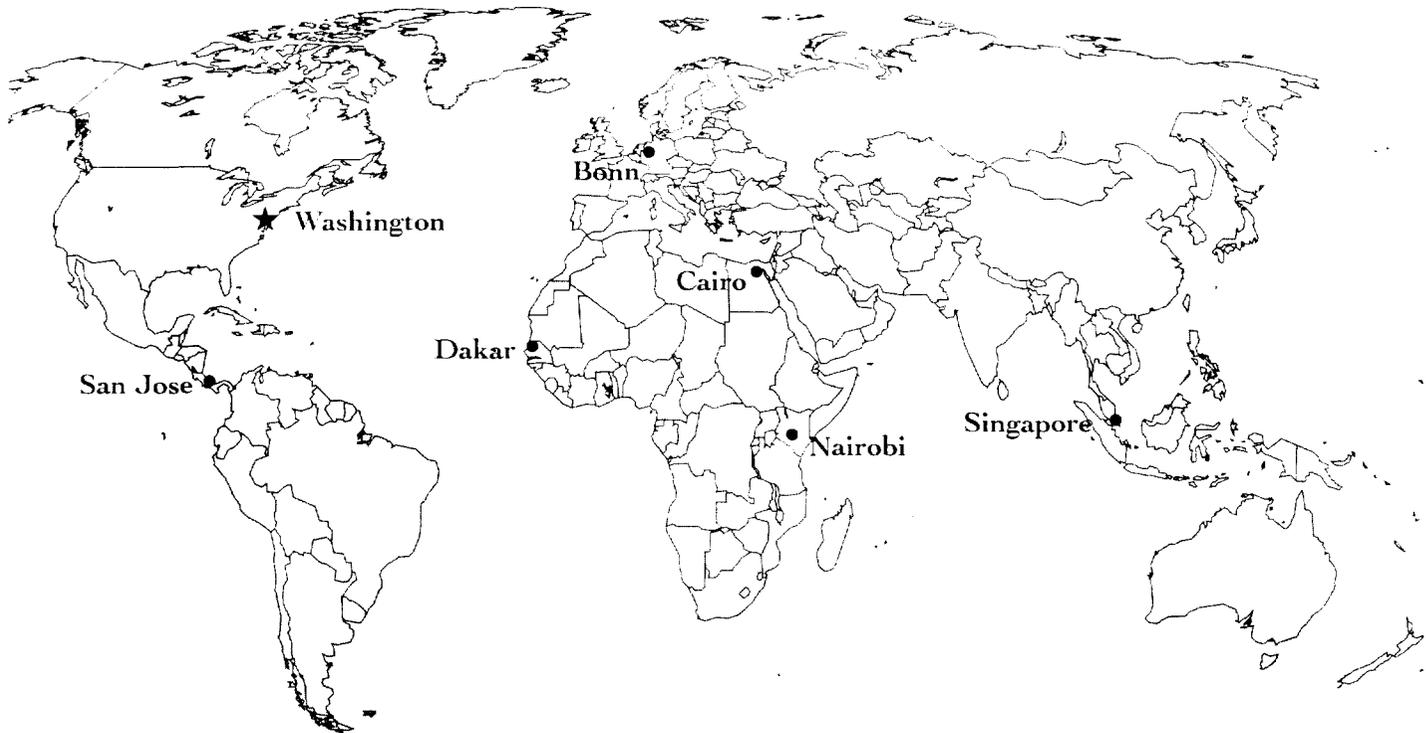

**Financial Audit of the Irrigation Improvement
Component of the Ministry of Public Works
and Water Resources Under the Irrigation
Management Systems Project
(USAID/Egypt Project No. 263-0132)**

Report No. 6-263-96-15-N
April 8, 1996



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.



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

CAIRO, EGYPT

April 8, 1996

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley

FROM: RIG/A/C, Lou Mundy 

SUBJECT: Financial Audit of the Irrigation Improvement Component of the Ministry of Public Works and Water Resources Under the Irrigation Management Systems Project (USAID/Egypt Project No. 263-0132)

The attached report, transmitted on February 4, 1996, by Coopers & Lybrand, presents the results of a financial audit of the Irrigation Improvement Component (IIC) of the Ministry of Public Works and Water Resources, under Project Implementation Letter (PIL) No. 99 of the Irrigation Management Systems Project, USAID/Egypt Project No. 263-0132. The purpose of the PIL includes establishing and field testing an organizational structure within the Ministry of Public Works and Water Resources capable of providing technical and construction assistance, economic analysis, development assistance, and user involvement to remodel selected irrigation canal commands.

We engaged Coopers & Lybrand to perform a financial audit of the IIC's incurred expenditures of \$474,876 (equivalent to LE1,606,980) for the period January 1, 1993 through March 31, 1995. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Coopers & Lybrand also evaluated the IIC's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement.

The audit report questions \$10,720 (equivalent to LE36,269) in costs billed to USAID/Egypt by IIC. The questioned costs related primarily to employee reimbursements not credited to the Project, the payment of vehicle customs from Project funds, the payment of repairs and maintenance performed on vehicles that did not belong to the Project, and the purchase of office equipment not included in the approved Project budget. Additionally, the auditors noted one material weakness and one reportable

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condition in IIC's internal control structure. Their work did not identify any instances of material noncompliance with applicable laws, regulations, and agreement terms.

In response to the draft report, responsible IIC officials provided additional explanation to the questioned costs. Coopers & Lybrand reviewed the response of IIC management to the findings and where applicable made adjustments to the report or provided further clarification of their position (see Appendices A and B).

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

Recommendation No. 1: We recommend that USAID/Egypt resolve the questioned costs of \$10,720 (ineligible costs of \$8,178 and unsupported costs of \$2,542) detailed on pages 10 to 12 of the Coopers & Lybrand audit report, and recover from the Irrigation Improvement Component of the Ministry of Public Works and Water Resources the amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Egypt obtain evidence that the Irrigation Improvement Component of the Ministry of Public Works and Water Resources has addressed the material internal control weakness (inadequate segregation of duties) detailed on page 15 of the Coopers & Lybrand audit report.

Recommendation No. 1 is unresolved and will be considered resolved upon the Mission's determination of the amount of recovery; it will be considered closed upon the recovery of funds, offset of funds, or issuance of a bill for collection. Recommendation No. 2 is unresolved and will be considered resolved upon the Mission's presentation of an acceptable plan of action which addresses the reported material deficiency; it will be considered closed when the Mission presents acceptable evidence that the required actions have been taken. Since this is the second time this material weakness has been reported in an audit of IIC, acceptable evidence will need to be in the form of a Financial Analysis and Support Team (FAST) review, or equivalent.

The reportable condition identified by the auditor's review of IIC's internal control structure should be handled directly between Mission and IIC officials.

Please advise this office within 30 days of any action planned or taken to resolve the recommendations. Thank you for the cooperation and assistance extended to the audit staff on this engagement and your continued support of the financial audit program in Egypt.

Attachment: a/s

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AUDIT OF USAID RESOURCES MANAGED
BY THE MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
UNDER PROJECT IMPLEMENTATION LETTER NUMBER 99
FOR THE IRRIGATION IMPROVEMENT COMPONENT
OF THE IRRIGATION MANAGEMENT SYSTEMS PROJECT
GRANT AGREEMENT NUMBER 263-0132
FOR THE PERIOD FROM JANUARY 1, 1993 THROUGH MARCH 31, 1995

FUND ACCOUNTABILITY STATEMENT

AUDIT OF USAID RESOURCES MANAGED
BY THE MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
UNDER PROJECT IMPLEMENTATION LETTER NUMBER 99
FOR THE IRRIGATION IMPROVEMENT COMPONENT
OF THE IRRIGATION MANAGEMENT SYSTEMS PROJECT
GRANT AGREEMENT NUMBER 263-0132
FOR THE PERIOD FROM JANUARY 1, 1993 THROUGH MARCH 31, 1995

FUND ACCOUNTABILITY STATEMENT

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February 4, 1996

Mr. Lou Mundy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

Dear Mr. Mundy:

This report presents the results of our financial-related audit of the United States Agency for International Development to Egypt ("USAID/Egypt") resources managed by the Ministry of Public Works and Water Resources ("MPWWR") under Project Implementation Letter ("PIL") Number 99 for the Irrigation Improvement Component ("IIC") of the Irrigation Management Systems ("IMS") Project grant agreement number 263-0132 for the period from January 1, 1993 through March 31, 1995.

Background

Grant agreement number 263-0132 between USAID/Egypt and the Government of Egypt was dated September 22, 1981 and established funding for the IMS. The project's objectives are designed to assist the Egyptian Government in improving the operating efficiency of the total irrigation system and strengthening the government's operational, maintenance, and planning capabilities. Specific objectives are to (1) plan and design a country-wide structural replacement program, (2) plan and improve operations and maintenance in the irrigation system, (3) support feasibility studies and management and technical development programs and (4) provide other irrigation-related support. The grant agreement has been amended eight times and had a project completion date of September 21, 1995 with financing of 313 million U.S. dollars.

The IIC, one of ten project components of the IMS Project No. 263-0132, is responsible for implementing activities under the guidance of PIL No. 99. The focus of the PIL No. 99 concerns a multitude of activities, including establishing and field testing an organizational structure within the MPWWR capable of providing

technical and construction assistance, economic analysis, development assistance, and user involvement to remodel selected irrigation canal commands.

The PIL has been amended thirteen times through November 29, 1994. The PIL amendments addressed primarily increased budget and spending authorizations and project implementation extensions.

Audit Objectives and Scope

The objective of this engagement was to perform a financial-related audit of project costs incurred related to PIL No. 99 as described in the first paragraph on page 1. Specific objectives were to determine whether:

1. the fund accountability statement for the IIC related to PIL No. 99 presents fairly, in all material respects, project costs incurred in conformity with applicable accounting principles;
2. the project costs reported as incurred by the IIC related to PIL No. 99 during the previously mentioned periods are allowable, allocable, and reasonable in accordance with applicable agreement terms and laws and regulations;
3. the internal controls, accounting systems, and management practices of the IIC are adequate for USAID/Egypt agreements;
4. the IIC is in compliance, in all material respects, with applicable agreement terms and laws and regulations; and
5. the IIC has taken corrective action on prior audit report recommendations.

Preliminary planning and review procedures began in October, 1995 and consisted of discussions with personnel from the Office of the Regional Inspector General for Audit in Cairo and the IIC and review of the project grant agreement and the PIL No. 99. Audit fieldwork commenced in November, 1995 and was completed in December, 1995.

The IIC incurred project costs of \$ 474,876 (LE 1,606,980) during the previously mentioned period. On a judgmental basis, we selected for audit testing project costs incurred of \$ 94,866 (LE 321,027) which represents a coverage of approximately 20%. Project costs incurred and tested were converted to U.S. dollars at the applicable exchange rate. Our tests of project costs incurred included, but were not limited to, the following:

1. reconciling project accounting records to billings issued by the IIC to USAID/Egypt to ensure that project costs were supported with appropriate books and records;
2. testing of project costs incurred by the IIC and funded by USAID/Egypt for allowability, allocability, reasonableness and appropriate support;
3. determining that fixed asset purchases were appropriate and conformed with applicable agreement terms and laws and regulations;
4. determining that training costs were adequately supported and approved; and
5. establishing the adequacy of the IIC control procedures to safeguard USAID/Egypt-funded project equipment.

As part of our examination of the IIC, we made a study and evaluation of relevant internal controls and reviewed compliance with applicable agreement terms and laws and regulations.

Results of Audit

Fund accountability statement:

Our audit procedures identified total questioned project costs of \$ 10,720 (LE 36,269) which is \$ 8,178 (LE 27,669) in ineligible and \$ 2,542 (LE 8,600) in unsupported project costs. The ineligible project costs related primarily to project costs billed to USAID/Egypt for payment of taxes and maintenance performed on vehicles that did not belong to the project. The unsupported project costs related primarily to project costs billed to USAID/Egypt for vehicle operation and maintenance that were not supported with any documentation.

Internal control structure:

We identified two reportable internal control structure weaknesses, one of which is considered to be a material weakness. The reportable condition, considered to be a material weakness, is related to IIC's employees performing incompatible job functions and the reportable condition not considered to be a material weakness related to IIC's commingling of the project's cash from different sources in one bank account. We also noted other immaterial matters involving the internal control structure and its operation that we have reported to the management of IIC in a separate letter dated December 7, 1995.

Compliance with applicable agreement terms and laws and regulations:

We noted no material instances of noncompliance with applicable agreement terms and laws and regulations. However, we noted other immaterial noncompliance matters that we have reported to the management of IIC in a separate letter dated December 7, 1995.

Prior audit recommendations

We have reviewed a prior independent accountant's report dated July 8, 1993 for the financial-related audit of the IIC related to PIL No. 99. The following material internal control weaknesses were noted:

1. Standardized internal accounting control systems for the satellite offices need to be developed and monitored periodically by the headquarter office.
2. Weaknesses exist in the safeguarding and control of fixed assets.
3. Improper segregation of duties exists in the areas of 1) invoice receiving, voucher preparation, voucher payment, general ledger recording, and billing preparation, 2) preparation and review of bank reconciliations and 3) cash custody and access to bank accounts.

We have considered these material internal control weaknesses in performing the current audit. For material weakness number 1, we noted that the project activities are more centralized at the headquarter office currently than in the prior audit period. Therefore, satellite office accounting procedures are adequate given their reduced role. For material weakness number 2, fixed asset purchases are significantly less currently than in the prior audit period. We noted that basic control procedures over the fixed assets purchased in our audit period were adequate given the reduced level of fixed asset purchases. For material weakness number 3, we believe that this is a continuing material weakness and have included it in our report on the internal control structure.

Management Comments

IIC management comments have been obtained and are included in Appendix A of this report. In response to management's comments, we have either provided further clarification of our position in Appendix B of this report or have adjusted the final report.

Mission Response

The Mission response is included in Appendix C of this report.

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

Coopers & Lybrand

**REPORT OF INDEPENDENT ACCOUNTANTS
ON THE FUND ACCOUNTABILITY STATEMENT**

December 7, 1995

Mr. Lou Mundy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We have audited the fund accountability statement of project costs incurred by the Ministry of Public Works and Water Resources ("MPWWR") under Project Implementation Letter ("PIL") Number 99 for the Irrigation Improvement Component ("IIC") of the Irrigation Management Systems ("IMS") Project grant agreement number 263-0132 for the period from January 1, 1993 through March 31, 1995. The fund accountability statement is the responsibility of IIC management. Our responsibility is to express an opinion on this statement based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the fund accountability statement. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 31 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt.

We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Coopers and Lybrand worldwide internal quality control program which requires the Coopers and Lybrand Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Coopers and Lybrand offices.

As described in Note 2, the accompanying fund accountability statement has been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying fund accountability statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.

As detailed in the accompanying fund accountability statement and as more fully described in Note 4 thereto, the results of our tests disclosed total questioned project costs of \$ 10,720 (LE 36,269) which is \$ 8,178 (LE 27,669) in ineligible and \$ 2,542 (LE 8,600) in unsupported project costs. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program-related or are prohibited by applicable agreement terms or laws and regulations. Unsupported project cost are those that are not supported with adequate documentation or did not have the required prior USAID/Egypt approval.

In our opinion, except for the effects of the questioned project costs as discussed in the preceding paragraph, the fund accountability statement referred to in the first paragraph presents fairly, in all material respects, project costs incurred by the IIC related to PIL No. 99 for the period from January 1, 1993 through March 31, 1995 in conformity with the basis of accounting described in Note 2.

In accordance with Government Auditing Standards, we have also issued a report dated December 7, 1995 on our consideration of IIC's internal control structure and a report dated December 7, 1995 on its compliance with applicable laws and regulations.

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

Coopers & Lybrand

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
 UNDER PROJECT IMPLEMENTATION LETTER NUMBER 99
 FOR THE IRRIGATION IMPROVEMENT COMPONENT
 OF THE IRRIGATION MANAGEMENT SYSTEMS PROJECT
 GRANT AGREEMENT NUMBER 263-0132

FUND ACCOUNTABILITY STATEMENT
 FOR THE PERIOD FROM JANUARY 1, 1993 THROUGH MARCH 31, 1995

<u>Budget Line Item</u>	<u>Budget</u>	<u>Actual</u>	<u>Questioned Project Costs</u>		<u>Finding Reference</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
Support personnel	\$ 174,642	\$ 88,150	\$ 598	\$ -	A, Page 10
Vehicle operation and maintenance	195,858	56,753	5,750	417	B, Page 11
Office supplies	47,937	20,426	-	-	
Office equipment	190,704	46,463	-	2,047	C, Page 12
Office renovation	25,009	7,271	-	-	
Vehicle insurance	-	-	-	-	
Travel and per diem	467,970	238,367	-	78	D, Page 12
Training	1,717	546	-	-	
Other support costs	55,893	16,900	-	-	
Other income and cash	-	-	1,830	-	E, Page 12
TOTALS	\$ <u>1,159,730</u>	\$ <u>474,876</u>	\$ <u>8,178</u>	\$ <u>2,542</u>	

The accompanying notes are an integral part of this fund accountability statement.

MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
UNDER PROJECT IMPLEMENTATION LETTER NUMBER 99
FOR THE IRRIGATION IMPROVEMENT COMPONENT
OF THE IRRIGATION MANAGEMENT SYSTEMS PROJECT
GRANT AGREEMENT NUMBER 263-0132

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM JANUARY 1, 1993 THROUGH MARCH 31, 1995

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF STATEMENT:

The fund accountability statement of the IIC includes project costs incurred under grant agreement number 263-0132 related to PIL No. 99 for the period from January 1, 1993 through March 31, 1995.

The "Budget" column includes all USAID/Egypt-approved project costs from the project's inception to the most recent budget amendment within the audit period and are presented for informational purposes only.

The "Actual" column represents cumulative project costs incurred by the IIC related to the PIL No. 99 for the period from January 1, 1993 through March 31, 1995.

NOTE 2 - BASIS OF PRESENTATION:

The fund accountability statement of IIC has been prepared on the basis of cash disbursements. Consequently, incurred project costs are recognized when paid rather than when the obligation is incurred.

NOTE 3 - FOREIGN EXCHANGE:

Project costs incurred in Egyptian pounds have been converted to U.S. dollars at the exchange rate of 3.3833 LE to one U.S. dollar. The exchange rate used is the average monthly exchange rate for the period from January 1, 1993 through March 31, 1995.

NOTE 4 - QUESTIONED PROJECT COSTS:

Questioned project costs are presented in two separate categories -- ineligible and unsupported. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program-related or are prohibited by applicable agreement terms or laws and regulations. Unsupported project costs are those that are not supported with adequate documentation or did not have the required prior USAID/Egypt approvals.

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED):

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

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
A. Support personnel		
1. The employer's share of social insurance was paid to the Government of Egypt. According to the standard provisions of the grant agreement, section B4, taxes and similar fees imposed by the Government of Egypt are not eligible for USAID/Egypt reimbursement.	\$ <u>598</u>	\$ <u>-</u>
Total support personnel	<u>598</u>	<u>-</u>
B. Vehicle operation and maintenance		
1. Based on IIC's management response, we have removed this questioned cost.	-	-
2. Vehicle operation and maintenance costs were paid for vehicles that were not included on the USAID/Egypt approved list of cars to be maintained. Vehicles to be maintained using USAID/Egypt funds must be approved by USAID/Egypt. The GOE shares a portion of the expenses under this budget line item. Only the USAID/Egypt share has been questioned.	-	366

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED):

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
B. Vehicle operation and maintenance (continued)		
3. Vehicle customs were paid by the project. According to the standard provisions of the grant agreement, section B4, taxes and similar fees imposed by the Government of Egypt are not eligible for USAID/Egypt reimbursement. The GOE shares a portion of the expenses under this budget line item. Only the USAID/Egypt share has been questioned.	\$ 5,170	\$ -
4. An amount was double billed to USAID/Egypt in the month of June, 1995.	-	51
5. Vehicle repairs and maintenance costs were paid for cars that belong to the Ministry of Irrigation, ie. not the project. The GOE shares a portion of the expenses under this budget line item. Only the USAID/Egypt share has been questioned.	<u>580</u>	<u>-</u>
Total vehicle operation and maintenance	<u>5,750</u>	<u>417</u>

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED):

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
C. Office equipment		
1. Carpet and a laser printer were purchased; but, were not included on the USAID/Egypt approved purchase budget.	\$ <u>-</u>	\$ <u>2,047</u>
Total office equipment	<u>-</u>	<u>2,047</u>
D. Travel and per diem		
1. Travel and per diem costs were not supported with any documents.	<u>-</u>	<u>78</u>
Total travel and per diem	<u>-</u>	<u>78</u>
E. Other income and cash		
1. Employee reimbursements for the personal use of USAID/Egypt-provided vehicles were deposited in the project bank account, but were neither credited to USAID/Egypt billings nor used to offset other project expenditures.	<u>1,830</u>	<u>-</u>
Total other income and cash	<u>1,830</u>	<u>-</u>
TOTAL QUESTIONED COSTS	\$ <u>8,178</u>	\$ <u>2,542</u>

**REPORT OF INDEPENDENT ACCOUNTANTS
ON THE INTERNAL CONTROL STRUCTURE**

December 7, 1995

Mr. Lou Mundy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We have audited the fund accountability statement of project costs incurred by the Ministry of Public Works and Water Resources ("MPWWR") under Project Implementation Letter ("PIL") Number 99 for the Irrigation Improvement Component ("IIC") of the Irrigation Management Systems ("IMS") Project grant agreement number 263-0132 for the period from January 1, 1993 through March 31, 1995, and have issued our report thereon dated December 7, 1995 in which we issued a qualified opinion due to the effect of \$ 10,720 in project costs that were unsupported or were ineligible for USAID/Egypt reimbursement.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 31 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Coopers and Lybrand worldwide internal quality control program which requires the Coopers and Lybrand Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Coopers and Lybrand offices.

The management of IIC is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with the cash receipts and disbursements method of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the fund accountability statement described in the first paragraph, we obtained an understanding of the internal control structure. With respect to the internal control structure, 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 in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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 reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions. Our audit disclosed the following condition which we believe is a material weakness:

MATERIAL WEAKNESS

1. The IIC has not properly segregated incompatible job duties.

We noted that IIC project employees are responsible for the following incompatible job duties:

- . maintaining bank account records and bank statements and preparing bank reconciliations which are not reviewed by an independent person and
- . maintaining custody of and preparing accounting records, maintaining custody of blank bank checks, and serving as a signatory on the project bank accounts.

Inadequate segregation of duties occurred because the project was unaware that these duties should be segregated.

Statement on Auditing Standards Number 55, *Consideration of the Internal Control Structure in a Financial Statement Audit*, ("SAS No. 55") states that a significant element of an effective internal control structure is the policies and procedures that management must establish to provide a reasonable assurance that specific entity objectives will be achieved. Segregating incompatible job duties is a necessary control procedure to reduce the opportunities to allow any one person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of their duties. Specifically, the functions of transaction authorization, recording, and asset custody should be segregated. Integrating incompatible job functions could lead to errors or irregularities occurring and not being detected by employees in the normal course of performing their assigned duties.

Recommendation 1

The IIC project management should segregate incompatible job duties, especially those which involve asset custody, transaction authorization, and recording responsibilities. Further, we recommend that the IIC project management develop and adhere to a suitable organizational structure and job descriptions so that job functions are clearly defined and responsibilities are genuinely segregated. Management should not

override established control procedures except for in extreme circumstances and those situations should be clearly documented as to why the established control procedures were not adhered to.

* * * * *

We also noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to record, process, or summarize, and report financial data consistent with the assertions of management in the fund accountability statement. Our audit disclosed the following reportable condition:

REPORTABLE CONDITION

2. USAID/Egypt project funds were commingled in the same bank account with funds from the Government of Egypt as well as funds from other PILs.

Commingling of funds from various sources makes it difficult to reconcile accounting records for individual sources with the related bank accounts. Further, commingling of funds is prohibited by Mission Order 19-5, attachment D to the umbrella grant agreement, which states that USAID/Egypt funds provided for PIL No. 99 activities should be maintained in an exclusive bank account.

Recommendation 2

We recommend that the project ensure that USAID/Egypt contributions to PIL No. 99 activities be deposited in an exclusive bank account where all PIL No. 99 receipts will be deposited and expenditures will be drawn from which can then be reconciled with PIL No. 99 project accounting records.

* * * * *

We also noted certain immaterial matters involving the internal control structure and its operation that we have reported to the management of IIC in a separate letter dated December 7, 1995.

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

Coopers & Lybrand

**REPORT OF INDEPENDENT ACCOUNTANTS
ON COMPLIANCE WITH LAWS AND REGULATIONS**

December 7, 1995

Mr. Lou Mundy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We have audited the fund accountability statement of project costs incurred by the Ministry of Public Works and Water Resources ("MPWR") under Project Implementation Letter ("PIL") Number 99 for the Irrigation Improvement Component ("IIC") of the Irrigation Management Systems ("IMS") Project grant agreement number 263-0132 for the period from January 1, 1993 through March 31, 1995, and have issued our report thereon dated December 7, 1995 in which we issued a qualified opinion due to the effect of \$ 10,720 in project costs that were unsupported or were ineligible for USAID/Egypt reimbursement.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 31 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Coopers and Lybrand worldwide internal quality control program which requires the Coopers and Lybrand Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other Coopers and Lybrand offices.

Compliance with laws, regulations, contracts and grants applicable to IIC is the responsibility of IIC management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants for the IIC. However, the objective of our audit of the fund accountability statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards. However, we noted other immaterial noncompliance matters that we have reported to the management of IIC in a separate letter dated December 7, 1995.

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

Coopers & Lybrand

APPENDICES

AUDIT OF USAID RESOURCES MANAGED
BY THE MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
UNDER PROJECT IMPLEMENTATION LETTER NUMBER 99
FOR THE IRRIGATION IMPROVEMENT COMPONENT
OF THE IRRIGATION MANAGEMENT SYSTEMS PROJECT
GRANT AGREEMENT NUMBER 263-0132

MANAGEMENT COMMENTS

<p>UNITED STATES OF AMERICA AND WATER RESOURCES</p> <p>PROJECT IMPLEMENTATION LETTER NUMBER 99</p> <p>MINISTRY OF PUBLIC WORKS AND WATER RESOURCES IRRAWADDY DIVISION NAY PYI TAW IRRAWADDY DIVISION NAY PYI TAW</p>	 <p>IIP IRRIGATION IMPROVEMENT PROJECT</p>	<p>وزارة الأشغال والموارد المائية</p> <p>الوزارة العامة القاهرة</p> <p>مركز الدراسات والبحوث والتدريب القاهرة</p> <p>رقم المشروع: 263-0132 رقم الوثيقة: 99 تاريخ: 15/01/2000</p>
<p><u>HC MANAGEMENT RESPONSE TO THE AUDIT REPORT</u></p>		
<p><u>A. Personnel:</u></p>		
<p><u>Finding A.1:</u></p>		
<p>All amounts related to employer's share of social insurance was paid retroactively from the GOE.</p>		
<p><u>B. Vehicle Operation and Maintenance:</u></p>		
<p><u>Finding B.1:</u></p>		
<p>Supporting documents are attached.</p>		
<p><u>Finding B.2:</u></p>		
<p>These cars belong to the project and are located at the various districts. The custom plates had been replaced by GOE plates for control reasons.</p>		
<p>However, the USAID was charged with its share since the cars are still being used by the project.</p>		
<p><u>Finding B.3:</u></p>		
<p>-Cheque # 280064 is related to car maintenance (Copy of the support is attached)</p>		
<p>- Cheque # 162677 amounted to LE 1,712 is related to custom duties and was not charged to USAID.</p>		
<p>These 2 cheques are to be removed from the finding.</p>		
<p>Amount remained LE 17,491, HC management agreed that it is includable expenditures according to USAID regulations.</p>		

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Finding B.4:

Regarding the amount that was double billed with LE 173, IIC management recognized that error, but they did not deduct it from USAID following billings as USAID contribution ended at the end of the FY 1993/1994 for Vehicle operating & maintenance expenditures. Accordingly they agreed that this amount should be deducted from USAID billings and to be charged to GOE.

Finding B.5:

These cars belong to the project and were being repaired in one of the local mechanical centers in Zagazig. Accordingly the maintenance costs of these cars are to be charged to both the USAID and GOE, based upon the determined shares.

C. Office Equipment:

Finding C.1:

Regarding the amount paid for the purchase of carpets, this expense is related to the renewal of the wall-to-wall carpet of the IIC Project Director's office, that was severely damaged and had to be replaced.

As for the purchase of the laser printer, the project had obtained an approval for purchasing 17 laser printers. This approval was delayed. Therefore, the project had to procure 1 laser printer, to meet the work requirements. This printer was deducted from the total number of printers that was previously approved.

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D. Travel and Perdiem:

Finding D.1:

Regarding the unsupported amount for travel & Per diem with LE 263, it represents per diem paid for 1992, supporting documents cannot be found, it was lost while transferring files from building to another, as the room for the accounting department was changed several times. Accordingly IIC management agreed that the amount should be deducted from USAID billings and charged to GOE.

E. Other Income and Cash:

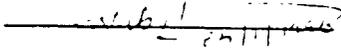
Finding E.1:

Employee reimbursements for the personal use of USAID/Egypt- provided vehicles are being deposited to the NIB bank account on a monthly basis and are not included within the project expenditures.

M. Stahel
22 25/11/1996
IIC Project Director

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MINISTRY OF PUBLIC WORKS AND WATER RESOURCES		وزارة الأشغال العامة والموارد المائية الإدارة المركزية لتطوير الري مستورم تطوير خزانات قسم المخططات - قسم شيدق الإسكندرية ص ب 11718 - الإسكندرية ت 22 38 7 / 22 47 6 ت 22 38 7 / 22 38 7 فاكس 22 38 7 - 22 38 7
IRRIGATION IMPROVEMENT DEPARTMENT P/AL EL SHARUA, IRRIGATION BLDG. SHOURA EL MEZALAT MUAJAWA POST NO. 11814 PHONE: 2204704 / 2206808 FAX: 2216227 / 2217008	IRRIGATION IMPROVEMENT PROJECT	
<u>IIC MANAGEMENT RESPONSE ON THE INTERNAL CONTROL REPORT</u>		
<u>Finding 1:</u>		
IIC Management amended this case upon the previous audit recommendations and proper segregation of duties is currently being implemented.		
<u>Finding 2:</u>		
Regarding keeping separate bank account for the USAID/Egypt project funds, the USAID approved an extension for the project through 9/29/96		
IIC management agreed that there should be a separate bank account for USAID funds, and the Project Director sends this order to the accounting department regarding this issue.		
 IIC Project Director		

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INDEPENDENT ACCOUNTANTS RESPONSE

The Irrigation Improvement Component ("IIC") management provided comments relating to the draft report presented at the exit conference on January 11, 1996. IIC's comments are included, unedited, in Appendix A to this report. In response to their comments, we reviewed additional supporting documents provided by IIC management. Please note that the finding references used below correspond to those used in our draft and final reports.

QUESTIONED PROJECT COSTS

A. Personnel

1. The Government of Egypt has refunded the employer's share of social insurance to the project; however, the project has not refunded the amount to the USAID/Egypt. This questioned cost has remained in our final report.

B. Vehicle operation and maintenance

1. Based upon our review of additional supporting documents provided by IIC, we have removed this questioned cost from our final report.
2. The project does not maintain documentation to relate the vehicle customs certificates and related lists of USAID/Egypt-financed vehicles with the GOE plates that are issued according to GOE regulations. The approved list of vehicles to be repaired is according to the customs certificates, not the GOE plates. We were unable to determine if the vehicles repaired were USAID/Egypt-financed or GOE owned vehicles. The project could not provide us with alternative support to prove that the repaired vehicles were approved by USAID/Egypt. This questioned cost has remained in our final report.

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3. We have reviewed additional supporting documents for the amounts questioned and conclude that two of the amounts relate to maintenance and licensing which are allowable costs. We have removed questioned amounts of LE 35 and LE 1,732. The remaining questioned cost has remained in our final report as they relate to customs fees.
4. The project has not refunded the double billed amount to the USAID/Egypt; therefore, this questioned cost has remained in our final report.
5. The project provided us with supporting documents for the repair of a car with the make "Fiat" which is owned by the Government of Egypt (GOE) and is not a USAID/Egypt-financed vehicle. Cars owned by the GOE should be repaired solely with GOE funds. This questioned cost has remained in our final report.

C. Office equipment

1. The project could not provide us with a USAID/Egypt approval for purchases. This questioned cost has remained in our final report.

D. Travel and per diem

1. The project could not provide us with supporting documents for this purchase. This questioned cost has remained in our final report.

E. Other income and cash

1. As of our last visit, the project had not refunded to USAID/Egypt the employee reimbursements for personal use of project vehicles. This questioned cost has remained in our final report.

REPORTABLE INTERNAL CONTROL WEAKNESSES

Management's comments are noted; but, it does not affect the validity of our recommendation.

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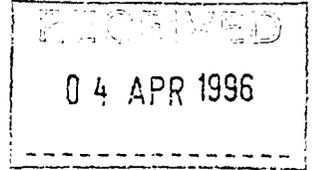
MISSION RESPONSE

USAID



CAIRO, EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT



March 31, 1996

MEMORANDUM

TO : Lou Mundy, RIG/A/C

FROM : Shirley Hunter, OD/FM/FA 

SUBJECT : Audit of the Irrigation Improvement Component of
the Ministry of Public Works and Water Resources
under the Irrigation Management Systems Project
(USAID/Egypt Project No. 263-0132)
Draft Report dated February 28, 1996.

Mission is working with the implementing agency to resolve and close Recommendation Nos. 1 and 2 under the subject audit report, and has no comments to offer at this time. Please issue the final report.