

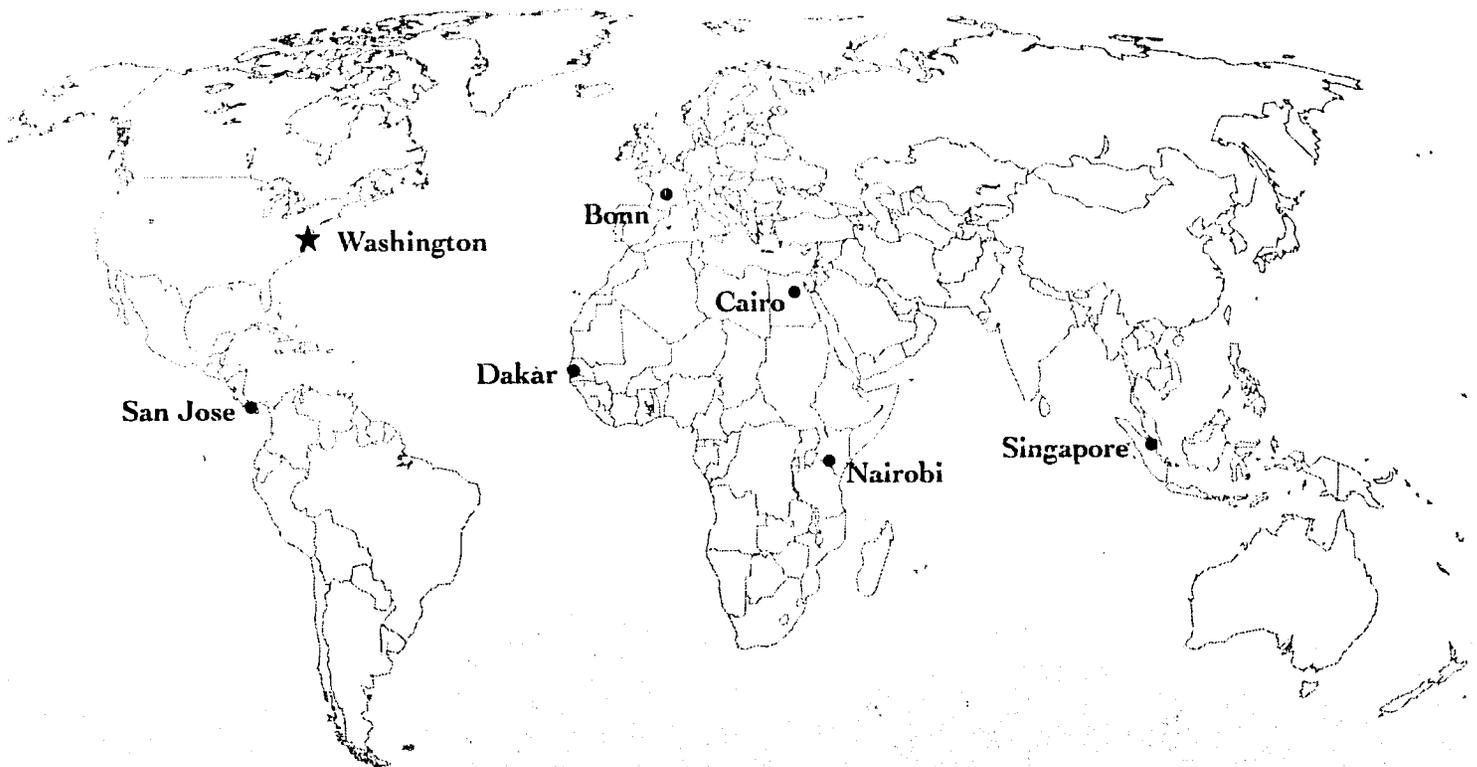
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Regional Inspector General for Audit
Cairo, Egypt

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**Audit of the Ministry of Education, Educational Planning and
Information Division, Local Expenditures Incurred Pursuant to
Project Implementation Letters (PILs) Nos. 53 and 59 under
the Basic Education Project No. 263-0139.2**

**Report No. 6-263-95-026-N
August 3, 1995**



**FINANCIAL INFORMATION CONTAINED IN THIS
REPORT MAY BE PRIVILEGED. THE RESTRICTIONS
OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE
ANY INFORMATION IS RELEASED TO THE PUBLIC.**

**INSPECTOR
GENERAL**

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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

CAIRO, EGYPT

August 3, 1995

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

FROM : RIG/A/Cairo, Lou Mundy *Lou Mundy*
SUBJECT : **Audit of the Ministry of Education, Educational Planning and Information Division, Local Expenditures Incurred Pursuant to Project Implementation Letters (PILs) Nos. 53 and 59 under the Basic Education Project No. 263-0139.2**

The attached report transmitted on June 28, 1995, by Allied Accountants presents the results of a financial audit of the Ministry of Education (MOE), Educational Planning and Information Division (EPID), Local Expenditures Incurred Pursuant to Project Implementation Letters (PILs) Nos. 53 and 59 under the Basic Education Project No. 263-0139.2. The principal objective of PILs Nos. 53 and 59 is for EPID to play a leadership role in the coordination of organizational development activities related to the implementation of basic education policies in the MOE and affiliated agencies and ministries.

We engaged Allied Accountants to perform a financial audit of EPID's incurred expenditures of \$362,983 (equivalent to LE1,217,584) as of January 31, 1993 for PIL No. 53 and June 30, 1994 for PIL No. 59. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Allied Accountants also evaluated EPID's internal controls and compliance with applicable laws, regulations and grant terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Allied Accountants questioned \$1,785 in costs billed to USAID by EPID. The questioned costs related to sales taxes, transfers of funds and penalties. Allied Accountants did not identify any internal control weaknesses or noncompliance issues. Thus, overall the audit found that this recipient has done an excellent job in accounting for U.S. Government provided funds.

In response to the draft report, EPID provided documentation and/or gave more explanation to the questioned costs. Allied Accountants reviewed EPID's response to the findings. Where applicable, they made adjustments to the report or provided further clarification of their position.

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Garden City, Cairo, Egypt*

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 ineligible questioned costs of \$1,785 as detailed on pages 11 and 12 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 EPID.

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 Allied Accountants and to our office.

Ministry of Education

Educational Planning and Information Division

Audit of Expenditures Incurred Under the
Basic Education
Project No. 263-0139.2

Project Implementation Letters No. 53 & 59

Fund Accountability Statements and Additional
Information for the Period
August 1, 1991 through January 31, 1993 (PIL No. 53) and
February 1, 1993 through June 30, 1994 (PIL No. 59)

Ministry of Education

Educational Planning and Information Division (EPID)

Audit of Expenditures Incurred Under the
Basic Education
Project No. 263-0139.2

Project Implementation Letters No. 53 & 59

Fund Accountability Statements and Additional
Information for the Period
August 1, 1991 through January 31, 1993 (PIL No. 53) and
February 1, 1993 through June 30, 1994 (PIL No. 59)

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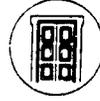
ALLIED ACCOUNTANTS

Ragheb, Istanbuli & El Kilany

A Member Firm of ARTHUR ANDERSEN & CO. SC

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المحاسبون المتضامنون

راغب، اسطنبولي والكيلاني

مراسلو آرثر أندرسن وشركاه

محاسبين قانونيين وخبراء تنظيم وإدارة

زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

June 28, 1995

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

Dear Mr. Darcy:

This report presents the results of our financial related audit of expenditures incurred by the Ministry of Education, Educational Planning and Information Division (EPID) funded by the United States Agency for International Development Mission in Egypt (USAID/Egypt). Funding was provided under the Basic Education Project 263-0139.2 through Project Implementation Letters (PILs) Nos. 53 and 59. We were engaged to perform an audit for the period from August 1, 1991 to January 31, 1993 for PIL No. 53 and February 1, 1993 through June 30, 1994 for PIL No. 59.

Background

PILs Nos. 53 and 59 between the Arab Republic of Egypt, and the United States of America regarding EPID were implemented for the periods from August 1, 1991 through January 31, 1993 for PIL No. 53 and February 1, 1993 through June 30, 1994 for PIL No. 59. These PILs provide funding from USAID/Egypt under the Basic Education Project No. 263-0139.2. The Ministry of Education is the Government of Egypt (GOE) Implementing Agency.

Through PILs Nos. 53 and 59, USAID/Egypt will finance the funds necessary to continue the support for educational planning within the Ministry of Education (MOE).

The principle objective of PILs Nos. 53 and 59 requires EPID to play a leadership role in the coordination of organizational development activities related to the implementation of basic education policies in the MOE and affiliated agencies and ministries.

Audit Objectives, Scope and Methodology

The objective of this engagement was to conduct a financial audit of USAID/Egypt resources managed by EPID for PILs Nos. 53 and 59 (collectively known as the "Project"). The specific objectives of our engagement were to:

1. Express an opinion on whether the fund accountability statements for the USAID/Egypt financed project of EPID present fairly, in all material respects, funds received and costs incurred for the period under audit in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including the cash receipts and disbursements basis and modifications of the cash basis;
2. Determine if the costs reported as incurred under 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 EPID as it relates to PILs Nos. 53 and 59, assess control risk, and identify reportable conditions, including material internal control weaknesses; and
4. Perform tests to determine whether EPID complied, in all material respects, with the PILs' terms and applicable laws and regulations.

The scope of our financial cost-incurred audit was all the expenditures remitted by EPID for the period subject to audit from August 1, 1991 through January 31, 1993 for PIL No. 53 and February 1, 1993 through June 30, 1994 for PIL No. 59.

The methodology of the audit consisted of an internal control evaluation, testing of expenditures remitted under the financing agreements and testing compliance by EPID with specific provisions/requirements of the Grant Agreements, PILs and applicable regulations and laws.

Our testing included a selection of costs incurred for each budget line item as disclosed in the fund accountability statements. We tested costs as follows:

<u>Agreement</u>	<u>Total Cost</u>	<u>Tested Amt.</u>	<u>Percent</u>
PIL No. 53 (Equivalent in LE)	\$ <u>232,435</u> <u>776,333</u>	\$ <u>70,357</u> <u>234,992</u>	<u>30</u>
PIL NO. 59 (Equivalent in LE)	\$ <u>130,548</u> <u>441,251</u>	\$ <u>27,420</u> <u>92,679</u>	<u>21</u>

Our testing considered the results of our pre-audit survey and focused on areas identified as higher risk in our planning phase. Specifically, our testing of PILs Nos. 53 and 59 encompassed a selection of the checks remitted by the Project. The selected expenditures were categorized by budget line item and compared to the total of the amount incurred by the related budget line item. Where there was not sufficient audit coverage for a budget line item, additional expenditures were selected to ensure that adequate coverage was obtained. The audit of PIL No. 53 was expanded to include a review of invoices which included sales tax as an incurred expense reported to USAID/EGYPT.

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

1. A review of direct project expenditures billed to and reimbursed by USAID/Egypt was performed. General ledgers and cash journals were reconciled to billings submitted to USAID/Egypt.

2. The preparation of a proof of cash to ensure the recording of all transactions and a review of procedures used to control cash.
3. A review of training and travel costs to determine if they were adequately documented and approved.
4. A review of procurement procedures to determine that sound commercial practices including competitive bids were used.
5. A determination of whether advances of funds were justified, based on existing documentation, including a reconciliation of funds advanced, disbursed and available.
6. A review of direct salaries to ensure charges were in accordance with those approved by USAID/Egypt and are supported by appropriate payroll records and/or results.

During our audit planning, we considered EPID's internal control structure as it relates to PILs No. 53 and 59 to obtain an understanding of the design of relevant control policies and procedures, and whether those policies and procedures have been placed in operation.

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

Initial planning began with the performance of a pre-audit survey and fieldwork commenced after the entrance conference which was attended by RIG/A/C personnel and EPID management staff. The agreement was reviewed to gain an understanding of the terms and cost principles.

Except as discussed in the following 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 33 of Chapter 3 of Government Auditing Standards (1994 revision) since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

Results of Audit

Fund Accountability Statements

The engagement identified \$ 1,785 in aggregate questioned costs, all of which were ineligible costs. The details of costs questioned by respective PIL were provided to USAID/Egypt and EPID management through supplemental schedules.

Internal Control

Our evaluation of internal controls did not disclose matters which we believe are material weaknesses. We identified certain matters that we will bring to the attention of EPID management and USAID/Egypt through a separate letter.

Compliance with Agreement Terms and Applicable Laws and Regulations

In performing our audit, we did not identify any matters of material non-compliance. Host country contributions records were reviewed to determine that the required level of contributions were met. The recorded contributions meet or exceed the requirements as specified in PILs Nos. 53 and 59. We identified certain matters that we will bring to the attention of EPID management and USAID/EGYPT through a separate letter.

Management Comments

Management has provided comments on the results of the audit findings. The entire response of management is included in Appendix A. We provided responses to management's comments in Appendix B. EPID management's responses did not result in any change to the original questioned costs.

ALLIED ACCOUNTANTS

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زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

Report of Independent Public Accountants

We have audited the accompanying fund accountability statements of the Ministry of Education, Educational Planning and Information Division relating to funds received and costs incurred under the Basic Education Project No. 263-0139.2 financed by the United States Agency for International Development Mission in Egypt pursuant to Project Implementation Letters (PILs) No. 53 for the period from August 1, 1991 through January 31, 1993 and PIL No. 59 for the period from February 1, 1993 through June 30, 1994. These fund accountability statements are the responsibility of the Ministry of Education, Educational Planning and Information Division management. Our responsibility is to express an opinion on these fund accountability statements 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 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 fund accountability statements are free of material misstatement. Our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. Our audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall fund accountability statements presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 33 of Chapter 3 of Government Auditing Standards (1994 revision) since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

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

Our testing identified the following aggregate questioned cost as detailed in the accompanying fund accountability statements for PIL No. 53: US\$ 1,785 in costs that are ineligible because they are not program related, unreasonable or prohibited by the terms of the applicable agreements. The basis for questioning these cost are set forth in the Fund Accountability Statements - Audit Findings section of this report.

In our opinion, except for the questioned costs of \$ 1,785, the fund accountability statements referred to above present fairly, in all material respects, the funds received and costs incurred for the Educational Planning and Information Division for the period from August 1, 1991 through January 31, 1993 for PIL No. 53 and February 1, 1993 through June 30, 1994 for PIL No. 59, in conformity with the cash basis of accounting described in Note 2.

This report is intended for the information of the management and others within the Ministry of Education, Educational Planning and Information Division 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.

March 28, 1995

**Ministry of Education
Educational Planning and Information Division**

Audit of Expenditures Incurred Under the
Basic Education
Project No. 263-0139.2

Project Implementation Letter No. 53

Fund Accountability Statement (Note 2)
for the Period
August 1, 1991 through January 31, 1993

<u>Budget Elements</u>	<u>Budget</u> <u>US\$</u>	<u>Actual</u> <u>US\$</u>	<u>Questioned Cost (Note 5)</u>	
			<u>Ineligible</u> <u>US\$</u>	<u>Unsupported</u> <u>US\$</u>
Receipts:				
USAID/Egypt		232,435	-	-
Expenditures:				
Staffing	157,853	158,222	-	-
Consultants	22,605	22,476	-	-
Travel and per diem	6,138	5,685	-	-
Field research and dissemination	8,144	7,230	-	-
Equipment and software	18,712	18,527	966	-
Supplies	<u>19,611</u>	<u>20,295</u>	<u>819</u>	<u>-</u>
Total Expenditures	<u>233,063</u>	<u>232,435</u>	<u>1,785</u>	<u>-0-</u>
Net Balance		<u>-0-</u>		<u>1,785</u>

The accompanying footnotes are an integral part of this financial statement.

**Ministry of Education
Educational Planning and Information Division**

Audit of Expenditures Incurred Under the
Basic Education
Project No. 263-0139.2

Project Implementation Letter No. 59

Fund Accountability Statement: (Note 2)
for the Period
February 1, 1993 through June 30, 1994

<u>Budget Elements</u>	<u>Budget US\$</u>	<u>Actual US\$</u>	<u>Questioned Cost (Note 5)</u>	
			<u>Ineligible US\$</u>	<u>Unsupported US\$</u>
Receipts:				
USAID/Egypt		130,548	-	-
Expenditures:				
Staffing	134,679	94,572	-	-
Consultants	17,003	4,089	-	-
Travel and per diem	22,189	10,587	-	-
Field Research	10,059	1,833	-	-
Dissemination	50,296	6,647	-	-
Equipment and software	-0-	-0-	-	-
Supplies	<u>17,752</u>	<u>12,820</u>	<u>-</u>	<u>-</u>
Total Expenditures (Note 4)	<u>251,978</u>	<u>130,548</u>	<u>-0-</u>	<u>-0-</u>
Net Balance		<u>-0-</u>		<u>-0-</u>

The accompanying footnotes are an integral part of this financial statement.

Ministry of Education
Educational Planning and Information Division

Audit of Expenditures Incurred Under the
Basic Education
Project No. 263-0139.2

Project Implementation Letters No. 53 & 59

Notes to the Fund Accountability Statement

Note 1: Project Activities

The United States Agency for International Development Mission in Egypt (USAID/Egypt) funded the Ministry of Education, Educational Planning and Information Division (EPID) under the Basic Education Project No. 263-0139.2. The purpose was to provide continuing funding for educational planning within the Ministry of Education through Project Implementation Letters (PILs) No. 53 and 59 (the "Project"). The Project was completed by June 30, 1994.

Note 2: Basis of Presentation

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

Note 3: Exchange Rate

Expenditures incurred in local currency (LE) have been converted to US dollars at an average exchange rate of LE 3.34 to US\$ 1 for PIL No. 53 and LE 3.38 to US\$ 1 for PIL No. 59.

Note 4: Unexpended Budget

EPID only incurred \$ 130,548 of the total \$ 251,978 budget relating to PIL No. 59. The objectives of PIL No. 59 were accomplished without the need to utilize the entire budget.

Note 5: Questioned Cost

The incurred questioned cost are presented in the fund accountability statements in two separate categories: ineligible and unsupported costs. Questioned costs are expenditures that we have determined are not in accordance with the Project Grant Agreement, the PILs or other applicable USAID/Egypt regulations or are not supported by adequate documentation. "Ineligible" cost are deemed to be unallowable because they are not program related, unreasonable, or prohibited by the agreement or applicable laws and regulations. "Unsupported costs" are expenditures which are not supported by adequate documentation or did not have required prior approval or authorizations.

Our audit identified \$ 1,785 in aggregate questioned costs, of which all were ineligible cost. The summary of questioned cost follows and the basis for questioning specific costs are set forth in the "Audit Findings" section of this report.

**Ministry of Education
Educational Planning and Information Division**

Audit of Expenditures Incurred Under the
Basic Education
Project No. 263-0139.2

Project Implementation Letters No. 53 and 59

Summary of Audit Findings

	<u>Budget Element</u>	<u>Ineligible</u> \$	<u>Unsupported</u> \$
<i>PIL No. 53</i>			
Finding No. 1	Equipment and software	966	-
Finding No. 1	Supplies	602	-
Finding No. 2	Supplies	140	-
Finding No. 3	Supplies	43	-
Finding No. 4	Supplies	34	-
Total PIL		<u>1,785</u> =====	<u>-0-</u> =====
Total questioned costs			1,785 =====

**Ministry of Education
Educational Planning and Information Division**

Audit of Expenditures Incurred Under the
Basic Education
Project No. 263-0139.2

Project Implementation Letters No. 53 and 59

Audit Findings (Note 5)

PIL No. 53

Finding No. 1: Sales Taxes

Educational Planning and Information Division (EPID) incurred expenses relating to the payments of sales tax on various purchases of Project equipment and supplies. PIL No. 53 states "USAID must be refunded for identifiable Egyptian duties and taxes paid with local cost financing". EPID believed that they were required to abide by GOE law which requires payment of sales taxes direct to the tax department.

USAID/EGYPT was billed ineligible costs of LE 5,239 or (US\$ 1,568).

Finding No. 2: Transfer of Funds

EPID paid an employee for a report prepared in connection with PIL No. 43 for the months of May, June and July, 1991. The employee was physically outside of Egypt from the beginning of August through November 1991 when, upon his return, he requested payment for his report. PIL No. 43 had been finalized and as PIL No. 53 was a continuation of PIL No. 43; management approved his payment from PIL No. 53 funds. PIL No. 43 was never charged for this amount. PIL No. 53 states, "funds will be made available to the Ministry on condition they will be utilized for eligible costs in accordance and consistent with the budget." The funds were not reimbursed to PIL No. 53.

USAID/EGYPT was billed ineligible costs of LE 468 or (US\$ 140).

Finding No. 3: Penalties

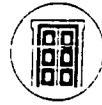
EPID paid penalties to the Social Insurance Department as a result of not declaring and paying social insurance due on behalf of their external employees. PIL No. 53 states "funds will be made available to the Ministry on condition that they will be utilized for eligible cost in accordance and consistent with the budget."

USAID/EGYPT was billed ineligible costs of LE 145 or (US\$43).

Finding No. 4: Transfer of Funds to PIL 50

EPID paid social insurance penalties on behalf of PIL No. 50 employees due to funds not being available under PIL 50. We were unable to identify if these funds were returned to PIL No. 53. The Project Implementation Letter PIL No. 53 states, "funds will be made available to the Ministry on condition that they will be utilized for eligible cost in accordance and consistent with the attached budget".

USAID/EGYPT was billed ineligible costs of LE 110 or (US\$ 34).



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

Report of Independent Public Accountant on Internal Control Structure

We have audited the accompanying fund accountability statements of the Ministry of Education, Educational Planning and Information Division relating to funds received and costs incurred under the Basic Education Project No. 263-0139.2 financed by the United States Agency for International Development Mission in Egypt pursuant to Project Implementation Letters PIL No. 53 for the period from August 1, 1991 through January 31, 1993 and PIL No. 59 for the period from February 1, 1993 through June 30, 1994 and have issued our report thereon dated March 28, 1995.

Except as discussed in the following 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 33 of Chapter 3 of Government Auditing Standards (1994 revision) since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

In planning and performing our audit of the Ministry of Education, Educational Planning and Information Division, we considered the internal control structure as it relates to PILs No. 53 and 59 to determine our procedures for the purpose of expressing our opinion on the fund accountability statements and not to provide assurance on the internal control structure.

The management of the Ministry of Education, Educational Planning and Information Division is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. Among the objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements;

and transactions are recorded properly to permit the preparation of the fund accountability statements referred to above in conformity with the basis of accounting as described in Note 2 to the fund accountability statements. 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 internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report we have classified the significant internal control structure policies and procedures in the following categories: cash control, procurement practices, personnel and payroll, and general accounting records. For the internal control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure that we consider to be material weaknesses, as defined above.

However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the Ministry of Education, Educational Planning and Information Division and the United States Agency for International Development Mission in Egypt in a separate letter dated March 28, 1995.

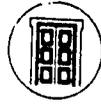
This report is intended for the information of the management and others within the Ministry of Education, Educational Planning and Information Division and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

March 28, 1995

ALLIED ACCOUNTANTS

Ragheb, Istambouli & El Kilany

A Member Firm of ARTHUR ANDERSEN & CO SC
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راغب، اسطنبولي والكيلاني

مراسلو آرثر أندرسن وشركاه
مداسين قانونيين وخبراء تنظيم وإدارة
زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

Report of Independent Public Accountants on Compliance With Laws and Regulations

We have audited the accompanying fund accountability statements of the Ministry of Education, Educational Planning and Information Division relating to funds received and costs incurred under the Basic Education Project No. 263-0139.2 financed by the United States Agency for International Development pursuant to Project Implementation Letters (PILs) No. 53 for the period from August 1, 1991 through January 31, 1993 and PIL No. 59 for the period from February 1, 1993 through June 30, 1994, and have issued our report thereon dated March 28, 1995.

Except as discussed in the following 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 33 of Chapter 3 of Government Auditing Standards (1994 revision) since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

Compliance with laws, regulations, contracts, grants applicable to PILs No. 53 and 59 is the responsibility of Ministry of Education, Educational Planning and Information Division management. As part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatements, we performed tests of the Ministry of Education, Educational Planning and Information Division compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on compliance with such provisions. Accordingly, we do not express such an opinion.

The result of our tests of compliance indicate that with respect to the items tested the Ministry of Education, Educational Planning and Information Division complied, in all material respects, with the provisions referred to in the fourth paragraph of this report and with respect to items not tested, nothing came to our attention that caused us to believe that the Ministry of Education, Educational Planning and Information Division had not complied, in all material respects, with those provisions.

This report is intended for the information of the management and others within the Ministry of Education, Educational Planning and Information Division 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.

March 28, 1995

**Ministry of Education
Educational Planning and Information Division**

Audit of Expenditures Incurred Under the
Basic Education Project No. 263-0139.2

Project Implementation Letters Nos. 53 and 59

Management Comments

17

June 1995

Mr. Albert Gress

Arthur Andersen Co. SC.

37, El Ahrar Street

Mobica Tower , Mohandeseen

P.O. Box: 97 Dokki, Giza, Egypt.

Dear Mr. Albert Gress

Concerning your report presents the results of your financial related audit of expenditures incurred by the Ministry of Education, Educational Planning and Information Division (EPID) funded by the united states agency for International Development Mission in Egypt (USAID/Egypt) under the Basic Education Project No. 263-0139.2 through project Implementation Letters (PILs) Nos. 53 and 59, for the period from August 1, 1991 to January 31, 1993 for PIL No. 53 and February 1, 1993 through June 30, 1994 for PIL No. 59.

You limited in your report four audit findings concerning PIL No.53 . We can explain each as follow :

Finding No.1 : Sales Taxes :

Your report mentioned that EPID incurred expenses relating to the payments of sales tax on various purchases of project equipment and supplies (cost of LE 5239 or US\$ 1568). USAID demanded before all the sales tax amounts claimed since inception. We prepared a letter dated April 26,1994 to Dr. Jennifer Spratt, chief party of RTI telling her that all sales tax amounts paid was LE 5238,40 and we put within the letter a paper indicating the details of this amount .

We were obliged to pay this tax according to GOE law which prevents buying any equipment or supplies without paying sales tax limited on the invoice itself . Therefore you find within copies for all invoices limited on each the amount of sales tax paid .

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Finding No. 2 : Transfer of Funds :

Your report mentioned that EPID paid an employee for a report prepared in connection with PIL No. 43 for the months of May, June and July, 1991 . Management approved his payment from PIL No. 53 funds . (costs of LE 468 or US\$ 140) .

This employee was Mr. Nagy Abdellatif Ibraheem Eltanamly . He was one of the party to make a research for project about " Education Costs in Egypt " on the period of PIL No. 43 on may, june and july 1991 . Then he travelled to England for training on a mission concerning National Center for Educational Examination and Evaluation (NCEEE) on the period from August to November 1991. Upon his return he requested payment for his report. PIL No. 43 was ended at July 31, 1991 and PIL No. 53 was started at August 1,1991 Therefore, the project director demanded a report from all members working in the research (Mr. Mohammad Huseen, general director of research directorate _ Dr. Andre Daniere, one of RTI party for research _ Ms. Thana Abdel Aziz Mahmoud, one of the party in the same research). Every one of them mentioned in his report that Mr. Nagy had completed the part concerning him in the research and deserves his rent (60% from his monthly salary for three months) .

When our legal consultant approved these steps, we offered it to the project director and she approved to pay for him . (you find within copies for all documents concerning this subject) .

Finding No. 3 : Penalties :

You mentioned in your report that EPID paid penalties to the Social Insurance Department as a result of not declaring and paying social insurance due on behalf of their external employees . (costs of LE 145 or US\$ 43) .

The regulations of putting our external employees of project under social insurance took a long time of negotiations between the project director and the director of the social

insurance department. We took the approval after about 4 or 5 months from the beginning of PIL 53 . The Insurance Department demanded to pay penalties for delaying the payments of the social insurance for all this period .

We were obliged to pay aiming at being in proper position according to our law.

Finding No. 4 " transfer of funds to PIL 50 :

Your report mentioned that EPID paid social insurance penalties on behalf of PIL No. 50 employees due to funds not being available under PIL 50 (costs of LE 110 or US\$ 34). PIL No, 50 concerning the Minister's office began from July 1, 1991 and ended at July 31, 1992 . On the beginning of that PIL , USAID remained about 4 or 5 months without putting money in the account of it at the bank . The insurance Department demanded to pay penalties for not paying social insurance for all this period for the two employees working on that PIL No. 50. Then we were obliged to pay from PIL 53 which was going on at that period .

This is the explanation from Educational Planning and Information Division about the four findings mentioned in your Audit of Expenditures Incurred under the Basic Education Project No. 263-0139.2 .

Salah Elwa

17-6-1995

APPENDIX B

Ministry of Education Educational Planning and Information Division

Audit of Expenditures Incurred Under the
Basic Education Project No. 263-0139.2

Project Implementation Letters Nos. 53 and 59

Auditors Response to Management Comments

Finding No. 1: Sales Taxes

The terms of the PIL No. 53 states "USAID must be refunded for identifiable Egyptian duties and taxes paid with local cost financing". Educational Planning and Information Division (EPID) did not provide a waiver or additional information in their response which proved that the sales tax is reimbursable by USAID/Egypt. Our position remains unchanged.

Finding No. 2: Transfer of Funds

EPID did not provide evidence in their response illustrating USAID/Egypt approval to pay PIL No. 43 expenditures with funds provided under PIL No. 53. Our position remains unchanged.

Finding No. 3: Penalties

The response provided by EPID did not justify the payment of social security penalties incurred under PIL No. 53. USAID/Egypt should not reimburse EPID for late payment fees especially when USAID/Egypt had made funds available to EPID to pay for the social security charges on time. Our position remains unchanged.

Finding No. 4: Transfer of Funds to PIL 50

The response provided by EPID did not justify the payment of social security penalties incurred under PIL No. 50 from PIL No. 53 funds. In addition, EPID did not provide evidence of proof that the transfer of funds to PIL No. 50 was reimbursed to PIL No. 53. Our position remains unchanged.

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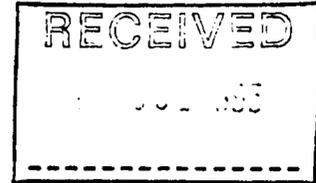
CAIRO, EGYPT

APPENDIX C

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

July 31, 1995

MEMORANDUM



To : Philippe Darcy, RIG/A/C

From : Stan Mitchell, A/OD/FM/FA *SM*

Subject : Audit of the Ministry of Education (MOE),
Educational Planning and Information Division
(EPID), Local Expenditures Incurred Pursuant to
Project Implementation Letters (PILs) Nos. 53 and
59 under the Basic Education Project No. 263-
0139.2. Draft Report dated July 2, 1995.

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