

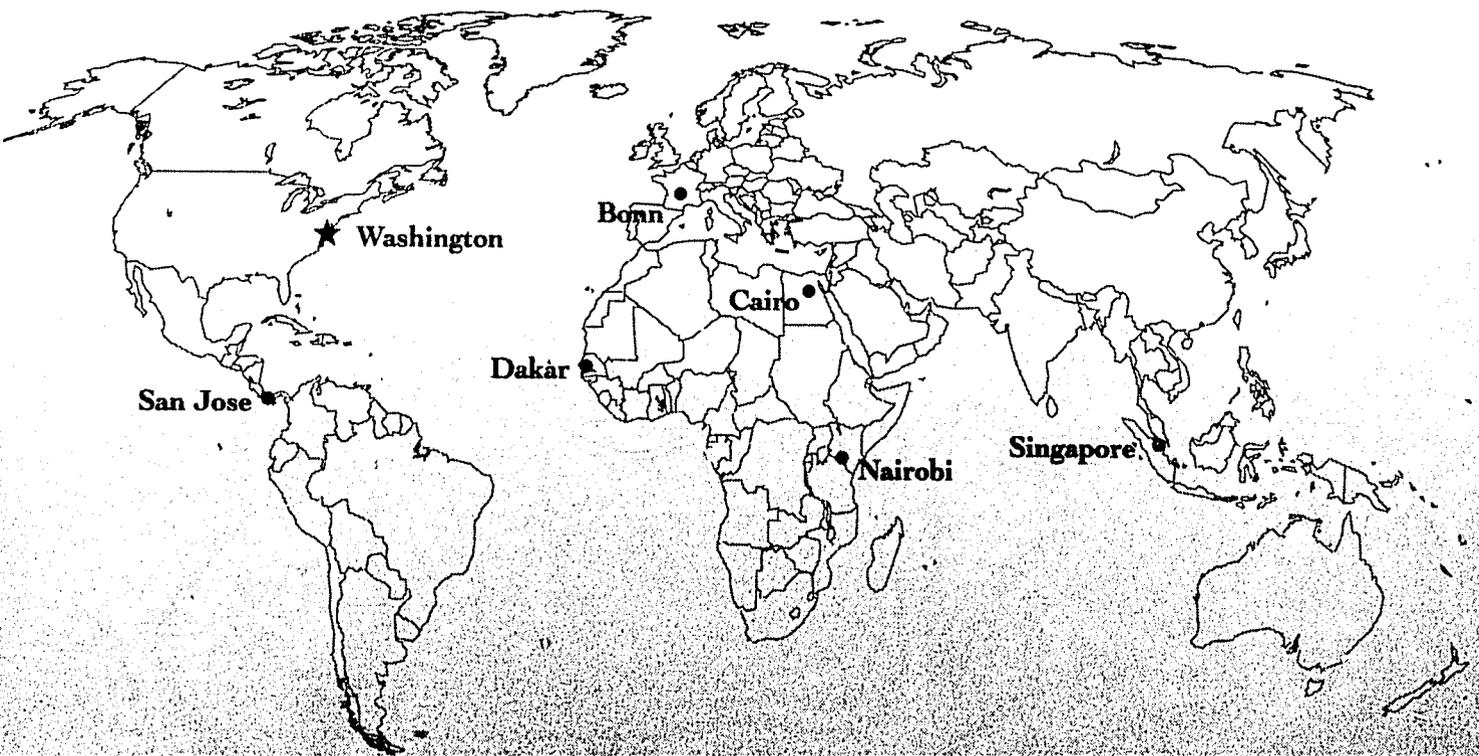
PD-ABL-063

Regional Inspector General for Audit
Cairo, Egypt

94683

**Audit of The Agricultural Research Center of the Ministry of
Agriculture and Land Reclamation, Research Component Expenditures
Incurred Pursuant to Project Implementation Letters (PILs) Nos. RES-010,
RES-014, RES-022, RES-023 & RES-028, under the National Agricultural
Research Project No. 263-0152**

**Report No. 6-263-95-018-N
April 13, 1995**



**INSPECTOR
GENERAL**

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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

April 13, 1995

MEMORANDUM FOR D/USAID/Egypt, John R. Westley
FROM : RIG/A/Cairo, *Philippe L. Darcy*
SUBJECT : Audit of the Agricultural Research Center of the
Ministry of Agriculture and Land Reclamation,
Research Component Expenditures Incurred Pursuant
to Project Implementation Letters (PILs) Nos.
RES010, RES014, RES022, RES023 & RES028, under the
National Agricultural Research Project No. 263-
0152.

The attached report transmitted by Hazem Hassan & Co. on February 28, 1995 presents the results of a financial audit of the Agricultural Research Center of the Ministry of Agriculture and Land Reclamation, Research Component Expenditures Incurred Pursuant to Project Implementation Letters (PILs) No. RES010, RES014, RES022, RES023 & RES028, under the National Agricultural Research Project No. 263-0152. The project's primary objective is to increase agricultural productivity by increasing the quantity and improving the quality of agricultural technologies that result in higher yield and greater production when adopted by farmers.

We engaged Hazem Hassan & Co. to perform a financial audit of the Research Component's incurred expenditures of \$16,470,485 (equivalent to LE47,205,781) as of June 30, 1994. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Hazem Hassan & Co. also evaluated the Research Component's internal controls and compliance with applicable laws, regulations and grant terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Hazem Hassan & Co. questioned \$35,008 (including \$331 unsupported costs). The questioned costs included consumables, facility improvement, local procurement, supplies, travel and others. Hazem Hassan & Co. noted three material weaknesses in the Research

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Component's internal controls relating to the non-documentation of the review of cash advance reconciliations, lack of supporting documents for cash advance reconciliations and purchase orders and that defined specifications of procured goods and equipment are not maintained. Additionally, they noted three instances of material noncompliance related to improper procurement procedures, charging USAID with taxes and other prohibited fees and charging USAID with per diem in excess of the approved rates.

In response to the draft report, the Research Component provided documentation and/or additional explanations for the questioned costs, however, they did not comment on the internal control and compliance findings. Hazem Hassan & Co. reviewed the Research Component's response to the findings. Where applicable, they have made adjustments in their report or provided further clarification of their position.

The following recommendations are included in the Office of the Inspector General's recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Egypt resolve questioned costs of \$35,008 (consisting of \$34,677 of ineligible costs and \$331 of unsupported costs) detailed on pages 12 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 the Research Component.

Recommendation No. 2: We recommend that USAID/Egypt require the Research Component to address the material internal control weaknesses detailed on pages 18 and 19 of the audit report.

This recommendation is considered unresolved and can be resolved when the Mission provides our office with a copy of its request that the Research Component address its material internal control weaknesses. The recommendation can be closed when RIG/A/C has assessed the Research Component's response and USAID/Egypt's follow-up for adequacy. With regard to the non-material internal control weaknesses, they can be handled directly between the Mission and the grantee.

Recommendation No. 3: We recommend that USAID/Egypt require the Research Component to address the material noncompliance issues detailed on pages 22 and 23 of the audit report.

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

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 Hazem Hassan & Co. and to our office.

Financial Audit Of
The Agricultural Research Center(ARC)
Related To Project Implementation
Letters No. 10, 14, 22, 23 And 28
Of
The National Agricultural Research Project
No. 263-0152
For The Period From March 24, 1986
Through June 30, 1994

Financial Audit Of
The Agricultural Research Center (ARC)
Related To Project Implementation
Letters No. 10, 14, 22, 23 And 28
Of The National Agricultural Research Project
No. 263-0152
For The Period From March 24, 1986
Through June 30, 1994

TABLE OF CONTENTS

	<u>Page</u>
<u>Introduction</u>	
Background	1
Audit Objectives and Scope	2
Results of Audit	4
Management Comment	5
<u>Combined Fund Accountability Statement</u>	
Independent Auditor's Report	6
<u>Internal Control Structure</u>	
Independent Auditor's Report	16
<u>Compliance With Laws and Regulations</u>	
Independent Auditor's Report	21
<u>Appendices</u>	
Appendix I	ARC's Management Response
Appendix II	Auditor's Comments
Appendix III	Mission's Comments

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

February 28, 1995

Dear Mr. Darcy,

This report presents the result of our financial audit of the Agricultural Research Center (ARC) on Project Implementation Letters (PILs) No. 10, 14, 22, 23, and 28 related to the Research Component No. 1 of the National Agricultural Research Project (NARP) No. 263-0152 for the period from March 24, 1986 through June 30, 1994.

Background

NARP was originated on September 12, 1985. The goal of the Project is to increase the agricultural productivity by increasing the quantity and improving the quality of agricultural technologies that result in higher yield and greater production when adopted by farmers. The purpose of the project is to develop the capability of the agricultural research community to provide continuous flow of improved and appropriate agricultural technology. NARP consists of several components, one of which is ARC.

ARC is responsible for the generation of improved technologies and methods of field verification of station research results. ARC is financed by PILs No. 10, 14, 22, 23 and 28.

PIL No. 10

PIL No. 10 is a continuation of PIL No. 8 which was originated in March, 1986.

The purpose of this PIL is to increase agricultural production by conducting research in cooperation with universities all over Egypt. 106 research projects were approved in Phase I and 96 more were approved in Phase II.

PILs No. 14 and No. 22

PILs Nos. 14 and 22 were originated on September 1989 and August 1988 respectively.

These PILs deal with the preparation and improvement of land by constructing irrigation and drainage systems, irrigation pumps and by leveling of land.

PIL No. 23

PIL No. 23 was originated on November, 1990. The purpose of this PIL is to increase agricultural production by cooperation between Egyptian and American researchers.

PIL No. 28

PIL No. 28 was originated on May, 1992. The purpose of this PIL is to provide the necessary funds for a research component office for personal contract services, equipment, and operating expenses.

Audit Objectives and Scope

The overall objective of this engagement is to conduct a financial audit of USAID resources managed by the ARC pursuant to PILs No. 10, 14, 22, 23 and 28. The audit covers the period from March 24, 1986 through June 30, 1994.

The specific objectives of this audit are to:

1. express an opinion on whether the combined fund accountability statement for the USAID financed project of ARC presents fairly, in all material respects, project revenues received and costs incurred for the period under audit, in conformity with generally accepted accounting principles or other comprehensive bases of accounting, including the cash receipts and disbursements basis and modifications of the cash basis;
2. determine if the costs reported as incurred under the PILs are in fact allowable, allocable, and reasonable in accordance with the terms of the PILs;

3. evaluate and obtain a sufficient understanding of the internal control structure of ARC, assess control risk, and identify reportable conditions, including material internal control weaknesses; and
4. perform tests to determine whether ARC complied, in all material respects, with the terms of the PILs and the applicable laws and regulations.

Preliminary planning and review procedures started in May 1994 and consisted of:

- discussions with RIG/A/C;
- reviews of the grant agreements and the PILs;
- interviews and discussions with the ARC key personnel concerning the grant status, accomplishments during the period, the statutory reporting requirements, the grant budget, and actual expenditures and reimbursement procedures from USAID;
- reviews of the ARC organizational structure, procurement and personnel manuals, financial and accounting policies, and procedures manual.

The field work was completed on September 1, 1994. The scope of our work was to audit ARC's costs incurred and reimbursed by USAID/Egypt under PILs No. 10, 14, 22, 23 and 28. Within each budget line item, we selected disbursements for testing on a judgmental basis. We tested disbursement of \$7,920,141 (equivalent to LE22,606,806) out of total disbursements of \$16,470,485 (equivalent to LE47,205,781).

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

1. Reconciling cash receipts to USAID/Egypt records.
2. Reconciling ARC accounting records to invoices submitted to USAID/Egypt and testing costs for allowability, allocability, reasonableness, and appropriate support.
3. Determining whether travel and transportation charges were adequately supported and approved.
4. Establishing the adequacy of ARC's control over project equipment.
5. Determining whether payroll costs were appropriate and conformed with the terms of the grant agreement and relevant regulations.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision), issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined fund accountability statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 46 of Chapter 3 of Government Auditing Standards (1988 Revision), because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards (1988 Revision) is not material because we have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG 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 Statements

Our audit identified total questioned costs of \$35,008 (equivalent to LE94,316) which divided into ineligible costs of \$34,677 (equivalent to LE93,276) and unsupported costs of \$331 (equivalent to LE1,040).

Internal Control

Our audit identified the following material weaknesses:

- The chief accountant's review of cash advance reconciliations of PIL No. 10 is not documented.
- Supporting documents of PIL No.23 are not submitted to or kept by the ARC's accounting department when cash advances are reconciled.
- Purchase orders and defined specifications of procured goods and equipment are not maintained.

Reportable Conditions

- No insurance coverage for equipment and productive assets.
- Vehicle's log is not complete.
- Fixed assets register is not updated.

Compliance with Laws and Regulations

Our tests of compliance disclosed three material instances of noncompliance with the grant agreement and financial regulations.

Supplementary information

The supplementary fund accountability statement presented in Egyptian Pounds (LE) and schedules of questioned costs including dates, number of vouchers and amounts in LE were communicated and delivered to ARC's management and are available upon request.

Management Comment

We have reviewed ARC's response to the questioned costs incurred which is included as Appendix I. Where applicable, we have made adjustments in our report or provided further clarification of our position in Appendix II. For those items not adjusted in the final report, the responses provided by ARC management have not changed our understanding of the fund accountability statement, reportable conditions and material weaknesses in the report on internal control structure or findings in the report on compliance with laws and regulations.

This report is solely intended for the use of the United States Agency for International Development and may not be suitable for any other purpose.

Hazem Hassan & Co.



Cairo, Egypt

COMBINED FUND ACCOUNTABILITY STATEMENT

KPMG Hazem Hassan & Co.

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Report on Combined Fund Accountability Statement Independent Auditor's Report

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

We have audited the combined fund accountability statement of the Agricultural Research Center (ARC) on Project Implementation Letters (PILs) Nos. 10, 14, 22, 23 and 28 related to the Research Component Nos. 1 of the National Agricultural Research Project (NARP) No. 263-0152 for the period from March 24, 1986 through June 30, 1994. This 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 following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision), 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 combined fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined fund accountability statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the presentation of the overall combined fund accountability statement. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 46 of Chapter 3 of Government Auditing Standards (1988 Revision) because no such quality control review program is offered by professional

organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards (1988 Revision) is not material because we participate in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

The combined fund accountability statement referred to above, does not include the cost of USAID/Egypt's direct procurement of vehicles, equipment, and technical assistance provided by USAID/Egypt directly to ARC or the total revenue of the costs incurred by ARC, if any, on an organization-wide basis.

As described in Note 1, the accompanying combined fund accountability statement has been prepared on the cash basis, which is a comprehensive basis of accounting other than the generally accepted accounting principles. Included in the combined fund accountability statement, are questioned costs of \$35,008. The basis for questioning these costs is more fully described in the "Details of Questioned Costs" section of this report.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the combined fund accountability statement, referred to above, presents fairly, in all material respects, the costs incurred on the PILs and managed by the ARC for the period from March 24, 1986 through June 30, 1994 in conformity with the basis of accounting described in Note 1.

Hazem Hassan & Co.



Cairo, Egypt
September 1, 1994

AGRICULTURAL RESEARCH CENTER (ARC)
PROJECT IMPLEMENTATION LETTERS NO.10, 14, 22, 23 AND 28
RELATED TO THE RESEARCH COMPONENT NO.1 OF THE
NATIONAL AGRICULTURAL RESEARCH PROJECT "NARP"
NO. 263-0152
COMBINED FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM MARCH 24, 1986 TO JUNE 30, 1994

USAID/EGYPT FUND RECEIVED \$
17,619,203

<u>EXPENDITURES</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>QUESTIONED COSTS</u>		<u>FINDING No. & Pg.</u>
			<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>	
	\$	\$	\$	\$	
<u>PIL No. 10</u>					
Wages	1,646,765	1,713,416			
Consumables	1,815,785	1,874,901	5,146		3 p. 12
Transportation	821,518	879,077			
Repairs & Maintenance	167,810	141,917			
Information	109,755	109,874		30	7 p. 13
Facility Improvement	1,076,637	1,019,788	2,627		9 p. 13
Miscellaneous	255,810	48,085		19	11 p. 14
Administration	1,037,312	681,535			
Local Procurement	3,559,179	3,529,591	25,095		12 p. 14
Sub Total	10,490,571	9,998,184	32,868	49	
<u>PIL No. 14</u>					
Irr. system	725,649	730,416			
Irr. Pumps	188,312	193,700			
Agro. Meta Equipment	251,623				
Lysimeter Wight	64,935				
Lysimeter Reg	64,936	66,731			
Sub-Soiling	13,149				
Leveling	123,214	38,392			
Gypsum	16,234	1,299			
Drainage	105,519	57,769			
Administration	31,789	33,782			
Sub-Total	1,585,360	1,122,089			

* The accompanying footnotes are integral part of the combined fund accountability statement.

AGRICULTURAL RESEARCH CENTER (ARC)
PROJECT IMPLEMENTATION LETTERS NO.10, 14, 22, 23 AND 28
RELATED TO THE RESEARCH COMPONENT NO.1 OF THE
NATIONAL AGRICULTURAL RESEARCH PROJECT "NARP"
NO. 263-0152
COMBINED FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM MARCH 24, 1986 TO JUNE 30, 1994

<u>EXPENDITURES</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>QUESTIONED COSTS</u>		<u>FINDING No. & Pg.</u>
			<u>\$</u>	<u>\$</u>	
			<u>\$</u>	<u>\$</u>	
<u>PIL No. 22</u>					
Services expenditures	196,596	216,748			
Sub-Total	<u>196,596</u>	<u>216,748</u>			
<u>PIL No. 23</u>					
Wages	878,295	750,115			
Supplies	1,202,875	1,036,446	89	282	13, 14 P. 14, 15
Travel	302,580	237,977	1,268		15 P. 15
Computer Cost	97,700	59,558			
Others	247,069	225,972	452		16 P. 15
Equipment	2,197,151	2,262,087			
Transportation	26,905	26,905			
Sub-Total	<u>4,952,575</u>	<u>4,599,060</u>	<u>1,809</u>	<u>282</u>	
<u>PIL No. 28</u>					
Contract Services	385,371	316,585			
Equipment/ Commodities	166,657	140,343			
Operating Expenses	287,210	77,476			
Sub-Total	<u>839,238</u>	<u>534,404</u>			
Total Expenditures		<u><u>16,470,485</u></u>	<u><u>34,677</u></u>	<u><u>331</u></u>	
USAID/Egypt Fund as of June 30, 1994		<u>1,148,718</u>			

* The accompanying footnotes are integral part of the combined fund accountability statement.

AGRICULTURAL RESEARCH CENTER (ARC)
Combined Fund Accountability Statement
Project Implementation Letters (PILs) Nos. 10, 14, 22, 23 and 28

Notes to the Combined Fund Accountability Statement

Note 1: Accounting Basis

The combined fund accountability statement of ARC is prepared on the basis of cash disbursements. Consequently, costs are recognized when paid rather than when the obligation is incurred. The accounting basis of cash disbursements is a comprehensive basis of accounting other than generally accepted accounting principles.

Note 2: Basis of Presentation

The combined fund accountability statement is the representation of ARC's management and is the responsibility of the said management. The "Questioned Costs" columns represent the audit results and are included in the combined fund accountability statement for presentation purposes only.

Note 3: Dates of PILs

The overall period of the combined fund accountability statement is from March 24, 1986 through June 30, 1994. The audited period of each PIL is as follows:

PIL No. 10	from	March 24, 1986	through	June 30, 1994
PIL No. 14	from	Sept. 11, 1989	through	June 30, 1994
PIL No. 22	from	Aug. 30, 1988	through	Aug. 31, 1989
PIL No. 23	from	Nov. 13, 1990	through	June 30, 1994
PIL No. 28	from	May 18, 1992	through	June 30, 1994

Note 4: Reporting Currency

ARC maintains its books and accounts in Egyptian Pounds (LE) as a functional currency. The functional currency was translated into US Dollars (\$) as a reporting currency. The period average exchange rate method was used to translate the combined fund accountability statement. These exchange rates are:-

PIL No. 10,	\$1 =	LE2.66
PIL No. 14,	\$1 =	LE3.08
PIL No. 22,	\$1 =	LE2.35
PIL No. 23,	\$1 =	LE3.23
PIL No. 28,	\$1 =	LE3.35

Note 5: Project Implementation Letter (PIL) No. 10

The PIL was signed on March 1986. The budget was amended several times to cover the period through June 30, 1994. Expenditures included costs of wages, consumables, transportation, repairs and maintenance, information, facility improvement, miscellaneous, administration and local procurement.

Note 6: Project Implementation Letters (PILs) Nos. 14, 22

PILs Nos. 14 and 22 were signed on September 1989 and August 1988 respectively. The PILs financed the construction of the irrigation and drainage systems, irrigation pumps and leveling of land.

Note 7: Project Implementation Letter (PIL) No. 23

The PIL was signed on November 1990. The purpose of this PIL is to increase agricultural production by cooperation between Egyptian and American researchers.

Note 8: Project Implementation Letter (PIL) No. 28

The PIL was signed on May 1992 and extended to cover the period ending June 30, 1994. The PIL financed the contract services, equipment, commodities and operating expenses.

Note 9: Questioned costs

Questioned costs are presented in two separate categories - ineligible or unsupported - and consist of audit findings proposed on the basis of the terms of the PILs, the project agreement, USAID regulations and NARP's financial regulations, which prescribe the nature and treatment of reimbursable costs not specifically defined in the agreement. Costs in the column labeled "Ineligible" are supported by vouchers or other documentation but are ineligible for reimbursement because they are either unreasonable, not program related, or are prohibited by the agreement or applicable laws and regulations. Costs in the column labeled "unsupported" are also included in the classification of "questioned costs" and related to costs that are not supported by adequate documentation or did not have the required prior approvals or authorizations. All questioned costs are detailed in the "Details of Questioned Costs" section of this report.

Details of Questioned Costs

Finding No. 1

Based on the information and documents presented to us subsequent to the issuance of the draft report, this finding has been removed.

Finding No. 2

Based on the information and documents presented to us subsequent to the issuance of the draft report, this finding has been removed.

Finding No. 3

ARC charged USAID/Egypt \$5,146 for certain procurements valued at more than LE5,000 for each item. Each procurement was done without obtaining three offers to choose from.

ARC's operation manual states that "purchasing of items exceeding LE500 must be done through bids. Offers must not be less than three and prices must be included. Offers must be submitted in a form showing the reasons for choosing the item to be purchased. The three bids must be signed by the principal investigator and attached to the purchase order. If items are bought without following the regulations stated in this manual, the purchase will be disallowed". However, NARP's procurement procedures allow purchasing up to LE5,000 by direct order. Therefore, we questioned all procurements over LE5,000 done by direct order.

ARC's management believes that procurement from public sector companies does not require obtaining three offers.

As a result, unallowable costs of \$5,146 were charged to USAID/Egypt.

Finding No. 4

Based on the information and documents presented to us subsequent to the issuance of the draft report, this finding has been removed.

Finding No. 5

Based on the information and documents presented to us subsequent to the issuance of the draft report, this finding has been removed.

Finding No. 6

Based on the information and documents presented to us subsequent to the issuance of the draft report, this finding has been removed.

Finding No. 7

ARC charged USAID/Egypt \$30 for certain unsupported information costs.

ARC's operation manual states that "All financial transactions must be recorded by documents being maintained and available for reference and audit of the project records".

We believe that the cause of this finding is attributable to inadequate review of the cash advance reconciliations.

As a result, unsupported information costs of \$30 were charged to USAID/Egypt.

Finding No. 8

Based on the information and documents presented to us subsequent to the issuance of the draft report, this finding has been removed.

Finding No. 9

ARC charged USAID/Egypt \$2,627 for certain procurements valued at more than LE5,000 for each item. The procurement was done without obtaining three offers to choose from.

ARC's operation manual states that "Purchasing of items exceeding LE500 must be done through bids. Offers must not be less than three and prices must be included. Offers must be submitted in a form showing the reasons for choosing the item to be purchased. The three bids must be signed by the principal investigator and attached to the purchase order. If items are bought without following the regulations stated in this manual, the purchase will be disallowed". However, NARP's procurement procedures allow purchasing up to LE5,000 by direct order. Therefore, we questioned all procurements over LE5,000 done by direct order.

ARC's management believes that procurement from public sector companies does not require obtaining three offers.

As a result, unallowable costs of \$2,627 were charged to USAID/Egypt.

Finding No. 10

Based on the information and documents presented to us subsequent to the issuance of the draft report, this finding has been removed.

Finding No. 11

ARC charged USAID/Egypt \$19 for certain unsupported miscellaneous costs.

ARC's operation manual states that "All financial transactions must be recorded by documents being maintained and available for reference and audit of the project records".

We believe that the cause of this finding is attributable to inadequate review of the cash advance reconciliations.

As a result, unsupported miscellaneous costs of \$19 were charged to USAID/Egypt.

Finding No. 12

ARC charged USAID/Egypt \$25,095 for certain procurements valued at more than LE5,000 for each item. The procurement was done without obtaining three offers to choose from.

ARC's operation manual states that "Purchasing of items exceeding LE500 must be done through bids. Offers must not be less than three and prices must be included. Offers must be submitted in a form showing the reasons for choosing the item to be purchased. The three bids must be signed by the principal investigator and attached to the purchase order. If items are bought without following the regulations stated in this manual, the purchase will be disallowed". However, NARP's procurement procedures allow purchasing up to LE5,000 by direct order. Therefore, we questioned all procurements over LE5,000 done by direct order.

ARC's management believes that procurement from public sector companies does not require obtaining three offers.

As a result, unallowable equipment costs of \$25,095 were charged to USAID/Egypt.

Finding No. 13

ARC charged USAID/Egypt \$89 for certain taxes.

The Grant Standard Provision states that "The grant will be free from any taxation or fees imposed under Laws in effect in the territory of the grantee".

We believe that the cause of this finding is attributable to inadequate review of the cash advance reconciliations.

As a result, unallowable costs of \$89 were charged to USAID/Egypt.

Finding No. 14

ARC charged USAID/Egypt \$282 for certain unsupported supplies costs.

ARC's operation manual states that "All financial transactions must be recorded by documents being maintained and available for reference and audit of the project records".

We believe that the cause of this finding is attributable to inadequate review of the cash advance reconciliations.

As a result, unsupported costs of \$282 were charged to USAID/Egypt.

Finding No. 15

ARC charged USAID/Egypt \$1,268 for certain per diem costs in excess of the approved per diem rates.

ARC's per diem regulations stipulate per diem rates for each type of trip (i.e. over night, day trip, etc..)

We believe that the cause of this finding is attributable to inadequate review of the cash advance reconciliations.

As a result, unallowable costs of \$1,268 were charged to USAID/Egypt.

Finding No. 16

ARC charged USAID/Egypt \$452 for certain taxes and government fees.

The Grant Standard Provision states that "The grant will be free from any taxation or fees imposed under Laws in effect in the territory of the grantee".

We believe that the cause of this finding is attributable to inadequate review of the cash advance reconciliations.

As a result, unallowable costs of \$452 were charged to USAID/Egypt.

INTERNAL CONTROL STRUCTURE

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Report on Internal Control Structure Independent Auditor's Report

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

We have audited the combined fund accountability statement of the Agricultural Research Center (ARC) on Project Implementation Letters (PILs) Nos. 10, 14, 22, 23 and 28 related to the Research Component No. 1 of the National Agricultural Research Project (NARP) No. 263-0152 for the period from March 24, 1986 through June 30, 1994, and have issued our report thereon dated September 1, 1994.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision), 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 combined fund accountability statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 46 of Chapter 3 of Government Auditing Standards (1988 Revision) because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards (1988 Revision) is not material because we participate in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

In planning and performing our audit of ARC, we considered its internal control structure related to PILs Nos. 10, 14, 22, 23 and 28 funded by USAID/Egypt in order to determine our auditing procedures for the purpose of expressing our opinion on the combined fund accountability statement and not to provide assurance on the internal control structure.

The management of ARC is responsible for 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 are recorded properly to permit the preparation of reliable combined fund accountability statements in accordance with the cash basis of accounting. 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 into the following categories:

- Cash and fund custody;
- Expenditure disbursements; and
- Equipment and supplies procurement and safeguarding.

For all of the control categories listed above, we obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation, and assessed the control risk.

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

following conditions which we believe constitute material weaknesses:

Material Weaknesses

Finding No. 1

No review by the ARC's chief accountant of cash advance reconciliations of PIL No.10 has been noted.

A good system of internal control should include the involvement of and review by the project's chief accountant to ensure that all cash advance reconciliations, before being processed into the accounting system, are valid, supported, and advance the objectives of the project.

We believe that, this finding is mainly attributable to a lack in the number of the accounting staff members. The project's chief accountant is mainly involved in reconciling cash advances rather than in reviewing and approving such reconciliations.

As a result, certain costs are recorded and billed to USAID/Egypt with no adequate supporting documents, certain transactions are misclassified and certain mathematical errors have occurred.

We recommend that, if ARC were to receive further USAID funds under PIL No. 10, the project's chief accountant review all cash advance reconciliations before being posting them to accounting records.

Finding No. 2

Supporting documents, except for the equipment line item of PIL No. 23, are not submitted to or kept by the accounting department when cash advances are reconciled. The accounting department relies only on expense statements provided by the researchers to reconcile such advances.

A good system of internal control requires that all supporting documents be submitted and reviewed before cash payments are made in order to ensure that transactions are executed in accordance with management's authorization and the terms of the agreement.

ARC's management believes that expense statements provided by the researchers are sufficient to reconcile the cash advances.

As a result, ineligible or unsupported costs may be reported to USAID/Egypt.

We recommend that, if ARC were to receive further USAID funds under PIL No. 23, all supporting documents should be provided to and

reviewed by the accounting department before cash payments are made.

Finding No. 3

ARC does not maintain purchase orders of procured goods and commodities and no defined specifications are documented. Accordingly, the selection process has no basis to ensure that the selected offers are at the most advantageous terms and prices. ARC's financial regulations require a purchase order to be issued for each procurement transaction over LE 500.

We believe that this finding is attributable to inadequate review of supporting documents

As a result, the selected offers may not be at the most advantageous prices available in the market.

We recommend that a purchase order be issued for each procurement transaction exceeding LE500. Such an order should include detailed specifications for the required goods.

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 that have come to our attention and are related to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the combined fund accountability statement. Our audit disclosed the following reportable conditions:

Reportable Conditions

Finding No. 1

During our audit, we noted that there is no insurance coverage for equipment and productive assets.

Sound internal controls require insurance coverage against fire and theft of equipment.

ARC's management did not procure such an insurance policy because there is no specific line item for insurance expenses.

Lack of insurance coverage exposes ARC to assets and operating losses.

We recommend that, if ARC were to receive further USAID funds, a comprehensive insurance policy be purchased to cover all significant assets for which ARC assumes the responsibility of maintenance and safekeeping.

Finding No. 2

The vehicle log does not indicate whether the vehicle was used for work duty or for personal usage.

A sound internal control system requires maintaining a vehicle log that clearly distinguishes between personal and business use.

In this case, the project management does not document the purpose for which it was used in the log of the vehicle.

As a result, the project vehicle may be used for transactions and purposes other than those related to the project.

We recommend that ARC document the purpose of usage in the log of the vehicle.

Finding No. 3

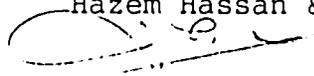
During our audit, we noted that, the fixed assets register is not updated.

For a good internal control system, all equipment and non-expendable items should be recorded.

We recommend that ARC update the fixed assets register.

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.

Hazem Hassan & Co.



Cairo, Egypt
September 1, 1994

COMPLIANCE WITH LAWS AND REGULATIONS

KPMG Hazem Hassan & Co.

Accountants & Consultants

74 Mohi Eldin Abul Ezz Street
Mohandiseen, Cairo
Egypt.

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Telex : 93796 - 20457 HHCO UN
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Report on Compliance with Laws and Regulations Independent Auditor's Report

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

We have audited the accompanying combined fund accountability statement of the Agricultural Research Center (ARC) on Project Implementation letters (PILs) Nos. 10, 14, 22, 23 and 28 related to the Research Component No. 1 of the National Agricultural Research Project (NARP) No. 263-0152 for the period from March 24, 1986 through June 30, 1994 and have issued our report thereon dated September 1, 1994.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision), issued by the Comptroller General of the United States. These standards require that we perform the audit to obtain reasonable assurance about whether the combined fund accountability statement of ARC is free of material misstatement.

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 (1988 Revision), because 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 (1988 Revision), is not material because we participate in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

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

Material instances of noncompliance are violations of laws, regulations, contracts, grants or binding policies and procedures that cause us to conclude that the aggregation of misstatements, resulting from those violations, is material to the combined fund accountability statement. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have been reflected in the ARC's combined fund accountability statement.

Finding No. 1

ARC charged USAID/Egypt for certain procurements valued at more than LE5,000 for each line item. The procurements were made without obtaining three offers to choose from.

NARP's procurement procedures require three offers for procurements of more than LE5,000. Furthermore, ARC's operation manual requires three offers for procurements of more than LE500.

The following items, numbered as they are presented in the "Details of Questioned Costs" section of this report, are not in compliance with the aforementioned criteria.

Finding No. 3	\$	5,146
Finding No. 9		2,627
Finding No. 12		25,095
		<u>\$ 32,868</u>

Finding No. 2

ARC charged USAID/Egypt for certain governmental fees, sales taxes and vehicle license renewal fees.

The Grant Standard Provision states that "The grant will be free from any taxation or fees imposed under Laws in effect in the territory of the grantee".

The following items, numbered as they are presented in the "Details of Questioned Costs" section of this report, are not in compliance with the aforementioned criteria.

Finding No. 13 89
Finding No. 16 452

\$541

Finding No. 3

ARC charged USAID/Egypt for certain per diem costs in excess of the approved per diem rates.

ARC's per diem regulations stipulate per diem rates for each type of trip (i.e. over night, day trip, etc.....)

The following item, numbered as it was presented in the "Details of Questioned Costs" section of this report, is not in compliance with ARC's per diem regulations

Finding No. 15 \$1,268

Recommendation No. 1

We recommend that ARC's management take the necessary corrective actions to comply with the grant agreement, regarding per diem regulations and procurement procedures in respect of findings No. 1, 2 and 3.

We considered these material instances of noncompliance in forming our opinion on whether ARC's combined fund accountability statement is presented fairly, in all material respects, in conformity with the cash basis of accounting. This report does not affect our report dated September 1, 1994 on the combined fund accountability statement.

Our testing of transactions and records disclosed no other instances of noncompliance with those laws and regulations.

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

KPMG Hazem Hassan & Co.

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.

Hazem Hassan & Co.

Cairo, Egypt
September 1, 1994

Appendix I
ARC's Management Response

Arab Republic of Egypt
Ministry of Agriculture and Land Reclamation
National Agricultural Research Project
Research Component Office



جمهورية مصر العربية
وزارة الزراعة واستصلاح الأراضي
المشروع القومي للأبحاث الزراعية
مكتب مكون البحوث

February 19, 1995
Mr. Ali Salama,
Partner
Hazem Hassan & Co.

Ref. National Agricultural Research Project
USAID Project No. 263-0152
Research Component Audit Report
Pils # 022, Res-023, Res-010,
Res-028, Res-014

Dear Mr. Salama,,,

Reference is made to the audit conducted on the
Research Component.

Please find enclosed a copy of the supporting
documents (contained in 1 file) for our analysis and
justification to the audit findings for Pils # 022, Res-023,
Res-010, Res-028, Res-014

With best Regards,,,

Sincerely Yours,

Mr. Ahmed El-Shennawy
Senior Financial Officer

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Arab Republic of Egypt
Ministry of Agriculture and Land Reclamation
National Agricultural Research Project
Research Component Office



جمهورية مصر العربية
وزارة الزراعة واستصلاح الأراضي
المشروع القومي للأبحاث الزراعية
مكتب مكون البحوث

February 19, 1995
Mr. Ali Salama,
Partner
Hazem Hassan & Co.

Ref. National Agricultural Research Project
USAID Project No. 263-0152
Research Component Audit Report
Pils # 022, Res-023, Res-010,
Res-028, Res-014

Dear Mr. Salama,,

Reference is made to the audit conducted on the
Research Component.

Please find enclosed our analysis and justification to
the audit findings for Pils # 022, Res-023, Res-010, Res-
028, Res-014

With best Regards,,

Sincerely Yours,

Eng. Aly Rashad Mohamed
Financial & Administrative Coordinator

Eng. Ali Salama



Date: February 19, 1995

**Report About Financial
Audit Conducted on the NARP Pils #
Res - 010, Res - 023, 022, Res - 014 and Res - 028**

In Connection with the audit conducted on the National Agricultural Research Project (NARP) No. 263-0152 for the Research Component Pils # 022; Res-010; Res-023; Res-014 and Res-028. This Report is, expressed in Egyptian pounds, for the purpose of expressing an opinion as to whether the findings are closed or in process & to resolve the intersection of opinions between NARP & the Audit firm.

The audit conducted included 5 Pils, Land Preparation, Research Grants Program, Collaborative Research, Land Improvement and finally Research Component Support Office. Three out of those five Pils contained no findings at all, i.e. the total amount of findings for Pils # 022, Res-014 and Res-028 all combined is L.E. 0.00 as of June 30th, 1995. The total funds received from USAID/Cairo is L.E. 52,243,686 as of June 30th, 1994 while the total amount of questioned cost is L.E. 124,855 which is 0.24 % of the total funds received. However, it is very interesting to work out these findings together so as to delete them. NARP prepared it's justification for most of the findings that were contained in the audit report. Additional supporting documents were added to the points that were discussed previously to ease the auditing firm job.

Enclosed is a summary of our analysis of the involved costs with justification for those costs that we believe are allowable.

Ezzam Abdelkhalik

**** Pil # Res-010**

*** Finding # 1**

The audit firm claimed that the ARC incurred disbursements without any supporting documents. The total amount of the finding is \$ 360. The effect of the finding was that USAID was billed unsupported wages of the total amount mentioned above.

Justification

- 1) CAR # 997 of the finding (60 L.E.) was billed on the wages line item. Questioning about the receipt which was not signed by the employee, the Principle Investigator responded that it was done by mistake and prepared another payment receipt which was signed by both the employee and the P.I. after being reviewed by the financial officer of the P.I. The supporting documents were available.
- 2) CAR # 1387 of the finding (50 L.E.) was billed on the wages line item. Questioning about the receipt which was not signed by the employee, the P.I. responded that it was done by mistake and prepared another payment receipt which was signed by both the employee and the P.I. after being reviewed by the financial officer of the P.I. NARP matched the new receipt and the signature of the employee with the records maintained at NARP and it was obvious that both signatures are identical. The supporting documents were available.
- 3) CAR # 478 of the finding (48 L.E.) was billed on the wages line item. Because of Misfiling, the audit firm audited CAR # 478 which supported expenditure for Grant # AT-081 while the document for wages, audited by the auditing firm, supported expenditure for Grant # CA-355. The necessary action was taken and the documents were filed correctly. Supporting documents of both documents are available.

- 4) CAR # 462 of the finding (700 L.E.) was billed on the wages line item. The above mentioned CAR contained the amount of L.E. 706 with no violation to any of the regulations. Supporting document is available.
- 5) CAR # 1991 of the finding (80 L.E.) was billed on wages line item. No wages were billed to USAID in CAR # 1991 Phase I or II

* Finding # 2

The audit firm claimed that the ARC incurred expenditures For certain stamp duties. The total amount of the finding is \$ 29. The effect of the finding was that USAID was billed unallowable costs of the total amount mentioned above.

Justification

- 1) CAR # 795 of the finding (77 L.E.) was billed on the consumables line item. CAR # 795 Ph I contained L.E. 32.15 taxes. The total amount of the taxes were deducted from the total wages due for the employees since the employee is the one who is subject for taxes & not the project which is obvious in the payment list. The employees received their wages minus the amount of the tax. Would have been acceptable finding if the amount of the taxes was added to the amount due to the employee and not deducted.

* Finding # 3

The audit firm claimed that payments associated with procurement valued at more than L.E. 5,000 without obtaining three offers. The amount of the finding is \$ 8,506. The effect of the finding was that USAID was billed unallowable costs of the total amount mentioned above.

Justification

- 1) CAR # 378 of the finding (13,690 L.E.) was billed on the consumables line item. Payment was made to purchase 3700 plastic bag, each for L.E. 3.70. Due to the fact that supervision & profit margin is determined by governmental units, purchasing was done from a public sector firm by direct order. Supporting documents are available.
- 2) CAR # 469 of the finding (8,938 L.E.) was billed on the consumables line item. CAR # 469 Ph. II contained no procurement, while phase I contained procurement valued at L.E. 8,938. All items purchase were below L.E. 5,000 and were purchased by direct order from different public sector firms such as Al-Gomhoreya etc.... Supporting documents are available.

* Finding # 4

The audit firm claimed that ARC charged USAID/Cairo for certain unsupported consumable Costs The amount of the finding is L.E. 328. The finding is categorized unsupported

Justification

- 1) CAR # 750 of the finding (580 L.E.) was billed on the consumables line item. Documents are available, but were misfiled.
- 2) CAR # 1426 of the finding (353 L.E.) was billed on the consumables line item. Documents are available, but were misfiled.
- 3) CAR # 449 of the finding (11 L.E.) was billed on the consumables line item. Questioning about the 11 L.E., the P.I. responded that procurement was made for 10 buffaloes valued at L.E. 20,210, each for L.E. 2,021. Additional L.E. 11 were added to the items of the invoice to pay the expense of labor whom helped to move the buffaloes to the site of the research.

* Finding # 5

The audit firm claimed that NARP charged USAID \$ 432 for unsupported transaction costs. The effect of the finding was that USAID was billed ineligible costs of the total amount mentioned above.

Justification

- 1) CAR # 742 of the finding (66 L.E.) was billed on the transportation line item. The above mentioned CAR contained the amount of L.E. 542.10 billed on transportation cost . Supporting documents are available.
- 2) CAR # 1964 of the finding (199 L.E.) was billed on the transportation line item. The P.I. responded to the finding that he sent all the supporting documents previously, so NARP asked to have a certified copy of the original invoice. Supporting documents are available.
- 3) CAR # 634 of the finding (885 L.E.) was billed on the transportation line item. No transportation cost were billed in CAR # 634 Ph. II while CAR # 634 Ph. I contained the amount of L.E. 1,710 charged to the line item . However, we couldn't trace the L.E. 885 which was mentioned in the audit report. Supporting documents are available.

* Finding # 6

The audit firm claimed that ARC charged USAID for certain unsupported repairs and maintenance costs. The amount of the finding is \$ 20. The effect of the finding was that USAID was billed unsupported costs of the total amount mentioned above.

Justification

- 1) CAR # 673 of the finding (54 L.E.) was billed on the maintenance and repairs line item. CAR # 673 Ph. I contained only facility improvement expenses while Ph. II contains L.E. 50 billed on maintenance and repairs line item. The supporting documents are available.

* Finding # 7

The audit firm claimed that ARC charged USAID for certain unsupported Information cost. The amount of the finding is \$ 30. The effect of the finding was that USAID was billed unsupported costs of the total amount mentioned above.

Justification

- 1) CAR # 1754 of the finding (80 L.E.) was billed on the information line item. Printing error took place whereby the correct amount is L.E. 119 while the amount that was billed is L.E. 199. Necessary action will take place to correlate the transaction

* Finding # 8

The audit firm claimed that NARP remitted from project funds expenditures stamp duties and government fees. The amount of the finding is \$ 79. The effect of the finding was that USAID was billed ineligible costs of the total amount mentioned above.

Justification

- 1) CAR # 449 of the finding (210 L.E.) was billed on the Facility Improvement line item. CAR # 449 Ph I contains no facility improvement, but contained L.E. 210 (stamp duties). The employees are the ones who are subject for the stamp duties, and not the project. The amount was deducted from their wages, and hence it is obvious that the employee is the one who paid the tax since he/she received the due amount minus the amount of the tax. CAR # 449 Ph. II contained no taxes nor stamp duties and was billed on Consumables line item.

* Finding # 9

The audit firm claimed that payments were made for certain procurements valued at more than L.E. 5,000 without obtaining three offers.. The amount of the finding is \$2,627. The effect of the finding was that USAID was billed ineligible costs of the total amount mentioned above.

Justification

- 1) CAR # 218 of the finding (6,988 L.E.) was billed on the Facility Improvement line item. According to specific technical specifications, payment was made to build a basin planting (using breaks and cement). Because profit margin and supervision is determined by governmental units, a public sector firm was selected to execute the job by direct order. Supporting documents are available.

* Finding # 10

The audit firm claimed that the ARC charged USAID for certain unsupported facility improvement cost. The amount of the finding is \$ 19. The effect of the finding was that USAID was billed Unsupported costs of the total amount mentioned above.

Justification

- 1) CAR # 1450 of the finding (50 L.E.) was billed on the Facility Improvement line item. CAR # 1450 Ph I contains no facility Improvement while Ph. II contains the amount of L.E. 5,000 which is the final payment for the renovation made to "Buffalo Yard Building". The total amount of the whole job is L.E. 9,950 divided among two installments; the first is L.E. 4,950 and the second is L.E. 5,000. Supporting documents are available

* Finding # 11

The audit firm claimed that ARC charged USAID for certain unsupported miscellaneous cost. The amount of the finding is \$ 19. The effect of the finding was that USAID was billed Unsupported costs of the total amount mentioned above.

Justification

The resolution of the finding is in process.

* Finding # 12

The audit firm claimed that The audit firm claimed that payments were made for certain procurements valued at more than L.E. 5,000 without obtaining three offers. The amount of the finding is 31,787 L.E. The effect of the finding was that USAID was billed Ineligible costs of the total amount mentioned above.

Justification

- 1) CAR # 1822 of the finding (14,560 L.E.) was billed on the Equipment line item. Payment was made to purchase 39 lab machine and was approved by the P.I. Because prices and supervision is determined by governmental units, purchasing was made from the Al-Gomhoreya Co. (Public Sector firm). Supporting document are available.
- 2) CAR # 1538 of the finding (17,000 L.E.) was billed on the Equipment line item. Payment was made to purchase Microscope. A technical committee set the specifications of the apparatus to optimize the benefit for the research. General tender was made and two offers were received and the selection procedures took place. Supporting documents are available.
- 3) CAR # 705 of the finding (5,200 L.E.) was billed on the Equipment line item. Payment was made to purchase an electric balance from the Al-Gomhoreya Co. (Public Sector firm) whereby prices are determined by the government to diminish any probability of financial corruption. Supporting document are available.
- 4) CAR # 1296 of the finding (14,560 L.E.) was billed on the Equipment line item. Payment was made to purchase 12 lab apparatuses whereby each equipment purchased was valued below L.E. 5,000. Procurement was made from the Al-Gomhoreya Co. (Public Sector firm) whereby prices are determined by the government to diminish any probability of financial corruption. Supporting document are available.

- 5) CAR # 1359 of the finding (16,593 L.E.) was billed on the Equipment line item. Payment was made to purchase Clinical Flame Photometer with accessories by direct order from the Al-Gomhoreya Co. (Public Sector firm) because prices are determined by the governmental units. Supporting document are available.

- 6) CAR # 1037 of the finding (17,800 L.E.) was billed on the Equipment line item. The P.I. responded to the finding that there was a general tender made for the procurement procedure to a laminal flow machine and three companies sent their offers (AlKan Co., Medico and Bardissi Medical Co.). The Offer with the least price and technically acceptable was selected and a job order was issued to Alkan Co.. Supporting document are available.

** Pil # Res-023

* Finding # 13

The audit firm claimed that ARC charged USAID/Egypt for certain taxes. The total amount of the finding is \$ 1,268. The effect of the finding was that USAID was billed unallowable costs of the total amount mentioned above.

Justification

- 1) The amount of the finding (4,096 L.E.) was billed on the Supplies line item. NARP questioned the Tax department whether NARP is exempted from sales tax or not. Later, an exemption letter was issued to NARP and was received on August 27, 1992. Supporting documents are available.

* Finding # 14

The audit firm claimed that ARC charged USAID/Egypt for certain unsupported supplies costs. The total amount of the finding is \$ 415. The effect of the finding was that USAID was billed unsupported costs of the total amount mentioned above.

Justification

- 1) CAR # 770 of the finding (430 L.E.) was billed on the Supplies line item. CAR # 770 contained the amount of L.E. 429.85, all supporting documents are available.

- 2) CAR # 345 of the finding (745 L.E.) was billed on the Supplies line item. Expenses were billed by Grant # H-035, all supporting documents are available.

- 3) CAR # 739 of the finding (165 L.E.) was billed on the Supplies line item. Expenses were billed by Grant # H-035, all supporting documents are available.

* Finding # 15

The audit firm claimed that ARC charged USAID/ Egypt for certain per diem in excess of the approved per diem rates. The total amount of the finding is \$ 1,268 The effect of the finding was that USAID was billed unallowable costs of the total amount mentioned above.

Justification

The amount paid is divided among per diem rate and transportation Cost. Only the per diem rate is limited up to L.E. 200 per month for each researcher while the rest of the amount due is transportation cost, all supporting documents are available.

* Finding # 16

The audit firm claimed that ARC charged USAID/Egypt for certain taxes and government fees. The total amount of the finding is \$ 452. The effect of the finding was that USAID was billed unsupported costs of the total amount mentioned above.

Justification

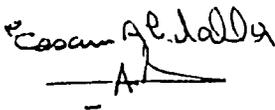
- 1) The amount of the finding (1,461 L.E.) was billed on the Other line item. NARP questioned the Tax department whether NARP is exempted from sales tax or not. Later, an exemption letter was issued to NARP and was received on August 27, 1992. Supporting documents are available.

Due to the fact that the supporting documents are of massive amounts, it was hard (physically and economically) to the original copy for your firm; however, a copy was prepared and attached to our report, Else, original documents are furnished upon your request within our premises.

Sincerely,



Eng. Aly Rashad Mohamed
Financial and Administrative Coordinator
NARP



Appendix II
Auditor's Comments

Auditor's Comments

General

Our comments, which follow, address the responses of ARC's management relating to those situations where we believe additional information or clarification is warranted.

Our comments follow the sequence of the findings and ARC's management response. Attachments to ARC's responses are not included in Appendix I because they are in Arabic. These attachments, are available upon request.

PIL No. RES-010

Finding No. 1

Based on the information and documents presented to us subsequent to the issuance of the draft report, this finding has been removed.

Finding No. 2

Based on the information and documents presented to us subsequent to the issuance of the draft report, this finding has been removed.

Finding No. 3

Item (1)

The objective of NARP's procurement procedures and ARC's operation manual is to ensure that competition is used to get the most advantageous terms and prices available in the market. Direct procurements from public sector companies or procurements made without obtaining the required offers, do not achieve this objective. Accordingly, our position remains the same.

Item (2)

Based on the information and documents presented to us subsequent to the issuance of the draft report, this item has been removed.

Based on the aforementioned, we removed an amount of \$3,360 (equivalent to LE8,938). The remaining amount of \$5,146 (equivalent to LE13,690) is still considered to be questioned cost.

Finding No. 4

Based on the information and documents presented to us subsequent to the issuance of the draft report, this finding has been removed.

Finding No. 5

Based on the information and documents presented to us subsequent to the issuance of the draft report, this finding has been removed.

Finding No. 6

Based on the information and documents presented to us subsequent to the issuance of the draft report, this finding has been removed.

Finding No. 7

ARC management agreed with this finding. Our position remains the same.

Finding No. 8

Based on the information and documents presented to us subsequent to the issuance of the draft report, this finding has been removed.

Finding No. 9

The objective of NARP's procurement procedures and ARC's operation manual is to ensure that competition is used to get the most advantageous terms and prices available in the market. Direct procurements from public sector companies or procurements made without obtaining the required offers, do not achieve this objective. Accordingly, our position remains the same.

Finding No. 10

Based on the information and documents presented to us subsequent to the issuance of the draft report, this finding has been removed.

Finding No. 11

ARC management agreed with this finding. Our position remains the same.

Finding No. 12

Items (1), (3), (4) and (5)

The objective of NARP's procurement procedures and ARC's operation manual is to ensure that competition is used to get the most advantageous terms and prices available in the market. Direct procurements from public sector companies or procurements made without obtaining the required offers, do not achieve this objective. Accordingly, our position remains the same.

Item (2)

ARC's management asserted that a general tender was made and two offers were received. However, documents supporting this assertion were not provided to us. Management provided us with only two offers but did not provide us with any evidence for the general tender. Accordingly, our position remains the same.

Item (6)

Based on the information and documents presented to us subsequent to the issuance of the draft report, this finding has been removed.

Based on the aforementioned, we removed an amount of \$6,692 (equivalent to LE17,800). The remaining amount of \$25,095 (equivalent to LE66,754) is still considered to be questioned cost.

Finding No. 13

According to the Grant Standard Provision, the grant is free from any taxation or fees imposed under laws in effect in the territory of the grantee. Accordingly, taxes should not have been charged to USAID/Egypt. Our position remains the same.

Finding No. 14

Item (1)

Based on the information and documents presented to us subsequent to the issuance of the draft report, this finding has been removed.

Items (2) and (3)

The additional documents provided to us are still inadequate. Therefore, our position remains the same.

Based on the aforementioned we removed an amount of \$133 (equivalent to LE430). The remaining amount of \$282 (equivalent to LE910) is still considered to be questioned cost.

Finding No. 15

The additional documents provided to us are still inadequate. Therefore, our position remains the same.

Finding No. 16

According to the Grant Standard Provision, the grant is free from any taxation or fees imposed under laws in effect in the territory of the grantee. Accordingly, taxes should not have been charged to USAID/Egypt. Our position remains the same.

Internal Control Weaknesses and Noncompliance Findings

ARC management did not respond to the internal control weaknesses or the noncompliance findings which were included in our draft report. Therefore, our position remains the same.

54

Appendix III
Mission's Comments

5.

USAID



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

April 10, 1995

MEMORANDAM

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

FROM: James Redder, OD/FM/FA

A handwritten signature in cursive script that reads "James Redder".

SUBJECT: Audit of the National Agricultural Research Center of the Ministry of Agriculture, Research Component Expenditures Incurred Pursuant to Project Implementation Letters (PILs) Nos. RES010, RES014, RES022, RES023 and RES028 under the National Agricultural Research Project No. 263-0152 - Draft report dated March 9, 1995

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