

Regional Inspector General for Audit  
Cairo, Egypt

PD-ABM-713

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**Financial Audit of the Tabbin Institute for  
Metallurgical Studies Under USAID/Egypt's  
Science and Technology for Development Project  
(USAID/Egypt Project No. 263-0140)**

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Report No. 6-263-96-14-N  
April 3, 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.**



CAIRO, EGYPT

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

April 3, 1996

**MEMORANDUM**

**TO :** DIRECTOR USAID/Egypt, John R. Westley  
**FROM:** RIG/A/C, Lou Mundy *Lou Mundy*  
**SUBJECT:** Financial Audit of the Tabbin Institute for Metallurgical Studies Under USAID/Egypt's Science and Technology for Development Project (USAID/Egypt Project No. 263-0140)

The attached report, transmitted on January 3, 1996, by Price Waterhouse, presents the results of a financial audit of the Tabbin Institute for Metallurgical Studies (Institute) under Project Implementation Letter No. 3 of the Energy Conservation and Efficiency Component of the Science and Technology for Development Project; USAID/Egypt Project No. 263-0140. The purpose of the Institute's project is to develop applications that are directed at selecting, designing, installing, operating and monitoring energy efficient technologies in public sector companies.

We engaged Price Waterhouse to perform a financial audit of the Institute's incurred expenditures of \$660,421 (equivalent to LE2,219,021) for the period July 1, 1992 through January 31, 1995. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Price Waterhouse also evaluated the Institute'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 \$4,550 (equivalent to LE15,287) in costs billed to USAID/Egypt by the Institute. The questioned costs related primarily to materials and supplies, lease deposits, sales taxes, and salaries determined by the auditors to be ineligible. Additionally, the auditors noted one reportable condition in the Institute's internal control structure, and no instances of material noncompliance with applicable laws, regulations, and agreement terms.

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In response to the draft report, responsible Institute officials provided additional explanation to the questioned costs. Price Waterhouse reviewed the Institute's response 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 recommendation is included in the Office of the Inspector General's recommendation follow-up system.

**Recommendation No. 1: We recommend that USAID/Egypt resolve the ineligible questioned costs of \$4,550 detailed on pages 8 and 9 of the Price Waterhouse audit report, and recover from the Tabbin Institute for Metallurgical Studies the amounts determined to be unallowable.**

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.

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

Please advise this office within 30 days of any action planned or taken to close the recommendation. 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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**TABBIN INSTITUTE FOR METALLURGICAL STUDIES**

**PROJECT IMPLEMENTATION LETTER NO. 3  
UNDER THE USAID/EGYPT  
ENERGY CONSERVATION AND EFFICIENCY COMPONENT  
OF THE  
SCIENCE AND TECHNOLOGY FOR DEVELOPMENT PROJECT  
SUB-GRANT AGREEMENT NO. 263-0140.3**

**FUND ACCOUNTABILITY STATEMENT  
AND ADDITIONAL INFORMATION  
FOR THE PERIOD  
JULY 1, 1992 THROUGH JANUARY 31, 1995**

**TABBIN INSTITUTE FOR METALLURGICAL STUDIES**  
**PROJECT IMPLEMENTATION LETTER NO. 3**  
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**FOR THE PERIOD**  
**JULY 1, 1992 THROUGH JANUARY 31, 1995**

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## *Price Waterhouse*



January 3, 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 project revenues received and costs incurred by the Tabbin Institute for Metallurgical Studies ("TIMS") of the Energy Conservation and Efficiency Component of the Science and Technology for Development Project. The audit population includes revenues received and costs incurred by TIMS under Project Implementation Letter ("PIL") No. 3 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Sub-Grant Agreement No. 263-0140.3 ("Sub-Grant Agreement" or "Project") for the period July 1, 1992 through January 31, 1995.

### Background

USAID/Egypt entered into the Sub-Grant Agreement with the Arab Republic of Egypt on September 27, 1988. The Sub-Grant Agreement established the Energy Conservation and Efficiency Project ("ECEP"). ECEP is designed to promote and accelerate the adoption of better commercial technologies and practices to save energy and increase energy efficiency, and improve the capabilities of Egyptian institutions to promote and implement energy-saving technology that will enhance productivity. To achieve these objectives, four separate entities were established under ECEP; TIMS, the Development Research and Technological Planning Center ("DRTPC"), the Federation of Egyptian Industries ("FEI"), and the Environmental Pollution, Protection, Prevention ("EP<sup>3</sup>") project. TIMS develops energy technology applications that are directed at selecting, designing, installing, operating and monitoring energy efficient technologies in public sector companies. In addition, TIMS initiates promotions that support the proliferation of the developed technologies.

ECEP is segregated into two components; one for Egyptian public sector firms and one for private sector firms. TIMS is the implementing agency for public sector firms. DRTPC is the implementing agency for private sector firms. FEI and EP<sup>3</sup> support the activities of TIMS and DRTPC. TIMS grant related efforts include:

- Power factor improvement projects.
- Boiler and furnace tune-up programs.
- The promotion of new technologies such as the publication of case studies, press releases to Egyptian newspapers, and TV interviews.
- Conducting training seminars for various members of industry and for the academy community.

PIL No. 3, Amendment No. 6, dated March 6, 1994, approved funding to TIMS of 4,349,932 Egyptian pounds ("LE") through February 28, 1995, not to exceed 1,337,485 US dollars ("\$").

### Audit Objectives and Scope

The objective of this engagement was to perform a financial related audit of project revenues received and costs incurred by TIMS under PIL No. 3 of the Sub-Grant Agreement during the period July 1, 1992 through January 31, 1995 (the "audit period"). Specific objectives were to perform and determine the following:



1. Express an opinion on whether the fund accountability statement for the USAID/Egypt financed TIMS Project presents fairly, in all material respects, project revenues received and costs incurred for the period under audit in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including the cash receipts and disbursements basis;
2. Determine if the costs reported as Incurred under PIL No. 3 are in fact allowable and allocable in accordance with the terms of the PIL;
3. Evaluate and obtain a sufficient understanding of the internal control structure of TIMS, assess control risk, and identify reportable conditions, including material internal control weaknesses; and
4. Perform tests to determine whether TIMS complied, in all material respects, with the terms of the Sub-Grant Agreement and PIL No. 3, and with applicable laws and regulations.

Preliminary planning and review procedures began on July 2, 1995. These procedures consisted of discussions with personnel from the office of the Regional Inspector General for Audit in Cairo and TIMS management, as well as a review of Financial Analysis Support Team reports. Audit fieldwork commenced in August 1995 and was completed in January 1996.

The scope of our audit included a population of project costs amounting to \$660,421 or LE 2,219,021. On a judgmental basis, we selected and tested \$200,799 or LE 674,681 (30%) of these costs. Our audit population also included \$623,563 or LE 2,095,171 of project revenues received. We tested one hundred percent of these revenues.

Our tests of project costs incurred by TIMS included, but were not limited to, the following:

1. Reconciling TIMS project accounting records to billings issued to USAID/Egypt to ensure that project costs were appropriately supported.
2. Testing project costs funded by USAID/Egypt for allowability and allocability.
3. Determining if fixed asset purchases were appropriate and conformed with the terms of the Sub-Grant Agreement, PIL No. 3, and applicable laws and regulations.
4. Determining if salary costs were adequately supported and approved.
5. Establishing the adequacy of TIMS control procedures to safeguard project funds/assets.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of 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 33 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 Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.



As part of our examination of TIMS, we assessed internal controls in order to determine our auditing procedures. We also reviewed the Project's compliance with applicable laws and regulations.

### **Results of Audit**

#### **Fund accountability statement**

Our audit procedures identified \$4,550 or LE 15,287 of ineligible project costs. No unsupported project costs were identified during our audit. The fund accountability statement and the detail of questioned project costs, both as incurred in Egyptian pounds, are included in supplemental schedules to this report.

#### **Internal control structure**

Our audit procedures identified one reportable condition in the internal control structure of TIMS; this condition is not considered a material weakness. It relates to management's inconsistent application of proper procurement procedures; in particular, as they relate to the procurement of goods and services for workshops and seminars.

#### **Compliance with Sub-Agreement's terms and applicable laws and regulations**

Our audit procedures identified no instances of material non-compliance with the terms of the Sub-Grant Agreement and PIL No. 3, and with applicable laws and regulations.

#### **Management's Comments**

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

#### **Mission Response**

The mission's response is included in Appendix C to this report.

This report is intended for the information of TIMS management and others within the organization and USAID/Egypt. However, this report is a matter of public record, and its distribution is not limited.

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

January 3, 1996

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

We have audited the fund accountability statement of project revenues received and costs incurred by the Tabbin Institute for Metallurgical Studies ("TIMS") of the Energy Conservation and Efficiency Component of the Science and Technology for Development Project under Project Implementation Letter ("PIL") No. 3 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Sub-Grant Agreement No. 263-0140.3 ("Sub-Grant Agreement" or "Project") for the period July 1, 1992 through January 31, 1995. The fund accountability statement is the responsibility of TIMS management. Our responsibility is to express an opinion on this statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards 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 33 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 Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

As described in Note 2, the fund accountability statement has been prepared on the basis of cash receipts and disbursements. Consequently, revenues are recognized when received and expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the 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 fund accountability statement, and more fully described in Note 5 thereto, the results of our tests disclosed \$4,550 or LE 15,287 in ineligible costs. No unsupported costs were identified. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program related or are prohibited by PIL No. 3, the Sub-Grant Agreement, or applicable laws and regulations. Unsupported project costs are those lacking adequate documentation.

In our opinion, except for the effects of the questionable project costs discussed in the preceding paragraph, the fund accountability statement referred to in the first paragraph presents fairly, in all material respects, project revenues received and costs incurred by TIMS under PIL No. 3 of the Sub-Grant Agreement for the period July 1, 1992 through January 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 January 3, 1996 on our consideration of TIMS internal control structure and a report dated January 3, 1996 on its compliance with laws and regulations.**

**This report is intended for the information of TIMS management and others within the organization and USAID/Egypt. However, this report is a matter of public record, and its distribution is not limited.**

*Pricewaterhouse*

**TABBIN INSTITUTE FOR METALLURGICAL STUDIES**  
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**JULY 1, 1992 THROUGH JANUARY 31, 1995**

	<u>Budget</u> <u>(Note 1)</u>	<u>Actual</u> <u>(Note 1)</u>	<u>Project Cost</u> <u>Reclassifications</u> <u>(Note 4)</u>	<u>Revised</u> <u>Actual</u> <u>(Note 1)</u>	<u>Questionable Project Costs</u>		<u>Finding</u> <u>Ref.</u> <u>(Note 5)</u>
					<u>Ineligible</u> <u>(Note 5)</u>	<u>Unsupported</u> <u>(Note 5)</u>	
<b>REVENUES - USAID/EGYPT</b>		<b>\$ 623,563</b>		<b>\$ 623,563</b>			
<b>EXPENDITURES</b>							
Salaries	\$ 571,593	\$ 365,542	\$ (238)	\$ 365,304	\$ 80	-	Page 8, (A)
Consultants	80,016	29,615	45	29,660	-	-	
Honoraria	3,695	179	-	179	-	-	
Travel and Per Diem	91,041	83,944	(13)	83,931	70	-	Page 8, (B)
Training/Workshops	73,778	68,562	(90)	68,472	-	-	
Materials and Supplies	26,422	23,628	(335)	23,293	4,114	-	Page 8, (C)
Equipment/Renovation	66,123	72,513	967	73,480	107	-	Page 8, (D)
Other Direct Costs	<u>18,111</u>	<u>16,438</u>	<u>(336)</u>	<u>16,102</u>	<u>179</u>	<u>-</u>	Page 9, (E)
<b>Total Expenditures</b>	<b>\$ <u>930,779</u></b>	<b>\$ <u>660,421</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>660,421</u></b>	<b>\$ <u>4,550</u></b>	<b><u>-</u></b>	
<b>OUTSTANDING BALANCE (Note 1)</b>		<b>\$ <u>(36,858)</u></b>		<b>\$ <u>(36,858)</u></b>			

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

**TABBIN INSTITUTE FOR METALLURGICAL STUDIES**  
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**SUB-GRANT AGREEMENT NO. 263-0140.3**

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT**

**NOTE 1 - SCOPE OF STATEMENT:**

The fund accountability statement of TIMS includes project revenues received and costs incurred by TIMS under PIL No. 3 of the Sub-Grant Agreement for the period July 1, 1992 through January 31, 1995 (the "audit period").

"Budget" includes USAID/Egypt approved project costs in accordance with the most recent budget amendment of PIL No. 3 within the audit period, and is presented for informational purposes only. Amendment No. 6 to PIL No. 3, dated March 6, 1994, increased the total project cost commitment to LE 4,349,932 through February 28, 1995. TIMS records as of June 30, 1992 indicate that expenditures of LE 1,222,514 were incurred from March 1, 1989 through June 30, 1992. Accordingly, total "Budget" during the audit period has been calculated to be LE 3,127,418. "Budget" in LE has been converted to US dollars at an average exchange rate of LE 3.36 to one US dollar as explained below in Note 3.

"Actual" represents cumulative project revenues received and costs incurred by TIMS under PIL No. 3 during the audit period. "Revised Actual" represents actual project costs adjusted for project cost reclassifications as explained below in Note 4. Expenditures in LE have been converted to US dollars at an average exchange rate of LE 3.36 to one US dollar as explained below in Note 3. Actual revenues are less than expenditures because USAID/Egypt reimbursements lag project expenditures. Accordingly, the "Actual" and "Revised Actual" have outstanding negative balances of \$36,858 or LE 123,850. TIMS uses its USAID/Egypt mobilization advance to cover expenditures during reimbursement lags.

In accordance with PIL No. 3, actual line item expenditures may exceed an individual budget line item by fifteen percent. All adjustments over fifteen percent require USAID/Egypt's prior written approval.

**NOTE 2 - BASIS OF PRESENTATION:**

The fund accountability statement of TIMS has been prepared on the basis of cash receipts and disbursements. Consequently, project revenues are recognized when received. Project costs are recognized when paid rather than when the obligation is incurred.

**NOTE 3 - FOREIGN EXCHANGE:**

Actual and budgeted project revenues and costs incurred in LE have been converted to US dollars at an exchange rate of 3.36 LE to one US dollar. The exchange rate has been calculated by averaging the ending monthly exchange rates during the audit period.

**NOTE 4 - PROJECT COST RECLASSIFICATIONS:**

Certain billed project costs associated with various budget line items were recorded in the project's accounting records in the incorrect budget line item. These misclassified project costs were isolated incidents. They have been reclassified to the proper budget line item to facilitate a more appropriate comparison between actual and budgeted project costs.

**NOTE 5 - QUESTIONABLE PROJECT COSTS:**

Questionable project costs are presented in two categories, ineligible and unsupported. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program related or are prohibited by PIL No. 3, the Sub-Grant Agreement, or applicable laws and regulations. Unsupported project costs are those lacking adequate documentation.

Questionable project costs identified as either ineligible or unsupported are detailed below:

	<b>Questionable Project Costs</b>
<b>Ineligible</b>	<b>Unsupported</b>

**Item Description**

**A. Salaries:**

<p>1. An amount equivalent to \$80 was remitted back to TIMS bank account on 11/6/93 based upon prior audit recommendations. However, this amount was neither reduced from billings nor returned to USAID/Egypt. Section 8.3 (a) of Annex 2, Sub-Grant Agreement Standard Provisions, states that costs billed to USAID/Egypt must further project objectives. USAID/Egypt previously decided that the amount was not eligible for reimbursement. It remains ineligible.</p>	\$ <u>80</u>	-
<b>Total Salaries Line Item</b>	\$ <u>80</u>	-

**B. Travel and Per Diem:**

<p>1. Effective overtime totalling the equivalent of \$55 was paid to professional staff in the form of one-half day of per diem. Section 5.8 of the Sub-Grant Agreement states that project funds will not be used to pay salary supplements. No USAID/Egypt approval was obtained for the payment of overtime in the form of per diem. Therefore, the amounts are considered ineligible.</p>	\$ 55	-
2. Cheque No. 470012, dated 1/31/95, for travel expenses, was inadvertently double-billed to USAID/Egypt. Therefore, the amount is considered ineligible.	<u>15</u>	-
<b>Total Travel and Per Diem Line Item</b>	\$ <u>70</u>	-

**C. Materials and Supplies:**

<p>1. Net billings equivalent to \$3,974 in excess of amounts recorded in the general ledger are considered ineligible. These costs were identified as PIL No. 16 costs. Accordingly, they are not allocable to PIL No. 3.</p>	\$ 3,974	-
2. An equivalent amount of \$140 was remitted back to TIMS bank account on 11/6/93 based on prior audit recommendations. However, this amount was neither reduced from billings nor returned to USAID/Egypt. Section B.3 (a) of Annex 2, Sub-Grant Agreement Standard Provisions, states that costs billed to USAID/Egypt must further project objectives. USAID/Egypt previously decided that the amount billed was not eligible for reimbursement. It remains ineligible.	<u>140</u>	-
<b>Total Materials and Supplies Line Item</b>	\$ <u>4,114</u>	-

**D. Equipment/ Renovation:**

<p>1. During our testing, we identified the equivalent of \$107 of sales taxes billed to USAID/Egypt related to a fax machine purchased using cheque No. 9546, dated 7/11/92. Section B.4 (a) of Annex 2, Sub-Grant Agreement Standard Provisions, states that "This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee." Accordingly, this amount is considered ineligible.</p>	\$ 107	-
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	<u>Questionable Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>

**D. Equipment/ Renovation (Cont'd):**

**Item Description**

2. Advance rental equivalent to \$6,464 for the Zamalek facility for the quarter following the end of the audit period (January 31, 1995) was paid for by cheque No. 791782, dated 1/31/95, and billed to USAID/Egypt. Pursuant to the protocol for cash advances between the GOE and USAID/Egypt, dated September 30, 1990, TIMS follows the actual cost reimbursement billing system in reporting to USAID/Egypt. The aforementioned basis requires the billing to be made subsequent to the receipt of goods or services. As of January 31, 1995, TIMS had not yet received the service of the use of the Zamalek facility during the period February 1, 1995 through April 30, 1995. Therefore, this cost is questioned as ineligible. **Subsequent to the issuance of the draft report, we were provided additional support relating to this issue. Based on our review of this information, this finding has been removed from the final report.**

**Total Equipment/Renovation Line Item**

\$ 107

-

**E. Other Direct Costs:**

1. Cheque No. 227917, dated 8/7/93, was issued to TIMS Zamalek facility landlord as a deposit which is refundable at the end of the lease period. Pursuant to the protocol for cash advances between the GOE and USAID/Egypt, dated September 30, 1990, TIMS follows the actual cost reimbursement billing system in reporting to USAID/Egypt. The aforementioned basis requires the billing to be made subsequent to the receipt of goods or services. No goods or services were received; yet the equivalent of a \$179 deposit was paid and billed to USAID/Egypt. Therefore, it is considered ineligible.

\$ 179

-

**Total Other Direct Cost Line Item**

\$ 179

-

**TOTAL QUESTIONABLE COSTS**

\$ 4,550

-

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

January 3, 1996

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

We have audited the fund accountability statement of project revenues received and costs incurred by the Tabbin Institute for Metallurgical Studies ("TIMS") of the Energy Conservation and Efficiency Component of the Science and Technology for Development Project under Project Implementation Letter ("PIL") No. 3 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Sub-Grant Agreement No. 263-0140.3 ("Sub-Grant Agreement") for the period July 1, 1992 through January 31, 1995, and have issued our qualified report thereon dated January 3, 1996.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. 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 33 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 Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

The management of TIMS 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 the 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 basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the fund accountability statement of TIMS for the period July 1, 1992 through January 31, 1995, 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 our 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.

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



Our audit disclosed the following reportable condition which we believe constitutes a non-material weakness:

1. **TIMS management does not follow proper procurement procedures when acquiring services relating to seminars and workshops.**

During our audit, we noted that TIMS management did not obtain competitive offers when arranging for seminars and workshops. Rather, management would identify a facility suitable for the seminar and/or workshop, and directly procure the use of the facility and its services without regard to other suitable locations.

The "Reasonable Price" clause of the Sub-Grant Standard Provisions Annex requires that "items will be procured on a fair and, to the maximum extent possible, on a competitive basis." The Government of Egypt's procurement law, Law No. 9 of 1983, Article 2, requires publicity and freedom of competition. The law only allows direct procurement of services and non-construction items for amounts less than LE 2,000 per year. Furthermore, the administrative regulations of Law No. 9 deny the use of direct procurement more frequently than once a year without ministerial approval. Therefore, TIMS management has not complied with either USAID procurement regulations or GOE Law No. 9 regulations. However, during our review of the expenditures selected for testing, we noted no instances which would lead us to believe that amounts expended for seminars and workshops were either unallowable or unallocable.

**Recommendation No. 1**

We recommend that TIMS management comply with the competitive principle of the USAID/Egypt Sub-Grant Agreement and GOE Law No. 9. Both of these authoritative documents require competition amongst suppliers.

\* \* \* \* \*

A material weakness is a reportable condition in which the design or operation of one or more of the 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 within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable condition described above is not a material weakness.

This report is intended for the information of TIMS management and others with the organization and USAID/Egypt. However, this report is a matter of public record, and its distribution is not limited.

*Pricewaterhouse*

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*Price Waterhouse*



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

January 3, 1996

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

We have audited the fund accountability statement of project revenues received and costs incurred by the Tabbin Institute for Metallurgical Studies ("TIMS") of the Energy Conservation and Efficiency Component of the Science and Technology for Development Project under Project Implementation Letter ("PIL") No. 3 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Sub-Grant Agreement No. 263-0140.3 ("Sub-Grant Agreement") for the period July 1, 1992 through January 31, 1995, and have issued our qualified report thereon dated January 3, 1996.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. 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 33 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 Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

Compliance with laws, regulations, contracts and grants applicable to TIMS is the responsibility of TIMS management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of TIMS compliance with certain provisions of laws, regulations, contracts and grants. 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. For purposes of this report, we have categorized the provisions of laws, regulations, contracts, and grants we tested as part of obtaining such reasonable assurance into the following categories:

- Procurement policies and procedures
- Restrictions on billing taxes
- Deposit and investment restrictions
- Budgetary expenditure limitations
- Maintenance of accounting books, records and documents
- Compensation limitations

The results of our tests disclosed no instances of non-compliance that are required to be reported herein under Government Auditing Standards.

This report is intended for the information of TIMS management and others within the organization and USAID/Egypt. However, this report is a matter of public record, and its distribution is not limited.

*Price Waterhouse*

TABBIN INSTITUTE FOR METALLURGICAL STUDIES  
PROJECT IMPLEMENTATION LETTER NO. 3  
UNDER THE USAID/EGYPT  
ENERGY CONSERVATION AND EFFICIENCY COMPONENT  
OF THE  
SCIENCE AND TECHNOLOGY FOR DEVELOPMENT PROJECT  
SUB-GRANT AGREEMENT NO. 263-0140.3

MANAGEMENT COMMENTS



وزارة الصناعة  
معهد التبين للدراسات المعدنية  
TABBIN INSTITUTE FOR METALLURGICAL STUDIES (TIMS)  
مشروع ترشيد الطاقة وحماية البيئة  
ENERGY CONSERVATION & ENVIRONMENT PROJECT (ECEP)  
مشروع الوكالة الأمريكية للتنمية الدولية رقم 263-0140.3

JAN. 3, 1996

MR. JAMES PAGE  
AUDIT MANAGER  
PRICE WATERHOUSE  
4, ROAD 261  
NEW MAADI, CAIRO  
EGYPT.

DEAR MR. PAGE

With reference to your Draft Report dated Oct. 26, 1995 concerning the audit related to revenues received and costs incurred by ECEP/TIMS under PIL 3 of the United States Agency for International Development Mission to Egypt ("USAID/EGYPT") Sub-Grant Agreement No. 263-0140-3 ("Sub Grant Agreement" or "Project") for the period July 1, 1992 through Jan. 31, 1995. May we draw your attention that the following is our response to clarify the above mentioned report fundings.

**FUND ACCOUNTABILITY STATEMENT:**

**A. SALARIES:**

An amount of L.E. 269 was reduced from Dec., 1995 billings to USAID per the attached voucher No. 36.

**B. TRAVEL AND PER DIEM:**

1. An amount of L.E. 187 was returned back to TIMS bank account per the attached Paying-In-Slip, and reduced from Dec., 1995 billings per the attached voucher No. 38.
2. An amount of L.E. 50 was reduced from Aug., 1995 per the attached voucher No. 28.

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**MANAGEMENT COMMENTS**

**C. MATERIALS AND SUPPLIES**

1. An amount of L.E. 13,352 was identified as PIL No.16 costs.  
We believe that these costs are allocable to PIL No.3, since PIL 16 is not active from May 1,1995, the costs belongs to this PIL still remain as costs incurred under the credit line used by the project at the NIB which is already established for PIL3 funding availability.
2. An amount of L.E. 470 was reduced from Dec.1995 billings to USAID per the attached voucher No.36.

**D. EQUIPMENT / RENOVATION:**

1. An amount of L.E. 359 was returned back to TIMS bank account per the attached Paying-In-Slip, and reduced from Dec.,1995 billings per the attached voucher No.38.
2. The advance rental of L.E. 21,720 for the project office at Zamalek area was considered ineligible on Jan. 31,1995 but actually we have received the service of the use of the Zamalek facility during the period Feb. 1,1995 through April 30,1995. So we came to our mind that this cost is not questioned nowadays.

**E. OTHER DIRECT COSTS:**

An amount of L.E. 600 was adjusted and reduced from Aug.1995 billings per the attached voucher No.38.

**INTERNAL CONTROL STRUCTURE:**

Regarding your finding concerning the procurement procedures when acquiring services relating to Seminars and workshops.

We had followed the ECEP/DRTPC final result for the selection and unifying the best Hotel in order to comply with the normal procurement procedures for implementing ECEP/TIMS training activities. However later on ECEP/TIMS have started their own bidding system concerning this matter on a competitive basis.

We hope that the above is self explanatory and meet your requirements.

**SINCERELY YOURS**

**EXECUTIVE DIRECTOR**



**PROF. DR. A. AMIN A. MAGUID**

TABBIN INSTITUTE FOR METALLURGICAL STUDIES  
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وزارة الصناعة  
معهد التبين للدراسات المعدنية  
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مشروع ترشيد الطاقة وحماية البيئة  
ENERGY CONSERVATION & ENVIRONMENT PROJECT (ECEP)  
مشروع الوكالة الأمريكية للتنمية الدولية رقم 263 - 0140.3

October 24, 1995

Ms. Salwa Waliba  
Project Officer,  
USAID  
106 Kasr El-Eini St.,  
Cairo Center - Cairo

Dear Ms. Waliba,

With reference to your previous approval concerning implementation of tune-up program (PIL 16), please be informed that upon the current Auditors team request, you are kindly requested to ensure that the credit line used by the project at the NIB which is already established for PIL3 funding availability, used for the tune-up program as well.

Best regards,

Executive Director

(Prof. Dr. A. Amin Abdul Maguid)

Approved  
Salwa Waliba

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Ms Salwa Wahba  
Project Officer  
USAID  
106 Kaer Al-Aini St  
Cairo Center  
Cairo

Dear Ms Wahba

With reference to your previous approval concerning ECEP/TIMS ZAMALEK facility. You are kindly informed that as per the attached contracts ECEP/TIMS had to pay the rent for the ECEP/TIMS OFFICE in Zamalek area on an advance quarterly basis.

The purpose to this letter is to obtain a waiver from AID to pay for rent in an advance and to approve the advances paid for the ECEP/TIMS Zamalek facility for the previous periods.

Your approval for the above is highly appreciated

Sincerely yours

Prof. Dr A. Aman A. Mageed  
Executive Director

Approved  
Salwa Wahba  
1/4/96

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**INDEPENDENT ACCOUNTANTS' RESPONSE**

Management of the Tabbin Institute for Metallurgical Studies ("TIMS") provided comments to our draft report presented at the exit conference held on December 4, 1995. These comments are included, unedited, in Appendix A to this report. We have reviewed these comments and either adjusted our final report or clarified our positions. Our response below parallels our audit report's findings and management's comments.

**RESPONSE TO TIMS MANAGEMENT COMMENTS TO**  
**QUESTIONABLE COSTS AS DETAILED IN**  
**NOTE 5 TO THE FUND ACCOUNTABILITY STATEMENT**

**A. Salaries:**

1. TIMS management agrees on the condition stating that corrective action was shown in the December 1995 billings to USAID/Egypt. This corrective action was based on our recommendation. We have not examined the December 1995 billing to USAID/Egypt; therefore, our position remains unchanged.

**B. Travel and Per Diem:**

1. TIMS management agrees on the condition stating that the questioned amount was returned back to the bank account and was reflected in the December 1995 billing to USAID/Egypt. This corrective action was based on our recommendation. We have not examined the December 1995 billing to USAID/Egypt; therefore, our position remains unchanged.
2. TIMS management agrees on the condition and provided a copy of the adjusting entry which reflected the reduction of the questioned amount from the Travel and Per Diem line item. However, evidence establishing that said amount was reduced from USAID/Egypt billings was not provided. The corrective action taken by TIMS management was based on our recommendation; therefore, our position remains unchanged.

**C. Materials and Supplies:**

1. Subsequent to the issuance of our draft report, USAID/Egypt provided TIMS with retroactive approval for the use of the PIL No. 3 credit line to fund tune-up program (PIL No. 16) activities. However, approval was not granted to bill PIL No. 16 charges under PIL No. 3 budget line items. Accordingly, our position remains unchanged.
2. TIMS management agrees on the condition stating that corrective action was taken in the December 1995 billing to USAID/Egypt. This corrective action was based on our recommendation. We have not examined the December 1995 billing to USAID/Egypt; therefore, our position remains unchanged.

**D. Equipment / Renovation:**

1. TIMS management agrees on the condition stating that corrective action was taken in the December 1995 billing to USAID/Egypt. This corrective action was based on our recommendation. We have not examined the December 1995 billing to USAID/Egypt; therefore, our position remains unchanged.
2. Subsequent to the issuance of our draft report, USAID/Egypt provided TIMS with a retroactive approval allowing the payment of the Zamalek facility rent on an advance quarterly basis. Accordingly, we have adjusted our report to exclude the previously questioned cost of US \$ 6,464.

**E. Other Direct Costs:**

1. TIMS management agrees on the condition stating that corrective action was taken in the December 1995 billing to USAID/Egypt. This corrective action was based on our recommendation. We have not examined the December 1995 billing to USAID/Egypt; therefore, our position remains unchanged.

**RESPONSE TO TIMS MANAGEMENT COMMENTS TO THE  
REPORT ON INTERNAL CONTROL STRUCTURE**

TIMS management concurs with this condition. Management stated that they have implemented new procurement procedures when acquiring services related to seminars and workshops. However, we did not observe these procedures as they were implemented subsequent to our audit period. Our position remains unchanged.

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**MISSION RESPONSE**

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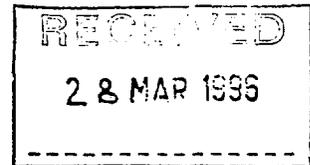


UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

March 26, 1996

**MEMORANDUM**



**To** : Lou Mundy, RIG/A/C

**From** : Shirley Hunter, OD/FM/FA

**Subject** : Audit of the Tabbin Institute of Metallurgical Studies under USAID/Egypt's Science and Technology for Development Project (USAID/Egypt Project No. 263-0140)  
Draft Report dated February 13, 1996

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

cc: PDS/ENV: J. Goggin  
S. Wahba