Audit of the Agricultural Research Center (ARC) Project Implementation Letters Nos. SEED-003, SEED-004, and SEED-009 related to the SEED Component of the National Agricultural Research Project (NARP) No. 263-0152

Report No. 6-263-95-014-N
March 8, 1995
MEMORANDUM FOR D/USAID/Egypt, John R. Westley

FROM: D/RIG/A/Cairo, John J. Ottke

SUBJECT: Audit of the Agricultural Research Center (ARC)
Project Implementation Letters Nos. SEED-003, SEED-004, and SEED-009 related to the SEED Component of
the National Agricultural Research Project (NARP) No. 263-0152

The attached report, transmitted to our office on January 26, 1995 by Coopers & Lybrand, presents the results of a financial audit of the Agricultural Research Center on Project Implementation Letters (PILs) Nos. SEED-003, SEED-004, and SEED-009 related to SEED Component No. 4 of the National Agricultural Research Project (NARP) No. 263-0152. The project's primary objective is to increase Egypt's agricultural productivity. The original project purpose was to strengthen the capability of the agricultural research community to provide a continuous flow of improved and appropriate agricultural technology.

We engaged Coopers & Lybrand to perform a financial audit of ARC incurred expenditures of $1,644,801 (equivalent to LE5,214,018) as of August 31, 1994. The purpose of the audit was to evaluate the propriety of costs incurred during that period. Coopers & Lybrand also evaluated ARC's internal controls and compliance with applicable laws, regulations, and grant terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Coopers & Lybrand questioned $41,607 (equivalent to LE131,894) in costs billed to USAID by ARC. The questioned costs included labor, repair and maintenance, supplies, cotton gin, and in-country training. The auditors also noted one reportable condition in ARC's internal controls.
In response to the draft report, ARC provided documentation and/or gave more explanation to the questioned costs, but did not respond to the internal control structure weakness noted in the report. Coopers & Lybrand reviewed ARC's response to the findings and where applicable, made adjustments to the 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 $41,607 consisting of ineligible costs of $28,906 and unsupported costs of $12,701 as detailed on pages 10 through 12 of the audit report.

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

With regard to the non-material internal control weakness, this can be handled directly between the Mission and ARC.

Please advise this office within 30 days of any actions planned or taken to close the recommendations. We appreciate the courtesies extended to the staff of Coopers & Lybrand and to our office.
AGRICULTURAL RESEARCH CENTER

FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION

RELATED TO COSTS INCURRED ON
PROJECT IMPLEMENTATION LETTERS
NO. SEED-003, SEED-004 AND SEED-009
PURSUANT TO THE SEED COMPONENT NO. 4 OF
THE NATIONAL AGRICULTURAL RESEARCH PROJECT NO. 263-0152

FOR THE PERIODS
FROM SEPTEMBER 19, 1989 THROUGH SEPTEMBER 30, 1993
FOR PIL NO. SEED-003,
FROM NOVEMBER 5, 1989 THROUGH SEPTEMBER 30, 1993
FOR PIL NO. SEED-004 AND
FROM APRIL 20, 1993 THROUGH AUGUST 31, 1994
FOR PIL NO. SEED-009
AGRICULTURAL RESEARCH CENTER

FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION

RELATED TO COSTS INCURRED ON
PROJECT IMPLEMENTATION LETTERS
NO. SEED-003, SEED-004 AND SEED-009
RELATED TO THE SEED COMPONENT NO. 4 OF
THE NATIONAL AGRICULTURAL RESEARCH PROJECT NO. 263-0152

FOR THE PERIODS
FROM SEPTEMBER 19, 1989 THROUGH SEPTEMBER 30, 1993
FOR PIL NO. SEED-003,
FROM NOVEMBER 5, 1989 THROUGH SEPTEMBER 30, 1993
FOR PIL NO. SEED-004 AND
FROM APRIL 20, 1993 THROUGH AUGUST 31, 1994
FOR PIL NO. SEED-009

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<td></td>
</tr>
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</table>


January 26, 1995

Mr. Philippe L. 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 Agricultural Research Center ("ARC") on Project Implementation Letters ("PILs") No. SEED-003, SEED-004 and SEED-009 related to the Seed Component No. 4 of the National Agricultural Research Project ("NARP") No. 263-0152 ("grant agreement"). The audit population included all costs incurred for these three PILs and funded by USAID/Egypt during the periods from September 19, 1989 through September 30, 1993 for PIL No. SEED-003, from November 5, 1989 through September 30, 1993 for PIL No. SEED-004, and from April 20, 1993 through August 31, 1994 for PIL No. SEED-009.

Background

The National Agricultural Research Project was developed with the goal of increasing Egypt's agricultural productivity. The original project purpose was to strengthen the capability of the agricultural research community to provide a continuous flow of improved, appropriate agricultural technology. As described in the original project paper, the major elements of NARP were to improve research management, research methods, personnel development, data collection and analysis, information utilization and dissemination, seed production, research facilities, and fund commodities and a research grants program.

The Agricultural Research Center was utilized to develop an agricultural research system capable of providing farmers with a continuous flow of improved technologies. It is Egypt's most important agricultural research institution which
strengthens research management capability, and the expansion of agricultural research with a vigorous orientation towards relevant, practical technologies.

PIL No. SEED-003 provides local currency for operation, administration, as well as equipping and furnishing costs. PIL No. SEED-004 funds training for the Seed Technology Component. PIL No. SEED-009 funds the local procurement of commodities.

Audit Objectives and Scope

The objective of this engagement was to perform a financial-related audit of USAID/Egypt resources managed by ARC on PIL Nos. SEED-003, SEED-004 and SEED-009 related to the Seed Component No. 4 of the NARP No. 263-0152 funded by USAID/Egypt. The audit covered the periods from September 19, 1981 through September 30, 1993 for PIL No. SEED-003, from November 5, 1989 through September 30, 1993 for PIL No. SEED-004 and from April 20, 1993 through August 31, 1994 for PIL No. SEED-009.

The audit was performed in accordance with generally accepted auditing standards and the U.S. Comptroller General's Government Auditing Standards and, accordingly, included such tests of the accounting records as deemed necessary under the circumstances. Specific objectives were to determine whether:

1. the fund accountability statement of ARC presents fairly, in all material respects, project revenues received and costs incurred and reimbursed by USAID/Egypt for the periods under audit in conformity with applicable accounting principles;

2. the costs billed to USAID/Egypt under the PILs are in fact allowable, allocable and reasonable in accordance with the terms of the grant agreement, the PILs and USAID/Egypt regulations;

3. the internal control structure, accounting system and management practices of ARC are adequate for USAID/Egypt agreements; and

4. the ARC is in compliance, in all material respects, with the grant agreement, terms of the PILs 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 ARC officials. We reviewed the PILs and all other relevant agreements. We also obtained a basic understanding of the accounting system utilized during the periods under audit. Audit work commenced on April 10, 1994, and was completed on August 31, 1994.

We selected incurred project costs for testing on a judgmental basis to test the following percentages of costs incurred: 62% of $1,354,133 under PIL No. SEED-003 or $839,562; 85% of $103,450 under PIL No. SEED-004 or $87,933; and 78% of $187,218 under PIL No. SEED-009 or $146,030.

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

1. reconciling ARC’s accounting records to invoices issued to USAID/Egypt and reviewing costs for allowability, allocability, reasonableness and appropriate support;

2. determining that expenditures were appropriate and conformed with the terms of the grant agreement, the PILs and relevant regulations; and

3. reviewing the appropriateness of documentation of project 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 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 33 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 part of our examination we made a study and evaluation of relevant internal controls and reviewed ARC’s compliance with applicable laws and regulations.

Results of Audit

Fund accountability statement:

Our audit identified $41,607 in questionable costs, including $12,701 of unsupported costs.

Internal control structure:

We identified one reportable condition in the internal control structure relating to inadequate controls surrounding the filing system. The reportable condition noted is not considered to be a material weakness.

Compliance with agreement terms and applicable laws and regulations:

No material items of non-compliance were noted.

Management Comments

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

This report is intended for the information of ARC’s management and others within the organization and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.
August 31, 1994

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

REPORT OF INDEPENDENT ACCOUNTANTS
ON FUND ACCOUNTABILITY STATEMENT

We have audited the accompanying fund accountability statement of the Agricultural Research Center ("ARC") relating to costs incurred on Project Implementation Letters ("PILs") No. SEED-003, SEED-004 and SEED-009 pursuant to the Seed Component No. 4 of the National Agricultural Research Project ("NARP") No. 263-0152 ("grant agreement") funded by USAID/Egypt for the periods from September 19, 1989 through September 30, 1993 for PIL No. SEED-003, from November 5, 1989 through September 30, 1993 for PIL No. SEED-004, and from April 20, 1993 through August 31, 1994 for PIL No. SEED-009. The fund accountability statement is the responsibility of ARC's management. Our responsibility is to express an opinion on this statement based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the fund accountability statement. We believe that our audit provides a reasonable basis for our opinion.
We did not meet the continuing education requirements as required by paragraph 33 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 33 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 fund accountability statement has been prepared on the basis of cash receipts and disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the fund accountability statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.

As more fully described in Note 4 to the fund accountability statement, the results of our tests disclosed $28,906 in ineligible and $12,701 in unsupported project costs. Project costs that are explicitly ineligible for reimbursement because they are not program-related or are prohibited by either the PILs, grant agreement or applicable laws and regulations. Unsupported project costs are those that are not supported with either adequate documentation or the required USAID/Egypt approval.

In our opinion, except for the effects of the questioned costs, as discussed in the preceding paragraph, the fund accountability statement referred to in the first paragraph presents fairly, in all material respects, project costs incurred by ARC on PIL No. SEED-003, SEED-004 and SEED-009 pursuant to the Seed Component No. 4 of the NARP No. 263-0152 funded by USAID/Egypt for the periods from September 19, 1989 through September 30, 1993 for PIL No. SEED-003 from November 5, 1989 through September 30, 1993 for PIL No. SEED-004 and from April 20, 1993 through August 31, 1994 for PIL No. SEED-009 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 fund accountability statement. This information has been subjected to the auditing procedures applied in the audit of the fund accountability statement, and in our opinion, except for the effects of the questioned costs as identified in Appendix B, such information is fairly stated, in all material respects, in relation to the fund accountability statement taken as a whole.

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

Coopers & Lybrand
## Fund Accountability Statement

<table>
<thead>
<tr>
<th>EXPENDITURES:</th>
<th>BUDGET (NOTE 1)</th>
<th>ACTUAL (NOTE 1)</th>
<th>QUESTIONED COSTS</th>
<th>AUDIT FINDINGS</th>
<th>REFERENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>PIL No.</td>
<td></td>
<td></td>
<td>INELIGIBLE UNSUPPORTED</td>
<td>(NOTE 4)</td>
<td>(NOTE 4)</td>
</tr>
<tr>
<td>Seed-003</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Expenses:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labor</td>
<td>$379,574</td>
<td>$460</td>
<td>$280</td>
<td>FINDING A, PAGE 11</td>
<td></td>
</tr>
<tr>
<td>Per diem</td>
<td>359,496</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Repair and maintenance</td>
<td>135,006</td>
<td>3,790</td>
<td></td>
<td>FINDING C, PAGE 13</td>
<td></td>
</tr>
<tr>
<td>Fuel</td>
<td>54,465</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Supplies</td>
<td>58,134</td>
<td>22,660</td>
<td></td>
<td>FINDING D, PAGE 14</td>
<td></td>
</tr>
<tr>
<td>Cotton gin</td>
<td>191,972</td>
<td></td>
<td>12,379</td>
<td>FINDING E, PAGE 14</td>
<td></td>
</tr>
<tr>
<td>Total operating expenses:</td>
<td>$1,176,783</td>
<td>1,178,647</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equipment and furniture</td>
<td>153,121</td>
<td>150,642</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Administrative staff</td>
<td>29,628</td>
<td>24,844</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>PIL No.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Seed-004</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In-country training</td>
<td>134,496</td>
<td>103,450</td>
<td>1,996</td>
<td>42 FINDING F, PAGE 14</td>
<td></td>
</tr>
</tbody>
</table>
FUND ACCOUNTABILITY STATEMENT (CONTINUED)

EXPENDITURES:

<table>
<thead>
<tr>
<th>PIL No.</th>
<th>SEED-009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local procurement</td>
<td>216,144</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>BUDGET (NOTE 1)</th>
<th>ACTUAL (NOTE 1)</th>
<th>INELIGIBLE UNSUPPORTED (NOTE 4)</th>
<th>AUDIT FINDINGS REFERENCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Totals</td>
<td>$1,710,172</td>
<td>$1,644,801</td>
<td>$28,906</td>
<td>$12,701</td>
</tr>
</tbody>
</table>

The accompanying notes are an integral part of this fund accountability statement.
NOTE 1 - BUDGET:

The column, labeled "Budget," includes all USAID/Egypt approved costs for ARC under PILs No. SEED-003, SEED-004 and SEED-009 through the audit period end. These amounts are presented for informational purposes only.

NOTE 2 - BASIS OF PRESENTATION:

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

NOTE 3 - FOREIGN EXCHANGE:

Costs incurred in Egyptian pounds have been converted to U.S. dollars at an average monthly exchange rate during the period under audit of 3.17 Egyptian pounds to one U.S. dollar.

NOTE 4 - QUESTIONED COSTS:

Questioned costs are presented in two separate categories - Ineligible and Unsupported - and consist of audit findings proposed on the basis of the terms of the PILs, the grant agreement and USAID/Egypt regulations. Costs in the column labeled "Ineligible" are ineligible for reimbursement because they are not program-related, are unreasonable, or are prohibited by the PILs, grant agreement, or applicable laws and regulations. Costs in the column labeled "Unsupported" are 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 as follows:

<table>
<thead>
<tr>
<th>Questioned Costs</th>
<th>Ineligible</th>
<th>Unsupported</th>
</tr>
</thead>
<tbody>
<tr>
<td>PIL No. SEED-003</td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Labor</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1. A check was issued to the Agricultural Consulting Committee for payment of fines. According to USAID/Egypt regulations the Project should not pay penalties or fines.

$460 $-
Note 4 Questioned Costs (Con't):

<table>
<thead>
<tr>
<th>Questioned Costs</th>
<th>Ineligible</th>
<th>Unsupported</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Labor (cont.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. All documents supporting a portion of the payroll transactions for December 1991 and July 1993 were either misplaced or lost.</td>
<td>-</td>
<td>$280</td>
</tr>
<tr>
<td>TOTAL LABOR</td>
<td>$460</td>
<td>-</td>
</tr>
</tbody>
</table>

B. Per diem

1. Following management’s response to our draft report, we have eliminated this finding.

2. Following management’s response to our draft report, we have eliminated this finding.

C. Repair & Maintenance

1. The project paid to repaint the office, purchase a car-radio and maintain the bathrooms and buildings. The repair and maintenance budget authorizes expenditures for vehicles and office equipment only. 3,495

2. Maintenance costs for Government car # 2419 were paid that should have been reimbursed from the Government of Egypt (GOE). We noted that the GOE was intended to be the responsible party from our review of correspondence attached to the voucher. 295

3. Following management’s response to our draft report, we have eliminated this finding.

TOTAL REPAIR & MAINTENANCE 3,790
### Questioned Costs

#### D. Supplies

1. Publishing, advertising and promotion fees were paid. Expenditures such as these are not allowable as their nature is not that of items typically included in the supplies budget line item.  

   $21,862

2. Painting materials were purchased which are not eligible for reimbursement because "painting materials" do not fall within the budget line item definition of allowable supplies expenditures.

   798

**TOTAL SUPPLIES**

22,660

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#### E. Cotton Gin

1. Only a check stub payable to Countryside Electricity Authority was available as supporting documentation for this expenditure. We were unable to determine what the expenditure related to and who received the funds. No other supporting documentation was available. Pursuant to issuance of our draft report, management provided documentation to justify a portion of the cost previously questioned.

   $12,379

**TOTAL COTTON GIN**

12,379

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#### F. In-country training

1. Leather bags and fuel were purchased. These costs should not be billed to USAID/Egypt because there is no allowable budget line item for fuel under PIL-004 and leather bags are promotional items which are unallowable.

   1,996

2. Per diems were paid for which there was no supporting documentation.

   42

**TOTAL IN-COUNTRY TRAINING**

1,996

**TOTAL QUESTIONED COSTS**

$28,906

$12,701
August 31, 1994

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

REPORT OF INDEPENDENT ACCOUNTANTS
ON INTERNAL CONTROL STRUCTURE

We have audited the fund accountability statement of the Agricultural Research Center ("ARC") relating to costs incurred on Project Implementation Letters ("PILs") No. SEED-003, SEED-004 and SEED-009 pursuant to the Seed Component No.4 of the National Agricultural Research Project ("NARP") No. 263-0152 funded by USAID/Egypt for the periods from September 19, 1989 to September 30, 1993 for PIL No. SEED-003, from November 5, 1989 to September 30, 1993 for PIL No. SEED-004 and from April 20, 1993 through August 31, 1994 for PIL No. SEED-009 and have issued our report thereon dated August 31, 1994.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in 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 33 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 ARC we considered its internal control structure in order to determine our auditing procedures for the purpose of
expressing an opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of ARC 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 agreement, and recorded properly to permit the preparation of reliable financial reports and to maintain accountability over the entity’s assets. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we determined the significant internal control structure policies and procedures to be in the categories of cash receipts and disbursements, fund custody, project accounting, payroll procedures, and safeguarding of assets. For these internal control structure categories cited, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

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 organizations’ 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 condition we believe constitutes a reportable condition:

REPORTABLE CONDITION

1. Controls surrounding the accounting process are weak.

ARC’s accounting records consist of a general ledger which is manually posted. As billings to USAID/Egypt are prepared from this ledger, its accuracy and reliability should not be compromised. We found that the preparation of the general ledger was careless and poorly documented. One general ledger and one bank account was used for all three PILs. As the three PILs relate to different project objectives, the general ledger and bank account activity should be segregated. Specifically, we noted the following weaknesses in the project’s accounting process:
The general ledger, bank and imprest fund accounts are recorded in pencil. Corrections were made to the original entries without an documented rationale.

Entries for the three PILs are included in one general ledger.

Expenditures were recorded in the general ledger prior to cash payment.

**RECOMMENDATION 1**

We recommend that the project improve the system of controls surrounding the accounting process. Specifically, the project should:

- Record all entry descriptions, amounts and corrections in ink.
- Fully document all entries made in the general ledger.
- Maintain separate general ledgers for each PIL or, alternatively, segregate the general ledger entries by PIL.
- Open separate bank accounts for each PIL or, alternatively, prepare a proof-of-cash reconciliation each month to distinguish cash balances related to various PILs.
- Record expenditures on the cash basis of accounting, as required by the agreement.

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 material weaknesses as defined above. We believe that the reportable condition described above is not a material weakness.

This report is intended for the information of ARC’s management and others within the organization and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.
August 31, 1994

Mr. Philippe L. 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 Agricultural Research Center ("ARC") relating to costs incurred on Project Implementation Letters ("PILs") No. SEED-003, SEED-004 and SEED-009 pursuant to the Seed Component No.4 of the National Agricultural Research Projects ("NARP") No. 263-0152 ("grant agreement") funded by USAID/Egypt for the periods from September 19, 1989 through September 30, 1993 for PIL No. SEED-003, from November 5, 1989 through September 30, 1993 for PIL No. SEED-004, and from April 20, 1993 through August 31, 1994 for PIL NO. SEED-009, and have issued our report thereon dated August 31, 1994.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in 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 33 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, agreements, and binding policies and procedures applicable to ARC is the responsibility of ARC's management.
part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of ARC’s compliance with certain provisions of laws, regulations, agreements, grants and binding policies and procedures. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, ARC 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 NARP had not complied, in all material respects, with those provisions.

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

Cooper & Lybrand
AGRICULTURAL RESEARCH CENTER

PROJECT IMPLEMENTATION LETTER
NOS. SEED-003, SEED-004 AND SEED-009
RELATED TO THE SEED COMPONENT NO. 4 OF THE NATIONAL AGRICULTURAL RESEARCH
PROJECT NO. 263-0152

FROM SEPTEMBER 19, 1989 THROUGH SEPTEMBER 30, 1993 FOR PIL NO. SEED-003
FROM NOVEMBER 5, 1989 THROUGH SEPTEMBER 30, 1993 FOR PIL NO. SEED-004
FROM APRIL 20, 1993 THROUGH AUGUST 31, 1994 FOR PIL NO. SEED-009

ADDITIONAL INFORMATION
FUND ACCOUNTABILITY STATEMENT
AS INCURRED IN EGYPTIAN POUNDS

EXPENSES:

<table>
<thead>
<tr>
<th>PIL No.</th>
<th>Seed-003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Expenses:</td>
<td></td>
</tr>
<tr>
<td>Labor</td>
<td>LE 1,203,251</td>
</tr>
<tr>
<td>Per diem</td>
<td>-</td>
</tr>
<tr>
<td>Repair and maintenance</td>
<td>-</td>
</tr>
<tr>
<td>Fuel</td>
<td>-</td>
</tr>
<tr>
<td>Supplies</td>
<td>-</td>
</tr>
<tr>
<td>Cotton gin</td>
<td>-</td>
</tr>
<tr>
<td>Total operating Expenses:</td>
<td>LE 3,730,402</td>
</tr>
<tr>
<td>Equipment and furniture</td>
<td>485,394</td>
</tr>
<tr>
<td>Administrative staff</td>
<td>93,921</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PIL No.</th>
<th>Seed-004</th>
</tr>
</thead>
<tbody>
<tr>
<td>In-country training</td>
<td>426,352</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>PIL No.</th>
<th>Seed-009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local procurement</td>
<td>685,178</td>
</tr>
<tr>
<td>TOTAL</td>
<td>LE 5,421,247</td>
</tr>
</tbody>
</table>
AGRICULTURAL RESEARCH CENTER

PROJECT IMPLEMENTATION LETTER
NOS. SEED-003, SEED-004, AND SEED-009
RELATED TO THE SEED COMPONENT NO. 4 OF THE NATIONAL AGRICULTURAL RESEARCH PROJECT NO. 263-0152

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FROM NOVEMBER 5, 1989 THROUGH SEPTEMBER 30, 1993 FOR PIL NO. SEED-004
FROM APRIL 20, 1993 THROUGH AUGUST 31, 1994 FOR PIL NO. SEED-009

ADDITIONAL INFORMATION
QUESTIONED COSTS DETAIL OF AMOUNTS AS INCURRED IN EGYPTIAN POUNDS

Questioned project costs identified as either ineligible or unsupported are detailed as follows:

<table>
<thead>
<tr>
<th>PIL No.</th>
<th>SEED-003</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Labor</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>A check was issued to the Agricultural Consulting Committee for payment of fines. According to USAID/Egypt regulations the Project should not pay penalties or fines.</td>
</tr>
<tr>
<td>Date</td>
<td>Entry #</td>
</tr>
<tr>
<td>19/1/92</td>
<td>5</td>
</tr>
<tr>
<td>2.</td>
<td>All documents supporting a portion of the payroll transactions for December 1991 and July 1993 were either misplaced or lost.</td>
</tr>
<tr>
<td>Date</td>
<td>Entry #</td>
</tr>
<tr>
<td>23/1/92</td>
<td>6</td>
</tr>
<tr>
<td>25/8/93</td>
<td>5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Amount as Incurred in L.E.</th>
<th>Ineligible Unsupported</th>
</tr>
</thead>
<tbody>
<tr>
<td>LE 1,458</td>
<td>$ 460</td>
</tr>
<tr>
<td>888</td>
<td>-</td>
</tr>
</tbody>
</table>

TOTAL LABOR 2,346 460 280
Note 4 - Questioned Costs (Con't)

B. Per diem

1. Following management's response to our draft report, we have eliminated this finding.

2. Following management's response to our draft report, we have eliminated this finding.

C. Repair & Maintenance

1. The project paid to repaint the office, purchase a car-radio and maintain the bathrooms and buildings. The repair and maintenance budget authorizes expenditures for vehicles and office equipment only.

<table>
<thead>
<tr>
<th>Date</th>
<th>Entry #</th>
<th>L.E. Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>28/2/90</td>
<td>17</td>
<td>763</td>
</tr>
<tr>
<td>20/5/90</td>
<td>6</td>
<td>225</td>
</tr>
<tr>
<td>5/3/92</td>
<td>6</td>
<td>450</td>
</tr>
<tr>
<td>31/5/92</td>
<td>13</td>
<td>438</td>
</tr>
<tr>
<td>30/6/92</td>
<td>12</td>
<td>748</td>
</tr>
<tr>
<td>31/12/92</td>
<td>15</td>
<td>695</td>
</tr>
<tr>
<td>31/3/93</td>
<td>9</td>
<td>1,151</td>
</tr>
<tr>
<td>30/5/93</td>
<td>12</td>
<td>458</td>
</tr>
<tr>
<td>31/7/93</td>
<td>7</td>
<td>3,400</td>
</tr>
<tr>
<td>30/9/93</td>
<td>22</td>
<td>2,750</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>11,078</strong></td>
</tr>
</tbody>
</table>

   LE 11,078 $ 3,495

2. Maintenance costs for Government car # 2419 were paid that should have been reimbursed from the Government of Egypt (GOE). We noted that the GOE was intended to be the responsible party from our review of correspondence attached to the voucher.

<table>
<thead>
<tr>
<th>Date</th>
<th>Entry #</th>
<th>L.E. Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>31/7/93</td>
<td>7</td>
<td>935</td>
</tr>
</tbody>
</table>

   935 295
C. Repair & Maintenance (Con't)

3. Following management's response to our draft report, we have eliminated this finding.

\[
\text{TOTAL REPAIR & MAINTENANCE} \\
\text{LE 12,013} \quad $3,790 \quad \text{(Unsupported)}
\]

D. Supplies

1. Publishing, advertising and promotion fees were paid. Expenditures such as these are not allowable as their nature is not that of items typically included in the supplies budget line item.

\[
\begin{array}{|c|c|c|}
\hline
\text{Date} & \text{Entry #} & \text{L.E. Amount} \\
\hline
30/5/91 & 6 & 25,650 \\
14/9/91 & 4 & 3,225 \\
16/9/92 & 3 & 390 \\
25/10/92 & 7 & 2,200 \\
19/1/92 & 4 & 15,600 \\
22/11/92 & 5 & 15,600 \\
22/11/92 & 6 & 3,240 \\
22/6/93 & 2 & 3,400 \\
\hline
\end{array}
\]

\[69,305 \quad 21,862 \quad (Unsupported)\]

2. Painting materials were purchased which are not eligible for reimbursement because "painting materials" do not fall within the budget line item definition of allowable supplies expenditures.

\[\text{LE 2,529} \quad $798 \quad \text{(Supported)}\]

\[
\begin{array}{|c|c|c|}
\hline
\text{Date} & \text{Entry #} & \text{L.E. Amount} \\
\hline
30/5/93 & 13 & 2,529 \\
\hline
\end{array}
\]

\[71,834 \quad 22,660 \quad \text{(Unsupported)}\]
E. Cotton Gin

1. Only a check stub payable to Countryside Electricity Authority was available as supporting documentation for this expenditure. We were unable to determine what the expenditure related to and who received the funds. No other supporting documentation was available. Pursuant to issuance of our draft report, management provided documentation to justify a portion of the cost previously questioned. 39,240 $ 12,379

<table>
<thead>
<tr>
<th>Date</th>
<th>Entry #</th>
<th>L.E. Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>14/4/92</td>
<td>4</td>
<td>39,240</td>
</tr>
</tbody>
</table>

TOTAL COTTON GIN 39,240 $ 12,379

PIL No. SEED-004

F. In-country training

1. Leather bags and fuel were purchased. These costs should not be billed to USAID/Egypt because there is no allowable budget line item for fuel under PIL-004 and leather bags are promotional items which are unallowable. 6,328 $ 1,996

<table>
<thead>
<tr>
<th>Date</th>
<th>Entry #</th>
<th>L.E. Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>29/2/92</td>
<td>1</td>
<td>347</td>
</tr>
<tr>
<td>7/3/92</td>
<td>1</td>
<td>525</td>
</tr>
<tr>
<td>18/3/92</td>
<td>1</td>
<td>420</td>
</tr>
<tr>
<td>26/4/92</td>
<td>2</td>
<td>285</td>
</tr>
<tr>
<td>26/4/92</td>
<td>2</td>
<td>285</td>
</tr>
<tr>
<td>17/5/92</td>
<td>2</td>
<td>570</td>
</tr>
<tr>
<td>17/5/92</td>
<td>2</td>
<td>570</td>
</tr>
<tr>
<td>17/5/92</td>
<td>5</td>
<td>570</td>
</tr>
<tr>
<td>24/10/92</td>
<td>5</td>
<td>750</td>
</tr>
<tr>
<td>6/11/92</td>
<td>5</td>
<td>750</td>
</tr>
<tr>
<td>4/93</td>
<td>7</td>
<td>375</td>
</tr>
<tr>
<td>8/93</td>
<td>10</td>
<td>750</td>
</tr>
<tr>
<td>28/2/92</td>
<td>1</td>
<td>131</td>
</tr>
</tbody>
</table>

6,328
Note 4 - Questioned Costs (Con't)

F. In-country training (cont.)

2. Per diems were paid for which there was no supporting documentation.

<table>
<thead>
<tr>
<th>Date</th>
<th>Entry #</th>
<th>L.E. Amount</th>
<th>LE</th>
<th>Questioned Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>29/2-4/3/92</td>
<td>1</td>
<td>133</td>
<td>133</td>
<td>42</td>
</tr>
</tbody>
</table>

TOTAL IN-COUNTRY TRAINING

<table>
<thead>
<tr>
<th>L.E.</th>
<th>Questioned Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>6,461</td>
<td>$ 1,996</td>
</tr>
<tr>
<td>131,894</td>
<td>$ 28,906</td>
</tr>
</tbody>
</table>

TOTAL QUESTIONED COSTS
AGRICULTURAL RESEARCH CENTER

PROJECT IMPLEMENTATION LETTER
NOS. SEED-003, SEED-004, AND SEED-009
RELATED TO THE SEED COMPONENT NO. 4 OF THE NATIONAL AGRICULTURAL RESEARCH PROJECT NO. 263-0152

FROM SEPTEMBER 19, 1989 THROUGH SEPTEMBER 30, 1993 FOR PIL NO. SEED-003
FROM NOVEMBER 5, 1989 THROUGH SEPTEMBER 30, 1993 FOR PIL NO. SEED-004
FROM APRIL 20, 1993 THROUGH SEPTEMBER 30, 1994 FOR PIL NO. SEED-009

MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

DRAFT CLARIFICATION FOR
THE DRAFT NFA REPORT RELATED TO
COSTS INCURRED ON PROJECT IMPLEMENTATION LETTERS
NO. SEED-3, NO. SEED-4, AND NO. SEED-9

CLARIFICATION FOR NOTE 4 - QUESTIONED COSTS:

PIL NO. SEED-003

A- Labor

1. The check of $460 was issued as a labor costs for the cleaning & preparation of Kafr Sakr processing plant location and was not paid as a penalty.

2. About the supporting documents of some payroll transactions for December 1991 and July 1993 amount of $280. All these documents are available but was misplaced due to the accounting revision made by the Central Authority For Accounting.

B- Per diem

1 & 2. These per diems were paid to the ARC researchers who participate in the National campaign for cotton. All forms are properly documented and are available.

OPERATION EXPENSES

C- Repair & Maintenance

1. Amount of $3495 related to building and bathrooms maintenance. These were necessary repairs needed to prepare the building to receive the new equipment from USA. All vouchers are correct and available.

2. About the maintenance costs for car 2419 used for the Component Director; the voucher and other documentation are correct and program-related.

3. For the amount of $33 related to the maintenance of motor-bikes, all the supported documents are available.
D-Supplies

1. About the cost of $694 paid for publishing fees, $13077 for advertising and $8091 for promotion. These expenditures were paid during the first seed conference and seed sector privatization conference. Both have the required prior USAID/EGYPT approvals. The authorization and other documents are available at USAID/EGYPT Office of Agriculture.

E-Cotton Gin

- About the questioned check in the amount of $188517 payable to Countryside Electricity Authority, attached find all supporting documentation that confirm what the expenditure related to and whom received the funds. Total actual expenses 558360 L.E. for the cotton Gin and rest of the amount 39240 L.E. will go back to USAID.

PIL NO. SEED-004

F-In-country training

1. About the amount of $1997 related to the costs of the leather bags, these bags were necessary for the trainees to keep their handouts, the cost of the bag is not more than $.05.
AUDITOR'S RESPONSE

The Agricultural Research Center ("ARC") management provided comments relating to the Coopers and Lybrand draft report presented at the exit conference held on December 18, 1994. ARC’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 ARC’s comments. Please note that our response sequence below parallels our draft report.

A. LABOR

1. The documents supporting this payment stated that the disbursement was for a penalty.

2. We have removed this questionable cost from our final report.

B. PER DIEM

1. We have removed this questionable cost from our final report.

2. We have removed this questionable cost from our final report.

C. REPAIR AND MAINTENANCE

1. The management’s comments related to this finding do not justify the cost.

2. The documents supporting this payment stated that the disbursement was the responsibility of the Government of Egypt.

3. We have removed this questionable cost from our final report.
D. **SUPPLIES**

1. The management did not include appropriate documented approvals to support this payment; therefore, the amount remains questionable.

E. **COTTON GIN**

1. We have removed a portion of this questionable cost from our final report. The remainder will be returned back to USAID/Egypt according to the management’s comments.

F. **IN-COUNTRY TRAINING**

1. Leather bags were purchased for LE 30 each, not $ .05 as stated in the management’s comments. Further, the project initially purchased plastic folders for trainees for LE 7 each. The purchase of the leather bags is not justified.

The ARC management did not respond to internal control structure weaknesses noted in our report.
MEMORANDUM

TO: Philippe L. Darcy, RIG/A/C
FROM: James Redder, OD/FM/FA

Subject: Audit of the Agricultural Research Center (ARC) Project Implementation letters Nos. SEED-003, SEED-004, and SEED-009 related to the SEED Component No. 4 of National Agricultural research Project (NARP) No. 263-0152.

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.