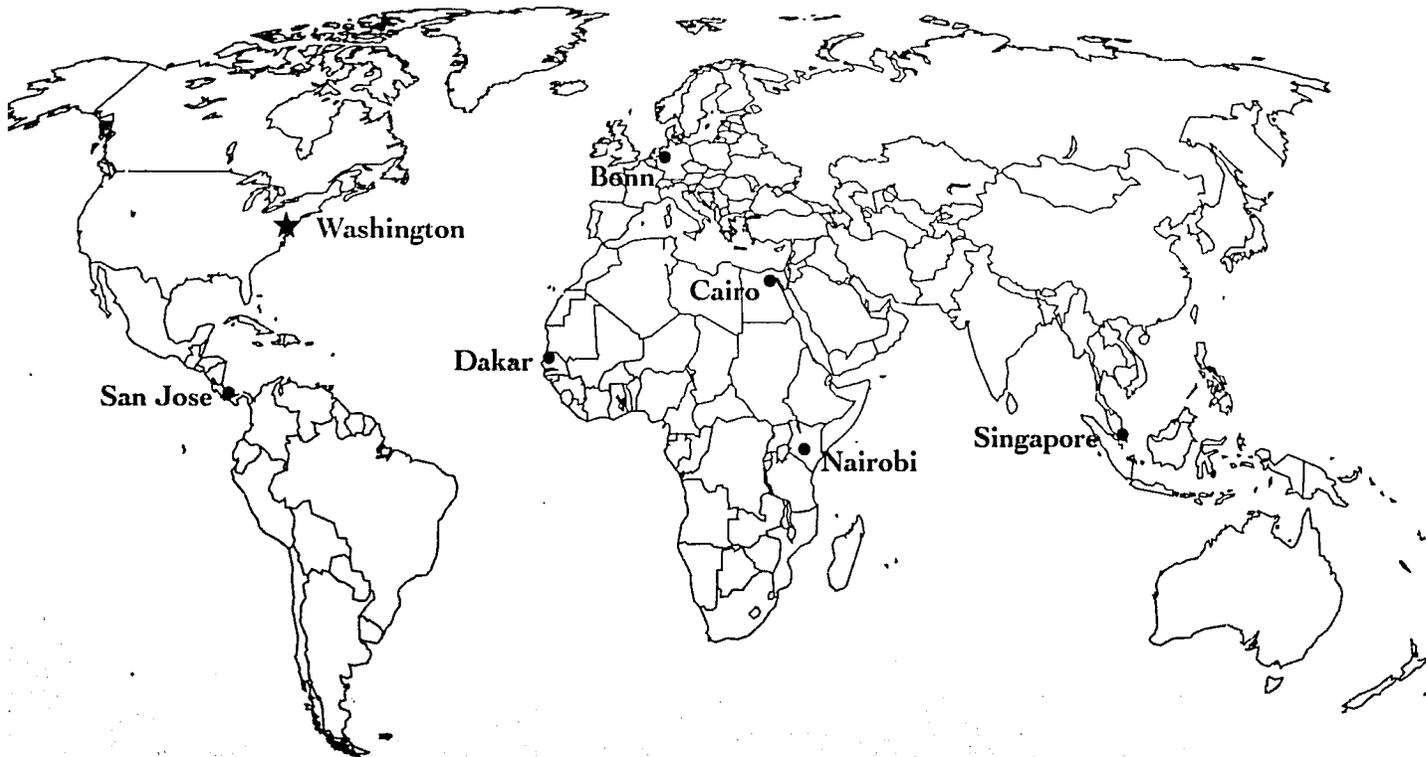

**Audit of USAID/Egypt's
Monitoring of the Private Sector
Commodity Import Program**

**Report No. 6-263-96-004
December 17, 1995**





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

CAIRO, EGYPT

December 17, 1995

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley

FROM : RIG/A/Cairo, Lou Mundy *Lou Mundy*

SUBJECT: Audit of USAID/Egypt's Monitoring of the Private Sector Commodity Import Program

This memorandum is our report on the subject audit. Overall, the audit found that USAID/Egypt had taken appropriate corrective action in response to a 1994 evaluation to improve the Private Sector Commodity Import Program. Further, USAID/Egypt's monitorship of the arrival and receipt systems provided reasonable assurance that commodities financed under the program were received and used as intended. Certain minor problems disclosed during the audit were provided to you in a separate memorandum.

The report does not contain any recommendations, therefore, no response to the report is required by USAID/Egypt management. Thank you for the cooperation and assistance extended to the audit staff on this engagement and your continued support of the audit program in Egypt.

Background

Commodity Import Programs (CIPs) are designed to provide developing countries with balance of payments support. USAID makes dollars available to host governments for financing the exchange costs of procuring and shipping commodities utilized by the agricultural, business and industrial sectors of the economy. Private companies in the host country pay for imported commodities by depositing an equivalent amount of local currency through participating host country banks. In the past, USAID/Egypt utilized both public and private sector CIP programs. However, USAID/Egypt discontinued its public sector program and obligated its CIP funds to support only the private sector.

U.S. Mailing Address
**USAID-RIG/A/C Unit 64902
APO AE 09839-4902**

Tel. Country Code (202)
357-3909
Fax # (202) 355-4318

**#106 Kasr El Aini St.,
Cairo Center Building,
Garden City, Cairo, Egypt**

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USAID/Egypt's Project No. 263-0201, Private Sector Commodity Import Program (Program) provides \$200 million annually in foreign exchange to finance the importation of goods and equipment from the U.S. The Program started in August 1986 and has a scheduled completion date of August 1996¹. Cumulative obligations, commitments, and expenditures, as of March 31, 1995, were about \$1.4 billion, \$1.3 billion, and \$1.2 billion, respectively. USAID/Egypt's monitoring of the Program includes ensuring the arrival of commodities, conducting end-use reviews to ensure the commodities are used for intended purposes, and evaluating the Program's effectiveness.

In 1994, USAID/Egypt evaluated the effectiveness of the Program's funding of private sector imports. The evaluation reported that, while the Program has emerged as one of the key elements of USAID's assistance strategy, external developments adversely impacted on the Program. As a result, importer interest in the Program eroded to the extent that they were not using the Program to the extent authorized. The evaluation recommended that USAID/Egypt: (1) increase Program utilization, for example, by providing financial incentives and adapting to competition; (2) phase the Program down if improved marketing did not increase its use; and (3) develop systematic procedures to assess Program relevance and impact.

Audit Objectives

As part of our fiscal year 1995 audit plan, the Office of the Regional Inspector General for Audit in Cairo audited USAID/Egypt's Private Sector Commodity Import Program to answer the following objectives:

- What action has USAID/Egypt taken in response to the 1994 Evaluation to ensure that the Private Sector Commodity Import Program achieved desired results?
- Did USAID/Egypt monitor the Private Sector Commodity Import Program to ensure that commodity arrival and receipt systems were adequate and that commodities were used as intended?

The scope and methodology of the audit are discussed in Appendix I.

¹ USAID/Egypt has already approved a follow-on CIP program for the private sector.

Audit Findings

Our answers to the following audit objectives are qualified to the extent or the effect, if any, of not having received appropriate written representations for the audit from USAID/Egypt officials. Appendix I includes a discussion of this qualification.

What action has USAID/Egypt taken in response to the 1994 Evaluation to ensure that the Private Sector Commodity Import Program achieved desired results?

USAID/Egypt has taken appropriate corrective action in response to the 1994 Evaluation's three recommendations in an effort to improve the Private Sector Commodity Import Program. While results are still preliminary, the Mission's actions appear to have contributed toward the Program achieving desired results.

Concerning the first recommendation to increase program utilization, the Mission recommended modifications to the Government of Egypt's procedures for utilizing Program funds. The Government of Egypt subsequently approved the suggested changes to the Program, among which were:

- Increasing ceilings on fund utilization to allow traders and large producers to increase their utilization of Program funds.
- Raising the interest that banks are allowed to retain to encourage banks to more aggressively promote the Program.
- Extending the interest-free grace period from six to nine months for traders importing capital equipment, therefore encouraging them to import machines and tools to be resold to small enterprises.

Secondly, with regard to the 1994 Evaluation's recommendation to phase the Program down if improved marketing did not increase its use, USAID/Egypt has taken a proactive role to further enhance the Program's marketing. As an example, the Mission hosted a trade fair in Alexandria called EXPO '95. EXPO '95 had 22 booths set up and run by Program users such as Egyptian firms, local bankers, shipping lines, and the American Chamber of Commerce and attracted an estimated 1,000 attendees forming a vast range of prospective program users. They also promoted the Program through personal contacts with importers, bankers and the business community.



USAID/Egypt sponsored EXPO '95 to promote the Private Sector Commodity Import Program to private Egyptian firms. (Alexandria, Egypt, September 1995)



Since the inception of the expanded promotion efforts, the Mission has seen increases in both the number of transactions and the average transaction value, thus resulting in a rise in the total value of Program transactions. USAID/Egypt's records show that the number of transactions under the Program rose from 374 to 583 and the average transaction increased from about \$228,000 to about \$304,000 between fiscal years 1994 and 1995. These gains led to an increase in the total value of imports to Egypt under the Program from \$85 million to \$177 million during the same period. Mission personnel believe that these results have occurred largely due to their efforts to more aggressively promote the Program; accordingly, they believe the Program should be continued.

Lastly, concerning the third recommendation to develop systematic procedures to assess Program relevance and impact, USAID/Egypt has established goals to determine the Program's success. For example, the Mission included the Program in its Strategic Objective No. 2, which is designed to measure the increase in private sector investment and trade. A program outcome objective was established to measure increased policy environment and institutional support for private sector trade and investment. Program indicators have also been established to measure increased capital investment by private sector firms, establishment of new or expansion of ongoing private sector or productive enterprises, and the number of new importers participating in the Program.

As reflected above, USAID/Egypt has made a concerted effort to correct problems noted in the 1994 Evaluation. In our opinion, these actions have satisfactorily addressed the recommendations and appear to have helped ensure the Program achieves expected results.

Did USAID/Egypt monitor the Private Sector Commodity Import Program to ensure that commodity arrival and receipt systems were adequate and that commodities were used as intended?

For the cases examined, USAID/Egypt's monitorship of the arrival and receipt systems for the Private Sector Commodity Import Program provided reasonable assurance that commodities financed under the Program were received by the importing firm as intended. Further, USAID/Egypt's end-use accounting system helped ensure that imported commodities were used as intended. However, we did note two minor problems concerning the arrival and receipt and the end-use systems that we have communicated to USAID/Egypt management by separate memorandum.

Arrival and Receipt System

USAID Handbook 15 and USAID/Egypt's Mission Order 15-3 require that arrival accounting records for USAID-financed commodities be maintained. Such records are to show data pertaining to shipment, arrival, release from customs, and receipt by importer. Other information such as dates, quantity, and dollar value of each transaction are also to be included. The Commodity Management and Trade Office (CMT Office) maintains these records for USAID/Egypt's Program.

We concluded that USAID/Egypt had an overall adequate system to ensure receipt of commodities. CMT Office staff traced vessels arriving in Alexandria that carry USAID-financed cargo, and then summarized the data related to the arrival of the ship, consignee, commodity, port of loading, and off load and clearance dates. The CMT Office then ensured that commodities cleared customs and were received by the Egyptian importer that had purchased the items. Information relative to the entire process were entered into a USAID/Egypt database which included sufficient detail to enable Mission officials to determine the status and final receipt of each shipment at any given time.

To test the above system, we judgementally selected 92 transactions involving 146 individual shipments to determine whether the shipments had been received and properly entered into USAID/Egypt's database. The 92 transactions were selected from a total of 922 approved transactions made under the Program during fiscal years 1993 and 1994. The total amount of our sample was \$51 million, or approximately 14 percent of the total dollar value of \$362 million. The 92 transactions were traced from the point the commodities arrived at port and were received by the importer and eventually recorded into the CMT Office's database.

Our detailed tests showed that the system appeared to be working well. All commodities tested had been properly received in port, cleared through customs, and had been picked up by the importing firm. Further, a record had been established in the database for each shipment tested. Therefore, based on the cases examined, we concluded that USAID/Egypt's monitorship of the Program adequately ensured arrival and receipt of the commodities.

End-Use System

USAID Handbook 15 and USAID/Egypt's Mission Order No. 15-3 require end-use reviews as an integral part of the monitoring system to ensure that commodities are used as intended and are consumed or placed into use within one year. The Mission Order established procedures for the conduct of independent end-use audits and a system to follow up on problems and findings observed during the end-use checks.

We determined that USAID/Egypt adequately monitored the Program to ensure that commodities were used as intended. The audit examined in detail USAID/Egypt's end-use system for fiscal year 1994. For that year, the Mission's Office of Financial

Management developed a plan to conduct 30 end-use checks of shipments totalling \$37 million made under the Private Sector Program. Of the 30 end-use checks planned, 19 were completed by independent CPA firms and 3 by Mission staff, while the last 8 were not completed because of time constraints.

Our reviews of the work covered by the end-use checks and the completed reports showed that the end-use checks adequately addressed the requirements of Handbook 15 and Mission Order 15-3. Further, the Mission's Office of Financial Management (1) notified pertinent offices of findings and problems reported in the end-use reports, (2) established a system of follow-up to ensure their resolution, and (3) monitored the status of problems reported in its end-use reports. We tested the follow-up system for one end-use review that reported a major problem and found that the action taken by the CMT Office was appropriate. Further, we found that the follow-up system had adequately monitored the status of five end-use checks done for fiscal year 1994 where the auditors performing such checks had experienced access problems.

As a supplemental audit test, we performed end-use checks of five importers in the Cairo and Alexandria areas who used \$9 million of Program funds in fiscal years 1993, 1994 and 1995. In each case, we determined that USAID-financed commodities were received and used as intended.

SCOPE AND METHODOLOGY

Scope

We conducted our audit 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 Inspector General considers 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 performed the audit from July 1995 through October 1995 and did our field work at USAID/Egypt, Cairo, and Alexandria. The audit covered transactions made for fiscal years 1993, 1994 and 1995 under the Private Sector Commodity Import Program managed by USAID/Egypt's Commodity Management and Trade Office (CMT Office). Based on the information provided by the CMT Office, we identified 922 transactions during fiscal years 1993 and 1994 totalling \$362 million. From this list, we judgementally selected 92 transactions amounting to \$51 million for detailed review. Fiscal year 1995 transactions were tested on a limited basis for the end-use system only.

We limited our conclusions to the items actually tested. That is, we did not attempt to project the results of our tests to the universe of all transactions financed by USAID/Egypt.

We did not perform any specific audit tests to verify the list of transactions provided by the CMT Office because in our judgment any inaccuracies would not likely affect the audit results. However, when information obtained during the audit indicated discrepancies in the list we obtained an explanation and requested that the list be corrected as appropriate.

The audit included an assessment of internal controls related to the audit objectives. We obtained an understanding of the relevant internal controls, determined whether they were placed in operation, and evaluated control risk.

Methodology

The methodology we used to answer each audit objective is discussed below.

Audit Objective One

We determined what action USAID/Egypt had taken in response to the three recommendations made in the 1994 Evaluation of the Egypt Commodity Import Program to ensure that the Program achieved desired results. We accomplished this by reading, reviewing and analyzing the content of the 1994 Evaluation; visiting EXPO 95; holding discussions with USAID/Egypt's CMT Office officials; and examining their records and files.

Audit Objective Two

To answer the portion of the audit objective which pertains to the monitoring of the commodity arrival and receipt systems, we performed tests on a judgmental sample of 92 transactions discussed in the scope section of this report. For these 92 transactions, we performed the following steps:

- Reviewed the CMT Office arrival accounting records to determine if there was sufficient data recorded to confirm the date of shipment, arrival, release from customs and receipt by importer in accordance with USAID Handbook 15 and Mission Order 15-3. We compared the commodity arrival dates and the importers' processing of commodity imports in accordance with Mission Order 15-3. We also reviewed USAID/Egypt's October 11, 1994 internal control assessment performed pursuant to the Federal Managers' Financial Integrity Act.
- Visited the CMT/Alexandria Office and various shipping agents and port warehouses to review their operations in identifying USAID-financed Program cargo. We also reviewed their monitoring system on the Program cargoes' arrival, clearance from customs and receipt of the importers. We verified that the documentation supporting this monitoring system was prepared in accordance with Mission Order 15-3.

To answer the portion of the audit objective that pertains to the proper use of commodities, we performed the following tests:

- Examined USAID/Egypt's end-use verification system to determine how its internal control system for monitoring the Program ensured that commodities were used as required.
 - Interviewed Mission personnel to determine if USAID/Egypt had an end-use verification system that meets the requirement of Handbook 15, Appendix 10A, Attachment B, and Mission Order 15-3.
 - Reviewed USAID/Egypt Controller's annual End-Use Review Plan for the fiscal years 1993, 1994 and 1995, as well as the sampling methodology used for selecting a sample of importers to be included in this plan. We also examined end-use verification reports prepared by the Office of the Controller and independent CPA firms to determine if they adequately addressed the requirements of Mission Order 15-3. Additionally, we examined the Controller's system to follow-up on the results of problems reported in formal end-use reports.
 - Judgementally selected five importers who used \$9 million of Program funds in fiscal years 1993, 1994 and 1995 and performed supplemental end-use checks on commodities purchased by these importers.
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USAID



CAIRO, EGYPT

Appendix II
UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

October 26, 1995

MEMORANDUM



TO: Lou Mundy, RIG/A/C

FROM: *Mohamed Tanamly*
Mohamed Tanamly, A/AD/FM

SUBJECT: Audit of USAID/Egypt's Monitoring of the Private Sector
Commodity Import Program - Discussion Paper

The subject Discussion Paper contains no recommendations for Mission action. Therefore, no exit conference is required.

Please issue the final report.

cc: RIG/A/C: B. Boyer

Major Contributors to this Report

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

**Jack Ottke, Audit Manager
Herb Hamby, Auditor-in-Charge
Hany Hanna, Auditor
Dora Perez, Auditor
Bruce Boyer, Referencer**