fact eligible under AID handbook and the Project Grant Agreement provisions.

- (2) See Annex 3 for supporting documentation.

**F. Travel and Per Diem:**

- (1) See Annex 4 for supporting documentation.

(2) Several trips were found necessary to accomplish urgent matters related to equipment transfer and clearance.

(3) These expenses are reasonable and necessary costs of doing business and are therefor allowable.

(4) The 352 LE questioned is and employee benefit and would be more appropriately allocable to the salaries and benefit line item. This should be a reallocation not a disallowance.

(5) The visas questioned were obtained in Cairo and are therefor considered a local expense and are in fact allocable to PIL 90.

**G. Communications:**

- (1) The 2,500 LE amount that was called a deposit should have been called a down payment or advance payment so as not to confuse the auditors. It was the initial payment toward the purchase of a telephone line not a refundable deposit. Invoices are provided documenting this transaction.

Only two of the items questioned were after the date WRC received the sales tax exemption (see B.3 for detailed explanation) which we agree should not be a project expense.

Check = 106638	6/9/93	11 LE
Check = 106608	5/31/93	23 LE
		34 LE

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**WATER RESEARCH CENTER  
MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT**

**H. Maintenance and Operating Expenses:**

(1) The audit report does not provide enough information to allow us to provide a specific response. If this relates to tolls at toll booths, these are user fees not blanket taxes or customs duties.

(2) Fire extinguishers in vehicles, whether new or old is a road safety law which is not remotely related to the purchase of a vehicle. Each year when a vehicles registration is renewed it is necessary to have a charged functioning fire extinguisher. A fire extinguisher is a reasonable and necessary cost of operating a vehicle in Egypt and is in fact allocable to PIL 90.

(3) See Annex 5 for supporting documentation.

(4) The building at Qanatir was completed in June of 1986. Painting and maintenance after 5 years is in fact maintenance. In addition the budget of amendment 3 to PIL 90 specifically provided 48,000 LE for renovation costs even though the questioned costs would not really fall under this category. One of AID's concerns is maintenance of equipment and facilities, which in this case is what WRC was doing. The facilities being maintained are WRC facilities. The 4,160 LE questioned is, in our opinion, a reasonable and eligible cost under PIL 90.

(5) The 17 LE sales tax question was paid before the project received the tax exoneration (see B.3 for detailed explanation).

Regarding the administration and licensing expenses, these are reasonable and necessary expenses which we are sure even USAID pays. These expenses should be allowed.

(6) Regarding the amount of 686 L.E., the bid for the supply of spare parts for vehicle no.24275 was accepted, yet, when the spare parts were inspected by the responsible person, it was found that all offers for the required spare parts were not matching with the technical specifications. Hence, the Committee recommended that all spare parts be purchased by the responsible institute mechanic. Moreover, the 686 L.E. included the purchase of additional items needed during the maintenance operation, which were not originally included in the original offer.

**I. Office Supplies:**

(1) The questioned bags are used by the project for carrying documents of the project. Leather is much more durable and longer lasting than plastic. The cost of 280 LE for two bags, indicates that they could not be too luxurious, but would indicate higher quality. And since when did quality become a none allowable cost under USAID financing. The bags are being used for project business and should be allowed.

WATER RESEARCH CENTER  
MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

(2) Sales tax paid after September 28, 1992 should not be chargeable to the project. This amounts to 170 LE. WRC should pay this amount.

**J. Other Support Costs:**

(1) Customs fees and fines will be billed to the institutes and should not be a pil 90 expense.

(2) This represents the cost of lunch bags offered during working field trips.

(3) PIL 90 does not preclude Shoubra building expenses. It is a part of WRC.

(4) Expenses questioned under are reasonable business expenses (see B.2 for justification)

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**WATER RESEARCH CENTER  
INDEPENDENT ACCOUNTANTS' RESPONSE**

The Water Research center (WRC) management provided comments relating to the Price Waterhouse draft audit report presented at the exit conference held on September 18, 1994. WRC management's comments are included, unedited, in Appendix C to this report. In response to their comments we reviewed additional supporting documents provided by them. Where applicable, we either adjusted the final audit report or clarified our position relating to items discussed in WRC management's comments. Please note that our response sequence below parallels our audit report's finding and WRC management's comments.

**A. In-Country Training:**

- 1) WRC management provided documents to support the questioned amounts. However, we do not accept them as valid support as they correspond to two different amounts based on the check numbers. The questioned amounts were paid by checks # 28779, while the support provided shows two different checks # 155420 and # 159627 drawn on Misr Iran Development Bank. This bank is not one of WRC official banks noted during our audit. Thus, our position remains unchanged.

**Note**

We have been informed by WRC management that all institutes do not have special bank accounts opened for USAID/Egypt funds.

**B. Equipment and Office Facilities:**

- 1) WRC management claims that the Soil Mechanics institute purchased a heavier duty vacuum to be able to do a complete cleaning of institute facilities. However, we believe that they would still reach the same results using a smaller size vacuum. In addition, similar institutes also purchased vacuums at lower prices, such as Water Resources Research Institute for LE 519 and Hydraulics Research Institute for LE 546. Therefore our position remains the same.
- 2) We believe that employee moral and working conditions are extremely important for doing business. However, purchasing such luxury items should be made from the GOE contribution to the project and not charged to USAID. In addition, we did not consider these purchases as capital support and technical assistance to improve the capabilities of MOI, as stated in the project description of the Grant Agreement Annex 1. Consequently, our position remains unchanged.
- 3) According to the project Grant Agreement Annex 2, Article B, section B.4, this agreement and the grant will be free from any taxation or fees imposed under laws in effect in the territory of the grantee and will pay or reimburse them with funds other than those provided under the grant. To stress this regulation, it has been mentioned several times; in amendment six section 5.18 and also in amendment seven section 5.18.

Even though the exemption certificate from the sales tax authority was received late, it does not exempt the project from complying with the agreement terms. However, an adjustment should have been made to refund USAID/Egypt with the disbursed taxes before receiving the certificate. Therefore, our position remains unchanged.

**WATER RESEARCH CENTER**  
**INDEPENDENT ACCOUNTANTS' RESPONSE**

- 4) Our records show that all these expenditures were spent on WRC rest houses, moreover, as previously mentioned in our report, such expenses had been previously disallowed by USAID/Egypt. Based upon our review, we still question the amounts, and USAID/Egypt officials should determine its allowability. Therefore, our position remains unchanged.

**C. Laboratory Equipment:**

- 1) Please refer to our comments at P.3 of this response.

**D. Furniture:**

- 1) We have reviewed WRC management comments and supporting documentation, and have removed the questioned cost from our final report. Finding is closed.

**E. Local Support Staff:**

- 1) Section 5.18 (a) of amendment No. 7 is to amend the original grant agreement Annex 2, Section B.4 (b). It does not discuss expatriate employee's wages, it includes all wages for all employees working under laws in effect in the A.R.E. It is very clear that the grantee will pay or reimburse such payments from funds other than those provided under the grant. Moreover, referring to AID Handbook 11, Chapter 4 A4.4.b., is not relevant to this matter, as it is clear in the original grant agreement that disbursements of such payments are not allowed. Therefore, our position remains unchanged.
- 2) We have received WRC management's comments and supporting documents, and have removed the questioned cost amount from our final report. Finding is closed.

**F. Travel and Per Diem:**

- 1) We have reviewed WRC management comments and supporting documents, and have removed the questioned cost amounts from our final report. Finding is closed.
- 2) WRC management's comment did not properly address the actual reason for having excessive travelling; therefore, our position remains unchanged.
- 3) Originally, legal expenses and car licenses renewal are unallocable to the P/L; accordingly, these expenditures are unallocable. WRC management's response did not provide additional evidence to allow the expenditure. Our position remains unchanged.
- 4) This kind of employee benefit or incentive is not allowed according to the Grant Agreement Article 5, Section 5.5, as amended by amendment No. six section 5.5. This regulation states that the grantee agrees that it shall use funds other than Grant funds to pay incentives to grantee employees. WRC's management response is lacking adequate support about the terms of the agreement. Therefore, our position remains unchanged.

**WATER RESEARCH CENTER  
INDEPENDENT ACCOUNTANTS' RESPONSE**

5) Please refer to our comments at F.(3) of this response.

**G. Communications:**

1) Installing a telephone line should have been a GOE contribution to the project. Such payments are considered governmental tariffs or licenses that are unallowable according to the project grant agreement Annex 2, Section B.4 (b). Consequently, our position remains unchanged for the telephone line purchase.

For remaining question cost amounts refer to our response at B.3.

**H. Maintenance and Operating Expenses:**

- 1) Road Taxes (Tolls) in its very nature are considered governmental Tariffs. Therefore, please refer to our comments at G.(1) of this response.
- 2) We have received WRC management comments on this finding, and we agree to remove the questioned amount from our final report. Finding is closed.
- 3) WRC management provided documents that we determined to be insufficient to remove the questioned cost. It is not sufficient to merely photocopy the payment invoices and hand-write a vehicle number on it with no details of the vehicle origin. Therefore, our position remains unchanged.
- 4) WRC's records do not show any evidence that the Qanater building was completed in June 1986. In addition, we were told that the building was not received in a usable shape. Lastly, WRC management did not provide any documents supporting their claim. Thus, our position remains unchanged.
- 5) Please refer to our comments at B.3 of this response.
- 6) WRC management indicated in its response the reasons for choosing a higher bid. However, no adequate documentation was provided to support these reasons; thus, our position remains unchanged.

**L. Office Supplies:**

- 1) Based upon the support for purchasing these leather bags and WRC management's interpretation of the finding, we agree to remove the questioned amount from our final report. Finding is closed.
- 2) Please refer to our comments at B.3 of this response.

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**WATER RESEARCH CENTER  
INDEPENDENT ACCOUNTANTS' RESPONSE**

**J. Other Support Costs:**

- 1) WRC management agrees on refunding the questioned amount. Our position remains unchanged.
- 2) Meals and entertainment cost are not allowable per OMB circular A-122 Page 11. Therefore, our position remains unchanged.
- 3) USAID funding structure is based on different project implementation letters to allocate the agreed upon budgets. PIL 90 is for specific purposes, however, and does not cover Shoubra building expenses. Therefore, our position remains unchanged.
- 4) Please refer to our comments at B.2 of this response.

4/1

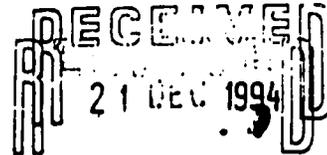


UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

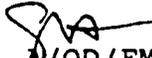
CAIRO, EGYPT

December 21, 1994

MEMORANDUM



**TO:** John Ottke, A/RIG/A/C

**FROM:** Syed Ali,  A/OD/FM/FA

**SUBJECT:** Audit of the Water Research Center (WRC) Project Implementation Letter (PIL) No. 90 Under the USAID/Egypt Irrigation Management Systems Project No. 263-0132 - Draft Report

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

**APPENDIX F****REPORT DISTRIBUTION****No. of Copies**

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