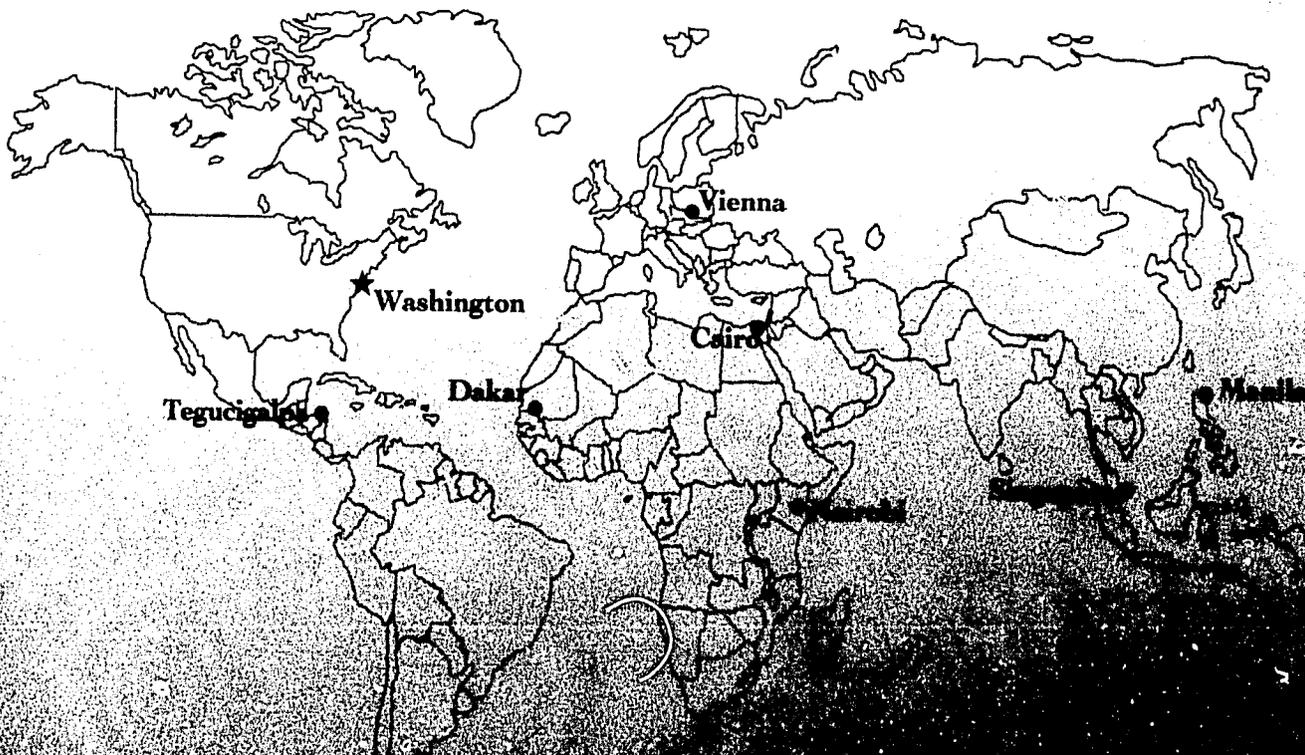


PD-ABK-480

Regional Inspector General for Audit
Cairo, Egypt

**Audit of the Ministry of Public Works and Water
Resources on Project Implementation Letter No. 5 for the
Professional Development Component of the USAID/Egypt
Irrigation Management Systems Project No. 263-0132**

**Report No. 6-263-95-011-N
February 12, 1995**



**INSPECTOR
GENERAL**

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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

February 12, 1995

MEMORANDUM FOR D/USAID/Egypt, John R. Westley
FROM : RIG/A/Cairo, Philippe L. Darcy
SUBJECT : Audit of the Ministry of Public Works and Water Resources on Project Implementation Letter No. 5 for the Professional Development Component of the USAID/Egypt Irrigation Management Systems Project No. 263-0132

The attached report, dated June 26, 1994, by Allied Accountants presents the results of a financial audit of the Ministry of Public Works and Water Resources (MPWWR). The audit concerns Project Implementation Letter (PIL) No. 5 for the Professional Development Component of the Irrigation Management Systems Project No. 263-0132. The component's objective is to develop and implement training programs for managers, engineers and technicians to strengthen the manpower pool and the manpower development system of MPWWR.

We engaged Allied Accountants to perform a financial audit of MPWWR incurred expenditures of \$2,249,808 (LE4,949,578) as of June 30, 1993. The purpose of the audit was to evaluate the propriety of costs incurred during that period. Allied Accountants also evaluated MPWWR's internal controls and compliance with applicable laws, regulations, and grant terms as necessary in forming an opinion regarding the Fund Accountability Statement. Allied Accountants disclaimed an opinion on the fund accountability statement because available documentation was inadequate to support a significant portion (73%) of the project's expenditures remitted by MPWWR.

Allied Accountants questioned \$1,075,349 (LE2,365,768) in costs billed to USAID by MPWWR. The questioned costs included subcontract services, commodities, and miscellaneous costs. The auditors also noted three material weaknesses in MPWWR's internal controls and four material instances of noncompliance.

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USAID-RIG/A/C Unit 64902
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Tel. Country Code (202)
357-3909
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#106, Kasr El Aini St.
Cairo Center Building
Garden City, Egypt

In response to the draft report, MPWWR provided documentation and/or gave more explanation to the questioned costs. However, no response was provided for the internal control and compliance findings. Allied Accountants reviewed MPWWR's response to the findings and where applicable, made adjustments to the report or provided further clarification of their position. We also reduced costs questioned from \$1,075,349 to \$288,186 based upon our review of additional supporting documentation which was made available by the Mission and its response to the audit report.

The following recommendation is included in the Office of the Inspector General's Recommendation Follow-up System.

Recommendation No. 1: We recommend that USAID/Egypt collect the sustained questioned costs of \$288,186 consisting of ineligible costs of \$45,825 and unsupported costs of \$242,361 detailed on page 10 through 30 of the audit report.

Based on the Mission response, we consider this recommendation resolved. The recommendation can be closed when the sustained amounts owed to USAID/Egypt are paid by MPWWR.

Recommendation No. 2: We recommend that USAID/Egypt require MPWWR to address the material internal control weaknesses detailed on pages 33 through 35 of the audit report.

This recommendation is considered unresolved and can be resolved when the Mission provides our office with a copy of its request that MPWWR address its material internal control weaknesses. This recommendation can be closed when RIG/A/C has assessed MPWWR'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 MPWWR.

Recommendation No. 3: We recommend that USAID/Egypt require MPWWR to address the material noncompliance issues detailed on pages 40 through 42 of the audit report.

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

Ministry of Public Works and Water Resources
Audit of Local Expenditures Under the
Irrigation Management Systems Grant
Agreement No. 263-0132
Professional Development Component

Project Implementation Letter No. 5

Fund Accountability Statement
And Additional Information
For the Period from January 20, 1982
to June 30, 1993

Ministry of Public Works and Water Resources

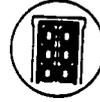
Audit of Local Expenditures Under the Irrigation Management Systems Grant Agreement No. 263-0132 Professional Development Component Project Implementation Letter No. 5

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ALLIED ACCOUNTANTS

Ragheb, Sherif, Istanbuli & El Kilany
A Member Firm of ARTHUR ANDERSEN & Co. SC
Public Accountants & Business Advisors
Fellows & Members of the Egyptian Society of Accountants & Auditors



المحاسبون المتضامنون

راغب ، شريف ، اسطنبولي والكيلاني
مراسلـو آرثر آندرسن وشركاه
محاسبون قانونيون وخبراء تنظيم وإدارة
زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

December 14, 1994

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

Dear Mr. Darcy:

This report presents the results of the financial incurred cost audit which we were engaged to perform for the Professional Development Component ("PDC") funded by the United States Agency for International Development Mission in Egypt ("USAID/Egypt") under Irrigation Management Systems Grant Agreement No. 263-0132 ("IMS Grant"). USAID/Egypt funding is being provided through Project Implementation Letter ("PIL") No. 5. We were engaged to perform an audit for the period from January 20, 1982 to June 30, 1993.

Background

The IMS Grant is a project of the Ministry of Public Works and Water Resources ("MPWWR") and is jointly funded by the Government of Egypt ("GOE") and USAID/Egypt.

The goals of the IMS Grant are to increase agricultural output and provide ample Nile water for multiple uses through the improvement of operational and maintenance planning, the conduct of a system redesign effort, the strengthening of MPWWR, the replacement of depreciated structures and the development of a project preparation unit. Two major components: Structure Replacement and Technical Assistance are part of the IMS Grant. As part of the Technical Assistance Component, PIL No. 5 was signed on January 1982 to implement the PDC. The objective of this component is to develop and implement training programs for managers, engineers and technicians to strengthen the manpower pool and the manpower development system of MPWWR. The completion date of the project, as amended, is June 30, 1994.

Audit Objectives, Scope and Methodology:

The objective of this engagement was to conduct a financial audit of USAID/Egypt resources managed by MPWWR pursuant to PIL No. 5 related to the PDC of the IMS Grant (the "Project"). The specific objectives of our engagement were to:

1. Express an opinion on whether the fund accountability statement for the USAID/Egypt financed Project of MPWWR presents fairly, in all material respects, project revenues received and costs incurred for the period under audit in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including the cash receipts and disbursements basis and modifications of the cash basis.

2. Determine if the costs reported as incurred under PIL No. 5 are in fact allowable, allocable, and reasonable in accordance with the terms of PIL No. 5.
3. Evaluate and obtain a sufficient understanding of the internal control structure of MPWWR as it relates to the Project, assess control risk, and identify reportable conditions, including material internal control weaknesses; and
4. Perform tests to determine whether MPWWR complied, in all material respects, with PIL No. 5's terms and applicable laws and regulations.

The scope of the financial cost-incurred audit was all the expenditures remitted and required counterpart contributions for PIL No. 5 under the IMS Grant for the period from January 20, 1982 to June 30, 1993.

The methodology of the engagement consisted of an internal control evaluation, testing of expenditures remitted under the financing agreement, assessing the host country contribution and testing compliance by MPWWR with specific provisions/ requirements of the PIL, IMS Grant and applicable regulations and laws.

Our testing included the sampling of costs incurred for each budget line item. We tested costs as follows:

<u>Agreement</u>	<u>Total Cost Remitted</u> <u>Through June 30, 1993</u>	<u>Tested Amount</u>	<u>Percent</u>
PIL 5	\$ 2,249,808	\$ 1,477,849	66%
(Equivalent in LE)	LE 4,949,578	LE 3,251,270	

Furthermore, we analytically reviewed all expenditures remitted in excess of LE 10,000 for the Project. For those that appeared unusual, based on our judgment, we tested the expenditures, which are included in the US\$ 1,477,849 disclosed above.

In addition, we evaluated whether counterpart contributions were provided by the Government of Egypt as required by PIL No. 5.

Our testing encompassed, but was not limited to the following significant procedures:

1. A review of direct Project expenditures billed to and reimbursed by USAID/Egypt. General ledgers and cash journals were reconciled to billings submitted to USAID/Egypt.
2. Preparation of a proof of cash to ensure the recording of all transactions and a review of procedures used to control cash.
3. A review of training and lodging costs to determine if they were adequately documented and approved.
4. A review of procurement procedures to determine that sound commercial practices including competitive bids or solicitations were used.
5. A determination of whether advances of funds were justified based on existing documentation, including a reconciliation of funds advanced, disbursed and available.

We reviewed and evaluated MPWWR's internal control structure as it relates to the Project to obtain an understanding of the design of relevant control policies and procedures, and whether those policies and procedures have been placed in operation. We obtained a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing and extent of tests to be performed.

The agreement terms and pertinent laws and regulations applicable to the Project were reviewed and audit procedures were designed to test for material noncompliance.

Initial planning began with an entrance conference attended by RIG/A/C personnel, MPWWR management staff and the Mission's Project Officer. The grant agreement and the related project implementation letter were reviewed to gain an understanding of the agreements' terms and cost principles.

Results of Audit

Fund Accountability Statement

The engagement identified US\$ 1,075,349 (LE 2,365,768) in questioned costs; US\$ 1,013,462 (LE 2,229,616) considered unsupported costs and US\$ 61,887 (LE 136,151) considered ineligible costs. These questioned costs represent 73% of the total expenditures tested. We were unable to obtain sufficient evidence to express an opinion on the fund accountability statement because available documentation was inadequate to support a significant portion of the Project's expenditures remitted by MPWWR. Accordingly, we have disclaimed an opinion as discussed in our Report of Independent Public Accountants, dated June 26, 1994. The details of questioned costs are presented in the Fund Accountability Statement - Audit Findings section of this report.

Internal Control

In our evaluation of internal control, we identified deficiencies in controls over petty and general cash, procurement practices, training program documentation, fixed assets, personnel and payroll and accounting records. We assess the deficiencies relating to petty cash control, procurement practices and training program documentation as being material weaknesses in the system of internal control. The details of the material weaknesses and other reportable conditions are presented in the Internal Control Structure-Audit Findings Section of this report.

Compliance with Applicable Laws and Regulations

In performing our engagement, we identified matters of material noncompliance. These matters are: (i) inadequate support used by MPWWR in remitting for hotel lodging for training participants and for subcontracted instructors; (ii) inadequate procurement practices; (iii) use of Project funds to grant loans to other MPWWR divisions and (iv) not providing the required host country contributions. Details related to noncompliance are set forth in the Compliance - Audit Findings Section of this report.

Management Comments

Management has provided comments on the results of the audit findings. The entire response of management is included in Appendix D. MPWWR management did not provide any responses to the matters concerning the internal control structure or compliance with applicable laws and regulations. We provided responses to management's comments in Appendix E. We deleted questioned costs relating to findings that were adequately responded to by MPWWR Management.



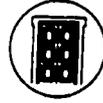
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زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

Report of Independent Public Accountants

We were engaged to audit the accompanying fund accountability statement of the Ministry of Public Works and Water Resources relating to funds received and costs incurred by the Professional Development Component under Irrigation Management Systems Grant Agreement No. 263-0132 financed by the United States Agency for International Development through Project Implementation Letter No. 5 (the "Project") for the period from January 20, 1982 to June 30, 1993. This fund accountability statement is the responsibility of the Ministry of Public Works and Water Resources Management.

We were unable to obtain sufficient evidence to form an opinion on the fund accountability statement referred to above because: 1) available documentation was inadequate to support a significant portion of the Project's expenditures remitted by the Ministry of Public Works and Water Resources; and 2) we identified material weaknesses in the Ministry of Public Works and Water Resources' internal control structure relating to the Project's petty cash control, procurement practices and documentation of proof of service performance or receipt of goods. These material weaknesses present the risk that errors or irregularities, in amounts that could be material in relation to the fund accountability statement, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. These material weaknesses are discussed in our Report of Independent Public Accountants on Internal Control Structure dated June 26, 1994.

We tested costs incurred of US\$ 1,477,849, which represent 66% of the total expenditures remitted by the Project from January 20, 1982 to June 30, 1993. Our testing identified the following questionable costs as detailed in the accompanying fund accountability statement: i) US\$ 61,887 in costs that are ineligible because they are not program related, unreasonable, or prohibited by the terms of the agreements; and ii) US\$ 1,013,462 that are not supported with adequate documentation or did not have the required prior approvals or authorizations. Collectively, the questionable costs represent 73% of the total expenditures tested. The basis for questioning costs are set forth in the Fund Accountability Statement-Audit Findings section of this report.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality 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 Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

As described in Note 2, the accompanying fund accountability statement has been prepared on the basis of cash disbursements. Consequently, revenues and expenditures are recognized when received or paid rather than when earned or incurred. Accordingly, the accompanying fund accountability statement is not intended to present results in accordance with generally accepted accounting principles.

Because of the significance of the matters referred to in the second and third paragraphs, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the fund accountability statement.

Our engagement was conducted for the purpose of forming an opinion on the fund accountability statement described in the first paragraph. The supplemental information included in the Appendices A, B and C is presented for purposes of additional analysis and is not required as part of the basic fund accountability statement. This information has been subjected to the procedures applied to the information contained in the basic fund accountability statement on which we disclaimed an opinion as described above. Accordingly, we do not express an opinion on the supplemental information.

This report is intended for the information of the management and others within the Ministry of Public Works and Water Resources 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.

[Handwritten signature]

June 26, 1994

Ministry of Public Works and Water Resources

**Audit of Local Expenditures Under the
Irrigation Management Systems Grant
Agreement No. 263-0132
Professional Development Component**

**Project Implementation Letter No. 5
Fund Accountability Statement (Note 2)
For the Period From January 20, 1982 to June 30, 1993**

<u>Budget Elements</u>	<u>Budget</u> <u>US \$</u>	<u>Actual As</u>	<u>Questioned Cost</u>		<u>Audit</u> <u>Finding(s)</u>
		<u>Adjusted</u> <u>Note (3)</u> <u>US \$</u>	<u>Ineligible</u> <u>US \$</u>	<u>Unsupported</u> <u>US \$</u>	
Receipts:					
USAID/Egypt		2,320,416			
Others (Note 6)		1,381			
Total Receipts		<u>2,321,797</u>			
Expenditures:					
Subcontract Services:					
Subcontract/Universities	96,114	99,032	-	39,276	1, 2
Subcontract/Individuals	54,546	40,948	-	3,861	3
Commodities					
Training Materials and Equipment	311,783	335,934	15,031		4, 5
Books/Periodicals	4,922	3,410	-	448	
Miscellaneous					
Local Staff Support	136,252	146,644	-	20,926	8, 11
Lodging/Food for Trainees	1,092,781	1,060,876	25,581	937,003	12, 14 to 18
Communication and Reports	1,925	1,925	-	-	
Satellite Centers	7,757	-	-	-	
Other Local Costs	583,172	561,039	21,275	3,866	5, 6, 18 to 22
Overbilling				8,082	24
Total Expenditures	\$ 2,289,252	\$ 2,249,808	\$ 61,887	\$ 1,013,462	
	=====	=====	=====	=====	
Net Balance (Note 4)		\$ 71,989	\$ 1,075,349		
		=====	=====		

See accompanying notes to the fund accountability statement.

Ministry of Public Works and Water Resources

Audit of Local Expenditures Under the Irrigation Management Systems Grant Agreement No. 263-0132 Professional Development Component Project Implementation Letter No. 5

Notes to the Fund Accountability Statement

Note 1: Project Activities

The Government of Egypt ("GOE") and the United States Agency for International Development Mission in Egypt ("USAID/Egypt") jointly fund the Irrigation Management Systems Grant Agreement No. 263-0132 ("Grant Agreement") which is under the auspices of the Ministry of Public Works and Water Resources ("MPWWR"). USAID/Egypt funds the Professional Development Component of the Grant Agreement through Project Implementation Letter ("PIL") No. 5 (the "Project"). The goal of the Project is to develop and implement training programs for managers, engineers and technicians to strengthen the manpower pool and manpower development system of MPWWR.

Note 2: Basis of Presentation

The fund accountability statement has been prepared on the basis of cash receipts and disbursements. Consequently, revenues and expenditures are recognized when received or paid rather than when earned or incurred.

Note 3: Adjusted Fund Accountability Statement

Certain disbursements were misclassified between budget line items. Appendix A presents the expenditures as disclosed in the Project's records adjusted for reclassifications to present the final fund accountability statement.

Note 4: Net Balance

The net balance of receipts less expenditures (US\$ 71,989) represents the Project's cash balance of US \$ 62,549 at the National Investment Bank and the Project's petty cash fund balance of US\$ 9,440 at June 30, 1993.

Note 5: Exchange Rate

Expenditures incurred in local currency (LE) have been converted to US dollars at an average exchange rate of LE 2.20 to US\$ 1.

Note 6: Other Receipts

This represents Project income for miscellaneous services related to activities for other divisions of MPWWR and which were deposited in the Project's bank account.

Note 7: Questioned Cost

Incurring questioned costs are presented in the fund accountability statement in two separate categories: ineligible and unsupported. Questioned costs are expenditures that we have determined are not in accordance with the Grant Agreement, PIL No. 5 or other applicable USAID/Egypt regulations or are not supported by adequate documentation. "Ineligible" costs are deemed to be unallowable because they are not program related, unreasonable, or prohibited by the agreement or applicable laws and regulations. "Unsupported" costs are expenditures which are not supported by adequate documentation or did not have required prior approval or authorizations. Adequate documentation includes evidence of proper contract awarding and proof of third-party service.

The basis for questioning specific costs are set forth in the "Audit Findings" section of this report.

Ministry of Public Works and Water Resources

**Audit of Local Expenditures Under the
Irrigation Management Systems Grant
Agreement No: 263-0132
Professional Development Component
Project Implementation Letter No. 5**

Fund Accountability Statement

Audit Findings

Summary of Questioned Costs

<u>Budget Element</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u> US \$	<u>Unsupported</u> US \$
Subcontract/Universities		
Finding No. 1		25,180
Finding No. 2		14,096
		<u>39,276</u>
Subcontract/Individuals		
Finding No. 3		3,861
Training Materials and Equipment		
Finding No. 4	14,840	
Finding No. 5	191	
	<u>15,031</u>	
Books and Periodicals		
Finding No. 6		448
Local Staff Support		
Finding No. 8		7,215
Finding No. 11		13,711
		<u>20,926</u>
Lodging/Food For Trainees		
Finding No. 12	351	
Finding No. 14		872,545
Finding No. 15	25,230	29,676
Finding No. 16		5,727
Finding No. 17		14,105
Finding No. 18		14,950
	<u>25,581</u>	<u>937,003</u>

<u>Budget Element</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u> US \$	<u>Unsupported</u> US \$
Other Local Costs		
Finding No. 5	5,213	
Finding No. 6		970
Finding No. 18		1,314
Finding No. 19	8,773	
Finding No. 20	4,534	
Finding No. 21	2,386	
Finding No. 22	369	1,582
	<u>21,275</u>	<u>3,866</u>
Overbilling		
Finding No. 24		8,082
Totals	\$ <u>61,887</u> =====	<u>1,013,462</u> =====
Total Questioned Costs	\$ 1,075,349 =====	

Ministry of Public Works and Water Resources

**Audit of Local Expenditures Under the
Irrigation Management Systems Grant
Agreement No. 263-0132
Professional Development Component
Project Implementation Letter No. 5**

Fund Accountability Statement

Audit Findings

Finding No. 1: Subcontract/Universities

Condition:

The Project was unable to provide complete training seminar files. Therefore, we were not able to identify that instructors subcontracted through universities had attended or provided instruction at the various programs. Instructors did not prepare time sheets or provide any evidence that they performed the services.

In addition to the deficiency described above, some of the payments to instructors were not supported by contracts. We were unable to identify that any competitive bids or quotes were obtained to evidence proper contract awarding. Furthermore, some of the training programs, that were contracted, had agendas that listed the names of the trainers/instructors who are assumed to have provided instruction. However, the contracts did not specify the instructors' names and required hours of service to be provided and due to the lack of time sheets or comparable evidence, there was no way to assure that the trainers listed in the agendas performed the required service.

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
<i>Payments without contracts</i>		
12/19/83	494102	LE 1,800
6/12/84	512222	6,500
11/2/87	543751	4,000
5/15/90	076717	3,000
9/30/90	077916	5,000
5/23/91	1042802	2,500
10/26/83	494093	2,960
4/27/87	491885	300
4/27/87	491886	300
		<hr/>
Sub-total		LE 26,360

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
<i>Payments under non-descript contracts</i>		
10/18/89	054696	LE 10,000
10/8/92	51691	1,300
10/11/92	51693	1,300
10/12/92	51696	2,250
10/19/92	51697	2,250
10/30/85	411962	3,000
10/28/82	366388	3,150
10/8/85	411954	3,000
10/30/85	411973	1,288
2/16/86	411999	1,500
Total		LE <u>55,398</u>
(Equivalent in US\$)		===== \$ 25,180 =====

Criteria:

Project Grant Standard Provisions, Annex 2, of Grant Agreement No. 263-0132 ("Grant Agreement"), Section B.5 states that records will be adequate to evidence solicitations of prospective suppliers of goods and services acquired and the basis of awarding contracts. GOE's Local Procurement Regulation ("Law 9") requires contracting for the purchase of goods and services be done through general adjudications with contract awarding based on the best tender's condition and the least price.

Cause:

According to the Project Director, negotiations were done verbally. MPWWR reviewed curriculum vitae of trainers and approved them verbally. No written documentation exists.

Effect:

USAID/Egypt was billed for unsupported costs of LE 55,398 (\$ 25,180).

Finding No. 2: Subcontract/Universities

Condition:

Payments made to Misr Travel and Ein Shams University for trips to Sinai and Upper Egypt were not supported by any proof that the service was provided.

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
10/23/85	411957	LE 3,056
10/30/85	411961	3,056
10/13/86	412074	6,050
10/13/86	412075	2,200
11/17/87	543759	8,650
9/22/92	51686	8,000
Total		LE <u>31,012</u>
(Equivalent in US\$)		===== \$ 14,096 =====

Criteria:

Grant Agreement Standard Provisions Annex 2, Sections B.5 and C.4 requires that supporting documents should be available to evidence the receipt of services and to ensure that the expenses were necessary for the Project and that no more than reasonable prices were remitted.

Cause:

MPWWR did not provide any justification regarding this matter. Accordingly, MPWWR failed to follow Grant Agreement requirements.

Effect:

USAID/Egypt was billed for unsupported costs of LE 31,012 (\$ 14,096).

Finding No. 3: Subcontract/Individuals

Condition:

Payments to instructors who were individually subcontracted were not supported by contracts. Records are not available evidencing the selection and awarding of contracts. Payments were not supported with time sheets, reports of services provided, or invoices.

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
4/2/84	512207	850
4/29/84	512215	230
12/4/84	519468	748
12/18/84	519472	490
4/17/85	411933	874
12/26/85	Petty Cash (PC)	494
12/26/85	PC	488
7/10/86	PC	530
12/12/86	PC	284
5/6/87	PC	1,048

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
7/28/88	PC	334
2/11/91	980453	2,125
Total		LE 8,495
		=====
(Equivalent in US\$)		\$ 3,861
		=====

Criteria:

Awarding of contracts should be supported by curriculum vitae, salary history and other supporting documentation evidencing the hiring of instructors based on the Project's prerequisites. Contracts should state the services to be provided, required reporting, if any, and terms of payments. In addition, documents should be available to prove that the service was provided and provided for Project purposes only, as required by the Grant Agreement.

Cause:

The Finance and Administrative Manager stated that MPWWR did not consider it necessary to issue contracts for small amounts.

Effect:

USAID/Egypt was billed for unsupported costs of LE 8,495 (\$ 3,861).

Finding No. 4: Training Materials and Equipment

Condition:

MPWWR paid, with Project funds, the balance due for a computer purchase. The supporting documents for the purchase were in the name of the contractor providing technical assistance to the Professional Development Component, a contractor hired directly through USAID, and who is separately funded i.e., outside of PIL No. 5 funding. This contractor paid the original down payment of LE 11,873. The balance due should not have been paid using the Project's funds since this item was not in the list of procurement items approved under the Project's budget.

<u>Date</u>	<u>Check No.</u>	<u>Amount</u>
8/31/89	054668 (balance due)	LE 32,648
		=====
(Equivalent in US\$)		\$ 14,840
		=====

Criteria:

Supporting documents for Project expenditures should be in the name of the Project, and equipment procurement should be specifically approved in the budget. This ensures that the Project has title to its property and that funds remitted were used for Project purposes only.

Cause:

MPWWR did not provide any justification regarding this matter. Accordingly, MPWWR failed to follow Grant Agreement requirements.

Effect:

USAID/Egypt was billed for ineligible expenses in the amount of LE 32,648 (\$ 14,840).

Finding No. 5: Payment of Taxes and Custom Duties

Condition:

The Project's funds are not to be used for in-country assessed fees. MPWWR remitted with Project funds costs associated with custom duties, stamp taxes, vehicle registration, and Egyptian customs for the release of Project vehicles as follows:

<u>Budget Line Item/Date</u>	<u>Check No.</u>	<u>Amount</u>
<i>Training Materials and Equipment</i>		
9/23/85	PC (custom duties)	LE 333
9/14/90	PC (custom duties)	87
		LE <u>420</u>
		===
(Equivalent in US\$)		\$ 191
		===
<i>Other Local Costs</i>		
4/2/89	112774 (stamp tax)	LE 4,044
7/18/85	496 (registration renewal)	459
7/91	PC # 78 (release)	677
7/91	PC # 86 (")	1,464
7/91	PC # 90 (")	4,087
8/91	PC # 06 (")	527
9/91	PC # 32 (")	209
		LE <u>11,467</u>
		=====
(Equivalent in US\$)		\$ 5,213
		=====
Total of Finding No. 5		LE 11,887
		=====
(Equivalent in US\$)		\$ <u>5,404</u>
		=====

Criteria:

Grant Agreement Standard Provisions, Annex 2, Section B.4, states that the Project is free from any taxation, levies, or fees imposed under GOE laws in effect.

Cause:

MPWWR did not provide any justification regarding this matter. Accordingly, MPWWR failed to follow Grant Agreement requirements.

Effect:

USAID/Egypt was billed for ineligible costs of LE 11,887 (\$ 5,404).

Finding No. 6: Unsupported Project Expenses

Condition:

Payment of expenses related to seminars, acquisition of books, and furniture were not properly supported with invoices, purchase orders, or bids as follows:

<u>Budget Line Item/Date</u>	<u>Check No.</u>	<u>Amount</u>
<i>Books and Periodicals</i> 5/19/86	412031	LE 985
		LE 985
		====
(Equivalent in US\$)		\$ 448
		====
<i>Other Local Costs</i> 8/20/90 10/91	048485 (furniture purchase) 1042876 (training course)	LE 2,134
		LE 2,134
		====
(Equivalent in US\$)		\$ 970
		====
Total of Finding No. 6		LE 3,119
		====
(Equivalent in US\$)		\$ 1,418
		====

Criteria:

Grant Agreement Standards Provisions, Annex 2, Section B.5 requires the grantee to maintain books and records to show, without limitation, the use and receipt of goods and services acquired with Project funds.

Cause:

MPWWR did not provide any justification regarding these matters. Accordingly, MPWWR failed to follow Grant Agreement requirements.

Effect:

USAID/Egypt was billed for unsupported costs of LE 3,119 (\$ 1,418).

Finding No. 7: Local Staff Support

Finding deleted.

Finding No. 8: Local Staff Support

Condition:

Payments to selected and tested employees for annual leave compensation were not supported by documents in their personnel files. Attendance sheets were not available for most of the employees. Most employees received the full cash compensation (30 days) as if they did not take annual leaves. When we informed MPWWR of the lack of supporting documents they provided us with attendance sheets for some employees. However, these documents appear to be recently prepared based upon our request and have many inconsistencies.

Because of the inconsistencies in the information provided and the lack of documents to support the compensation for annual leaves, we question the total paid during the audit period in the amount of LE 15,873 (\$ 7,215).

Criteria:

Fundamental internal control policies require the establishment of personnel files with supporting documents evidencing employee contracts, salary increases, annual leave records and documents required by GOE laws. Individual time sheets for each employee should be prepared and initialed by supervisors denoting approval.

Cause:

MPWWR did not provide any justification regarding this matter. Accordingly, MPWWR failed to follow Grant Agreement requirements.

Effect:

USAID/Egypt was billed for unsupported costs in the amount of LE 15,873 (\$ 7,215).

Finding No. 9: Local Staff Support

Finding deleted.

Finding No. 10: Local Staff Support

Finding deleted.

Finding No. 11: Local Staff Support

Condition:

During the life of the Project, MPWWR paid overtime to drivers every month. All of the drivers reported overtime everyday and sometimes on weekends. For some months, the average daily overtime reported, for each driver, ranged from 6 to 9 hours. There does not appear to be a direct relationship between the drivers' reported destinations and overtime hours with the Project's activities. Overtime was not approved by supervisors and time sheets seemed to be prepared at the end of the month instead of daily. In most instances, the hours paid were less than the actual hours reported but there were also instances of payments for hours that exceeded the actual hours reported. From November 1990 to June 1993, drivers received a fixed overtime amount whereas in the previous periods, drivers were paid overtime based somewhat on actual hours but with the discrepancies described above. All payments to the drivers were done through petty cash. The accountant could not explain the calculation of the hourly rate used to pay the overtime prior to November 1990.

As discussed below, according to MPWWR personnel, overtime was paid never to exceed 40% of wages. Because we did not test 100% of total salaries paid to the drivers and since the amount of total salaries paid to drivers is not available from MPWWR, we estimated the amount based on sixteen payrolls selected for review throughout the audit period. These payrolls identified the number of drivers working during the month and their respective salaries. Based on the number of drivers per month (4 to 6) and the monthly sum of their respective salaries, we were able to calculate that the average monthly salary was LE 123. The average number of drivers (for the entire period) was calculated to be 5.25, which multiplied with the average monthly salary results in LE 85,239 of non-overtime wages to drivers for the 132 months (audit period). Using the maximum rate of 40%, overtime is calculated as LE 34,096.

In light of the insufficient documentation and inconsistencies of the available documentation of overtime remittance to the drivers, we could question the entire cost. However, we do find MPWWR's explanation that overtime did occur as reasonable and believe the LE 34,096 calculated above represents the expected maximum overtime payments. The difference between the driver's overtime compensation paid during the audit period of LE 64,260 versus the expected maximum payment of LE 34,096 is LE 30,164 (\$ 13,711) and is considered unsupported.

Criteria:

Project Grant Standards Provisions, Annex 2, Section B.2 requires the grantee to carry out the Project with due diligence and efficiency, and in conformity with sound technical, financial and management practices. We consider as a sound financial and management practice, the establishment of policies for the control, approval and payment of overtime.

Cause:

According to MPWWR's Finance and Administrative Officer, MPWWR provides transportation for its employees. Therefore, all drivers had to start working two hours before and two hours after normal working hours and MPWWR's policy is to pay overtime not to exceed 40% of wages. The accountant also mentioned that overtime payments were to compensate salaries.

Effect:

USAID/Egypt was billed for unsupported costs of LE 30,164 (\$ 13,711) based upon what costs were expected to be incurred in accordance with MPWWR's explanation.

Finding No. 12: Lodging/Food for Trainees

Condition:

Payment for food and drinks for 80 people was supported by an invoice from a restaurant but MPWWR did not provide additional documents to justify the expense such as a related seminar program, an approved list of participants, or any other justification for the payment of food and drinks.

<u>Date</u>	<u>Petty Cash #</u>	<u>Amount</u>
6/30/90	109	LE 773
		===
(Equivalent in US\$)		\$ 351
		===

Criteria:

The Project's budget allows funds for food for trainees participating in training courses. However, any payment for food should be justified by an approved training course and the related list of participants. Otherwise, food and drinks are unallowable per USAID regulations.

Cause:

MPWWR did not provide any justification regarding this matter. Accordingly, MPWWR failed to follow Grant Agreement requirements.

Effect:

USAID/Egypt was billed ineligible costs of LE 773 (\$ 351).

Finding No. 13: Payments to Trainees not in Approved Participants List

Finding deleted.

Finding No. 14: Lodging/Food for Trainees

Condition:

We identified that invoices submitted to the Project for payment by a hotel in Cairo which provided lodging for non-Cairo resident seminar participants were not adequately documented. Furthermore, the hotel received monthly advances from the Project which were not reflected in its invoices. The Project did not maintain a separate ledger to identify the liquidation of these advances. To ensure that all advances were liquidated and no double payments of invoices were done, we tested 100% of all payments to the hotel. Double payments were not identified but numerous deficiencies in adequate supporting documentation and other matters were identified such as:

- a) Invoices were submitted to MPWWR on a monthly basis, which only summarized the names of the training courses, period of billing, days billed, and number of participants. This type of invoicing from the hotel was consistent throughout the entire period under audit. The hotel did not provide the names of participants staying at the hotel, the room numbers, or other documents evidencing the participants' stay at the hotel. MPWWR provided a photocopied list of the participants approved to attend the course and highlighted or put a tick mark for those approved to stay at the hotel. This list was the only evidence attached to the hotel's somewhat non-descript invoice and was not always accurate i.e., not reconciled to the number of participants being billed by the hotel.
- b) The actual days billed included the day before the beginning of the course and the last day of the course, which resulted in at least one or two extra days billed.
- c) Some of the participants, approved for lodging by MPWWR during the seminars, were assumed to be Cairo residents since the MPWWR approved participant listing identified these participants with Cairo addresses. Since the hotel attached these MPWWR prepared lists as support for billing, MPWWR, therefore, paid for lodging of individuals who should not have been entitled.
- d) MPWWR was only able to provide files related to participant attendance for six training courses out of the thirty five originally requested. Of the six training course files provided, attendance sheets were not available for one of the files whereas the other five files only had attendance sheets for some days of the training course period.
- e) Out of the six files mentioned above, five included handwritten lists prepared by MPWWR which indicated the participants approved to stay at the hotel during the respective training programs. When these five lists were compared to the respective hotel bills, we identified that the hotel had billed for more participants than the MPWWR approved list for four of the training programs (overbilling ranging from one to eight participants) whereas the hotel billed for three less participants than those approved by MPWWR in the remaining training program.
- f) Competitive bids were not performed and the files do not indicate on which basis the hotel was selected. On August 19, 1988 an attempt was done to obtain competitive bids but supporting documents were inadequate.
- g) The contract with the hotel was initially signed on October 25, 1982, for a one year period. For the periods, October 26, 1983 to December 1987 and October 1, 1990 to June 30, 1993, this contract was not amended to extend its validity.

Because of the reasons mentioned above, we believe that the payments to the hotel were not adequately supported. The amount questioned in this finding is for the lodging of trainees only, from the period October 25, 1982 to June 30, 1993 in the amount of LE 1,919,600 (\$ 872,545). A detail schedule of questioned costs is presented in Appendix C. Other identified questioned costs resulting from the 100% testing of payments to this hotel have been separately disclosed in findings nos. 15, 16 and 17.

Criteria:

Project Grant Standard Provisions, Annex 2, Section B.2, requires that the grantee should carry out the Project with diligence and efficiency in conformity with sound technical, financial and management practices. Grantee should maintain books and adequate records to show the nature and extent of solicitation of prospective suppliers of goods and services acquired, the basis of awarding contracts and the use of goods and services. In addition, Law 9 requires competitive bids when obtaining contracted services.

Cause:

MPWWR did not provide any justification regarding this matter. Accordingly, MPWWR failed to follow Grant Agreement requirements.

Effect:

USAID/Egypt was billed for unsupported costs in the amount of LE 1,919,600 (\$ 872,545).

Finding No. 15: Lodging/Food for Trainees

Condition:

While testing payments to the hotel mentioned in finding no. 14 that provided lodging for the participants attending training seminars in Cairo, we identified other questioned payments as follows:

- a) Amounts billed as "other payments" without any explanation or supporting documents;
- b) Extra nights billed for individuals that were not seminar participants or for participants staying extra nights without justification. These are nights in addition to those discussed in finding no. 14 (b);
- c) For canceled seminars, billing ranging from one to two nights;
- d) Seminars billed by the hotel that were not included in the list of seminars provided by MPWWR;
- e) Payments supported with only handwritten participant lists for which we were not able to match with MPWWR approved lists; and
- f) Payments for parties and meals with no justification of purpose. For information purposes, the daily rate charged by the hotel included lodging and meals.

A detail schedule of questioned costs is presented in Appendix C.

<u>Description</u>	<u>Amount</u>
--------------------	---------------

Unsupported Costs

- | | |
|-------------------|----------|
| a) Other payments | LE 4,205 |
| b) Extra nights | 19,109 |

Unsupported Costs

- | | |
|---|--------|
| c) Canceled seminars | 1,032 |
| d) Seminars not listed in MPWWR records | 38,560 |
| e) Handwritten lists | 2,381 |

Total	LE <u>65,287</u>
	=====
(Equivalent in US\$)	\$ 29,676
	=====

Ineligible Costs

- | | |
|----------------------|-----------|
| f) Parties and meals | LE 55,506 |
| | ===== |
| (Equivalent in US\$) | \$ 25,230 |
| | ===== |

Criteria:

Project Grant Standards Provision, Annex 2, Section B.5, requires the Project to keep adequate records to show, without limitation, the receipt and use of goods and services acquired under the grant. In addition, USAID regulations state that entertainment costs such as social activities and meals are unallowable.

Cause:

MPWWR did not provide any justification regarding this matter. Accordingly, MPWWR failed to follow Grant Agreement requirements.

Effect:

USAID/Egypt was billed for unsupported costs of LE 65,287 (\$ 29,676) and ineligible costs of LE 55,206 (\$ 25,230).

Finding No. 16: Lodging/Food for Trainees

Condition:

Some invoices submitted by the hotel mentioned in finding no. 14 did not specify the services provided nor did MPWWR provide any adequate supporting documents. Payments were from petty cash and are as follows: (these disbursements are separate than those identified in finding no. 14 and are also included in the detail in Appendix C)

<u>Date</u>	<u>Petty Cash #</u>	<u>Amount</u>
12/31/90	22	LE 6,300
12/30/90	20	6,300
		LE <u>12,600</u>
		=====
(Equivalent in US\$)		\$ 5,727
		=====

Criteria:

Project Grant Standards Provision, Annex 2, section B.5, requires that MPWWR should keep records to adequately show, without limitation, the receipt and use of goods and services acquired with Project funds.

Cause:

MPWWR did not provide any justification regarding this matter. Accordingly, MPWWR failed to follow Grant Agreement requirements.

Effect:

USAID/Egypt was billed for unsupported costs of LE 12,600 (\$ 5,727).

Finding No. 17: Lodging/Food for Trainees

Condition:

While testing payments to the hotel providing lodging for participants attending training seminars in Cairo, we identified disbursements that were not supported by the non-descript hotel invoices discussed in finding no. 14 (a), or any other adequate documentation. After discussing this finding with MPWWR, we were provided with some hotel invoices which appeared to be recently issued, i.e. after the applicable period. For example, we received invoice no. 2481 for the May 1992 billing and invoice nos. 2485 and 2486 for the billings of December 1991 and January 1992. The sequential order of the invoices appear inconsistent with the dates of the services provided. These payments are listed as follows: (these disbursements are separate than those identified in finding no. 14 and are also included in the detail in Appendix C)

<u>Date</u>	<u>Voucher #</u>	<u>Amount</u>
9/28/89	PC 55	LE 90
12/30/91	PC 18	2,516
12/30/90	PC 29	1,100
12/5/91	Ch # 1137204	20,556
30/4/91	PC 36	360
1/1/92	Ch # 1137215	2,100
3/22/92	Ch # 1137278	560

<u>Date</u>	<u>Voucher #</u>	<u>Amount</u>
1/16/83	Ch # 366398	1,087
3/7/83	Ch # 477103	2,662
Total		LE <u>31,031</u>
(Equivalent in US\$)		===== \$ 14,105 =====

Criteria:

Project Grant Standards Provisions, Annex 2, section B.5, requires the Project to keep adequate records to show, without limitation, the receipt and use of goods and services acquired with project funds.

Cause:

MPWWR did not provide any justification regarding this matter. Accordingly, MPWWR failed to follow Grant Agreement requirements.

Effect:

USAID/Egypt was billed for unsupported costs of LE 31,031 (\$ 14,105).

Finding No. 18: Lodging/Food for Trainees

Condition:

MPWWR held a project coordinating committee workshop in Alexandria from September 3-7, 1989. This workshop was coordinated by the USAID contractor in-charge of the technical assistance portion of the Project. The only documentation available for the disbursements were photocopies. The costs paid were:

	<u>LE</u>	<u>Equivalent in US\$</u>
Lodging/Food for trainees	32,890	14,950
Other local costs	2,890	1,314
	<u>35,780</u>	<u>16,264</u>
	=====	=====

Criteria:

Project Grant Standard Provisions Annex 2, Section B.5 requires MPWWR to maintain, books and records relating to the project adequate to show the receipt and use of goods and services acquired under the grant. Photocopies are not credible supporting documents.

Cause:

According to the project accountant, original documents were sent to USAID/Egypt.

Effect:

USAID/Egypt was billed for unsupported costs of LE 32,890 (\$ 14,950) under lodging food for trainees and LE 2,890 (\$ 1,314) under other local costs.

Finding No. 19: Expenses Not Related to Project Purposes

Condition:

Project funds were used to pay expenditures outside the scope of the Project as follows:

- a) Design and installation of central air conditioning for MPWWR's 6th of October Training Center. Funds for the training center were not budgeted for under the Project.
- b) Trees for the 6th of October City Training Center. Costs relating to the establishment of the training center are outside the scope of the Project and have not been budgeted.
- c) Furniture provided to the Ministry of Public Work and Water Resources offices and not to the Project.

<u>Date</u>	<u>Check #</u>	<u>Amount</u>
a) Central air conditioning		
10/10/92	51727	LE 3,750
11/16/92	51728	7,500
2/3/93	96164	2,935
b) Trees		
3/13/93	96171	3,067
c) Furniture		
12/91	113702	2,048
Total		LE 19,300
(Equivalent in US\$)		=====
		\$ 8,773
		=====

Criteria

Funds approved under PIL No. 5 Grant Agreement No. 263-0332 were to fund the Professional Development Component of the Irrigation Management Systems Project. This component is for training programs for MPWWR managers, engineers and technicians and does not include a budget for the establishment of the 6th of October Training Center or other MPWWR unrelated project expenses.

Cause

MPWWR did not provide a justification for expenses in paragraphs (a) and (b) above. The furniture payment in (c) above was approved by the Minister of MPWWR.

Effect

USAID/Egypt was billed ineligible costs of LE 19,300 (\$ 8,773).

Finding No. 20: Other Local Costs

Condition:

MPWWR purchased fuel coupons which as of November 27, 1994 (a date subsequent to the expected Project's completion date of June 30, 1994) have still not been used. The coupon usage records indicate that fuel coupons may not be used until two or three years after purchase. The cost of these unused fuel coupons should be reimbursed to USAID/Egypt. The fuel coupons not yet used are as follows:

<u>Date</u>	<u>Check #</u>	<u># of Books</u>	<u>Coupon #</u>	<u>Total</u>
5/17/92	1137291	1	27735	450
1/14/92	1137221	8	185826	
			185851	
			18405	
			186101	
			186151	
			248676	
			248976	
			240351	4,200
8/9/92	51656	2	92051	
			92076	1,800
		2	349301	
			349326	900
5/30/91	1042112	5	36926	
			151	
			351	
			201	
			301	2,625
Total				LE 9,975
(Equivalent in US\$)				==== \$ 4,534 =====

Criteria:

Project Grant Standard Provisions, Annex 2, section B.2, requires MPWWR to carry out the Project with due diligence and efficiency, and in conformity with sound technical, financial and management practices.

Cause:

MPWWR failed to use Project funds with due diligence and efficiency.

Effect:

USAID/Egypt was billed for ineligible costs of LE 9,975 (\$ 4,534).

Finding No. 21: Other Local Costs

Condition:

For the below listed fuel purchase expenditure, the records indicate that the gas was used for cars which were not on the list of vehicles approved for use by the Project.

<u>Date</u>	<u>Check #</u>	<u>Amount</u>
12/31/89	Ch # 076652	LE 5,250
Total		LE <u>5,250</u>
(Equivalent in US\$)		===== \$ 2,386 =====

Criteria:

Project Grant Standard Provisions Annex 2, Section B.3, states that any resources financed under the Grant will be dedicated to the Project.

Cause:

MPWWR did not provide any justification regarding this matter. Accordingly, MPWWR failed to follow Grant Agreement requirements.

Effect:

USAID/Egypt was billed for ineligible costs of LE 5,250 (\$ 2,386).

Finding No. 22: Other Local Costs

Condition:

MPWWR entered into a contract for the building of the Project's offices, which included a proposed LE 32,000 for air conditioning. Latter, it was agreed with the contractor that MPWWR would purchase the air conditioning units directly from another source for an actual cost of LE 28,250. When the contract was modified to reflect this direct procurement, the contract was decreased by LE 28,250 (actual cost of the air conditioning units instead of the contractors proposed LE 32,000). Therefore, the contractor was paid LE 3,480 in excess since this fixed fee contract was not properly modified. In addition, MPWWR incurred payment of social insurance on behalf of the contractor of LE 811.

Unsupported Costs

Difference in proposed air conditioning cost versus actual cost of LE 28,520	LE 3,480
(Equivalent in US\$)	===== \$ 1,582 =====

Ineligible Costs

Payment of social insurance and taxes	LE	811
(Equivalent in US\$)		====
	\$	369
		====

Criteria:

Payments for construction contracts should be in accordance with signed and properly modified contracts. Cost overruns should only relate to items originally procured and not result from the deletion of proposed items. Furthermore, the Project Grant Standard Provisions, Annex 2, Section B.4 does not allow the payment of GOE taxes out of Project funds.

Cause:

MPWWR did not provide any justification regarding this matter. Accordingly, MPWWR failed to follow Grant Agreement requirements.

Effect:

USAID/Egypt was billed for unsupported costs of LE 3,480 (\$ 1,582) and ineligible costs of LE 811 (\$ 369).

Finding No. 23: Other Local Costs

Finding deleted.

Finding No. 24: Overbilling

Condition:

MPWWR reported expenditures to USAID/Egypt in excess of the actual disbursements in the amount of LE 17,780 (US\$ 8,082). A schedule of differences between reported expenditures and actual disbursements is presented in Appendix B.

Criteria:

Expenses reported to USAID should be actual and supported by records that evidence the receipt and use of goods and services.

Cause:

MPWWR made reclassifications and adjustments to the information provided to USAID without supporting documentation. The accountant could not provide any explanation regarding the differences.

The accountant informed us that some of the reported expenditures were based on advance requests and not on actual expenses.

Effect:

Expenses reported to USAID/Egypt were overstated in the amount of LE 17,780 (\$ 8,082). This is separately reflected as an unsupported cost in the Fund Accountability Statement.

ALLIED ACCOUNTANTS

Ragheb, Sherif, Iszabouli & El Kilany
A Member Firm of ARTHUR ANDERSEN & Co. SC
Public Accountants & Business Advisors
Fellows & Members of the Egyptian Society of Accountants & Auditors



المحاسبون المتضامنون

راغب ، شريف ، اسطنبولي والكيلاني
مراسلر آرثر آندرسن وشركاه
محاسبون قانونيون وخبراء تنظيم وإدارة
زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

Report of Independent Public Accountants On Internal Control Structure

We were engaged to audit the fund accountability statement of the Ministry of Public Works and Water Resources ("MPWWR") relating to funds received and costs incurred by the Professional Development Component under the Irrigation Management Systems Grant Agreement No. 263-0132 financed by the United States Agency for International Development through Project Implementation Letter ("PIL") No. 5 (the "Project") for the period January 20, 1982 to June 30, 1993, and have issued our disclaimer report thereon dated June 26, 1994. Our report indicated that the scope of our engagement was not sufficient to enable us to express, and we do not express, an opinion on the aforementioned fund accountability statement.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality 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 Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

In planning and performing our engagement, we considered MPWWR's internal control structure related to PIL No. 5 to determine our 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 MPWWR is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. Among the objectives of the 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; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the fund accountability statement referred to above in conformity with the basis of accounting described in Note 2 to the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: cash control, procurement practices, training program procedures, personnel and payroll and general accounting records. 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.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that in our judgment could adversely affect the organization's ability to record, process, summarize and report financial data consistent with the assertions of management in the fund accountability statement. Our engagement disclosed conditions that we believe constitute reportable conditions as discussed in the following paragraph, and which are detailed in finding nos. 4 to 7 of this report.

General cash controls should be strengthened such as obtaining fidelity bond insurance on employees responsible for cash funds, assigning cash receipt and bank deposit preparation responsibilities to an individual other than the accountant, and preparing timely and reconciled bank reconciliations. Currently, the Project does not maintain a fixed asset register, adequate files documenting personnel and related payroll information or a general ledger to capture necessary accounting information.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit disclosed the following matters which we believe are material weaknesses, and which are detailed in finding nos. 1 to 3 of this report.

The current petty cash custodian is the same individual responsible for the accounting of the petty cash remittances which represent a relatively significant amount of total expenditures. Acceptable procurement practices are not followed in the majority of goods or services acquired. Neither in available training program files or in any other source does adequate documentation exist to evidence that the majority of services obtained to execute training programs were provided by third-parties.

This report is intended for the information of the management and others within the Ministry of Public Works and Water Resources 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.

Allied Accountants

June 26, 1994

Ministry of Public Works and Water Resources

**Audit of Local Expenditures Under the
Irrigation Management Systems Grant
Agreement No. 263-0132
Professional Development Component
Project Implementation Letter No. 5**

Internal Control Structure

Audit Findings

Material Weaknesses

Finding No. 1: Petty Cash Control

The petty cash fund is not maintained on an imprest basis nor has a maximum disbursement amount for each transaction been established. Petty cash records are not updated daily, and as a result, the petty cash counts performed by the Financial and Administrative Manager can not be matched against the applicable records.

The accountant is responsible for the maintenance of the petty cash fund. In addition, the accountant is responsible for the financial recordkeeping and therefore these two responsibilities do not allow for a proper segregation of duties. During the period, 22% of the expenditures (US\$ 509,850) subject to audit, were remitted in cash.

Recommendations

The Ministry of Public Works and Water Resources (MPWWR) should establish the use of a petty cash imprest fund thereby allowing more control over the funds. Furthermore, a maximum disbursement amount for each transaction should be established. An appropriate ceiling should be identified in accordance with local needs. The petty cash fund custodian should be an individual who does not have access to the accounting records since significant amounts of disbursements are made through petty cash. Petty cash counts should be performed and reconciled with the petty cash records.

Finding No. 2: Procurement Practices

MPWWR does not have written policies and procedures for the procurement of goods and services acquired with Project funds.

Contracting of consultants or instructors is not documented with proposals, resumes or salary history. Contracts signed with universities and individuals, when available, only indicate the total amount and method of payment but do not identify the period of service, training responsibility, or applicable rates. In some instances, contracts do not even state the amount of payment for the services to be provided. Other instances identified that some instructors were paid without contracts.

In addition, the Project had a long-term relationship with a hotel in Cairo providing lodging for seminar participants. Solid procurement practices such as continually requiring solicitations from other hotels may have resulted in more competitive pricing for this service. This hotel received approximately US\$ 947,000 of business from January 1982 until June 1993.

Generally, we identified that controls in the procurement area were lax. Due to the magnitude of consultants and instructors hired and the required other costs to execute training programs under the Project, strengthened controls in this area are a requirement.

Recommendations

We recommend that MPWWR:

- a) Prepare written policies and procedures for procurement of goods and services. These policies and procedures should accent on contracting of consultants/trainers, and other Project services and supplies. At a minimum, the Government of Egypt's Law 9, "Local Procurement Regulation" should be adhered to.
- b) Maintain organized contract files evidencing the hiring of consultants and instructors. These files should document proposals, resumes, and other relating documents evidencing the basis of contract awarding.
- c) Contracts or working arrangement letters should clearly define the period of service, name of consultant or instructor, training responsibility, applicable rates, and require that the consultants or instructors turn in with their invoice, a signed record of their time involvement. This allows MPWWR to check the reasonableness of the time charges. This is in conjunction with the matters discussed in finding no. 3 below.
- d) We believe it is in the Project's best interest to ensure USAID/Egypt that the contract with the hotel in Cairo was properly solicited and that the hotel's prices were competitive. This documentation should strive to illustrate that the Project used the most reasonable prices in lodging the seminar participants throughout the term of the Project. Furthermore, MPWWR should immediately obtain competitive bids for lodging from other hotels as it still requires such service.

Finding No. 3: Training Program Documentation

There are no written policies on how to document and execute training programs. Adequate files are not kept to support selection, approvals and attendance of trainees. In addition, the historical information of the participants attending MPWWR training courses is not completely accurate since some names that were included in the list of participants could not be traced to the alphabetical control of trainees. We were only able to obtain six training course files of the many files we requested. We identified that attendance sheets were not consistently maintained as evidenced by our review of the six training course files provided.

During the performance of these training programs, MPWWR had to obtain the services of numerous instructors subcontracted via universities or directly from individuals. Further, the Project required the services of third-party training facilities and hotels to provide lodging for participants. An essential supporting document when making remittances to third-parties is some proof of service i.e., proper hotel invoices, time report or receipt of goods. MPWWR appears to have remitted cash to these third-parties

without any sufficient evidence to support that the services were performed. Although the service may have been performed, and this may have been evident to the individuals responsible for remitting the payments, the documentation available at MPWWR does not adequately support these remittances.

Recommendations

We recommend that MPWWR:

- a) Attempt to reconcile its current information regarding seminar participation with the number of trainees that were considered in USAID/Egypt billing. We believe it is in the Project's best interest to have adequately documented training program files that have the following: 1) the names of all training programs, 2) lists of participants approved to attend the training programs, 3) attendance sheets for each of the programs, 4) names of hired individuals who instructed at the programs, 5) names of non-Cairo resident trainees approved for lodging, and 6) locations of the training programs.
- b) Contact the hotel in Cairo which provided the lodging and request support for the hotel's non-descript invoices. We believe the hotel can provide documents such as registration cards signed by the participants, invoices illustrating daily charges of incidentals, and other such items evidencing that lodging was provided for seminar participants. Due to the significant amount of expenditures incurred at the hotel and the current lack of credible documents supporting the hotel costs, we believe it is crucial that the Project obtain this information from the hotel. Future billings from the hotel should include the documentation discussed above.

Reportable Conditions

Finding No. 4: General Cash Control

Staff who are authorized to sign checks and are in-charge of cash funds are not covered by fidelity bond insurance.

The accountant directly receives the checks and other cash remittances, prepares the deposit slips and records them in the cash receipts book. Cash receipts are not prenumbered.

Bank reconciliations have not been prepared since February 1991. As requested, during the period of our audit, bank reconciliations were prepared through June 1993, but were not properly done as the resultant bank balance did not agree with the cash balance of the accounting records.

Recommendations

MPWWR should:

- a) Obtain fidelity bond coverage for employees who are authorized check signers and manage other cash funds.

- b) Assign a person other than the accountant for the purpose of receiving cash remittances and preparing deposit slips.
- c) Ensure that bank reconciliations are prepared on monthly basis, but prepared by an individual different from the accountant. The bank reconciliations should be compared to the accounting records and any resulting adjustments should be approved and recorded.

Finding No. 5: Fixed Assets

MPWWR does not keep a register for the fixed assets acquired with Project funds and it may be difficult to identify Project assets when necessary.

Recommendations

MPWWR should establish a register for the fixed assets acquired with Project funds. The register should indicate acquisition cost, date of purchase, description of asset and location.

Finding No. 6: Personnel and Payroll

We identified that MPWWR did not keep personnel files for some employees whereas some of the files which were available did not have all the documents required by GOE laws, such as contracts, birth certificates, work permits and social insurance forms. Salary increases and annual leaves are not being documented in the files.

Attendance sheets are not available for all the Project staff. In addition, the current attendance sheets include more than one employee per page and only documents the employees signature but not the actual hours worked. The attendance sheets do not have written evidence indicating review or approval by supervisors. Overtime was paid without approvals.

A written policies and procedures manual for personnel does not exist. We identified that overtime calculations were not consistent and the accountant could not explain the computation of the hourly rate.

Payroll is calculated by the accountant for each employee on an individual subsidiary ledger for each employee. This ledger is signed by each employee to verify the receipt of payroll. The accountant then prepares a cash receipt for the total payroll paid during the month. Payroll is paid through petty cash.

Recommendations

We recommend that MPWWR:

- a) Ensure that a personnel file be kept for each Project employee. These files should include all the documentation required by GOE laws, as well as contracts or employee letter agreements, and documents evidencing salary increases and annual leave approvals.

- b) Each employee should prepare individual attendance sheets that indicate the number of hours worked. These should be reviewed and approved by supervisors. Specific approvals from supervisors should be obtained for payment of overtime.
- c) Prepare a written manual on personnel policies and procedures, or at a minimum, ensure policies are consistent with GOE laws.
- d) Prepare a monthly payroll ledger that identifies employees' names, days worked, gross salaries, deduction, and net salary paid. The payroll should have written evidence of being approved and reviewed.

Finding No. 7: Accounting Records

MPWWR maintains a subsidiary ledger of check and cash expenditures recorded each month. However, a general ledger summarizing annual expenses is not maintained, but loose summary sheets are prepared. The summary sheets contained some errors, and amounts were rounded to zero decimals.

Corrections were made to the subsidiary ledger without any explanation. In addition, expenditures are posted in pencil during the month and are corrected in ink at the end of the month.

Expenses were not properly classified in accordance with the approved budget categories.

We identified that some expenditures submitted to USAID/Egypt did not agree with the expenses recorded in the subsidiary ledgers. Reclassifications were made to the submitted expenditures without supporting documents.

Recommendations

We recommend that MPWWR:

- a) Maintain a general ledger, appropriately reconciled with the subsidiary ledgers. Posting to subsidiary ledgers should be done in ink.
- b) Any adjustment or reclassification should be documented and approved by the Financial and Administrative Manager and the Project Director, before being recorded.
- c) Expenditures submitted to USAID/Egypt should reconcile with the general ledger. A supervisory review of these expenditures should be done.

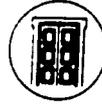
ALLIED ACCOUNTANTS

Ragheb, Sherif, Istambouli & El Kilany

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Public Accountants & Business Advisors

Fellows & Members of the Egyptian Society of Accountants & Auditors



المحاسبون المتضامنون

راغب ، شريف ، استنبولي والكيلاني

مراسلـو آرثر أندرسن وشركاه

محاسبون قانونيون وخبراء تنظيم وإدارة

زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

Report of Independent Public Accountants On Compliance With Laws and Regulations

We were engaged to audit the fund accountability statement of the Ministry of Public Works and Water Resources ("MPWWR") relating to funds received and costs incurred by the Professional Development Component under the Irrigation Management Systems Grant Agreement No. 263-0132 financed by the United States Agency for International Development through Project Implementation Letter No. 5 (the "Project") for the period January 20, 1982 to June 30, 1993, and have issued our disclaimer report thereon dated June 26, 1994. Our report indicated that the scope of our engagement was not sufficient to enable us to express, and we do not express, an opinion on the aforementioned fund accountability statement.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality 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 Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

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

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of misstatements resulting from those failures or violations could be material to the fund accountability statement. The results of our tests of compliance disclosed the following material instances of noncompliance. The effects related to noncompliance in training program documentation and procurement practices are shown as questioned costs in the fund accountability statement referred to above.

We identified that MPWWR did not obtain adequate supporting documents for the amounts remitted to a hotel in Cairo providing lodging for MPWWR seminar participants and instructors subcontracted individually or through universities. MPWWR did not follow proper procurement practices in accordance with applicable laws, regulations, contracts and grants. Refer to findings nos. 1 and 2 in this section for a further discussion of those matters. MPWWR used Project funds to grant loans to other MPWWR divisions, and did not provide the required host contributions. Refer to findings nos. 3 and 4 in this section for a further discussion of those matters.

The extent of noncompliance identified in our testing indicates that, with respect to items not tested, there is more than a relatively low risk that MPWWR may not have complied with applicable laws, regulations, contracts and grants.

This report is intended for the information of the management and others within MPWWR 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.

June 26, 1994

Ministry of Public Works and Water Resources

**Audit of Local Expenditures Under the
Irrigation Management Systems Grant
Agreement No. 263-0132
Professional Development Component
Project Implementation Letter No. 5**

Compliance with Laws and Regulations

Audit Findings

Finding No. 1: Training Program Documentation

Condition:

MPWWR failed to require a hotel in Cairo to provide it with adequate documentation to evidence the performance of services by the hotel, primarily the lodging of trainees from the period from October 25, 1982 to June 30, 1993. MPWWR used its own provided participant listings as support for the significant amount of expenditures remitted to the hotel during the period. Refer to finding nos. 14-17 in the Fund Accountability Statement - Audit Findings section of this report for a further discussion. In addition, MPWWR remitted payments to instructors, subcontracted individually or through universities, without adequate support evidencing service performance, refer to findings nos. 1-3 in the Fund Accountability Statement - Audit Findings section of this report for a further discussion.

We read the policy paper, titled "Human Resources Development for the Professional Development Component", prepared by MPWWR, dated July 1992. It indicates that the Project has conducted five courses for technical people from Arab countries outside of Egypt. In addition, it states that seven more courses were planned for the period, July to September 1992. Furthermore, the "Mid-year Report of Project Activities" for the period from January to June 1993 identified that training for eight participants from other Arab countries and five participants from African countries was conducted by the Project. The accountant indicated that the Non-Egyptian participants reimbursed MPWWR for the costs of the courses. However, she stated that the funds were not deposited or credited to the Project records but remitted directly to MPWWR. We were not able to identify the training costs for these ineligible participants.

Recommendation:

We recommend that MPWWR:

- a) Immediately request from the hotel in Cairo to provide it with supporting documents validating that it provided lodging for approved MPWWR seminar participants.
- b) Provide USAID/Egypt with adequately documented training program files as discussed in the recommendation in finding no. 3 under Internal Control Structure.

- c) Identify all ineligible trainees that participated in Project funded courses costs, and reimburse or credit the Project for the training costs of those participants; and
- d) Discontinue the practice of providing training to ineligible participants unless USAID/Egypt approves in writing.

Finding No. 2: Procurement Practices

Condition:

MPWWR incurred procurement of goods and services for which there is no evidence that competitive bids were obtained, purchase orders issued or were employee or service contracts consistently obtained. These incidents are identified in finding nos. 1, 3, 7, 10, 12 and 14 in the Fund Accountability Statement - Audit Findings section of this report. There are no written policies available regarding proper procurement practices. Furthermore, as identified in findings nos. 2, 4 and 19 in the Fund Accountability Statement - Audit Findings section of this report, we noted incidents of procurements of items not for Project activities. Refer to finding no. 2 under Internal Control Structure for a further discussion regarding conditions identified.

Recommendation:

Since this condition has also been considered a material weakness in internal controls, refer to finding no. 2 under Internal Control Structure for a discussion of our recommendations.

Finding No. 3: Use of Grant Funds

Condition:

During the period subject to audit, MPWWR granted loans in the total amount of LE 242,877 to other divisions of MPWWR. The loans were usually outstanding for a one week period and each averaged between LE 3,000 to LE 7,000. Most of the checks for the loan advances were issued in the name of the accountant who, presently, is also the petty cash custodian. After January 1993, the checks were issued in the name of the Training Manager. The loans have been paid back to the Project but as of June 30, 1993, loans were still being granted to other divisions.

According to the Project accountant, the loans were for project management coordination courses related to other activities for other divisions of MPWWR, primarily the Mechanical and Electrical Engineering Division. As we understand, these loans temporarily financed these activities. MPWWR did not keep records to support these loans and reimbursements, and we did not obtain a clear explanation of their purpose.

Recommendation:

MPWWR should discontinue loaning Project funds for activities outside USAID sponsorship. All applicable reimbursements should be remitted to the Project.

Finding No. 4: Host Country Contributions

Condition:

MPWWR did not provide all of the host country contributions as required in the Grant Agreement. From the period, July 1992 to June 1993, Government of Egypt (GOE) was to provide LE 317,000 (\$ 144,091) for operational Project costs. The GOE records shows the actual expenses remitted on behalf of the Project were LE 125,435 (\$ 57,016) and the budget categories used were different from the ones approved in PIL No. 5 amendment No. 6. In addition, when judgmentally evaluating the supporting documents, we identified that some expenses were not related to the Project and other transactions were not documented.

Recommendation:

MPWWR should provide the host country contributions in the amounts stated in PIL No. 5 and that these contributions be used for Project purposes only.

Ministry of Public Works and Water Resources
Audit of Local Expenditures Under
Irrigation Management System
Grant Agreement No. 263-0132
Professional Development Component
Project Implementation Letter No. 5
Adjusted Fund Accountability Statement (Note 3)
For the Period January 20, 1982 to June 30, 1993

Appendix A

	<u>Balance Per</u>	<u>Reclassifications</u>		<u>Adjusted Balance</u>	<u>Adjusted Balance</u>
	<u>Financial Statements</u>	<u>Debit</u>	<u>Credit</u>		
	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>US \$</u>
Revenue					
AID-PIL #5	5,104,915			5,104,915	2,320,416
Other Project Income	3,038			3,038	1,381
	<u>5,107,953</u>			<u>5,107,953</u>	<u>2,321,797</u>
Expenditures					
Contract Services					
Subcontract/Universities	210,145	10,660	2,935	217,870	99,032
Subcontract/Individuals	119,209	2,856	31,978	90,087	40,948
Commodities					
Training Materials and Equipment	717,196	45,847	23,987	739,056	335,934
Book Periodicals	8,550		1,048	7,502	3,410
Miscellaneous					
Local Staff Support	317,393	5,224		322,617	146,644
Lodging/Food for Trainees	2,290,846	43,537	456	2,333,927	1,060,876
Communications/Reports	4,235			4,235	1,925
Other Local Costs	<u>1,282,004</u>	<u>38,337</u>	<u>86,057</u>	<u>1,234,284</u>	<u>561,039</u>
Total Expenditures	<u>4,949,578</u>	<u>146,461</u>	<u>146,461</u>	<u>4,949,578</u>	<u>2,249,808</u>
Balance	<u>158,375</u>			<u>158,375</u>	<u>71,989</u>

Ministry of Public Works and Water Resources
Audit of Local Expenditures Under
Irrigation Management System
Grant Agreement No. 263-0132
Professional Development Component
Project Implementation Letter No. 5
Schedule of Expenditures of the Adjusted Fund
Accountability Statement Compared with
Reports Submitted to USAID/Egypt
As Discussed in Finding No. 24

<i>Budget Element</i>	<u>Adjusted Balance</u>	<u>Reported to</u>	<u>Difference</u>	
	<u>LE</u>	<u>USAID/Egypt</u>	<u>(Over) Underbilling</u>	<u>LE</u> <u>US \$</u>
<i>Contract Services</i>				
Subcontract/Universities	217,870	210,895	6,975	3,170
Subcontract/Individuals	90,087	119,966	(29,879)	(13,581)
<i>Commodities</i>				
Training Materials and Equipment	739,056	717,196	21,860	9,936
Book Periodicals	7,502	8,551	(1,049)	(477)
<i>Miscellaneous</i>				
Local Staff Support	322,617	318,856	3,761	1,709
Lodging/Food for Trainees	2,333,927	2,287,916	46,011	20,914
Communications and Reports	4,235	4,235	- 0 -	
Satellite Centers	- 0 -	17,066	(17,066)	(7,757)
<i>Other Local Costs</i>	1,234,284	1,282,677	(48,393)	(21,996)
Total	4,949,578	4,967,358	(17,780)	(8,082)

Ministry of Public Works and Water Resources
Audit of Local Expenditures under
Irrigation Management System
Grant Agreement No. 263-0132
Professional Development Component
Project Implementation Letter No. 5
Summary of Questioned Costs
Relating to Findings Nos. 14-17
Fund Accountability Statement
For the Period January 20, 1982
to June 30, 1993

(See Appendices C.1-C.10 for the Details)

Year	(A) Payment	(B) Invoice Amount	(C) No Invoice Available Finding No. 17	(D) Payments for Parties and Meals Finding No. 15	(E) Without Supporting Documents Finding No. 15	(F) Extra Nights Billed Finding No. 15	(G) Cancelled Courses Finding No. 15	(H) Seminars Not Included in MPWWR List Finding No. 15	(I) Handwritten Lists Finding No. 15	(J) No Services Specified Finding No. 16	(K) Net Lodging for Trainees Finding No. 14
1982	5,416	5,416									
1983	16,026	12,277	3,749								5,416
1984	31,961	31,961									12,277
1985	55,400	55,400			115						31,961
1986	55,131	55,131									55,285
1987	61,079	61,079									55,131
1988	158,876	158,876									61,079
1989	306,618	306,528	90	5,520	1,920	779	342		2,381		155,374
1990	447,592	443,976	3,616	20,898		7,530	210	30,240			299,088
1991	311,430	290,514	20,916	25,758		4,680				12,600	372,498
1992	485,685	483,025	2,660	3,330	1,280	6,120		8,320			260,076
1993	148,810	148,810			890		480				463,975
Total in LE	2,084,024	2,052,993	31,031	55,506	4,205	19,109	1,032	38,560	2,381	12,600	1,919,600
Equivalent in US\$	947,283	933,178	14,105	25,230	1,912	8,686	469	17,527	1,082	5,727	872,545

Notes:

- 1) Column A equals the sum of columns B and C.
- 2) Columns C through K equal column A.

Appendix C.4

Date	Check Number	Payment	Invoice Amount	No Invoice Available (Finding No. 17)	Payments for Parties and Meals (Finding No. 15)	Without Supporting Documents (Finding No. 15)	Extra Nights Billed (Finding No. 15)	Cancelled Courses (Finding No. 15)	Seminars Not Included in MPWR List (Finding No. 15)	Handwritten Lists (Finding No. 15)	No Services Specified (Finding No. 16)	Net Lodging for Trainees (Finding No. 14)
	C/F	45,224	45,224									45,224
11/26/86	412088	1,339	1,339									1,339
12/14/86	412092	2,808	2,808									2,808
12/14/86	412093	3,413	3,413									3,413
12/29/86	412098	2,347	2,347									2,347
Total 1986		55,131	55,131									55,131
2/22/87	491862	922	922									922
2/22/87	491863	994	994									994
2/22/87	491864	907	907									907
2/25/87	491869	1,022	1,022									1,022
2/25/87	491870	677	677									677
3/8/87	491872	1,426	1,426									1,426
3/12/87	491874	850	850									850
3/19/87	491875	1,454	1,454									1,454
3/26/87	491878	1,555	1,555									1,555
4/7/87	491888	1,166	1,166									1,166
5/5/87	491893	547	547									547
6/5/87	491895	2,390	2,390									2,390
7/7/87	491814	2,779	2,779									2,779
7/9/87	491815	3,283	3,283									3,283
7/20/87	491818	4,622	4,622									4,622
7/29/87	491823	1,641	1,641									1,641
7/29/87	491824	129	129									129
9/8/87	491833	3,657	3,657									3,657
10/8/87	491837	5,443	5,443									5,443
10/29/87	491849	518	518									518
10/29/87	491850	1,210	1,210									1,210
11/15/87	543757	3,715	3,715									3,715
11/23/87	543762	2,764	2,764									2,764
12/3/87	543766	6,307	6,307									6,307
12/21/87	543770	4,665	4,665									4,665
12/28/87	543774	4,521	4,521									4,521
	B/F	59,164	59,164									59,164

Appendix C.5

Date	Check Number	Payment	Invoice Amount	No Invoice Available (Finding No. 17)	Payments for Parties and Meals (Finding No. 15)	Without Supporting Documents (Finding No. 15)	Extra Nights Billed (Finding No. 15)	Cancelled Courses (Finding No. 15)	Seminars Not Included in MPWWR List (Finding No. 15)	Handwritten Lists (Finding No. 15)	No Services Specified (Finding No. 16)	Net Lodging for Trainees (Finding No. 14)
C/F		59,164	59,164									59,164
12/28/87	543775	1,915	1,915									1,915
Total 1987		61,079	61,079									61,079
2/5/88	543784	2,014	2,014									2,014
2/5/88	543785	1,349	1,349									1,349
2/5/88	543786	3,648	3,648									3,648
2/7/88	543791	114	114									114
2/7/88	543792	1,235	1,235				95					1,140
2/7/88	543793	342	342					342				0
2/14/88	543795	1,045	1,045									1,045
2/23/88	543797	1,672	1,672									1,672
2/23/88	543798	4,104	4,104									4,104
2/25/88	000601	1,824	1,824									1,824
2/25/88	000602	536	536									536
3/17/88	000615	5,016	5,016									5,016
3/17/88	000616	1,349	1,349									1,349
3/31/88	000621	3,629	3,629									3,629
3/31/88	000622	152	152									0
3/31/88	000623	285	285							152		0
4/6/88	000629	6,384	6,384							285		0
4/6/88	000630	5,814	5,814									6,384
6/24/88	000657	779	779									5,814
6/24/88	000658	4,104	4,104									779
6/24/88	000659	1,368	1,368									4,104
6/24/88	000660	190	190									1,368
6/24/88	000661	1,102	1,102									190
7/12/88	000671	684	684									1,102
7/12/88	000672	1,425	1,425									684
7/19/88	000676	5,510	5,510				570					855
7/19/88	000677	855	855									5,510
8/8/88	000687	1,368	1,368									855
8/11/88	000692	2,052	2,052									1,368
B/F		59,949	59,949				665	342		437		2,052
												58,505

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Appendix C.6

Date	Check Number	Payment	Invoice Amount	No Invoice Available (Finding No. 17)	Payments for Parties and Meals (Finding No. 15)	Without Supporting Documents (Finding No. 15)	Extra Nights Billed (Finding No. 15)	Cancelled Courses (Finding No. 15)	Seminars Not Included in MPWWR List (Finding No. 15)	Handwritten Lists (Finding No. 15)	No Services Specified (Finding No. 16)	Net Lodging for Trainees (Finding No. 14)
	C/F	59,949	59,949				665	342		437		58,505
8/31/88	000697	380	380									380
8/31/88	000698	3,534	3,534									3,534
8/31/88	000699	3,306	3,306				114					3,192
9/13/88	049753	6,289	6,289									6,289
9/13/88	049754	5,206	5,206									5,206
9/15/88	049760	912	912									912
9/26/88	049768	703	703									703
10/20/88	049784	5,940	5,940									5,940
10/20/88	049785	837	837									837
10/20/88	049786	11,124	11,124									11,124
11/3/88	049792	14,607	14,607									14,607
11/3/88	049793	1,296	1,296									1,296
11/14/88	078555	5,265	5,265									5,265
11/14/88	078556	3,159	3,159									3,159
11/27/88	078573	10,179	10,179									10,179
12/13/88	078577	15,120	15,120									15,120
12/31/88	366410	9,126	9,126									9,126
12/31/88	366411	1,944	1,944									0
Total 1988		<u>158,876</u>	<u>158,876</u>				<u>779</u>	<u>342</u>		<u>1,944</u>		<u>155,374</u>
										<u>2,381</u>		

Appendix C.7

Date	Check Number	Payment	Invoice Amount	No Invoice Available (Finding No. 17)	Payments for Parties and Meals (Finding No. 15)	Without Supporting Documents (Finding No. 15)	Extra Nights Billed (Finding No. 15)	Cancelled Courses (Finding No. 15)	Seminars Not Included in MPWWR List (Finding No. 15)	Handwritten Lists Finding No. 15	No Services Specified Finding No. 16	Net Lodging for Trainees (Finding No. 14)	Period Invoiced/ Billed	Training Courses Billed
2/7/89	366420	4,725	24,597									4,725	15/1-3/27	146,147,145,143
2/7/89	366421	4,347										4,347		142,C15
2/7/89	366424	1,053										1,053		
2/19/89	366425	4,860										4,860		
2/23/89	112753	3,564										3,564		
2/23/89	112754	9,828										9,828		
2/27/89	112755	5,292	42,819									5,292	2/12-3/30	152,148,149,150,151,46,
3/16/89	112764	1,917										1,917		155,153,156
3/16/89	112765	3,159										3,159		
3/16/89	112766	3,240										3,240		
3/23/89	112769	8,775	43,092									8,775	5/13-6/11	157,158,159,C18,160
4/4/89	112781	10,800										10,800		
4/4/89	112782	5,616										5,616		
5/21/89	112800	8,775										8,775		
5/21/89	021001	12,150										12,150		
5/21/89	021002	2,646										2,646		
6/1/89	021010	4,104										4,104		
6/1/89	021011	3,267										3,267		
6/12/89	021017	11,583										11,583		
6/11/89	021018	3,780	28,485									3,780	6/1-7/9	165,166,161,162,163,164
6/22/89	021020	3,969										3,969		
6/22/89	021021	3,024										3,024		
7/6/89	021032	3,969										3,969		
8/7/89	021047	3,120										3,120		
8/7/89	021048	16,200	59,135									16,200	7/29-9/14	C21,C19,168,C20,169,170,172
8/31/89	054656	5,850										5,850		
8/31/89	054657	12,090										12,090		
8/31/89	054658	4,050										4,050		
8/31/89	054659	3,510										3,510		
8/31/89	054660	10,200										10,200		
9/14/89	054675	11,700										11,700		
9/21/89	054680	2,760										2,760		
9/28/89	054685	2,520										2,520		
9/28/89	054686	4,410	28,080									4,410	9/2-10/12	171,174,175,176,177
10/9/89	054693	2,040										2,040		
10/9/89	054694	5,520	5,520		5,520							0		
10/9/89	054695	630	630									630		
B/F		<u>209,043</u>	<u>232,358</u>		<u>5,520</u>							<u>630</u>		
												<u>203,523</u>		

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Appendix C.8

Date	Check Number	Payment	Invoice Amount	No Invoice Available (Finding No. 17)	Payments for Parties and Meals (Finding No. 15)	Without Supporting Documents (Finding No. 15)	Extra Nights Billed (Finding No. 15)	Cancelled Courses (Finding No. 15)	Seminars Not Included in MPWWR List (Finding No. 15)	Handwritten Lists Finding No. 15	No Services Specified Finding No. 16	Net Lodging for Trainees (Finding No. 14)	Period Invoiced/ Billed	Training Courses Billed
	C/F	209,043	232,358		5,520							203,523		
10/31/89	054703	13,860				1,380						12,480		
10/31/89	054704	35,340	56,880									35,340	9/14-11/16	178,179,180,181
10/31/89	054705	1,380	1,380									1,380		
11/5/89	054709	15,000										15,000		
11/27/89	054725	5,670										5,670		
12/18/89	054736	12,345	14,450			540						11,805	12/2-12/20	182,183
12/12/89	054737	3,630										3,630		
3/16/89	PC 20	1,620	1,620									1,620		
8/27/89	PC 68	240	240									240	8/18	168
8/27/89	PC 108	60	60									60	8/12	C20
9/28/89	PC 55	90		90								0		177
12/18/89	PC 38	540	540									540	12/10	
12/9/89	PC 27	7,800										7,800		
Under Paid			(1,000)											
Total 1989		306,618	306,528	90	5,520	1,920						299,088		
2/8/90	076663	15,000	45,840				960					14,040	1/9-3/15	C22,184,186,187,188,189
2/13/90	076667	15,000										15,000		C23,190
2/20/90	076670	14,250	6,240		6,240							8,010		
2/26/90	076674	20,000										20,000		
3/13/90	076680	18,400	55,110				1,140		18,060			(800)	3/2-5/15	191,194,192,C24,193
3/31/90	076702	860										860		C25
4/30/90	076703	15,000	2,172		2,172							12,828		
5/13/90	076715	37,000	73,320				1,530		9,660			25,810	5/4-6/10	195,196,197,198,199,200
5/20/90	076722	21,560	4,440		4,440							17,120		C26
5/30/90	076743	750										750		
6/11/90	076744	10,190										10,190		
6/24/90	076749	10,000										10,000		
6/3/90	076750	29,470	53,640				1,320	210				27,940	6/1-7/23	201,203,204,205,206,C28,207
7/31/90	048478	43,850	2,988		2,988							40,862		208
8/30/90	048497	30,810	41,130				990					29,820	7/13-8/30	213,211,210,C29,214,215
9/30/90	077905	27,780	48,438				1,110		2,520			24,150	7/30-10/4	216,217,C30,219,C31,C32,220
10/30/90	PC 40	1,400	1,400									1,400	10/26-11/7	224
B/F		311,320	334,718		15,840		7,050	210	30,240			257,980		

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Appendix C.9

Date	Check Number	Payment	Invoice Amount	No Invoice Available (Finding No. 17)	Payments for Parties and Meals (Finding No. 15)	Without Supporting Documents (Finding No. 15)	Extra Nights Billed (Finding No. 15)	Cancelled Courses (Finding No. 15)	Seminars Not Included in MPWWR List (Finding No. 15)	Handwritten Lists (Finding No. 15)	No Services Specified (Finding No. 16)	Net Lodging for Trainees (Finding No. 14)	Period Invoiced/ Billed	Training Courses Billed
	C/F	311,320	334,718		15,840		7,050	210	30,240			257,980		
10/16/90	077922	34,500	60,780									34,500	10/6-11/15	221,C33,222,223,C34,224,225,C35,C36
10/30/90	077926	23,760										23,760		
11/29/90	077957	29,400	2,662		2,662							26,738		
12/19/90	077962	30,000	30,820				480					29,520		227,228,C37,226,229
5/30/90	PC 47	2,000	2,000		2,000							0		
7/1/90	PC 105	396	396		396							0		
12/31/90	PC 18	2,516		2,516								0		
12/31/90	PC 22	6,300	6,300								6,300	0		
12/30/90	PC 20	6,300	6,300								6,300	0		
12/30/90	PC 29	1,100		1,100								0		
Total 1990		447,592	443,976	3,616	20,898		7,530	210	30,240		12,600	372,498		
2/21/91	0980455	30,000	24,250		3,100		480					26,420		T2,T1,230,C38,231,T3,234,T5,232
2/28/91	0980473	30,000	40,710		1,500		720					27,780		237,236,C39,T6,C40,238,239,240,C41,C42
4/30/91	0980498	30,000	13,938		3,648		240					26,112		241,T7,243,C43
6/30/91	1042829	30,000	51,240		5,430		480					24,090		244,T9,C44,245,246,247,C45,T10,248,C46,C47
7/30/91	1042845	30,000	41,460		4,500		570					24,930		249,C48,C49,251,C50,254,255
7/30/91	PC 81	2,520										2,520		
8/31/91	1042861	30,000	34,860		1,080		630					28,290		256,257,C51,258,259,260,C52
8/31/91	PC 61	4,500										4,500		
9/30/91	1042868	30,000	26,000		2,150		420					27,430		262,C53,264,C54,C55,265,C56,C57
10/30/91	PC 87	4,050										4,050		
10/30/91	1042878	30,000	23,010		1,800		360					27,840		267,T8,C58,270,T12
11/18/91	1042888	30,000	35,100		2,550		780					26,670		273,275,T13,276,274,278,C59
12/5/91	1137204	30,000		20,556								9,444		
30/4/91	PC 36	360		360								0		
Others			(54)											
Total 1991		311,430	290,514	20,916	25,758		4,680					260,076		

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Appendix C.10

Date	Check Number	Payment	Invoice Amount	No Invoice Available (Finding No. 17)	Payments for Parties and Meals (Finding No. 15)	Without Supporting Documents (Finding No. 15)	Extra Nights Billed (Finding No. 15)	Cancelled Courses (Finding No. 15)	Seminars Not Included in MPWWR List (Finding No. 15)	Handwritten Lists (Finding No. 15)	No Services Specified (Finding No. 16)	Net Lodging for Trainees (Finding No. 14)	Period Invoiced/ Billed	Training Courses Billed
1/1/92	1137215	30,000	34,086	2,100			960					26,940		T14,281,285,T15,283,284
1/21/92	1137225	40,000	43,400				1,120					38,880		288,287,292,291,T16
2/10/92	1137240	30,000	33,920				760					29,240		C60,289,C61,293,C62
2/27/92	PC 95	600										600		
2/25/92	1137246	22,240	36,640				720					21,520		294,295,T17,T18,C64,C63,302
3/22/92	1137261	40,000	37,850		1,050		880					38,070		301,303,T19,304,C65,T20,C66
4/21/92	1137278	36,920		560								36,360		
5/17/92	1137292	40,000	51,204		315		1,080					38,605		306,T21,C67,308,312,311,C68
7/8/92	0033832	29,160	29,160									29,160		310,T22
7/15/92	0013836	10,000					600					9,400		
7/30/92	0013849	42,505	52,505		105							42,400		
8/13/92	0051676	30,000	40,040									30,000		317,T23,C71,319,318
9/30/92	0051687	24,480	14,440			200						24,280		C72,320,321,C73
10/25/92	0051698	34,520	34,520									34,520		324,323,332,C74,325,T24
11/26/92	0051725	41,692	41,692		1,572	40						40,080		326,C75,327,C76,328,329,T25
2/17/92	0051742	17,848	17,848		168				8,320			9,360		331,333,C77
12/29/92	0051746	15,600	15,600			1,040						14,560		
9/30/92	PC 36	120	120		120							0		
Total 1992		485,685	483,025	2,660	3,330	1,280	6,120		8,320			463,975		
1/17/93	0051749	15,160	15,160					40				15,120		T27,335,338,T28
2/2/93	0096159	36,920	30,120									36,920		337,340,339
4/5/93	0096191	30,850	37,650			650		280				29,920		T30,C79,T29,341
4/5/93	0096218	6,000	6,000			240						5,760		C80,C81
5/25/93	0096228	27,560	27,560					160				27,400		345,344,T31,C82
5/30/93	0096235	28,080	28,080									28,080		347,346,T32,T33
6/30/93	0203916	4,240	4,240									4,240		
Total 1993		148,810	148,810			890		480				147,440		

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Ministry of Public Works and Water Resources

Audit of Local Expenditures Under the
Irrigation Management Systems Grant
Agreement No. 263-0132
Professional Development Component
Project Implementation Letter No. 5

Management Comments

Finding No. 1:

Value in L.E.	Equivalent in US \$
55,398	25,180

We have selected a sample of 30% of the total amount (L.E. 17,100)
Please find attached documentation covering the full sample.

Finding No. 2:

Total finding amount in L.E.	Equivalent in US \$
31,012	14,096

Total documented amount in L.E.
24,900

A close review of the relevant documentation revealed the following:

1. L.E. 8650 was paid to Ein Shams University for one of the training sessions of course #103, which took place on the 19th November through the 22nd (Field trip).

Attached is the session's program as well as the contract signed with Ein Shams University.

Article "9" of the contract stipulates that a technical field trip will be organized for the trainees in Sinai and will cost L.E. 11,150

L.E.	2,500	Advance
	<u>8,650</u>	Final payment
	<u>11,150</u>	

A list of the participants is also included.

2. L.E. 8,000 paid to Ein Shams University to cover the cost of session #318 which was conducted in upper Egypt from Aug 29.92 until Sept 21, 92.
 1. Check Copy.
 2. The course schedule.
 3. A copy of the contract signed with Ein Shams University. Article 11 concerns a trip to Upper-Egypt at the cost of 8,000 for 26 participants and trainers.
 4. A list of the participants names.

3. L.E. 8,250 paid to Ein Shams University as part of the cost of technical field trip # 60 which was conducted between Sept 17-86 and Oct 16,86.

Attachments:

1. Checks copies
2. Trip schedule
3. Participants list.
4. Copy of the contract signed with Ein Shams University. Article 8 covers the trip.

Accordingly we believe that the following amounts should be approved and accepted as documented expenditures:

L.E.	8,600
	8,000
	<u>8,250</u>
	<u>24,900</u>

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Finding No. 3:

Value in L.E.	Equivalent in US \$
10,275	4,670

Considering that the various courses required specialized trainers who are all public sector employees governed by pre-set rates and payment rules, no tendering or bids are required.

Attached please find the documentation which justifies the rates, identifies the courses, and confirms payment.

Finding No. 4:

MPWWR has received the computer which is the subject of this finding (receiving receipt attached and physical verification made).

Sheladia, as stated by the auditors, was a technical assistance contractor directly hired by USAID. The project has acted on the premise that Sheladia represented USAID. This understanding was confirmed by the fact that USAID reimbursed Sheladia for the advance, i.e. USAID approved the procurement of this item.

Procurement and receiving documentation attached.

Finding No. 5:

Payment of Duties and Taxes:

Total value of finding in L.E.
11,887

Total value reviewed and documented in L.E.
11,467

1. L.E. 4,044 This amount represents a stamp duty on an add which was placed in a newspaper. The newspaper is tax-exempt, accordingly no tax is paid, however state stamp taxes are due and payable even for governmental organizations and specially funded projects.

Letter from the newspaper confirming the above included.

2. L.E. 459 This amount was paid for customs clearance and registration and not as customs duties.
3. L.E. 677 Same
4. L.E. 1,464 Same
5. L.E. 4,087 Same
6. L.E. 527 Same
7. L.E. 208.80 Same

Documentation attached.

Finding No. 6:

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Value in L.E.	Equivalent in US \$
3271	1488

Finding: This payment was made for the procurement of furniture and was not properly supported with invoices, purchase orders or bids.

Answer: Attached are copies of the bids as well as the bid analysis and technical drawings describing the furniture to be supplied.

The documentation concerning this item is complete and acceptable.

Value in L.E.	Equivalent in US \$
642	292

This amount was paid to Xerox to cover maintenance costs for the months of April/May/June 86.

The invoice is dated August 9. 86.

Receipt was made based on an annual maintenance agreement, thus it did not require a special purchase order.

Attached please find the relevant documentation.

Value in L.E.	Equivalent in US \$
3740	1700

This amount consists of 3 small value procurement transactions for books and periodicals.

The project issues direct orders for small values, especially when the procured items are specific books which can only be purchased from one source.

Attached please find the relevant documentation (L.E. 325 + 985.05 + 2430)

Finding No. 7:

Value in L.E.	Equivalent in US \$
5,000	2,273

Attached is a copy of the employment contract of Jean Kamel. The contract identifies his duties and responsibilities.

A form signed monthly by the employee confirming his receipt of the full amount.

Accordingly we believe that his amount is fully supported.

Finding No. 8:

Value in L.E.	Equivalent in US \$
15,873	7,215

- We have obtained attendance sheets
- We have received personnel files demonstrating that employees did not take leave.
- We have obtained proof of payment.

Considering that there is no proof of leave being taken and paid for and in view of the attendance sheets being completed. We believe this amount should be approved.

Finding No. 9:

Value in L.E.	Equivalent in US \$
1130	514

This amount represents an annual "back to school" bonus which is paid to all government employees. Payment is not related to the USAID project. Payment is made based on a ministerial decree dated Sept 21st 1986. The decree was issued at the request of the President.

Finding No. 10:

Value in L.E.	Equivalent in US \$
1,119	509

Attached are documents covering the payments to employees as well as copy of the employment agreement of Mr. Youssef Houssein Mohamed who has received L.E. 780 out of the L.E. 1,119.

The remaining L.E. 339 are backed by petty cash receipt as well as an appointment letter.

Finding No. 11:

Value in L.E.	Equivalent in US \$
30,164	13,711

The unsupported figure is based on pro-rated calculation based on a sample.

Considering that the drivers salary does not exceed L.E. 123 per month and in view of the fact that they were asked to work extra hours on a daily basis. Also taking into consideration that the payment of salaries and overtime was left up to the management until a decree was issued in July of 1992.

We recommend that this amount be accepted as the 40% rule was not in existence at the time.

Finding No. 12:

Value in L.E.	Equivalent in US \$
773	351

Attached please find an attached list of participants as a justification for the expense.

Finding No. 13:

Value in L.E.	Equivalent in US \$
10928	4968

Attached please find copies of the attendance sheets.

Payment of per-diem and expenses is also acceptable for trainers and support staff whenever they can be identified as direct charge to the project.

Finding No. 14:

Value in L.E.	Equivalent in US \$
1,919,600	872,545

Reference to the conditions noted in this finding. Kindly note the following:

- a. It is common practice , even for international travel agencies, to submit invoices covering group packages in the manner used by Dreamers Hotel (i.e. reference is only made to the number of persons in the group, number of days, approved rate and net amount due).

Attached is a copy of a documentation for a similar transaction issued by one of the leading travel agencies in Egypt and world wide.

- b. Due to the fact that Dreamers Hotel residents are all non- Cairo. area residents , and that they are required to attend the first day of the course early in the morning, it is an acceptable practice for them to stay in the hotel the night before the course.

Also the course closing usually ends after 12:p.m. It is a standard practice for Hotels to bill an extra night, if check-out time is after 12:00 p.m.

- c. The course files included course attendance sheets , showing participants addresses. Non of the Cairo residents were accepted as Hotel residents.
- d. We believe that the finding raised by the auditors are essentially due to the absence of centralized organized files. Accordingly, we decided to take a different approach which entailed the use of a more time consuming methodology.

We checked administrative files accounting files, and training files.

For the last three year (1993 , 1992 and 1991) we were able to prepare files for 50% of the courses based on value. These files include:

1. Invoice
 2. Evidence of payment
 3. Training program
 4. Nomination sheet (including addresses and specifying whether or not the participant was a resident or a non-resident at hotel)
 5. Attendance sheet
 6. Letter sent by fax to the relevant departments confirming that training was completed , duration, names and signature of trainees.
 7. Training certificates for all trainees are available to be presented upon request.
- e. Project management confirmed performing a market survey prior to selecting the most appropriate hotel in terms of location and cost.

Taking into consideration the filing problem, and the lack of summarized information, we believe that although the auditors did not have an easy task, special consideration should be given to this issue before making any determination.

We are confident that from a program standpoint the money was well spent.

Finding No. 15:

Value in L.E.	Equivalent in US \$
120,793	54,906

Management approved end of course parties and other related expenses.

Regarding seminars not included on the MPWWR list, management's approval of the payment is the only implied proof of the course that we could obtain.

Regarding the extra nights please refer to our answer to finding # 14.

Finding No. 16:

Value in L.E.	Equivalent in US \$
12,600	5,727

Attached please find hotel invoices and evidence of payment. However were unable to identify relevant courses.

Finding No. 17:

Value in L.E.	Equivalent in US \$
31,031	14,105

In our opinion this difference came out of advance payments made starting from 1988 to the hotel.

A reconciliation against future billings from the hotel should be made to recover this amount.

Finding No. 18:

Value in L.E.	Equivalent in US \$
35,780	16,264

Original documentation was in effect submitted to AID by Sheladia.

Considering that we do not have access to Sheladia's advance reconciliation or billing to USAID, we are unable to determine whether or not Sheladia has also been repaid for the same items.

However from the project's stand point Sheladia represented USAID thus no questions were raised when they kept original documents.

Finding No. 19:

Value in L.E.	Equivalent in US \$
19,300	8,773

We agree with the auditor's finding.

(Attachments provided).

Finding No. 20:

Value in L.E.	Equivalent in US \$
27,500	12,500

Attached please find the required documentation which consists of:

1. A list of vehicles used by the project during the relevant years.
2. A list of the gas coupons and their respective serial numbers, as well as cross reference to vehicles listed in 1 above.
3. Administrative approvals authorizing the usage of gas coupons through the warehouse.

Finding No. 21:

Value in L.E.	Equivalent in US \$
18,608	8,458

All coupons were traced to project vehicles, except for two coupons for which the explanation is that a member of project team died and the project management authorized the issuance of coupons #91898 and 91899 for the transportation of the body to the cemetery.

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Finding No. 22:

Value in L.E.	Equivalent in US \$
10,445 811	4,747 369

As stated in the auditors report overruns did not exceed 23% excess authorized under law #9 . Accordingly , U.S. AID is not over billed.

The amount paid for social security was paid on the account of the contractor and deducted for his final invoice as stipulated by the law.

Please , find attached all supporting documentation.

Finding No. 23:

Value in L.E.	Equivalent in US \$
15,000	6,818

This amount was paid to cover the printing of calendars which describe the course schedules for the programs offered by the training center.

These calendars are specially printed for the center and are distributed to the various organizations which could be potential users of the program.

Attached is a sample calendar.

Finding No. 24:

Value in L.E.	Equivalent in US \$
17,780	8,082

The net effect of appendix B noted in the auditors findings is mainly due to over billing for the satellite center in Kafr El Sheik . This center was authorized by AID under implementation letter # 5H dated December 16,1986 which committed L.E. 20,000 for this project with a special request for separate vouchering.

(Please see attached AID letter).

Ministry of Public Works and Water Resources

Audit of Local Expenditures Under the
Irrigation Management Systems Grant
Agreement No. 263-0132
Professional Development Component
Project Implementation Letter No. 5

Auditor's Response to Management Comments

Our comments below address the Ministry of Public Water and Water Resources responses provided regarding the questioned costs as identified in findings on the Fund Accountability Statement. The findings for which MPWWR provided relevant supporting documents have been deleted and marked as such in the Fund Accountability Statement - Audit Findings section. For those findings in which insufficient supporting documents were provided or where we did not agree with the adequacy of the MPWWR response, the findings remain the same or modified as discussed below. MPWWR did not provide comments to the Internal Control and Compliance with Applicable Laws and Regulations audit findings.

MPWWR's management entire response is presented in Appendix D.

Finding No. 1: Subcontract/Universities

MPWWR provided contracts regarding some of the subcontracted individuals. However, MPWWR did not provide any proof that the services were performed. The finding has been modified to reclassify questioned costs under the appropriate subtitle which did not affect the total questioned cost.

Finding No. 2: Subcontract/Universities

MPWWR's response does not adequately address the finding. Their response does not include a proof that the services contracted were performed. MPWWR was able to provide us with contracts related to amounts paid to Ein Shams University but signed contracts do not provide adequate evidence that the work was performed. The "condition" paragraph was reworded accordingly and essentially the finding remains unchanged.

Finding No. 3: Subcontract/Individuals

MPWWR's response included adequate support for LE 1,780 of the questioned costs. The remainder was either not adequately addressed or not responded to. Finding was modified as necessary.

Finding No. 4: Training Materials and Equipment

MPWWR's response does not address the condition in the finding. We physically inspected the computer and questioned the related cost since the purchase was not in the procurement list approved by USAID/Egypt and because all supporting documents are in the name of Sheladia Associate Inc., a USAID contractor, not funded under PIL # 5. It appears from reading management's response that they included the cost in USAID/Egypt billing for PIL # 5 for the sole purpose that the user represented USAID/Egypt in the general sense. Accordingly, the finding remains unchanged.

Finding No. 5: Payment of Taxes and Custom Duties

We are not questioning the documentation supporting these cost but as stated in the Grant Agreement, these expenses are ineligible. Furthermore, the Grant Agreement states that such costs should be paid by grantee and not with grant funds. MPWWR's response does not address the finding.

Finding No. 6: Unsupported Expenses

MPWWR's response addressed questioned costs of LE 6,668. The amounts not addressed remain in the finding.

Finding No. 7: Local Staff Support

MPWWR provided supporting documents. Finding is deleted.

Finding No. 8: Local Staff Support

MPWWR did not provide additional documentation to validate that the payments of annual leave compensation were appropriate. Their response only provided lists signed by the employees as evidence that such employees received the payment. The primary concern of the finding relates to providing evidence that such employees earned the vacation pay i.e., did not take vacations. Therefore, the finding remains unchanged.

Finding No. 9: Local Staff Support

MPWWR provided supporting documents. Finding is deleted.

Finding No. 10: Local Staff Support

MPWWR provided supporting documents. Finding is deleted.

Finding No. 11: Local Staff Support

Documents provided by MPWWR consist of a copy of the GOE decree where it stated

that overtime payments should not exceed 40% of basic salary. Since this decree only validates the fact that overtime payments should not exceed 40% of basic salaries, it is not acceptable proof allowing automatic overtime payments of 40%. However, since no other acceptable documentation exists for overtime payments incurred prior and post the decree, we believe our calculation using the maximum overtime of 40% is appropriate and reasonable under the circumstances. Therefore the finding remains unchanged.

Finding No. 12: Lodging/Food for Trainees

MPWWR provided a list of participants and the seminar name, but did not provide additional information to determine if the seminar is Project related. In addition, we could not trace this seminar to the list of seminars performed by the Project. Therefore, the finding remains unchanged.

Finding No. 13: Payments to Trainees not in the Approved Participants List

MPWWR provided supporting documents. Finding is deleted.

Finding No. 14: Lodging/Food for Trainees

MPWWR provided copies of invoices issued by hotels other than the Dreamers Hotel which do not have any relation to the Project. MPWWR was attempting to illustrate the propriety of the invoices submitted by the Dreamers Hotel by comparing them with other hotels. However, the examples provided relating to group invoicing illustrated much more detail than the Dreamers Hotel invoices so we are uncertain as to the rationale behind the response. Further, their response states that they were able to prepare supporting files for the last three years for 50% of the courses based on value but no such additional documents were provided. MPWWR's response does not address the finding. Therefore, the finding remains unchanged.

Finding No. 15: Lodging/Food for Trainees

MPWWR's response does not adequately address the finding and no additional supporting documents were provided. The finding remains unchanged.

Finding No. 16: Lodging/Food for Trainees

MPWWR did not provide adequate supporting documents. The finding remains unchanged.

Finding No. 17: Lodging/Food for Trainees

MPWWR's response indicates that the amounts are related to advances given to the Hotel, starting in 1988 and that a reconciliation against future billings is necessary to recover the amounts. Their response confirms that the amounts are currently unsupported. The finding remains unchanged.

Finding No. 18: Lodging/Food for Trainees

MPWWR's response indicates that documentation was submitted to USAID/Egypt through Sheladia Associates Inc. No additional supporting documents were provided to support the questioned costs. The finding remains unchanged.

Finding No. 19: Expenses not Related to Project Purpose

MPWWR agrees with the finding.

Finding No. 20: Other Local Costs

MPWWR provided sufficient documents on the fuel usage for vehicle used in the Project. However, their response indicates that, as of the time of their response, gasoline coupons of LE 9,975 have not been used. Since the Project's completion date was June 30, 1994, this amount is questioned. The finding has been modified accordingly.

Finding No. 21: Other Local Costs

MPWWR provided, as support for the use of gasoline coupons of LE 5,250, records which also support the usage of gasoline for another purchase of the same amount done in May 30, 1991. This is not acceptable documentation and therefore this amount remains questioned.

Finding No. 22: Other Local Costs

MPWWR provided a response adequate to address the concerns regarding cost overruns in the original finding but did not provide an adequate response to the remaining questioned costs. The finding is modified accordingly.

Finding No. 23: Other Local Costs

MPWWR provided supporting documents. Finding is deleted.

Finding No. 24: Overbilling

MPWWR's indicates that the overbilling relates to renovations for the Satellite Center in Kafr El Sheikh, which were approved by USAID under PIL No. 5, amendment H. No documents were provided to support that these billings related to renovations. The amounts originally questioned were determined by comparing actual expenditures according to Project records with billings submitted to USAID. Furthermore, Project records did not indicate or have any expense category identifiable as renovations. The finding remains unchanged.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

February 6, 1995

MEMORANDUM

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

FROM: James Redder, OD/FM/FA *James Redder*

SUBJECT: Audit of the Ministry of Public Works and Water Resources (MPWWR) on Project Implementation Letter (PIL) 5 for the Professional Development Component of the USAID/Egypt's Irrigation Management Systems Project No. 263-0132 - Draft Report

Following is the Mission response to the subject draft report.

Mission has contracted with Allied Accountants to conduct a review of findings 14 through 17 of the subject draft report. Allied has submitted its report on January 30, 1995 (copy submitted to you). Mission has reviewed the report and believes that of the LE 2,084,024 questioned under Findings 14-17, LE 1,639,383 is supported, and LE 444,641 (including LE 55,506 of ineligible costs) is sustained.

The remaining questioned amount of LE 189,369 will also be sustained, subject to further review by the Mission.

Please issue the final report.

Subsequent to issuance of the final report, Mission will continue to work with the auditee on all the findings, before making its final determination and issuing the Bill for Collection.