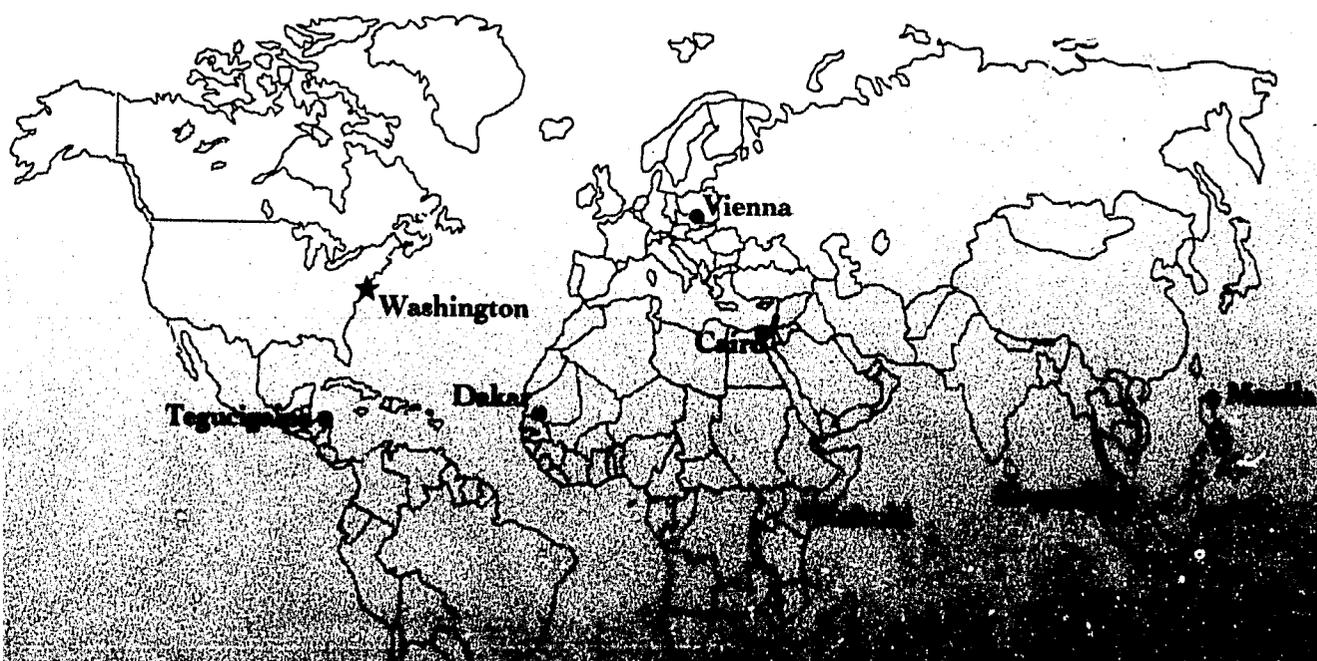


PD-ABK-481

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

**Audit of the Ministry of Public Works and Water
Resources, Project Preparation Department (PPD)
Local Expenditures Incurred Pursuant to Project
Implementation Letter (PIL) No. 3 Under the
Irrigation Management Systems Project No. 263-0132**

**Report No. 6-263-95-013-N
February 16, 1995**



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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

February 16, 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, Project Preparation Department (PPD), Local Expenditures Incurred Pursuant to Project Implementation Letter (PIL) No. 3 under the Irrigation Management Systems Project No. 263-0132

The attached report transmitted by Farid Mansour & Co. on January 8, 1995 presents the results of a financial audit of the Project Preparation Department Component (PPD), Local Expenditures Incurred Pursuant to Project Implementation Letter (PIL) No. 3 under the Irrigation Management Systems Project No. 263-0132. The project's primary objective is to provide quality technical and economic feasibility studies, analyze investment opportunities available to MPWWR and prepare reports in English for submission to international donors.

We engaged Farid Mansour & Co. to perform a financial audit of PPD's incurred expenditures of \$755,240 (equivalent to LE1,712,885) as of June 30, 1993. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Farid Mansour & Co. also evaluated PPD's internal controls and compliance with applicable laws, regulations and grant terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Farid Mansour & Co. questioned \$20,179 in incurred costs billed to USAID by PPD (including \$2,918 in unsupported costs). The questioned costs included support personnel, office equipment and supplies, training equipment and supplies, workshop and work plan, and travel and per diem. In addition, Farid Mansour & Co. noted three non-material weaknesses in PPD's internal control structure relating to the Accounting System, Payroll System and controls over cash.

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In response to the draft report, PPD provided documentation and/or additional explanations for the questioned costs. However, PPD disagreed with the majority of the non-material internal control findings. Farid Mansour & Co. reviewed PPD's response to the findings. Where applicable, they have made adjustments in their report or provided further clarification of their position.

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 resolve questioned costs of \$20,179 (including \$2,918 in unsupported costs) as detailed on pages 11 through 15 of the audit report.

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

With regard to the non-material internal control weaknesses, they can be handled directly between the Mission and the grantee.

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

**THE PROJECT PREPARATION DEPARTMENT OF
THE MINISTRY OF PUBLIC WORKS AND WATER RESOURCES**

**FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION**

**PROJECT IMPLEMENTATION LETTER NO. 3 RELATED TO THE
IRRIGATION MANAGEMENT SYSTEMS PROJECT
NO. 263-0132**

**FOR THE PERIOD
FROM JANUARY 6, 1982
THROUGH JUNE 30, 1993**

**THE PROJECT PREPARATION DEPARTMENT OF
THE MINISTRY OF PUBLIC WORKS AND WATER RESOURCES**

**FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION**

**PROJECT IMPLEMENTATION LETTER NO. 3 RELATED TO THE IRRIGATION
MANAGEMENT SYSTEMS PROJECT NO. 263-0132**

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January 8, 1995

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

Dear Mr. Darcy,

This report presents the results of our financial-related audit of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") resources managed by the Project Preparation Department ("PPD") of the Ministry of Public Works and Water Resources ("MPWWR") under Project Implementation Letter ("PIL") No. 3 related to the Irrigation Management Systems (IMS) Project No. 263-0132 ("grant agreement") for the period from January 6, 1982 through June 30, 1993.

Background

The Project Preparation Department (PPD) was created in 1980 in response to a recommendation by the World Bank to create an in-house capability of MPWWR for the preparation of feasibility studies. USAID/Egypt funding through IMS began in 1982. The main objectives of the PPD is to provide quality technical and economic feasibility studies, analyze investment opportunities available to MPWWR and prepare reports in English for submission to international donors.

USAID/Egypt provided PPD with technical assistance, technical training and English language upgrading, commodities and vehicles. PPD has benefitted from seven resident advisors. Technical assistance was entrusted to Harza Engineering Company through September 1993. PPD has carried out twenty-five feasibility studies of major agricultural irrigation projects for the MPWWR.

The total estimated cost of PIL No. 3 is LE 1,712,885 (equivalent to \$ 755,240). The Government of Egypt monetary contribution in addition to technical assistance amounted to LE 232,710 (equivalent to \$ 102,606).

Audit Objectives and Scope

The objective of this engagement was to conduct a financial-related audit of USAID/Egypt resources managed by the PPD of the MPWWR on PIL No. 3 related to the IMS Project No. 263-0132 funded by USAID/Egypt for the period from January 6, 1982 through June 30, 1993. The financial-related audit was performed in accordance with generally accepted auditing standards and the US Comptroller General's *Government Auditing Standards* and, accordingly, included such tests of accounting records as deemed necessary under the circumstances. Specific objectives were to determine whether:

1. the fund accountability statement for the USAID/Egypt financed PPD project presents fairly, in all material respects, project revenues received and costs incurred and reimbursed by USAID/Egypt in conformity with the applicable accounting principles;
2. costs billed to USAID/Egypt are in fact allowable, allocable and reasonable in accordance with the terms of the PIL, grant agreement and USAID/Egypt regulations;
3. the internal controls, accounting systems and management practices of the PPD are adequate for USAID/Egypt agreements; and
4. PPD complied, in all material respects, with agreement terms and applicable laws and regulations.

Preliminary planning and review procedures were performed during April 1994 and consisted of discussions with RIG/A/C personnel and PPD officials. Fieldwork commenced in April 1994 and was completed May 1994.

Our selection of disbursements tested was as follows:

- For the Zefta project, project costs were selected for testing on a judgmental basis to test a majority of expenditures. We tested 85% of project costs incurred.
- For the Project itself, our selection was statistical. Our level of assurance reached 95%, with a tolerable error rate of 5% and expected error rate of 1%. Additionally, our selection covered unusual items and large amounts.

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

1. reconciling PPD's accounting books to invoices issued to USAID/Egypt and testing of project costs incurred for allowability, allocability, reasonability and appropriate support;
2. determining that expenditures were appropriate and conformed with the terms of the PIL, grant agreement and applicable laws and regulations;
3. reviewing other direct costs for allowability, allocability and reasonability; and
4. reviewing the appropriateness of documentation of costs incurred.

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

We did not meet the continuing education requirements, as required by Paragraph 6 of Chapter 3 of *Government Auditing Standards*. Additionally, 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 Coopers & Lybrand worldwide internal quality control program which requires the Coopers & Lybrand Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other Coopers & Lybrand offices.

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

Results of Audit

Fund accountability statement:

Our audit identified \$ 20,179 of questionable costs, including \$ 2,918 of unsupported costs.

Internal control structure:

Our review of the internal control structure of PPD disclosed the following reportable conditions:

1. Accounting System
 - Errors were made in the classification of project costs incurred and in preparing financial reports delivered to USAID/Egypt.
2. Payroll System
 - Lack of proper segregation of incompatible duties.
 - Inadequate documentation for salaries, overtime and of personnel files.
3. Cash
 - A separate bank account for USAID/Egypt funds was not utilized.

- Bank reconciliations were neither properly prepared nor reviewed.
- Lack of proper segregation of incompatible duties.
- Unused and canceled checks were not properly accounted for.
- Advances for purchases were not settled on a timely basis.

Compliance with agreement terms and applicable laws and regulations:

No material items of non-compliance were noted.

Management Comments

PPD management comments have been obtained and are included in Appendix C of this report. We have provided further clarification of our position, where necessary, in Appendix D of this report or have adjusted our final report.

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

C66PERS → LYBIRD

May 30, 1994

our reference

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

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the accompanying fund accountability statement of the Project Preparation Department ("PPD") of The Ministry of Public Works and Water Resources ("MPWWR") on project implementation letter ("PIL") No. 3 related to the Irrigation Management Systems Project No. 263-0132 ("grant agreement") funded by the United States Agency for Development Mission to Egypt ("USAID/Egypt") for the period from January 6, 1982 to June 30, 1993. The fund accountability statement is the responsibility of PPD's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

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

We did not meet the continuing education requirements as required by Paragraph 6 of Chapter 3 of *Government Auditing Standards*. Additionally, 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 Coopers & Lybrand worldwide internal quality control program which requires the Coopers & Lybrand Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other Coopers & Lybrand offices.

As described in Note 2, the accompanying fund accountability statement has been prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As more fully described in Note 6 to the accompanying fund accountability statement, the results of our tests disclosed the following questioned project costs as detailed in the accompanying fund accountability statement:

(1) \$ 17,261 in project costs that are explicitly ineligible for reimbursement because they are not program-related, are unreasonable or are prohibited by the PIL, umbrella grant agreement or applicable laws and regulations; and (2) \$ 2,918 in project costs that are not supported with adequate documentation or did not have the required USAID/Egypt prior approvals or authorizations.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in all material respects, project costs incurred by the PPD of the MPWWR on PIL No. 3 related to the IMS Project No. 263-0132 funded by USAID/Egypt during the period from January 6, 1982 to June 30, 1993, in conformity with the basis of accounting described in Note 2.

Our audit was conducted for the purpose of forming an opinion on the fund accountability statement described in the first paragraph. The supplemental information included in Appendices A and B is presented for purposes of additional analysis and not as a required part of the basic fund accountability statement. This information has been subjected to the auditing procedures applied in the audit

of the basic fund accountability statement, and in our opinion, except for the effects of the questioned costs as identified in Appendix B on the fund accountability statement expressed in Egyptian pounds in Appendix A, such information is fairly stated, in all material respects, in relation to the basic fund accountability statement taken as a whole.

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

COPPER & LYBMAN

**THE PROJECT PREPARATION DEPARTMENT OF
 THE MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
 FUND ACCOUNTABILITY STATEMENT
 PROJECT IMPLEMENTATION LETTER NO. 3
 RELATED TO THE IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132
 FOR THE PERIOD FROM JANUARY 6, 1982 THROUGH JUNE 30, 1993**

CATEGORY	ACTUAL COSTS	RECLASSIFIED COSTS	QUESTIONED COSTS		AUDIT FINDINGS REFERENCES
			INELIGIBLE	UNSUPPORTED	
	(Note 1)	(Note 4)	(Note 6)	(Note 6)	
PROJECTS INPUTS					
Support Personnel	\$ 198,455	-	\$ 2,667	\$ 1,401	A, Page 10
Local Consulting	16,394	\$ 51	-	-	
In-country Training	11,884	-	-	-	
COMMODITIES					
Office Equipment and Supplies	154,860	5,606	1,776	-	B, Page 10
Equipment and Supplies	5,754	-	-	-	
Training Equipment and Supplies	3,088	(741)	-	925	C, Page 11
SUPPORT COSTS					
Workshop and Work Plan	29,947	-	12,275	-	D, Page 12
Communication and Reports	3,295	-	-	-	E, Page 12
Travel and Per Diem	15,572	-	-	-	
Others	301,631	(4,916)	530	473	F, Page 13
NORTH ZEFTA PROJECT					
(-) USE OF PROJECT CARS (Note 5)	20,058 <u>(5,575)</u>	- <u>-</u>	13 <u>-</u>	119 <u>-</u>	G, Page 13
TOTAL	\$ <u>755,363</u>	\$ <u>-</u>	\$ <u>17,261</u>	\$ <u>2,918</u>	

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

**THE PROJECT PREPARATION DEPARTMENT OF THE MINISTRY OF PUBLIC WORKS AND
WATER RESOURCES**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

Note 1 - Scope of Audit:

The fund accountability statement of PPD of the MPWWR includes all locally incurred expenditures under PIL No. 3 related to the IMS Project No. 263-0132 funded by USAID/Egypt during the period from January 6, 1982 through June 30, 1993.

Note 2 - Basis of Presentation:

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

Note 3 - Exchange Rate:

Expenses incurred in Egyptian pounds have been converted to U.S. dollars at an average exchange rate of Egyptian pounds 2.268 to US dollar for the period from January 6, 1982 through June 30, 1993.

Note 4 - Reclassified Costs:

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

Note 5 - Use of Project Cars:

The project cars line item represents project employees contribution for personal use of project cars.

Note 6 - Questioned Costs:

Questioned costs are presented in two separate categories - ineligible and unsupported costs and consist of audit findings proposed on the basis of the terms of the PIL, grant agreement and USAID regulations. Costs in the column labeled "Ineligible" are supported by vouchers or other documentation but are ineligible for reimbursement because they are not program-related, are unreasonable, or are prohibited by the PIL, grant agreement or applicable laws and regulations. Costs in the column labeled "Unsupported" are also formally included in the classification of "questioned" costs and relate to costs that are not supported with adequate documentation or did not have the required prior USAID/Egypt approvals or authorizations. Questioned project costs identified as either ineligible or unsupported are detailed below:

	QUESTIONED COSTS	
	INELIGIBLE	UNSUPPORTED
A. SUPPORT PERSONNEL		
1. The project pays overtime for the majority of project employees (mainly drivers) every month. Payments were made without being supported log sheets or any other evidence to verify that overtime paid to employees was actually earned.		\$ 1,217
2. Employees travelling on project assignments are entitled to receive per diem. However, approvals for travel assignments or any other supporting documentation to support the costs incurred were not provided.		184
3. PPD pays monthly incentives to employees with USAID/Egypt funds. The grant agreement, Section 5.5, states "The Grantee agrees that it shall use funds other than Grant funds to pay incentives to Grantee employees."	\$ <u>2,667</u>	<u>-</u>
Total support personnel	<u>2,667</u>	<u>1,401</u>

QUESTIONED COSTS
INELIGIBLE UNSUPPORTED

Note 6- Questioned Costs (con't):

B. OFFICE EQUIPMENT AND SUPPLIES

1. The project purchased floor coverings for the PPD premises within the MPPWWR office building. Prior approval for such a purchase from USAID/Egypt was not obtained. Items purchased that do not directly benefit the project should be supported with prior USAID/Egypt approval.	\$ <u>1,776</u>	<u>-</u>
Total office equipment and supplies	<u>1,776</u>	<u>-</u>

C. TRAINING EQUIPMENT AND SUPPLIES

1. The project purchased a binding machine, a flip chart, paper pads, and a projector screen. However, these incurred costs were not adequately supported. Costs that are not properly supported should not be billed to USAID/Egypt unless it is verifiable and substantiated.	<u>-</u>	\$ <u>925</u>
Total training equipment and supplies	<u>-</u>	<u>925</u>

D. WORKSHOP AND WORK PLAN

1. The project held two workshops in Port Said for which coffee break costs were charged to USAID/Egypt without prior approval.	1,817	
2. The project paid USAID/Egypt-approved per diems to workshop participants to cover meals and incidental expenses. However, meal costs were included the hotel charge which was also paid by the project. Therefore, the project paid		

QUESTIONED COSTS
INELIGIBLE UNSUPPORTED

Note 6- Questioned Costs (con't):

D. WORKSHOP AND WORK PLAN (CON'T)

2. Con't

meal and incidental charges twice: once to the participant via the per diem payment and the second via the payment to the hotel for the participants meals.

Also, some amounts were questioned because non-approved workshop participants received per diem payments.

\$ 10,070

3. The project paid bonuses to some project employees who attended the workshops in addition to having paid their per diem, lodging and meal costs. Therefore, these amounts are considered duplicative and not in accordance with Section 5.5 of the project agreement which states that incentives should not be paid with project funds.

388

-

Total workshop and work plan

12,275

-

E. COMMUNICATION AND REPORTS

1. The recipient provided adequate documentation to support this cost post draft report issuance. We have, therefore, removed this questionable item.

QUESTIONED COSTS
INELIGIBLE UNSUPPORTED

Note 6- Questioned Costs (con't):

F. OTHERS

1. The project disbursed funds for automobile spare parts, rentals and maintenance which were not supported with adequate documentation to support the expenditure.	-	\$ 133
2. The project's general ledger included amounts that are billed without a description and supporting documentation.	-	340
3. The project paid customs authority fines because project cars were left at the authority in excess of the permissible period. Fines paid are not an USAID/Egypt reimbursable expense.	\$ 353	-
4. Tips were paid and are an unallowable cost.	<u>177</u>	<u>-</u>
Total others	<u>530</u>	<u>473</u>

G. NORTH ZEFTA PROJECT

1. The North Zefata project paid fines and charged them to USAID/Egypt. Fines paid are not a USAID/Egypt reimbursable expense.	13	-
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QUESTIONED COSTS
INELIGIBLE UNSUPPORTED

Note 6- Questioned Costs (con't):

G. NORTH ZEFTA PROJECT (CON'T)

2. Car rental fees were charged to the project without the benefit of supporting documents. This cost is also considered unreasonable because the project already owns several cars. Costs billed to USAID/Egypt should be adequately supported and reasonable.

	<u> </u>	<u>119</u>
Total North Zefta project	\$ <u>13</u>	\$ <u>119</u>
TOTAL QUESTIONED COSTS	\$ <u>17,261</u>	\$ <u>2,918</u>

May 30, 1994

our reference

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

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

We have audited the fund accountability statement of the Project Preparation Department (PPD) of the Ministry of Public Works and Water Resources ("MPWWR") on Project Implementation Letter ("PIL") No. 3 related to the Irrigation Management Systems Project No. 263-0132 ("grant agreement") funded by the United States Agency for International Development Mission to Egypt ("USAID/Egypt") for the period from January 6, 1982 to June 30, 1993, and have issued our report thereon dated May 30, 1994.

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

We did not meet the continuing education requirements as required by Paragraph 6 of Chapter 3 of *Government Auditing Standards*. Additionally, 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 Coopers & Lybrand worldwide internal quality control program which requires the Coopers & Lybrand Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other Coopers & Lybrand offices.

In planning and performing our audit of PPD, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

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

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: project accounting; payroll; procurement; and cash receipts and disbursements.

For the control categories cited above, 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 judgement, could adversely affect the organization's ability to record, process, summarize, and report financial

data consistent with the assertions of management in the fund accountability statement. Our audit disclosed the following reportable conditions:

REPORTABLE CONDITIONS

1. The accounting system of PPD contains weaknesses.

As part of our audit, we reconciled the project's expenditure/cash record with the reports sent to USAID/Egypt and the supporting vouchers. We noted that none of the three documents agreed and this was, in most cases, due to misclassification of the expenditures. Also, we noted that some financial reports sent to USAID/Egypt contained mathematical errors.

Recommendation 1

We recommend that special care be exercised by the PPD accountants so that the information sent to USAID/Egypt is free of mathematical error and reconciles to the underlying supporting data.

2. Procedures surrounding the payroll system are inadequate.

For example, we noted the following:

- There was a lack of segregation of incompatible duties among employees performing the following duties:
 1. preparing and reviewing payroll sheets;
 2. preparing payroll and maintaining custody of cash; and
 3. preparing payroll, recording and controlling unclaimed wages.
- Overtime is not adequately supported and authorized.
- Time sheets were not utilized to account for staff time.
- Personnel files are incomplete. We noted several cases where employees did not have employment contracts.

Recommendation 2

We recommend the following procedures be adopted:

1. PPD should properly segregate the following incompatible duties:
 - preparation and review of payroll sheets;
 - preparation of payroll and custody of cash; and
 - preparing payroll, recording and controlling unclaimed wages.
2. Overtime should be properly documented and authorized.
3. A record keeping system to track employees' time should be developed.
4. Personnel files should be periodically updated and include, at a minimum, relevant documentation required by the Egyptian labor law.
3. Controls over cash are weak.

For example, we noted the following:

- Unused and canceled checks are not properly accounted for.
- The project's bank funds are commingled with other non-USAID/Egypt funds.
- Checks and bank transfers are prepared by the same person who initiates and approves payroll deductions and reimbursements to the imprest funds.
- Bank reconciliations are neither properly prepared nor reviewed.

Recommendation 3

We recommend the following procedures be implemented to improve control over the project's cash:

- The project should maintain a log for unused checks and such checks should be stored in a secured area.
- The project should maintain a separate bank account for USAID/Egypt funds which should not include funds derived from other donor sources.
- Bank reconciliations should be performed on a monthly basis and reviewed and approved by someone independent of the preparer.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the use of PPD's management 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.

COOPER & LYBRAND

May 30, 1994

our reference

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

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

We have audited the fund accountability statement of the Project Preparation Department ("PPD") of the Ministry of Public Works and Water Resources ("MPWWR") on Project Implementation Letter ("PIL") No. 3 related to the Irrigation Management System Project No. 263-0132 ("grant agreement") funded by the United States Agency for International Development Mission to Egypt ("USAID/Egypt") for the period from January 6, 1982 to June 30, 1993, and have issued our report thereon dated May 30, 1994.

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

We did not meet the continuing education requirements as required by Paragraph 6 of Chapter 3 of *Government Auditing Standards*. Additionally, 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 Coopers & Lybrand worldwide internal quality control program which requires the Coopers & Lybrand Cairo office to be subjected, every two years, to an extensive

quality control review by partners and managers from other Coopers & Lybrand offices.

Compliance with applicable laws, regulations, contracts, grants and binding policies and procedures applicable to PPD is the responsibility of PPD's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of PPD's compliance with certain provisions of laws, regulations and contract, grants and binding policies and procedures. However, our objective was not to provide an opinion on compliance with such provisions.

The results of our tests indicate that with respect to the items tested, PPD complied, in all material respects, with the provisions referred to in the preceding paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that PPD had not complied, in all material respects, with those provisions.

This report is intended solely for the information of PPD's management 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.

COOPERS & LYBRAND

THE PROJECT PREPARATION DEPARTMENT OF
THE MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
FUND ACCOUNTABILITY STATEMENT
PROJECT IMPLEMENTATION LETTER NO. 3
RELATED TO THE IRRIGATION MANAGEMENT SYSTEMS PROJECT NO. 263-0132
FOR THE PERIOD FROM JANUARY 6, 1982 THROUGH JUNE 30, 1993

CATEGORY	ACTUAL COSTS	RECLASSIFIED COSTS	QUESTIONED COSTS	
			INELIGIBLE	UNSUPPORTED
PROJECTS INPUTS				
Support Personnel	LE 450,093		LE 6,050	LE 3,180
Local Consulting	37,182	LE 115		
In-country Training	26,953			
COMMODITIES				
Office Equipment and Supplies	351,222	12,714	4,027	
Equipments and Supplies	13,050	-		
Training Equipment and Supplies	7,004	(1,680)		2,099
SUPPORT COSTS				
Workshop and Work Plan	67,920		27,842	
Communication and Reports	7,474			
Travel and Per Diem	35,317			
Others	684,098	(11,149)	1,202	1,073
NORTH ZEFTA PROJECT	45,491		30	270
(-) USE OF PROJECT CARS	<u>(12,642)</u>			
TOTAL	LE <u>1,713,162</u>	LE <u>-</u>	LE <u>39,151</u>	LE <u>6,622</u>

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THE PROJECT PREPARATION DEPARTMENT OF THE
MINISTRY OF PUBLIC WORKS AND WATER RESOURCES

PROJECT IMPLEMENTATION LETTER NO. 3 RELATED TO
THE IRRIGATION MANAGEMENT SYSTEM NO. 263-0132

ADDITIONAL INFORMATION
QUESTIONED COSTS DETAILED OF AMOUNTS INCURRED IN
EGYPTIAN POUNDS
FOR THE PERIOD
FROM JANUARY 1, 1982 THROUGH JUNE 30, 1993

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

	DATE	ENTRY #	LE AMOUNT	<u>Converted to US \$</u>	<u>Questioned Costs</u>	
					<u>Ineligible</u>	<u>Unsupported</u>
A. SUPPORT PERSONNEL						
(1)	15/12/92	92	572			
	11/01/93	108	568			
	07/07/93	138	511			
	15/06/93	157	552			
	23/06/93	162	557	\$ 1,217	LE	LE 2,760
(2)	10/09/86	96	80			
	30/09/86	104	10			
	17/11/86	113	19			
	10/12/86	121	10			
	31/03/87	149	80			
	23/04/87	153	20			
	09/08/87	181	40			
	13/03/88	234	80			
	23/10/89	61	81	184		420

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Converted to
US \$

Questioned Costs
Ineligible Unsupported

A. SUPPORT PERSONNEL (CONT.)

	DATE	ENTRY #	LE AMOUNT			
(3)	30/11/93	183	60			
	30/09/85	13	210			
	10/09/86	96	110			
	17/11/86	113	190			
	10/12/86	121	80			
	31/03/87	149	200			
	20/08/87	183	150			
	31/12/87	218	50			
	30/06/88	267	165			
	25/09/88	286	185			
	27/11/88	304	310			
	18/01/89	338	30			
	02/05/89	380	30			
	16/05/89	389	240			
	30/07/89	18	370			
	17/09/89	37	930			
	10/10/89	55	320			
	23/10/89	61	30			
	11/12/89	89	455			
	07/03/90	127	100			
	28/05/90	167	385			
	14/09/91	208	440			
	25/03/92	305	390			
	04/06/92	331	360			
	30/06/92	346	60			
	20/06/93	160	200	\$ <u>2,667</u>	LE <u>6,050</u>	<u>-</u>
Total support personnel				<u>4,068</u>	<u>6,050</u>	LE <u>3,180</u>

B. OFFICE EQUIPMENT AND SUPPLIES

	DATE	ENTRY #	LE AMOUNT			
(1)	03/08/92	19	4,027	<u>1,776</u>	<u>4,027</u>	<u>-</u>
Total office equipment and supplies				<u>1,776</u>	<u>4,027</u>	<u>-</u>

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			<u>Converted to US \$</u>	<u>Questioned Costs</u>		
				<u>Ineligible</u>	<u>Unsupported</u>	
C. TRAINING EQUIPMENT AND SUPPLIES						
	DATE	ENTRY #	LE AMOUNT			
(1)	16/05/83	127	850			
	22/05/83	133	934			
	16/6/83	140	315	\$ <u>925</u>	LE <u> </u>	LE <u>2,099</u>
Total training equipment and supplies				<u>925</u>	<u> </u>	<u>2,099</u>

D. WORKSHOP & WORK PLAN

	DATE	ENTRY #	LE AMOUNT			
(1)	08/05/91	140	1,811			
	09/11/92	69	2,310	1,817	4,121	
(2)	08/05/91	140	10,540			
	09/11/92	69	12,300	10,070	22,840	
(3)	09/11/92	69	881	<u>388</u>	<u>881</u>	<u> </u>
Total workshop and work plan				<u>12,227</u>	<u>27,842</u>	<u> </u>

E. COMMUNICATION AND REPORTS

- (1) The recipient provided adequate documentation to support this cost post draft report issuance. We have, therefore, removed this questionable item.

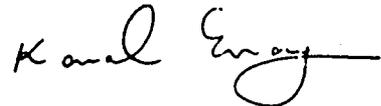
			<u>Converted to</u> <u>US \$</u>	<u>Questioned Costs</u>	
				<u>Ineligible</u>	<u>Unsupported</u>
F. OTHERS					
	DATE	ENTRY #	LE AMOUNT		
(1)	23/12/90	80	228		
	13/06/93	156	74	\$ 133	LE 302
	DATE	ENTRY #	LE AMOUNT		
(2)	19/06/89	407	637		
	14/04/91	129	134	340	771
	DATE	ENTRY #	LE AMOUNT		
(3)	14/07/85	4	800	353	800
	DATE	ENTRY #	LE AMOUNT		
(4)	14/07/85	4	334		
	10/09/86	96	68	<u>177</u>	<u>402</u>
Total others				<u>1,003</u>	<u>1,202</u>
					<u>1,073</u>
G. NORTH ZEFTA PROJECT					
	DATE	ENTRY #	LE AMOUNT		
(1)	19/12/82	12	30	13	30
	DATE	ENTRY #	LE AMOUNT		
(2)	30/09/83	38	270	<u>119</u>	<u>270</u>
Total North Zefta project				<u>132</u>	<u>270</u>
Total Questioned Costs				\$ <u>20,179</u>	LE <u>39,151</u>
					LE <u>6,622</u>

THE PROJECT PREPARATION DEPARTMENT
MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

Memorandum

December 26, 1994

To : Farid S. Mansour Co.
From : Project Preparation Dept.
MPWWR, Cairo



Subject : Response to Auditor's Draft Report on the Project Preparation Department (PPD) of the Ministry of Public Works and Water Resources, Local Expenditures Incurred Pursuant to Project Implementation Letter (PIL) No. 3 under the Irrigation Management System Project No. 263-0132

Attached is our response to your auditor's report dated November 9, 1994 reviewing the Department's accounts for the period from January 6, 1982 through June 30, 1993.

I have submitted an additional copy of this response to Mr. Charles Houston, the USAID Project Officer for the PPD.

This is the PPD's response to the Auditor's Report on the Project Preparation Department of the Ministry of Public Works and Water Resources, Project Implementation Letter No. 3 related to the Irrigation Management System Project No. 263-0132, dated November 8, 1994.

In this report, the auditor stated that LE 35,028 of costs are ineligible and LE 45,840 are unsupported out of the LE 1,713,361 total local expenditures incurred during the period from January 6, 1982 through June 30, 1993.

After a second review by the auditor, the auditor stated that LE 34,928 of PPD costs are ineligible and LE 11,207 of PPD costs are unsupported, reducing the total amount of questioned costs from LE 80,868 to LE 46,135.

THE PROJECT PREPARATION DEPARTMENT
MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

The following table presents the revised statement.

Fund Accountability Statement
for the Period from
January 6, 1982 through June 30, 1993

<u>Category</u>	<u>Costs</u> <u>Per PPD</u>	<u>Reclassified</u> <u>Costs</u>	<u>Questioned</u> <u>Ineligible</u>	<u>Costs</u> <u>Unsupported</u>
<u>Project Inputs</u>				
Support Personnel LE	450,093	-----	5,950	3,180
Local Consulting	37,182	115	-----	-----
In-Country Training	26,953	-----	-----	-----
<u>Commodities</u>				
Office Equip. & Supplies	351,222	12,714	4,027	-----
Equipment & Supplies	13,050	-----	-----	-----
Training Equip. & Supplies	7,004	(1,680)	-----	2,099
<u>Support Costs</u>				
Workshop & Work Plan	67,920	-----	23,719	4,121
Communication & Reports	7,474	-----	-----	464
Travel & Perdiem	35,517	-----	-----	-----
Others	684,098	(11,149)	1,202	1,073
North Zifta Project	45,491	-----	30	270
(-) Use of Project Cars	(12,642)	-----	-----	-----
Total	LE 1,713,361	-----	34,928	11,207

**THE PROJECT PREPARATION DEPARTMENT
MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT**

This paper addresses the remaining LE 46,135 of questioned costs. More than 50 % of these questioned costs concern workshop perdiems paid by the Project in 1991, and 1992, LE 23,719

In response to the auditor's Note 6 "Questioned Costs" Item "D", "Workshop & Workplan", Number 1, the auditor states "the hotel invoice included only a cover sheet with the total amount due without any details to support the costs incurred". Attachment A, includes a detailed list of participants and their room numbers stamped officially by the hotel. This attachment also includes a detailed invoice listing cost of rooms, conference room, equipment, and so forth.

Also under Item "D", Number 2, the auditor states that the PPD paid "per diems to workshop participants to cover meals and incidental expenses, however participants enjoyed meals at the hotel and these meal costs were paid by the project.... and non-approved workshop participants received per diem payments."

The hotel's invoice clearly states that the workshop paid for "coffee breaks", these were provided at 10:00 AM and 2:30 PM and can hardly be termed "meals".

It is usual for workshops to offer coffee and tea to participants during the course of a 9 hour workday. Meal costs were the responsibility of individual participants. If the hotel charges included breakfast, lunch and dinner, it would be delineated on the invoice and a 60 LE per day room charge in a five star beach front hotel could hardly include three meals. The hotel made separate invoices for participants who made phone calls, had meals or other charges and these were paid individually by the participants.

As to non-approved participants receiving per diem, all workshop participants were pre-approved by USAID. Some senior Ministry officials such as Senior Under Secretaries of State, came via their own Ministry vehicles and of course had drivers with them. These drivers required per diem as did PPD project drivers. It would be unreasonable to require senior Ministry officials to travel to a workshop by Project van, due to their position or to pay for their own driver's expenses. If this were the case they would not attend the workshop and the objectives of the workshop would not be met without their participation.

**THE PROJECT PREPARATION DEPARTMENT
MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT**

The auditors disallowed incentives paid to project-hired personnel in the amount of LE 5950 as ineligible, and LE 420 as unsupported, Auditor's Note 6, Item A, Number 2. The first amount was spent as incentive payment for employees hired on contracts who concluded difficult jobs beside their main job. Attachment B includes an example for an incentive payment given to one of the drivers who concluded a difficult job namely the registration and licencing of four new cars. The second amount (LE 420) was given as a perdiem to employees hired on contracts by the project, and this occurred before taking any decision concerning the regulations of perdiems by the coordinating committee.

The auditors disallowed LE 4,027 for "Office Equipment and Supplies in Item "B" of Note 6, stating that "the project purchased floor coverings for the entire PPD premises within the MPWWR office building which is considered to be ineligible". The floor covering was badly needed due to a sudden damage. An action memo should have been submitted but was over looked.

The auditors also stated under Item "B", that LE 2,099 of equipment expenses are unsupported. The supporting documents for these expenses are in attachment C. These items, (binding machines, flip chart, paper pad and projection screen) were purchased by the TMD (PD) for the PPD as they also required these items and a lower price could be obtained by purchasing in a large order. The PPD paid for the needed PPD items by separate check, but a single voucher was sent to the TMD. At the beginning of the IMS project it was usual for the projects to order for each. The PPD bought many, many items for other projects.

Under item "E" "Communication and Reports", the Project used the Egyptian Mail Services (EMS) as a courier. Two invoices, one for LE 31 and one for LE 433 have been stamped poorly. The auditor disallowed these invoices because the Government stamp is difficult to read. A copy of these invoices are in attachment D. The invoice is obviously legitimate.

Item "F" "Others" was significantly readjusted after the second audit review.

Under item "G", "North Zifta Project" LE 270 was disallowed as unsupported car rental charges. In the early years of the project there were foreign experts stationed in Tanta who needed to report often to Cairo and to visit the field in Tanta. There was no project car available to be full-time in Tanta at the time so the expert rented a taxi when

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**THE PROJECT PREPARATION DEPARTMENT
MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT**

needed. At the time of the car rentals, 1983, the project owned only two vehicles. These two vehicles were needed by the five foreign experts stationed in Cairo at the time, and could not be given to Tanta.

Concerning the auditor's Report of Independent Accountants on Internal Control Structure under the headings "Reportable Conditions" the first comment states that "none of the PPD's financial documents agreed in most cases due to misclassification of the expenditures". In fact, only \$ 5,657 were misclassified out of a total of 755,451, which is in fact only 0.6 % of total expenditures. This occurred because some maintenance contract expenses were classified under "Others" rather than "Supplies".

The second comment states, "Overtime is not adequately supported and authorized; time sheets were not utilized to account for staff time, and several employees did not have employment contracts." During the second review by the auditors they agreed that in fact overtime was supported by log sheets. The person responsible for personnel files and time sheets for nine years of the project had left that position only one month prior to the auditor's arrival. The new individual in that position was not yet fully acquainted with past files, but all project hired-staff had contracts and time sheets are in the files available for inspection.

All overtime is documented by driver log sheets, a few examples of which are included in attachment E. During the second review, the auditor agreed that overtime was properly documented on 55 out of 60 previously listed unsupported costs under Item "A" "Support Personnel" of Appendix B. The five unapproved cases occurred after the driver supervisor left the project and are the last five entries of the audit.

Item Number 3 "Cash" of Recommendation 2 of the Auditor's Report states that "unused and cancelled checks are not properly accounted for.... and recommends that checks be logged and stored in a secured area". All PPD checks are stored in serial order in the office safe. Checks were moved to the locked PPD library during the time of the Auditor's review ONLY. All checks are logged as the second auditor's visit revealed.

The same recommendations states that the "Project's bank account is commingled with other NON-USAID/EGYPT funds". The project has only ever received funds from one other source, the World Bank, the Co-founder of project. The World Bank's funds were only for foreign expert expenses and were paid to the consultant in the USA. Funding from the World Bank ended in 1987. No Non-USAID funds have EVER been in the USAID bank account.

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THE PROJECT PREPARATION DEPARTMENT
MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

The same recommendation also states that "bank reconciliations are not properly prepared or reviewed." The PPD staff are baffled by this comment as all bank statements are vigorously checked and reviewed, as shown by the examples presented in Attachment F. These show that reconciliation with the book balance and outstanding checks are made and signed by the controller and Project Director.

According to PPD records, the fund accountability table should be as below :

Fund Accountability Statement
for the Period from
January 6, 1982 through June 30, 1993

<u>Category</u>	<u>Costs</u> <u>Per PPD</u>	<u>Reclassified</u> <u>Costs</u>	<u>Questioned Costs</u> <u>Ineligible Unsupported</u>	
<u>Project Inputs</u>				
Support Personnel	LE 450,093	-----	-----	-----
Local Consulting	37,182	115	-----	-----
In-Country Training	26,953	-----	-----	-----
<u>Commodities</u>				
Office Equip. & Supplies	351,222	12,714	-----	-----
Equipment & Supplies	13,050	-----	-----	-----
Training Equip. & Supplies	7,004	(1,680)	-----	-----
<u>Support Costs</u>				
Workshop & Work plan	67,920	-----	-----	-----
Communication & Reports	7,474	-----	-----	-----
Travel & Perdiem	35,517	-----	-----	-----
Others	684,098	(11,149)	1,202	1,073
North Zifta Project	45,491	-----	30	-----
(-) Use of Project Cars	(12,642)	-----	-----	-----
Total	LE 1,713,361	-----	1,232	1,073

**PROJECT PREPARATION DEPARTMENT
AUDITOR RESPONSE**

The Project Preparation Department ("PPD") management provided comments relating to the Coopers and Lybrand draft report presented at the exit conference held on November 15, 1994. PPD's comments are included, unedited, in Appendix C to this report. In response to their comments, we reviewed additional supporting documents provided by them. Where applicable, we either adjusted the final report or clarified our position relating to items discussed in PPD's comments. Please note that our response sequence below parallels our draft report.

- A 1. PPD provided documentation to support some questionable overtime payments. We have reduced this questionable item from \$ 7,290 to \$ 1,217.
- A 2. The project pays incentives to employees for "extra effort"; however, the project also pays overtime which has not been questioned if properly supported. The "extra effort" incentive, if paid, results in a double compensation for overtime/extra effort. Our position is unchanged.
- A 3. See auditor's response in A 2. above.
- B 1. Notwithstanding management's comments, our position is unchanged.
- C 1. PPD management did not comment on C 1.
- D 1. PPD provided support for accommodation charges. Upon review of the supporting documents provided, we noted that coffee break costs were charged to the project. Such costs should have been covered under the participant's per diem payments. The portion of the hotel invoice related to the coffee breaks remains questionable.
- D 2. See auditor's response in D 1. above. PPD did not provide a USAID/Egypt pre approval for the participant costs questioned in D 2. Notwithstanding management's comments about unapproved participants, our position is unchanged.
- D 3. PPD management did not comment on D 3.
- E 1. This questionable item has been removed from our report.
- F 1. PPD provided support for some of the questionable items. We have reduced the questionable amount from \$ 505 to \$ 133.
- F 2. PPD provided support for some of the questionable items. We have reduced the questionable amount from \$ 2,335 to \$ 340.
- F 3. PPD management did not comment on F 3.
- F 4. PPD management did not comment on F 4.

- G 1. PPD provided support for automobile charges. Upon review of the supporting documents provided, we noted that fines were charged to the project. Such costs should have been covered by a source of funds other than USAID/Egypt. The portion of the invoices related to fines remains questionable.
- G 2. Notwithstanding management's comments about car rental charges, our position is unchanged.

We have considered PPD management's comments related to points reported in our Report on Internal Control Structure. Notwithstanding management's comments, our points are unchanged.

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

February 12, 1995

MEMORANDUM**TO:** Philippe Darcy, AD/RIG/A**FROM:** James Redder, OD/FM/FA

RECEIVED

13 FEB 1995

SUBJECT: Audit of the Ministry of Public Works and Water Resources, Project Preparation Department Component (PPD), Local Expenditures Incurred Pursuant to Project Implementation Letter (PIL) No. 3 Under the Irrigation Management Systems Project No. 263-0132 - Draft Report

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