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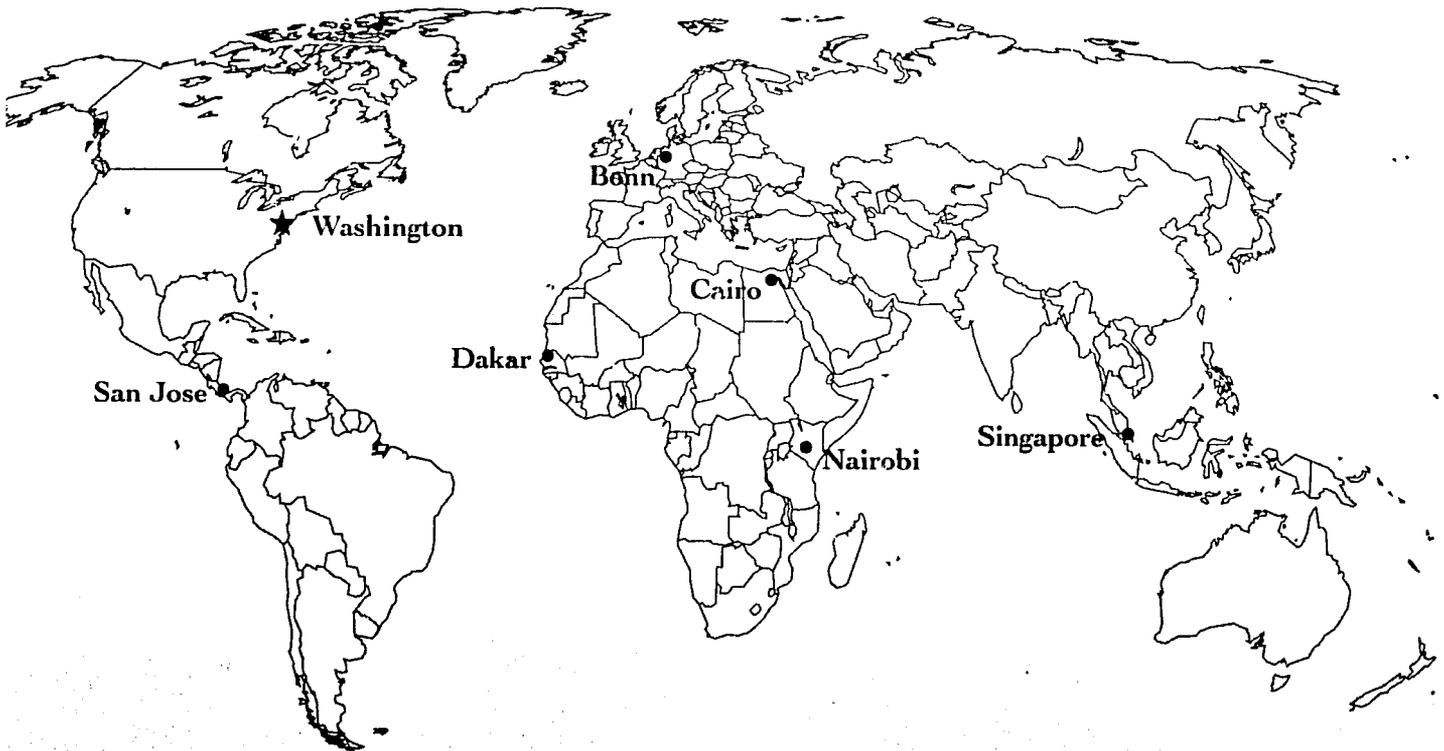
Regional Inspector General for Audit  
Cairo, Egypt

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**Audit of  
USAID/Egypt's Economic Support Fund  
Cash Transfer Program**

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Report No. 6-263-96-003  
December 12, 1995



INSPECTOR  
GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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

**CAIRO, EGYPT**

December 12, 1995

**MEMORANDUM**

**TO:** Director USAID/Egypt, John R. Westley  
**FROM:** RIG/A/Cairo, Lou Mundy *Lou Mundy*  
**SUBJECT:** Audit of USAID/Egypt's Economic Support Fund Cash Transfer Program

This is our report on the subject audit. We considered the Mission's comments on our draft report and have included them in their entirety in Appendix II.

Recommendation Nos. 1 and 2 have been implemented and are closed upon issuance of this report.

We wish to express our appreciation to the Mission for the cooperation and assistance extended to the audit staff on this engagement and your continued support of the audit program in Egypt.

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# Table of Contents

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	Page
<b>Executive Summary</b> . . . . .	i
<b>Introduction</b> . . . . .	1
Background . . . . .	1
Audit Objectives . . . . .	1
<b>Report of Audit Findings</b> . . . . .	2
USAID/Egypt monitored its Cash Transfer Program; however, . . . . .	2
Documentation in support of policy reform implementation needs improvement . . . . .	2
USAID/Egypt ensured that cash transfer dollars were deposited and used for intended purposes in accordance with applicable laws, regulations, and USAID policies and procedures but, . . . . .	4
Audits of the cash transfer dollar accounts should be scheduled and performed . . . . .	5
<b>Management Comments and Our Evaluation</b> . . . . .	7
<b>Appendices</b>	<b>Appendix</b>
Scope and Methodology . . . . .	I
USAID/Egypt Management Response . . . . .	II
Summary of Government of Egypt Agreed-to Sector Policy Reforms as of November 20, 1995 . . . . .	III

## **EXECUTIVE SUMMARY**

In 1991, faced with increasing external debt, balance of payments, and slow growth, the Government of Egypt (GOE) adopted an economic and structural adjustment program in cooperation with the International Monetary Fund and the World Bank. To complement this program, the GOE and the United States initiated USAID/Egypt's Sector Policy Reform Program in August 1992. This \$400 million, two-year program was designed to disburse up to \$200 million per year in support of GOE implementation of 41 agreed-to policy reforms in the financial, fiscal, trade, and private enterprise sectors.

As of June 13, 1995, USAID/Egypt had released \$380 million of the \$400 million obligated through two cash transfer grant agreements to the GOE. These disbursements were contingent upon actions by the GOE to liberalize financial markets, undertake fiscal reforms, reduce controls over imports and exports, and privatize public sector enterprises. Once disbursed, the funds were deposited in a separate bank account and used by the GOE to buy U.S. commodities and equipment and to repay U.S. debt.

The audit answered the following questions: (1) Did USAID/Egypt monitor its cash transfer program to ensure that the host country implemented the required stabilization and policy reforms? (2) Did USAID/Egypt ensure that cash transfer dollars were deposited and used for intended purposes in accordance with applicable laws, regulations, and USAID policies and procedures?

With regard to the first question, the audit found that USAID/Egypt monitored its cash transfer program; however, documents obtained did not always support USAID/Egypt's determinations that policy reforms had been implemented by the host country.

With regard to the second question, the audit found that USAID/Egypt ensured that cash transfer dollars were deposited in accordance with applicable laws, regulations, and USAID policies and procedures.

The report recommends that USAID/Egypt:

- strengthen the Mission's current controls for obtaining documentation to support its determinations for follow-on programs that agreed-upon reforms are achieved before cash transfer funds are disbursed, and
- schedule an audit of the U.S. dollar accounts in the Mission's fiscal year 1996 annual audit plan beginning with transactions made during 1995.

In its written comments on the draft audit report (see Appendix II), USAID/Egypt stated that it agreed with Recommendation Nos. 1 and 2 and presented evidence that the recommendations have been implemented. Accordingly, both report recommendations are closed upon issuance of this report.

*Office of the Inspector General*  
Office of the Inspector General  
December 12, 1995

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# INTRODUCTION

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## Background

In 1991, faced with increasing external debt, balance of payments, and slow growth, the Government of Egypt (GOE) adopted an economic and structural adjustment program in cooperation with the International Monetary Fund and the World Bank. To complement this program, the GOE and the United States initiated USAID/Egypt's Sector Policy Reform Program in August 1992. This \$400 million, two-year program was designed to disburse up to \$200 million per year in support of GOE implementation of 41 agreed-to policy reforms in the financial, fiscal, trade, and private enterprise sectors.

As of June 13, 1995, USAID/Egypt had released \$380 million of the \$400 million obligated through two cash transfer grant agreements to the GOE. These disbursements were contingent upon actions by the GOE to liberalize financial markets, undertake fiscal reforms, reduce controls over imports and exports, and privatize public sector enterprises. Once disbursed, the funds were deposited in a separate bank account and used by the GOE to buy U.S. commodities and equipment and to repay U.S. debt.

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## Audit Objectives

The Office of the Regional Inspector General for Audit/Cairo audited USAID/Egypt's cash transfer program to answer the following audit questions:

- Did USAID/Egypt monitor its Cash Transfer Program to ensure that the host country implemented the required stabilization and policy reforms?
- Did USAID/Egypt ensure that cash transfer dollars were deposited and used for intended purposes in accordance with applicable laws, regulations, and USAID policies and procedures?

Appendix I contains a description of the audit scope and methodology.

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## **REPORT OF AUDIT FINDINGS**

Our answers to the following audit objectives are qualified to the extent of the effect, if any, of not having received written representations for the audit from USAID/Egypt officials directly responsible for the audited activities. Appendix I contains a discussion of this qualifier.

### **Did USAID/Egypt monitor its Cash Transfer Program to ensure that the host country implemented the required stabilization and policy reforms?**

USAID/Egypt monitored its Cash Transfer Program in a variety of ways, including obtaining evidence from the Government of Egypt or consultants, meeting with knowledgeable individuals to obtain their views, and carrying out called-for analyses. However, adequate documentation to support USAID/Egypt's determinations that policy reforms had been implemented by the host country was not always available in the files. As a result, the Mission did not always document that certain agreed-to reforms had been implemented prior to disbursements of U.S. funds.

#### **Documentation in Support of Policy Reform Implementation Needs Improvement**

According to fiscal year 1993 appropriation legislation, cash transfers are provided to a host country with the understanding that it will undertake significant economic reforms. Also, according to Sector Policy Reform Program (Program) documentation, disbursement of dollar funds is contingent on the Government of Egypt's (GOE) achievement of the agreed-to policy measures. Therefore, the Mission needs to clearly establish whether or not each reform has been implemented before it disburses funds under the program. However, at the time of the last disbursement under the Program, the audit found that, for 13 of 37 reforms that were reported as implemented, documentation in the official files in the Mission either did not show that the reform was implemented or indicated that the reform was implemented only after the Mission disbursed program funds. The Mission subsequently provided additional documentation,

reducing the number of inadequately documented reforms from 13 to 5. In two of the five cases, we concluded that the GOE received program funds before it implemented agreed-upon reforms.

**Recommendation No. 1: We recommend that USAID/Egypt strengthen the Mission's current controls for obtaining documentation to support its determinations for follow-on programs that agreed-upon reforms are achieved before cash transfer funds are disbursed.**

According to fiscal year 1993 appropriation legislation, cash transfer assistance was to be provided to Egypt with the understanding that it would undertake significant economic reforms in addition to those undertaken in previous fiscal years. USAID/Egypt implemented the legislation through its Sector Policy Reform Program. Disbursement of \$400 million of Program funds was to be based on the GOE's implementation of 41 policy reform measures. Disbursements from the \$400 million were made in six tranches. We could not determine the actual amounts disbursed for each policy measure because individual policy reforms were not assigned specific dollar values. Also, disbursement documentation did not specify how the amount of each tranche was determined. According to Mission officials, the amount of each tranche was determined based on what the Mission believed to be reasonable for the various policy measures achieved by the GOE at a given time.

At the time of the last disbursement under the Program, documentation in USAID/Egypt's files was inadequate for 13 of the 37 reforms reported as having been implemented by the GOE. Subsequent to our initial review, Mission officials provided the auditors with additional documentation which adequately documented an additional eight reforms (Appendix III provides a listing of the reforms we consider to be adequately/inadequately documented). While USAID/Egypt tracked policy reform through attempts to obtain documentation, and from meetings with knowledgeable individuals, the information filed was not always pertinent and did not always support USAID/Egypt's determinations.

- A fiscal year 1992/1993 financial sector policy reform measure called for the GOE to complete a study of the financial sector and make recommendations to relax constraints which limit the efficient functioning of private financial institutions. Although USAID/Egypt reported that the GOE presented a comprehensive study and made recommendations for policy reform, correspondence on file indicated the study was performed by the World Bank and the recommendations were developed by USAID/Egypt. Although, according to the Mission, the GOE agreed verbally to implement the recommendations, it would not agree in writing to implement them. As a result, the GOE never formally made or agreed to implement any recommendations as a result of the study. We concluded that this reform measure was not implemented at the time funds were released. This reform was one of a number of reforms which resulted in a \$65 million disbursement.

- A fiscal year 1992/1993 financial policy reform required the GOE to ensure that all commercial banks reached a capital/asset ratio of at least 5 percent. To determine whether this policy reform measure was achieved, USAID/Egypt requested specific information on the capital/asset ratio of each individual bank. When the GOE refused to provide this information, however, the Mission accepted a letter from the Governor of the Central Bank of Egypt (CBE) which stated that 45 banks exceeded the 5 percent minimum capital/asset ratio - without any supporting data for individual banks. This reform was one of a number which resulted in a \$65 million disbursement. The Mission accepted similar evidence to document compliance with a fiscal year 1993/1994 policy reform requiring that all commercial banks reach a capital/asset ratio of at least 8 percent. This reform was one of a number of reforms which resulted in a \$75 million disbursement. Mission officials stated that, while they would have preferred to receive detailed supporting data, they believed it was reasonable to rely on statements made by the Governor of the Central Bank of Egypt.
- A fiscal year 1992/1993 fiscal policy reform called for the GOE to adopt a taxpayer identification number. USAID/Egypt determined and reported to USAID/Washington that a system for issuing taxpayer identification numbers had been agreed to and that the GOE had started issuing them in three districts. According to the acting chief of party for a public accounting firm providing technical assistance to the GOE, the first tax numbers were not issued until two years later. USAID/Egypt's determination was based on a letter from the public accounting firm which stated that "issuance in the three computerized district offices should be completed this year [1993]." As a result, we concluded that funds were disbursed prior to the measure being achieved. This reform was one of a number of reforms which resulted in a \$65 million disbursement.

As the examples illustrate, USAID/Egypt did not always verify or obtain sufficient documentation that the GOE had implemented the reforms at the time dollars were released. Consequently, we concluded that, in at least two cases, reforms were not achieved prior to disbursement of cash transfer funds. The Mission needs to strengthen its controls to document the achievement of agreed-upon reforms before disbursements are made.

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**Did USAID/Egypt ensure that cash transfer dollars were deposited and used for intended purposes in accordance with applicable laws, regulations, and USAID policies and procedures?**

USAID/Egypt ensured that cash transfer dollars were deposited in accordance with applicable laws, regulations, and USAID policies and procedures. Cash transfers were used to make payments on U.S. debt and to purchase commodities and equipment of U.S. source and origin as set forth in Agency guidance, cash transfer agreements, memorandums of understanding and project implementation letters. The audit, however, disclosed one area which requires USAID/Egypt's attention to comply with Agency

guidance and improve oversight of cash transfer dollars (see the following section).

We reviewed two cash transfer agreements totalling \$400 million and their corresponding bank accounts. As of June 13, 1995, USAID/Egypt disbursed \$380 million based on the GOE's achievement of 37 policy reforms. These dollars were deposited, in accordance with applicable guidance and procedures, into separate, non-commingled, interest-bearing accounts in a U.S. bank for the account of the Central Bank of Egypt (CBE).

From the \$350 million available as of December 31, 1994, the GOE disbursed \$207 million to purchase commodities which consisted mainly of wheat. About \$11 million was disbursed to the Commodity Credit Corporation to repay interest on U.S. debt. Another \$5 million was disbursed to purchase equipment. We reviewed 23 transactions from 11 letters of credit totalling about \$90 million. We determined that commodities purchased, debt paid and equipment acquired with U.S. dollars met the criteria for uses authorized and specified in the grant agreements and project implementation letters.

#### **Audits of the Cash Transfer Dollar Accounts Should Be Scheduled and Performed**

Agency guidance requires missions to ensure that audits of separate accounts are performed at least annually in accordance with General Accounting Office auditing standards. USAID/Egypt did not ensure that audits of the U.S. dollar account were performed for the years 1992, 1993, 1994 and 1995 (to date). Mission personnel believed that independent audits were not cost effective in view of the level of monitoring performed by the Mission. Performance of these audits will provide USAID/Egypt reasonable assurance that U.S. dollars are properly accounted for and spent.

**Recommendation No. 2: We recommend that USAID/Egypt schedule an audit of the U.S. dollar accounts in the Mission fiscal year 1996 annual audit plan beginning with transactions made during 1995.**

State cable 194322 dated June 15, 1990, requires audits be performed at least once a year in accordance with General Accounting Office (GAO) auditing standards. The audits may be performed by the GOE Central Audit Organization or an independent audit firm. Such audits were planned and budgeted for in the Program documentation but were never performed. Mission personnel stated that it was believed the level of monitoring provided by the Mission was sufficient and that it was not cost effective to conduct the annual audits. However, the Mission did not notify the Agency or request an exception to the Agency requirement.

We reviewed records relating to commodities procured under 11 letters of credit totalling \$126 million. We also reviewed records related to payments of U.S. debt by the GOE totalling \$11 million. We compared the 5 cash transfer deposits, 25 withdrawals and 29 interest calculations from a bank prepared spreadsheet to the bank statements and found no discrepancies. The current performance audit covers selected transactions during the

years 1992, 1993, and 1994, and although the audit does not cover all transactions which took place during these years, in our opinion there is no need to schedule audits for those periods. However, the Mission should ensure that annual audits are conducted beginning with transactions made in 1995.

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## **MANAGEMENT COMMENTS AND OUR EVALUATION**

In its written comments on the draft audit report (see Appendix II), USAID/Egypt stated that it agreed with Recommendation Nos. 1 and 2 and presented evidence that the recommendations have been implemented. Accordingly, both report recommendations are closed upon issuance of this report.

Notwithstanding its concurrence with the report recommendations, the Mission's comments (included in Appendix II) contained statements which we believe need to be addressed.

First, the Mission stated that the auditors applied criteria which were excessively literal and inflexible to determine whether policy reform measures were achieved. On the contrary, the auditors recognized that, given the large number of policy measures in the Sector Policy Reform Program (41), there were likely to be cases where the GOE fully implemented the agreed-upon reforms and other cases where the Mission decided to accept a good-faith effort and less than complete implementation of the reform measures. The auditors also recognized that the evidence available to demonstrate that reforms were implemented might not be conclusive in some cases. However, given the substantial value of the disbursements which were conditioned on these reform measures (an average of about \$10 million per reform measure), the auditors expected that Mission officials would document the basis for any decision to accept less than complete implementation of a reform measure and disclose any significant limitations in the evidence they accepted to show that a reform measure was implemented. This was not always done.

Second, the Mission stated that "the auditors failed to clearly explain in several instances the criteria by which they second guessed the Mission's professional assessment of GOE performance under the SPR." In fact, when the auditors began to review the Mission's files which supported accomplishment of reform measures, they found little assessment or analysis of documentation submitted by the GOE. In most cases, it was impossible to tell how Mission officials reached their conclusion that the reform measures had been implemented. After the auditors completed their original review of the files, which concluded that available documentation did not support accomplishment of any the 33 reform measures reportedly accomplished at that time, Mission officials requested time to gather adequate documentation. Once the Mission gathered additional documents, the auditors reviewed the information a second time and provided the Mission a detailed, 47 page analysis which concluded that 28 of the 34 reform measures reportedly

accomplished at that time were not adequately documented and specifically listed the documentation the auditors felt was necessary to demonstrate that the measures were achieved. Again, the Mission agreed that a problem existed and appealed for additional time to gather documentation. Subsequently, the Mission was able to provide documentation showing that 32 of 37 reform measures reportedly accomplished were actually implemented. In our opinion, the Mission was ultimately able to support accomplishment of this many reform measures specifically because of the guidance they were given by the auditors.

Finally, the Mission disagreed with the auditors' contention that at present five reform measures were not adequately documented. We reviewed and considered the Mission's comments, but we have not changed our determinations.

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## SCOPE AND METHODOLOGY

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### Scope

The Office of the Regional Inspector General for Audit, Cairo audited the USAID/Egypt cash transfer program in accordance with generally accepted government auditing standards. These standards require auditors to obtain written representations from management when they deem them useful. The Office of the Inspector General deems such representations necessary to support potentially positive findings. USAID/Egypt's Director provided us a management representation letter for the audit that contained essential assertions about the activities we audited. However, USAID/Egypt officials directly responsible for these activities did not provide written representations. As a result, our answers to the audit objectives are qualified to the extent of the effect, if any, of not having such representations.

We conducted the fieldwork from January 1995 to September 1995. We covered the Mission's implementation of the procedures and controls cited in the guidance relating to U.S. dollar account disbursements for disbursements through December 31, 1994. We reviewed the Mission's determinations made on Sector Policy Reforms through November 20, 1995.

We reviewed two cash transfer agreements, numbers 263-K-626 and 263-K-628A, totalling \$400 million, the 41 agreed-to sector policy reforms and their related financial and administrative records.

The following methodology section contains additional information on the kinds and sources of information used during the audit and on audit techniques for each audit objective. We examined internal controls related to each objective and considered prior audit findings applicable to the areas under review.

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## **Methodology**

The methodology we used to answer each objective follows:

### **Audit Objective No. 1**

To accomplish this audit objective, we reviewed all 41 sector policy reform measures in the financial, fiscal, trade and private enterprise sectors. To determine whether the policy reforms had been met, we reviewed USAID/Egypt and the Ministry of International Cooperation (MIC) records. In addition to the above, we attempted to determine if documentation on file at USAID/Egypt supported USAID's determination that each sector policy reform had or had not been achieved. Documents reviewed included Presidential decrees, Government of Egypt (GOE) executive regulations, information provided by contractors, various studies and internal and external USAID correspondence. In order to accomplish the review of supporting documentation, a local auditor translated several Arabic documents which had not been translated by USAID to determine if they adequately supported the achievement of the policy reforms. We also interviewed officials of the American Embassy, USAID, the World Bank, and the International Monetary Fund.

### **Audit Objective No. 2**

To achieve this objective, we reviewed pertinent records available at USAID/Egypt, the MIC, the Central Bank of Egypt, Citibank/Cairo and a local accounting firm. We also spoke with officials, in Cairo, at the MIC, USAID, the Central Bank of Egypt, and the Foreign Agriculture Service. In addition, we visited one recipient of equipment purchased with \$5 million in cash transfer dollars to verify equipment had been received, met the purchase criteria specified in the agreements and project implementation letters and was being utilized. Finally, we reviewed applicable laws, Agency guidance, the program assistance approval document, the cash transfer agreements, memorandums of understanding and the program implementation letters.

At Citibank/Cairo we reviewed deposit slips, payment orders, monthly spreadsheets, monthly statements of account, letters of credit, debit advices, commodity and equipment invoices, and certificates of U.S. source and origin. We also reviewed customs release certificates on file at USAID and provided by the MIC. We judgmentally selected ten<sup>1</sup> letters of credit used to purchase commodities and equipment and the associated transactions and records for review. The letters of credit were valued at about \$126

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<sup>1</sup> We reviewed an additional letter of credit opened under one of the ten we judgmentally selected.

million. We compared 23 transactions totalling about \$90 million under the selected letters of credit. We also reviewed six debt payments made by the GOE totalling about \$11 million. We compared the letters of credit and debt payment transactions to bank records and statements of account to verify their accuracy and to determine if they complied with the laws, regulations, contracts, and grants and other documentation applicable to the cash transfers. We verified whether: (1) USAID/Egypt ensured separate accounts were established for cash transfer dollars, (2) interest was earned and credited to the accounts, (3) cash was used for agreed-upon purposes, and (4) statements of U.S. source and origin were obtained and retained on file. We also compared a spreadsheet prepared by the bank to the official bank statements of account for verification purposes.

We requested bank statements of account for the two accounts. We compared 5 deposits, 25 withdrawals and 29 interest calculations from the bank spreadsheets to the bank statements and found no discrepancies.<sup>2</sup> For those transactions for which a bank statement was not available, we compared the transactions from the spreadsheets to the daily credit advices.

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<sup>2</sup> A bank statement was not provided for grant 263-K-626 for the period September 17, 1992 to August 1, 1993 because the bank had difficulty locating them in storage.

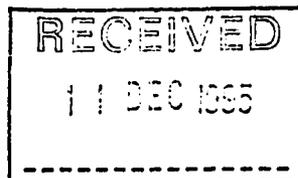


## UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

December 10, 1995

## MEMORANDUM



TO : Louis Mundy, RIG/A

FROM : John R. Westley, DIR

SUBJECT : Audit of Accountability of U.S. Dollar Assistance and a Review of the Implementation of the Program's Stabilization and Policy Reforms Under USAID/Egypt's Economic Support Fund Cash Transfer Program - Draft Report dated October 22, 1995

The following, including attachments, is the Mission response to the subject draft report for your action and inclusion in the final report .

The response is summarized as follows:

**Recommendation No. 1:** We recommend that USAID/EGYPT formalize the Mission's current system for obtaining documentation to demonstrate and support its determinations that agreed-upon reforms are achieved or implemented before cash transfer funds are disbursed.

**Mission response:**

Attached is the EAP response stating that the Mission agrees with the audit recommendation and has, in fact, taken the necessary actions to address the recommendation. A written procedure has now been formalized via a written directive issued by the Associate Director for Economic Analysis and Policy.

The formal system as described in the EAP memo was developed based on the Mission experience with the third disbursement under the second year of the SPR I Program, which occurred in June 1995. Under that disbursement, verification efforts were systematized and a greater emphasis was placed on obtaining and filing appropriate documentation. This documentation supporting GOE achievement of a set of policy measures was presented to, and discussed with the project team, and provided the basis upon which they recommended, via an action memorandum to the Mission Director, that the third SPR disbursement be made.

- 2 -

The key documentation supporting the achievement of each policy measure was attached to the Action Memorandum which went to the Director for his signature. In addition, all supporting documentation will be cross-referenced to the appropriate Action Memorandum.

The Mission is of the opinion that the above procedure can be relied upon to satisfy the requirements of future disbursements and allow for independent verification of GOE achievements.

**Based on the above, Mission requests closure of recommendation No. 1.**

**Recommendation No. 2: We recommend that USAID/EGYPT schedule an audit of the US dollar accounts in the Mission fiscal year 1996 annual audit plan beginning with transactions made during 1995.**

**Mission response:**

The Mission agrees with the audit recommendation and has included the audit of the US dollars account in the Mission FY 1996 annual Non-Federal Audit Plan which was approved by the MCRC and which was transmitted to RIG/A on September 28, 1995 (copy attached).

**Based on the information previously provided to RIG/A, Mission requests closure of this recommendation.**

Att: a/s

13



CAIRO, EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

Appendix II

Page 3 of 15

December 10, 1995

**MEMORANDUM**

To: Shirley Hunter OD/FM/FA  
From: Paul Mulligan (A) AD/EAP  
Subject: Audit of USAID/Egypt's Cash Transfer Program

**SUMMARY:** The Mission appreciates the hard and constructive work of the auditors and agrees with audit recommendation No. 1. In fact, the substance of the recommendation has already been implemented. That is, the Mission has formalized its system for verifying, documenting, reviewing, and making SPR disbursement decisions. However, the Mission strongly disagrees with the auditors' contention that at present there is insufficient documentation to justify five SPR policy measures having been considered achieved at the time program funds were disbursed. Evidence in support of the Mission's position is provided below.

I. Implementation of Better Documentation

For the third disbursement under the second year of the SPR I program, which occurred in June 1995, we systemized our verification efforts and placed greater emphasis on obtaining appropriate documentation. In addition to the normal verification activities, we undertook a concerted effort to collect and verify documents related to demonstrating that policy measures had been achieved. This supporting documentation was presented to, and discussed with, the project team; and, it provided the basis upon which the project team recommended via an Action Memorandum to the Mission Director that an SPR disbursement be made as a result of GOE achievement of a certain set of policy measures. The key documentation supporting the achievement of each policy measure, to the extent practical, was then attached to the Action Memorandum which ultimately went to the Director for his signature. This procedure has now been formalized via a written directive issued by the Associate Director for Economic Analysis and Policy, and will be used for future SPR disbursements.

II. Adequacy of Documentation: General Comments:

The Mission believes that the nature of policy reform is such that in most cases it would be neither possible nor desirable for conditionality to describe with absolute precision what actions

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14

are necessary to meet it. Some degree of generality is often necessary both to capture (and hold the host country to) the intent of the reform, as well as to recognize that the host country, which must have ownership of the reform in order for it to be sustainable, may have several different ways of accomplishing it. Similarly, perfect documentation to show satisfaction of the conditionality does not always exist. Drafting conditionality so that it can always be met by documentation precisely "on point" would often undermine the aims of achieving the intent, and not just the letter, of the reform and of flexibility in various means of accomplishment.

In the Mission's view, the auditors never recognized this point. They persisted in applying criteria for assessing GOE implementation of policy measures which were excessively literal and inflexible. In addition, the auditors failed to clearly explain in several instances the criteria by which they second guessed the Mission's professional assessment of GOE performance under the SPR. On several occasions the Mission submitted voluminous documentation, or very clear empirical analyses, in support of policy measures being achieved, only to be told by the auditors that this evidence or documentation was not sufficient. However, the auditors typically did not clearly articulate what, in their view, would constitute adequate documentation for these policy measures. Thus the Mission was confronted with the task of supplying more and more documentation--without a clear understanding of what was needed to satisfy the auditors. For several policy measures, this continued right up until the audit report was finalized.

### III. Adequacy of Documentation: Specific Comments

The Mission has the following comments on SPR policy measures presented in the audit report as inadequately documented as of 6 December:

92/93 Financial Sector No. 1: The GOE will complete a study of the financial sector (including banks, investment companies, mutual funds, insurance companies) and make recommendations to relax constraints which limit the efficient functioning of private financial institutions (achieved 9/5/93).

The auditors did not find adequate documentation that this study was completed before the date of SPR fund disbursement.

During the course of 1993, the Mission carried out extensive discussions and correspondence with the GOE (primarily the Central Bank and Capital Market Authority) concerning this policy measure. These discussions and correspondence focused on obtaining from the GOE an indication that it accepted the World Bank financial sector study, which contained a number of recommendations aimed at strengthening Egypt's financial sector. It was always USAID's view that GOE acceptance of the study would

15

justify this SPR policy measure being considered achieved.

It was in this context that USAID learned in late August 1993 from officials in the local World Bank office that the Bank was in the process of issuing the gray cover version of the financial sector study. This version of the study actually "came out" on September 20, 1993.

Under well established World Bank procedures, a gray cover report follows previous white, yellow, and green cover versions; and, its issuance indicates that the report in question has been accepted by the Government.

In summary, the Mission's decision to consider this policy measure achieved as of September 5, 1993 was based on two factors. First, the Mission learned in late August 1993 that the gray cover report was being issued by the World Bank--thus indicating that the GOE had accepted the report. Second, the Mission determined as a result of our correspondence and meetings with the Central Bank and Capital Market Authority (see the files for details) that a number of the recommendations included in the World Bank study either had been implemented, or were in the process of being implemented. Obviously these recommendations had been accepted.

In light of the above, the Mission felt it was clearly justified in considering the policy measure achieved as of September 5th--15 days before the issuance of the gray cover World Bank report. The GOE had already accepted the report and a number of its recommendation had been, or were being, implemented. The Mission strongly objects to the auditors' contention that this policy measure was not achieved until after SPR funds were disbursed.

92/93 Financial Sector No. 5: The GOE will ensure that all commercial banks reach a capital/asset ratio of at least 5 percent (achieved 9/5/93).

The issue here was the adequacy of documentation supporting GOE achievement of this measure. The Mission relied on a written statement by the Governor of the Central Bank indicating that all commercial banks had reached the target ratio, while the auditors apparently required more detailed bank-specific supporting evidence.

Bank solvency was quite a serious problem in Egypt. However, steps were being taken to improve the situation. The World Bank report, "Egypt Financial Policy for Adjustment and Growth," documents the steps taken by the GOE to increase the capital adequacy of its banks. These include: recognition of foreign currency losses and induction of new capital in the four public sector banks, new regulations on standards of capital adequacy, asset classification, and provisions, and limits on foreign exchange positions. Audits have been completed and additional

provisions have been made following guidelines from the Central Bank of Egypt (CBE). (See P. 26, Vol. II) The World Bank also pointed out (page 2, Vol. 2) that banks must now be audited by two auditors that enjoy the confidence of the CBE.

In light of these steps, the Mission felt it was quite reasonable to believe the statement of the CBE Governor provided in a letter dated March 31, 1993 (in the files) that all commercial banks had reached the 5 percent capital asset ratio. It is true that the Mission would have preferred to receive bank-specific data to corroborate the Governor's statement; and, the Mission exerted considerable effort to obtain such data. Nevertheless, the Mission did ultimately accept the contention of the Central Bank that banking secrecy laws prohibited the release of such data.

92/92 Enterprise Sector No. 3: The GOE will bring at least five public sector or joint venture enterprises worth at least LE 100 million to the point of sale. Point of sale includes a valuation, a reservation price and a formal offer of sale (achieved 4/27/93).

In the auditors' view the Mission did not have sufficient evidence to document that at least five public sector enterprises had been brought to the point of sale.

The Mission has submitted evidence, e.g. copies of tenders, Economic Intelligence Unit Country Reports, etc. (in files), showing that five companies were brought to the point of sale before April 27, 1993. The total June 1991 book value of those companies was LE 631.329 million. Book values were provided to the Mission by the PEO through a letter from MIC on March 14, 1993 (in files). This amount meets this policy measure conditionality, being higher than LE 100 million.

In addition, the Mission has supplied evidence from one of its contractors, IBTCI, which supports its contention that the subject five companies worth more than the required amount were actually brought to the point of sale. From the Mission's perspective, this evidence is especially telling since IBTCI's principal task here in Egypt is to track the performance of Egypt's privatization program. The Mission strongly believes that this evidence, taken as a whole, clearly demonstrates that the policy measure was achieved.

93/94 Financial Sector No. 1: The GOE will ensure that all commercial banks reach a capital/asset ratio of at least 8 percent (achieved 12/13/94).

As of December 1994, the Central Bank of Egypt had brought 25 out of the total of 30 commercial banks into compliance with the 8 percent requirement. The five outstanding banks were small--representing 3.2 percent of commercial banks' financial

17

positions.

In a meeting on September 22, 1994, the Central Bank Governor described to EAP the Bank's plan to bring the remaining five banks into compliance by December 1996 by prohibiting payments of dividends, encouraging equity infusions, and more frequent inspections. Details of this plan were subsequently provided in written form to the Mission in a letter from Dr. Lotfalla Iman, head of the Ministry of International Cooperation's Monitoring Unit (in files).

In summary, the fundamental objective of the policy measure--improved financial soundness of the banking system--was accomplished. A system was established to ensure that troubled banks either improve their capital-asset ratios or that they be merged or liquidated so as to resolve the problem.

93/94 Enterprise Sector No 3: a. The GOE will privatize at least ten public sector or joint venture enterprises worth at least LE 500 million; b. and bring to the point of sale an additional 20 firms (achieved 6/6/95).

As in the privatization measure for the previous year, the auditors did not find that the Mission had sufficient evidence to establish that the required 10 and 20 firms had been privatized and brought to the point of sale respectively.

The Mission submitted considerable evidence (in files) that over the relevant time period ten public sector companies were privatized/liquidated and 22 public companies that were brought to the point of sale. The total June 91 book value for the privatized/liquidated companies amounted to LE 879.5 million, which exceeds the policy measure indicator (a) of LE 500 million.

Evidence for the privatized companies consist of the following: E-mails, translating/reporting on Newspapers' articles, EMU Country Report on Egypt, GA's minutes and letter from the chairman of the Holding Company (HC) (for Employee Stock Associations (ESAs)), and decrees for the liquidation of companies plus their liquidators. Evidence for the 22 companies brought to the point of sale includes tenders, EMU Country Report, and General Assembly minutes.

In addition, the Mission has supplied evidence from one of its contractors, IBTCI, which supports its contention that the subject ten companies worth more than the required amount were actually privatized, and an additional twenty public enterprises were brought to the point of sale. From the Mission's perspective, this evidence is especially telling since IBTCI's principal task here in Egypt is to track the performance of Egypt's privatization program.



CAIRO, EGYPT

MEMORANDUM

November 27, 1995

To: EAP Staff and Files

From: Paul R. Deuster <sup>MSR</sup> AD/EAP

Subject: Tracking and Documenting SPR Performance

The purpose of this memo is to formalize the procedure the Mission uses to track and document GOE performance against individual SPR policy measures and to approve disbursements against GOE performance. The procedure outlined in this memo is the same as was used for the third disbursement under the 1993/94 SPR, which occurred in June 1995. Future disbursements under SPR programs will utilize this approach.

The Mission will follow a five step procedure to ensure that SPR disbursement decisions are: based on adequate supporting documentation; fully reviewed within the Mission; accurately explained and justified in an action memorandum to the Director; cleared by relevant Associate Directors and approved by the Mission Director; and accurately recorded in EAP files. These five steps are described in greater detail below.

I. Documenting:

During the course of SPR implementation, Mission staff will make a concerted effort to collect and file all relevant information concerning GOE performance against individual policy measures. This will include, but not necessarily be limited to: memorandums of conversation for key meetings with officials of GOE implementing agencies, international donor agencies, or others; copies of relevant decrees, laws, executive regulations, etc.-- with appropriate parts translated by EAP staff or others where necessary; relevant letters from GOE officials--again, with translations where necessary; and called-for analyses, with sources of data and methodology documented.

II. Reviewing:

GOE performance against specific policy measures will be discussed with the SPR program team. Any claim of a policy measure being achieved must be supported by relevant documentation in the files.

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106 Kasr El Aini Street  
Garden City  
Cairo, Egypt

III. Recording:

If the program team decides--based on the evidence presented to it--that the GOE has achieved SPR policy measures of sufficient importance to justify a disbursement, then an Action Memo for the Director recommending a disbursement will be produced by EAP. This memorandum will clearly lay out the basis for considering each policy measure to be achieved, and will identify any key issues which Mission management should be aware of.<sup>1</sup> To the extent possible<sup>2</sup>, supporting documentation and evidence will be attached to this memo; and, it will be circulated for clearance by relevant Associate Directors--including those from EAP, FM, and other directorates as appropriate.

IV. Approving:

Once the Action Memo is fully cleared, it will be presented to the Director or Acting Director for his approval, which he will indicate by signing the Action Memo.

V. Filing:

Once the Action Memo is approved by the Director, USAID/W will be notified and the disbursement will proceed. The Action Memo itself will go in official SPR files. These files will be maintained for at least three years after the last disbursement under SPR.

Clearance:

RSteelman PDS/PS (draft)  
MAKleinjan AD/LEG (draft)  
MTanamly DAD/FM (draft)

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<sup>1</sup>Where the requirements of a policy measure are ambiguous, the action memorandum will explain the appropriate interpretation.

<sup>2</sup>Supporting materials which are too bulky to attach will be kept in EAP files and referred to in the memo.



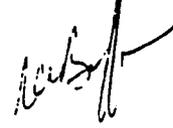
CAIRO, EGYPT

September 28, 1995

MEMORANDUM

TO: Lou Mundy, RIG/A/C

FROM: Shirley Hunter, OD/FM/FA 

THRU: Bob Bonnaffon, AD/FM 

SUBJECT: FY 96 Non-Federal Audit Plan

Attached is the Mission's FY 96 Non-Federal Audit Plan, approved by the MCRC members. The plan includes Agency-Initiated Audits; Recipient Audits; Concurrent Audits; as well as FAST Reviews. The plan also shows the audits scheduled by quarter.

Thank you for your cooperation.

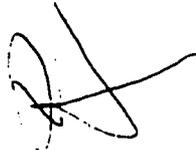
Att: a/s

-2-

September 28, 1995

MEMORANDUM

TO: Lou Mundy, RIG/A/C

FROM: Shirley Hunter, OD/FM/FA 

THRU: Bob Bonnaffon, AD/FM

SUBJECT: FY 96 Non-Federal Audit Plan

Clearance:

FM/FA : S. Zohdi SKH

  
Drafted by: FM/FA: L. Boutros  
DOC: 96aplan  
09/8/95

22'

**DEFINITIONS OF COLUMN TITLES**

PRJNUM	PROJECT NUMBER
COMDOCNO	COMMITMENT DOCUMENT NO.
AGTNAM	AGENT NAME
COMBGN	COMMITMENT BEGINNING DATE
COMENDDT	COMMITMENT ENDING DATE
PACD	PROJECT ACTIVITY COMPLETION DATE
CUMCOMAM	CUMULATIVE COMMITMENT AMOUNT
CUMDISAM	CUMULATIVE DISBURSEMENT AMOUNT
DISB CCY	DISBURSEMENT CURRENCY
LAST AUDT	LAST AUDIT PERFORMED
SCHED	AUDIT SCHEDULE BY QUARTER

# FY 96 Final Non-Federal Audit Plan

No.	Prjnum	Comdocno	Agtnam	Combgn	Comenddt	PACD	Cumcomam	Cumdisam	Disb CCY	Last Audit	sched
<b>Agency Initiated Audits</b>											
1	2630132	PIL # 99, PROJ 0132 LE	MIN OF PUBLIC WORKS&WATER RES	01-Jul-89	30-Sep-95	21-Sep-96	1,248,486	1,209,783	LE	263-94-08-	1st Qtr
2	2630132	PIL # 101, PROJ 0132	MIN OF PUBLIC WORKS&WATER RES	01-Jul-89	21-Sep-95	21-Sep-96	2,963,791	2,537,958	LE	263-94-07-	1st Qtr
3	2630132	PIL # 87, PROJ 0132	MIN OF PUBLIC WORKS&WATER RES	01-Jul-88	21-Sep-95	21-Sep-96	3,069,698	3,028,419	LE	263-94-03-	1st Qtr
4	2630800 1	AG#7-FT-800	MINISTRY OF HIGHER EDUCATION								
	2630125 0	PIL # 12, PROJ 0125 01	MINISTRY OF HIGHER EDUCATION	01-Oct-91	25-Sep-95	05-Jan-99	10,679,700	9,402,502	LE	263-94-04-	1st Qtr
	2630125 0	PIL#14, PROJ 0125 01 LE	MINISTRY OF HIGHER EDUCATION	08-Aug-88	25-Sep-95	25-Sep-95	327,000	184,508	\$	263-94-04-	
	2630125 0	PIL#14, PROJ 0125 01 \$	MINISTRY OF HIGHER EDUCATION	01-Feb-89	25-Sep-95	25-Sep-95	265,229	233,651	LE	263-94-04-	
			01-Feb-89	25-Sep-95	25-Sep-95	85,560	76,956	\$	263-94-04-		
5	2630800 1	CO-263-0000-C-00-2022	EMCO FOR COMPUTER AND SYSTEM	19-Jan-92	28-Feb-93	05-Jan-99	618,900	618,900			1st Qtr
6	2630203	L/COM-263-0203-015 LE	ARABIAN MEDICAL EQUIPMENT AMCC	27-Dec-92	03-Mar-93	15-Aug-96	742,632	742,632			1st Qtr
7	2630144	PIL # 27, PROJ 0144 LE	MINISTRY OF SOCIAL AFFAIRS	01-Oct-89	31-May-93	30-Jun-94	2,292,180	2,292,180			1st Qtr
8	2630144	CO-263-0144-A-7035 LE	EGYPTI FERTILITY CARE SOCIETY	01-Apr-87	31-May-93	30-Jun-94	775,513	775,513			1st Qtr
9	2630132	CA-263-0132-A-00-5036	INT'L IRRIGAT MGT INSTI (IIMI)	01-Dec-94	31-Dec-95	21-Sep-96	1,275,000	839,447	\$		1st Qtr
10	2630201 0	PIL # 8, PROJ 0201 1LE	MINISTRY OF INT'L COOPERATION	01-Oct-88	30-Sep-93	20-Aug-96	123,053	123,053			2nd Qtr
11	2630152 0	L/COM-263-015202	INT RICERESARCHINSTITUTE	21-Apr-87	30-Jun-94	11-Sep-95	3,719,872	3,719,872			2nd Qtr
12	2630203	L/COM-263-0203-017	S S.C. TRADING AND SERVICES	01-May-94	30-Oct-94	15-Aug-96	398,213	398,213			2nd Qtr
13	Special Account	US\$ S. ACC (CTRF)	MISSION FM/FA								2nd Qtr
		LC S ACC (CTRF& CIP)	MISSION FM/FA	--	--	--	--	--			2nd Qtr
14	2630800 1	CO-263-0000-C-00-2203	ENVIRONMENTAL QUALITY INT.	17-May-92	17-May-96	05-Jan-99	3,010,201	3,010,201			2nd Qtr
	2630132	CO-263-0132-C-00-4076	ENVIRONMENTAL QUALITY INT.	01-Aug-94	21-Sep-95	21-Sep-96	193,451	151,277	LE		
15	2630144	PIL # 16, PROJ 0144	CLINICAL SERV.IMPROVEMENT PROJ	01-Nov-92	30-Sep-93	30-Jun-94	1,046,552	1,046,552			3rd Qtr
16	2630800 1	PIL # 31, FT-800	PRIN BK-DEV & AG CREDIT(PBDAC)	01-Jun-90	30-Sep-95	05-Jan-99	449,754	360,102	LE		3rd Qtr
	2630202	PIL # 35C, PROJ 0202	PRIN BK-DEV & AG CREDIT(PBDAC)	27-Jan-93	31-Dec-94	29-Sep-96	60,269	60,269	LE		
	2630202	PIL # 35D, PROJ 0202	PRIN BK-DEV & AG CREDIT(PBDAC)	22-Jul-93	31-Dec-94	29-Sep-96	29,505	29,505	LE		
	2630202	PIL # 35E, PROJ 0202	PRIN BK-DEV & AG CREDIT(PBDAC)	01-Jan-94	30-Nov-94	29-Sep-96	16,636	16,636	LE		
	2630202	PIL # 36, PROJ 0202	PRIN BK-DEV & AG CREDIT(PBDAC)	01-Jul-92	30-Sep-95	29-Sep-96	180,000	164,157	LE		
	2630202	PIL # 7, PROJ 0202	PRIN BK-DEV & AG CREDIT(PBDAC)	03-Mar-87	30-Sep-95	29-Sep-96	1,451,781	1,333,287	LE	263-94-17-	

24

## FY 96 Final Non-Federal Audit Plan

No.	Prjnum	Comdocno	Agtnam	Combgn	Comenddt	PACD	Cumcomam	Cumdisam	Disb CCY	Last Audit	shed
17	2630132	CO-0000-C-00-0008	UNITED ENG & MARKETING CO.	01-Nov-93	31-Oct-94	29-Sep-96					
	2630132	CO-263-CSO-C-00-0008	UNITED ENG & MARKETING CO.	01-Nov-89	31-Dec-94	29-Sep-96	2,500	2,500	LE		3rd Qtr
	2630800 1	CO-263-0000-C-0008-00	UNITED ENG & MARKETING CO.	01-Nov-92	31-Oct-94	05-Jan-99	13,303	13,303	LE	263-95-17-	
	2630203	CO-263-0000-C-00-0008	UNITED ENG & MARKETING CO.	01-Nov-93	31-Oct-94	15-Aug-96	19,418	19,418	LE		
	OE FT800	CO-263-0000-C-0008-00	UNITED ENG & MARKETING CO.	01-Nov-89	01-Oct-95	05-Jan-99	2,404	2,404	LE		
	OE US\$	CO-263-0000-C-0008-00	UNITED ENG & MARKETING CO.	01-Nov-89	01-Oct-95	05-Jan-99	4,168,451	4,128,485	LE	263-95-17-	
	2630800 1	CO-263-0000-C-00-5019	UNITED ENG & MARKETING CO.	01-Dec-94	30-Nov-95	05-Jan-99	116,262	115,915	LE	263-95-17-	
	OE FT800	CO-263-0000-C-00-5019	UNITED ENG & MARKETING CO.	01-Dec-94	30-Nov-95	05-Jan-99	21,228	15,768	LE		
OE US\$	CO-263-0000-C-00-5019	UNITED ENG & MARKETING CO.	01-Dec-94	30-Nov-95	05-Jan-99	1,196,096	4,128,485	LE			
18	2630144	PIL # 18, PROJ 0144	NATIONAL POPULATION COUNCIL	01-Sep-87	30-Jun-94	30-Jun-94	2,225,930	2,225,930	LE		3rd Qtr
	2630227	PIL # 6B, PROJ 0227 LE	NATIONAL POPULATION COUNCIL	01-Jul-94	30-Jun-96	31-Jul-97	1,666,941	312,123	LE	263-94-01-	
19	2630144	PIL # 6, PROJ 0144 LE	STATE INFORMATION SVC (SIS)	01-Jan-87	31-Mar-94	30-Jun-94	5,034,343	5,034,343	LE		3rd Qtr
	2630227	PIL # 5B, PROJ 0227 LE	STATE INFORMATION SVC (SIS)	01-Apr-94	30-Jun-96	31-Jul-97	2,433,584	768,469	LE	263-94-06-	
20	2630227	PIL # 7B, PROJ 0227 LE	REGIONAL CENTER FOR TRNG (RCT)	01-Apr-94	30-Sep-95	31-Jul-97	772,060	361,491			4th Qtr
21	2630227	PIL # 4B, PROJ 0227 LE	MINISTRY OF HEALTH	01-Apr-94	30-Jun-96	31-Jul-97	4,232,610	890,889	LE		4th Qtr
	2630144	PIL # 15, PROJ 0144 LE	MINISTRY OF HEALTH	01-Jul-87	31-Mar-94	30-Jun-94	8,670,033	8,670,033		263-94-09-	
22	2630132	PIL # 5, PROJ 0132	MIN OF PUBLIC WORKS&WATER RES	01-Jan-84	21-Oct-95	21-Sep-96	2,695,505	2,508,872	LE	263-95-11-	4th Qtr

**Recipient Audits**

1	2630212	CA-263-0212-A-00-4047L	EGYPTIAN SMALL ENTRP DEVLOPMN	12-Jun-94	30-Sep-97	30-Sep-97	1,220,677	341,069	LE		2nd Qtr
	2630212	CA-263-0212-A-00-4047\$	EGYPTIAN SMALL ENTRP DEVLOPMN	12-Jun-94	30-Sep-97	30-Sep-97	2,756,763	619,936	\$		
2	2630230	CO-263-230-A-00-3104OE	EGYPTIAN CENTER FOR ECONOMIC S	23-Sep-93	31-Oct-95	31-Mar-98	1,395,000	889,938	\$ L		3rd Qtr
	2630230	CO-263-230-A-00-3104TA	EGYPTIAN CENTER FOR ECONOMIC S	23-Sep-93	31-Oct-95	31-Mar-98	209,690	12,101	\$ L		
	2630230	CO-263-230-A-3104EQUIP	EGYPTIAN CENTER FOR ECONOMIC S	23-Sep-93	31-Oct-95	31-Mar-98	98,842	89,000	\$ L		
	2630230	CO-263-230-A-3104A	EGYPTIAN CENTER FOR ECONOMIC S	23-Sep-93	31-Oct-95	31-Mar-98	26,000	8,760	\$ L		
3	2630212	CA-263-0212-A-00-4011C	ALEX. BUSINESSMEN ASSOCIATION	01-Oct-93	30-Sep-97	30-Sep-97	3,654,008	3,070,038	\$		4th Qtr
	2630212	CA-263-0212-A-00-4011\$	ALEX. BUSINESSMEN ASSOCIATION	01-Oct-93	30-Sep-97	30-Sep-97	31,142	4,642	\$		
	2630212	CA-263-212-A-00-4011LE	ALEX. BUSINESSMEN ASSOCIATION	01-Oct-93	30-Sep-97	30-Sep-97	537,039	380,419	LE		
	2630212	G#263-0212-A-00-9055 C	ALEX. BUSINESSMEN ASSOCIATION	15-Apr-89	30-Sep-93	30-Sep-97	3,845,993	3,845,993	\$		
	2630212	G#263-0212-A-00-9055 \$	ALEX. BUSINESSMEN ASSOCIATION	15-Apr-89	30-Sep-93	30-Sep-97	26,766	26,766	\$		
	2630212	G#263-0212-A-00-9055LE	ALEX. BUSINESSMEN ASSOCIATION	15-Apr-89	30-Sep-93	30-Sep-97	810,942	810,942	LE	263-92-08-	

25

# FY 96 Final Non-Federal Audit Plan

No	Prjnum	Comdocno	Agtnam	Combgn	Comenddt	PACD	Cumcomam	Cumdisam	Disb CCY	Last Audit	sched
4	2630125 0	CA-263-0125-A-00-0096	FULBRIGHT COMMISSION	01-Oct-90	25-Sep-95	25-Sep-95	19,346,024	17,971,998	\$ L		4th Qtr
	2630800 1	CA-263-0125-A-00-0096	FULBRIGHT COMMISSION	11-Oct-90	31-Aug-94	05-Jan-99	353,790	353,790	LE		
	2630800 1	SG-263-0125-A-00-0096	FULBRIGHT COMMISSION	01-Oct-90	25-Sep-95	05-Jan-99	1,537,469	640,060	LE		
	2630125 0	SG-263-0125-G-00-1010	FULBRIGHT COMMISSION	01-Oct-90	30-Sep-93	25-Sep-95	224,510	224,510	\$		
	2630125 0	SG-263-0125-G-00-4024	FULBRIGHT COMMISSION	28-Feb-94	23-Sep-95	25-Sep-95	238,372	210,582	\$		
5	2630212	AG-263-0212-A-00-9064C	EGYPTIAN SMALL ENTRP DEVELOPMN	30-Jun-89	30-Sep-97	30-Sep-97	7,000,000	5,717,948		263-95-I-N	4th
	2630212	AG-263-0212-A-00-9064L	EGYPTIAN SMALL ENTRP DEVELOPMN	30-Jun-89	30-Sep-97	30-Sep-97	2,193,936	1,352,270	LE	263-95-I-N	
	2630212	AG-263-0212-A-00-9064S	EGYPTIAN SMALL ENTRP DEVELOPMN	30-Jun-89	30-Sep-97	30-Sep-97	68,500	16,806	\$		

**Concurrent Audits**

1	2630226	CA-263-0226-A-00-2027	JOINT BUSINESS COUNCIL	16-Mar-92	15-Mar-96	30-Sep-96	2,122,088	1,652,725	\$		
	2630226	CA-263-226-A-00-2027LE	JOINT BUSINESS COUNCIL	16-Mar-92	15-Mar-96	30-Sep-96	2,088,820	1,551,368	LE		

**Notes:**

- (1) The above information is obtained from MACS as of August 31, 1995.
- (2) The FT-800 funds are reflected in LE while all the remaining amounts are reflected in US\$.
- (3) Audit No. 9 (IMI) will be audited for local currency expenditures only since the supporting documentation for the dollar portion are not maintained locally. A decision regarding auditing the dollar portion expenditures will be taken at a later date.

26

**AUDIT OF USAID/EGYPT'S CASH TRANSFER PROGRAM  
SUMMARY OF GOVERNMENT OF EGYPT AGREED-TO  
SECTOR POLICY REFORMS**

<b>Policy Reform Number</b>	<b>Description of Conditionality</b>	<b>Date Funds Released</b>	<b>State of Documentation in USAID/Egypt Files as of June 5, 1995</b>	<b>State of Additional Documentation in USAID/Egypt Files as of November 20, 1995</b>
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**Program Year 1992/1993:**

1	Study Financial Sector	Sep-93	Inadequate	
2	Allow Foreign Banking	Sep-92	Inadequate	<b>Adequate</b>
3	Equal Tax Treatment	Sep-93	<b>Adequate</b>	
4	Decontrol Bond Interest	Sep-92	Inadequate	<b>Adequate</b>
5	5% Capital/Asset Bank Ratio	Sep-93	Inadequate	
6	Securities Market Law	Sep-93	<b>Adequate</b>	
7	Publish Fiscal Data	n/a	No funds released because reform was not implemented.	
8	Adopt Tax Identification Number	Sep-93	Inadequate	<b>Adequate</b>
9	Income Tax Law to Peoples' Assembly	Sep-93	Inadequate	<b>Adequate</b>
10	Broaden Sales Tax	Sep-92	<b>Adequate</b>	
11	No Private Guarantees	Sep-92	Inadequate	<b>Adequate</b>
12	Prompt Drawback Refunds	Sep-92	Inadequate	<b>Adequate</b>
13	Study Quality Control	May-93	<b>Adequate</b>	
14	Lower Import Bans	May-93	<b>Adequate</b>	
15	Study Customs System	Sep-93	<b>Adequate</b>	
16	Remove Private Impediments	May-93	<b>Adequate</b>	
17	Include <100% Exporters	Sep-92	Inadequate	<b>Adequate</b>
18	Study Textile Industry	May-93	<b>Adequate</b>	
19	Develop Privatization Plan	May-93	<b>Adequate</b>	
20	Sell Five Public Enterprises	May-93	Inadequate	
21	Study Barriers to Entry	n/a	Reform deleted by USAID and GOE	

**Program Year 1993/1994:**

22	8% Capital Asset Ratio	Dec-94	Inadequate	
23	Decontrol Banking Fees	Apr-94	<b>Adequate</b>	
24	Review Bank Exam Procedure	Dec-94	<b>Adequate</b>	
25	Expedite Bank Branching	Apr-94	<b>Adequate</b>	
26	Study New Financial Instruments	Dec-94	<b>Adequate</b>	
27	Reduce Tax Holidays	Jun-95	<b>Adequate</b>	
28	Prepare General Sales Tax	Dec-94	<b>Adequate</b>	
29	Implement Global Income Tax	Apr-94	Inadequate	<b>Adequate</b>
30	Review Banning Decrees	Dec-94	<b>Adequate</b>	
31	Reduce Tariff Preferences	Apr-94	<b>Adequate</b>	
32	Reduce Import Ban to 5%	Apr-94	<b>Adequate</b>	
33	Eliminate Five Import Conditions	Apr-94	<b>Adequate</b>	
34	Implement Customs Study	Jun-95	<b>Adequate</b>	
35	Implement Quality Control Study	Jun-95	<b>Adequate</b>	
36	Plan for Foreign Insurance	Dec-94	<b>Adequate</b>	
37	Remove Controls on Tourism	Jun-95	<b>Adequate</b>	
38	New Patent Law	n/a	No funds released because reform was not implemented.	
39	Privatize 10 Public Enterprises	Jun-95	Inadequate	
40	Implement Textile Study	n/a	No funds released because reform was not implemented.	
41	Study Intellectual Property	Apr-94	<b>Adequate</b>	