

# Report of Audit

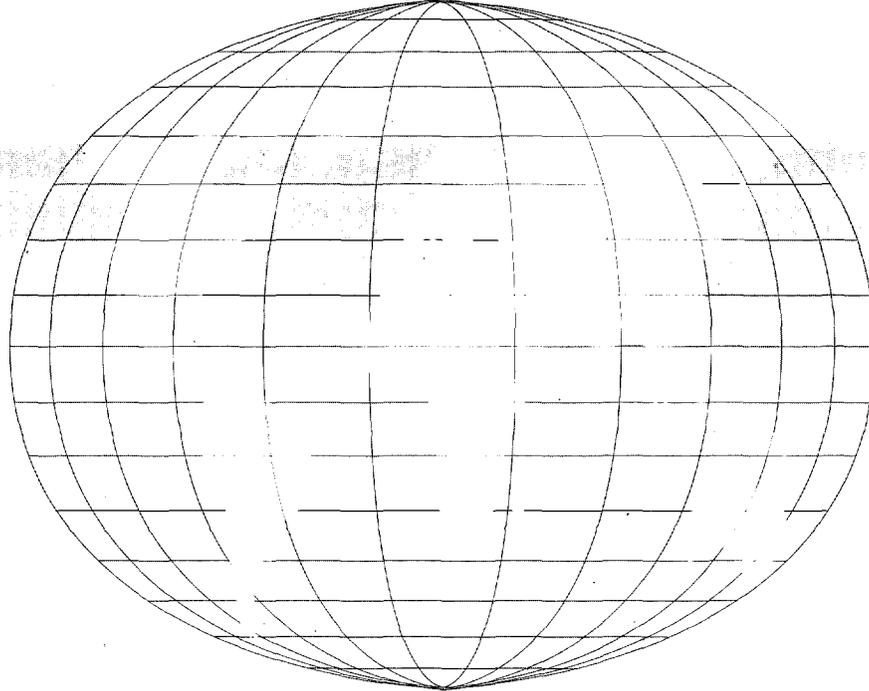
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**Financial Audit of the Ministry of Public Works and Water Resources, Expenditures Incurred Under the Preventive Maintenance Component of the Irrigation Management Systems Project (USAID/Egypt Project No. 263-0132)**

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

**Report No. 6-263-96-26-N  
August 20, 1996**



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

**OFFICE OF INSPECTOR GENERAL  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



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

CAIRO, EGYPT

August 20, 1996

**MEMORANDUM**

**TO :** DIRECTOR USAID/Egypt, Toni Christiansen-Wagner (Acting)

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

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

The attached report, transmitted June 9, 1996, by Price Waterhouse, presents the results of a financial audit of the Preventative Maintenance Component managed by the Ministry of Public Works and Water Resources (Ministry) under Project Implementation Letter No. 101 of the Irrigation Management Systems Project, USAID/Egypt Project No. 263-0132. The Irrigation Management Systems Project was designed to increase production and productivity in the agricultural sector by improving irrigation efficiency. The Preventative Maintenance Component, one of ten components under the Irrigation Management Systems Project, makes available to six governorates the technical assistance, equipment and staff training necessary to perform basic irrigation channel preventive maintenance operations.

We engaged Price Waterhouse to perform a financial audit of the Ministry's incurred expenditures of \$981,517 (equivalent to LE3,307,715) for the period January 1, 1993 through May 31, 1995. The purpose of the audit was to evaluate the propriety of costs incurred during the period. Price Waterhouse also evaluated the Ministry's internal controls and its compliance with applicable laws, regulations and agreement terms as necessary in forming their opinion regarding the Fund Accountability Statement.

The audit report questions \$156,574 (equivalent to LE527,656) in costs billed to USAID/Egypt by the Ministry. Questioned costs related primarily to ineligible payments for social insurance, gifts, and sales taxes and to costs for which the Ministry could not

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provide supporting documentation. Additionally, the auditors noted two material weaknesses and five reportable conditions in the Ministry's internal control structure. As two of the reportable conditions were cited in the Ministry's previous audit report, they will also be included with the material internal control weaknesses in our recommendation below. Finally, four instances of material noncompliance with applicable laws, regulations and agreement terms were reported by the auditors.

In response to the draft report, responsible Ministry officials provided additional explanation to the questioned costs in the report, however, they did not respond to the weaknesses cited in the internal control structure nor to the instances of material noncompliance. Price Waterhouse officials reviewed the Ministry's response 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 make a final management decision on the questioned costs of \$156,574 (ineligible costs of \$22,819 and unsupported costs of \$133,755), detailed on pages 9 through 20 of the Price Waterhouse audit report, and recover from the Ministry of Public Works and Water Resources the amount determined to be unallowable.

**Recommendation No. 2:** We recommend that USAID/Egypt obtain evidence that the Ministry of Public Works and Water Resources has addressed the internal control material weaknesses (inadequate controls over cash receipts and disbursements and improper segregation of financial functions) and previously reported reportable conditions (inadequate controls over the review of program expenditures and no appropriate mechanism for canceling paid invoices) detailed on pages 22 through 25 of the Price Waterhouse audit report.

**Recommendation No. 3:** We recommend that USAID/Egypt obtain evidence that the Ministry of Public Works and Water Resources has addressed the material noncompliance issues (inconsistently applied procurement procedures, billing for anticipated expenditures, billing for costs unallowed by the Grant Agreement, and using USAID/Egypt funds as an advance for Government of Egypt project expenditures) detailed on pages 29 and 30 of the Price Waterhouse audit report.

In response to the audit report, USAID/Egypt officials stated that, based on observations made by Price Waterhouse during the audit, they were transferring responsibility for

action on Recommendation No. 1 to RIG/Investigations. Based on this transfer of responsibility, USAID/Egypt believes it has made a final management decision and requested resolution of Recommendation No. 1. As the action official, the responsibility for a final management decision rests with USAID/Egypt management. Under the IG standards, audit recommendations involving monetary benefit are not considered resolved until an agreement has been reached with Agency management on the amount to be recovered. Consequently, Recommendation No. 1 is open and will be considered to have had final management decision upon the Mission's determination of the amount of recovery; it will be considered to have had final management action upon the recovery or offset of funds.

USAID/Egypt requested closure of Recommendations Nos. 2 and 3 since activities were completed under the Preventive Maintenance Component on September 30, 1995 and because the Mission has no active commitments planned under the Irrigation Management System Project. USAID/Egypt stated that should future commitments be made, a full assessment of internal controls and host country contracting capabilities would be required prior to funding. Based on the Mission's final management actions, Recommendations Nos. 2 and 3 are resolved and closed.

Please advise this office within 30 days of any action planned or taken to close 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

**PREVENTIVE MAINTENANCE COMPONENT**

**PROJECT IMPLEMENTATION LETTER NO. 101  
UNDER THE USAID/EGYPT FUNDED  
IRRIGATION MANAGEMENT SYSTEMS PROJECT  
GRANT AGREEMENT NO. 263-0132**

**FUND ACCOUNTABILITY STATEMENT  
AND ADDITIONAL INFORMATION  
FOR THE PERIOD  
JANUARY 1, 1993 THROUGH MAY 31, 1995**

**PREVENTIVE MAINTENANCE COMPONENT**  
**PROJECT IMPLEMENTATION LETTER NO. 101**  
**UNDER THE USAID/EGYPT FUNDED**  
**IRRIGATION MANAGEMENT SYSTEMS PROJECT**  
**GRANT AGREEMENT NO. 263-0132**

**FUND ACCOUNTABILITY STATEMENT**  
**AND ADDITIONAL INFORMATION**  
**FOR THE PERIOD**  
**JANUARY 1, 1993 THROUGH MAY 31, 1995**

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## *Price Waterhouse*



June 9, 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 Preventive Maintenance Component ("PMC") of the Irrigation Management Systems ("IMS") Project. The audit population includes revenues received and costs incurred by PMC under Project Implementation Letter ("PIL") No. 101 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") funded Grant Agreement No. 263-0132 ("Grant Agreement" or "Project") for the period January 1, 1993 through May 31, 1995.

### Background

USAID/Egypt entered into the Grant Agreement with the Government of Egypt ("GOE") on September 22, 1981 establishing the IMS Project. The IMS Project is designed to increase production and productivity in the agricultural sector by improving irrigation efficiency. The Project provides technical and capital assistance to the Ministry of Public Works and Water Resources ("MPWWR") for the planning, design, rehabilitation and management of Egypt's irrigation network. The objectives of the IMS Project are carried out by 10 separate IMS components, one of which is PMC.

PMC, operating in six GOE governorates, is designed to make available to these governorates the technical assistance, equipment and staff training necessary to perform basic irrigation channel preventive maintenance operations. PMC also develops procedures to manage and control higher levels of maintenance, including major subcontracted replacement and refurbishment projects.

PMC receives approximately 70% of its funding from USAID/Egypt. The GOE contributes 30% of the funding in cash contributions. The GOE also provides in-kind contributions in the form of personnel, installation support and certain fixed assets and commodities.

Amendment No. 12 of PIL No. 101, dated November 28, 1994, approved USAID/Egypt funding to PMC of 9,451,001 Egyptian Pounds ("LE") through June 30, 1995 and GOE funding of LE 7,231,010. Amendment No. 9 to the Grant Agreement, dated September 27, 1993, approved GOE in-kind contributions of LE 123,652,000.

### Audit Objectives and Scope

The objective of this engagement was to perform a financial related audit of project revenues received and costs incurred by PMC under PIL No. 101 of the Grant Agreement during the period January 1, 1993 through May 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 PMC 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 and modifications of the cash basis;
2. Determine if the costs reported as incurred under PIL No. 101 are in fact allowable, allocable and reasonable in accordance with the terms of the PIL and the Grant Agreement;
3. Evaluate and obtain a sufficient understanding of the internal control structure of PMC, assess control risk, and identify reportable conditions, including material internal control weaknesses;
4. Perform tests to determine whether PMC complied, in all material respects, with the terms of the Grant Agreement and PIL No. 101, and with applicable laws and regulations; and
5. Determine if PMC has taken corrective action on prior audit report recommendations.

Preliminary planning and review procedures began in September 1995, these procedures consisted of discussions with personnel from the Office of the Regional Inspector General for Audit in Cairo and PMC management, as well as a review of Financial Analysis Support Team and prior Non-Federal Audit reports. Audit fieldwork commenced in October 1995 and was completed in June 1996.

The scope of our audit included a population of project costs amounting to \$981,517 or LE 3,307,715. On a judgmental basis, we selected and tested \$807,223 or LE 2,720,340 (82%) of these costs. This level of testing was warranted based upon our assessment of control risk due to the identification of significant internal control weaknesses, as noted in our report on internal control structure. Our audit population also included \$978,885 or LE 3,298,842 of project revenues received. We tested one hundred percent of these revenues.

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

1. Reconciling PMC 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 whether appropriate procurement procedures were applied that conformed with the terms of the Grant Agreement, PIL No. 101, and applicable laws and regulations.
4. Determining if salary costs were adequately supported and approved.
5. Establishing the adequacy of PMC 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 ("GAS") 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 GAS 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 GAS 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 PMC, we assessed internal controls in order to determine our auditing procedures. We also reviewed PMC's compliance with applicable laws and regulations.

### **Results of Audit**

#### **Fund accountability statement**

Our audit procedures identified \$156,574 or LE 527,656 of questionable project costs. This amount is comprised of \$22,819 or LE 76,901 of ineligible project costs and \$133,755 or LE 450,755 of unsupported project costs. The fund accountability statement and the detail of questionable project costs, both as incurred in Egyptian pounds, are included in supplemental schedules to this report.

#### **Internal control structure**

Our audit procedures identified seven reportable conditions in the internal control structure of PMC, two of which are considered material weaknesses.

#### **Reportable conditions - material weaknesses**

1. PMC's controls over cash receipts and disbursements are inadequate.
2. PMC has not properly segregated the incompatible financial functions of approval, custody, and recording at various locations.

#### **Reportable conditions - non-material weaknesses**

1. PMC has inadequate controls to ensure the accurate accumulation, recording and review of program expenditures in the general ledger.
2. PMC does not have adequate controls to safeguard petty cash funds.
3. PMC does not have an appropriate mechanism for canceling invoices paid to avoid duplicate payments.
4. PMC does not consistently maintain bank statements for accounts maintained at the six Governorate offices and does not perform timely reconciliations of cash balances.
5. PMC's controls over the receipt and use of goods and services are weak.



Compliance with Grant Agreement terms and applicable laws and regulations

Our audit procedures identified four instances of material non-compliance with either the terms of the Grant Agreement, PIL No. 101, or with applicable laws and regulations.

1. PMC management did not consistently apply GOE procurement procedures for items purchased for project activities.
2. PMC billed USAID/Egypt for advances provided to Governorates that were not yet expended for project related goods or services.
3. PMC billed USAID/Egypt for costs which should have been borne by the GOE.
4. PMC used USAID/Egypt provided funds as an advance to cover the GOE's share of project expenditures.

Follow up on Prior Audit Recommendations

We have reviewed the prior audit report of PMC PIL No. 101 for the period July 7, 1989 through December 31, 1992 (the "Prior Audit"). With the exception of the following, the internal control and non-compliance findings and recommendations from the prior audit report have been addressed and implemented:

Internal Control

1. "No management review by the project officer or financial manager is performed of certain financial documents."

This finding is considered unresolved and has been included in our Report on Internal Controls, non-material weakness No. 1.

2. "The system of internal accounting controls surrounding the accounting function of MPWWR contains several weaknesses."

Certain portions of this finding remain unresolved. They are included in our Report on Internal Controls, material weaknesses Nos. 1 and 2.

3. "Invoices are not being defaced with a "Paid" stamp at the time they are approved for payment."

This finding remains unresolved and has been included in our Report on Internal Controls, non-material weakness No. 3.



Compliance with Laws, Regulations, Contracts and Grants

1. "Several items that should have been paid by the GOE were charged to USAID/Egypt."

This finding remains unresolved and has been included in our report on compliance with laws, regulations, contracts and grants ("Report on Compliance"), finding No. 3.

2. "We recommend that MPWWR establish procedures relating to invoice processing to ensure no GOE taxes are billed to USAID."

This finding is unresolved and has been included in our Report on Compliance, finding No. 3.

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 response is included in Appendix C to this report.

This report is intended for the information of PMC 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*

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*Price Waterhouse*



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

June 9, 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 Preventive Maintenance Component ("PMC") of the Irrigation Management Systems ("IMS") Project under Project Implementation Letter ("PIL") No. 101 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") funded Grant Agreement No. 263-0132 ("Grant Agreement" or "Project") for the period January 1, 1993 through May 31, 1995. The fund accountability statement is the responsibility of PMC 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 ("GAS") 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 GAS 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 GAS 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 \$156,574 or LE 527,656 of questionable project costs. This amount is comprised of \$22,819 or LE 76,901 in ineligible costs and \$133,755 or LE 450,755 of unsupported costs. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program related or are prohibited by PIL No. 101, the 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 fifth paragraph, the fund accountability statement referred to in the first paragraph presents fairly, in all material respects, project revenues received and costs incurred by PMC under PIL No. 101 of the Grant Agreement for the period January 1, 1993 through May 31, 1995, in conformity with the basis of accounting described in Note 2.

In accordance with GAS, we have also issued a report dated June 9, 1996 on our consideration of PMC's internal control structure and a report dated June 9, 1996 on its compliance with laws and regulations.

This report is intended for the information of PMC 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*

**PREVENTIVE MAINTENANCE COMPONENT**  
**PROJECT IMPLEMENTATION LETTER NO. 101**  
**UNDER THE USAID/EGYPT FUNDED**  
**IRRIGATION MANAGEMENT SYSTEMS PROJECT**  
**GRANT AGREEMENT NO. 263-0132**

**FUND ACCOUNTABILITY STATEMENT**  
**AND ADDITIONAL INFORMATION**  
**FOR THE PERIOD**  
**JANUARY 1, 1993 THROUGH MAY 31, 1995**

	<u>Budget</u> (Note 1)	<u>Actual</u> (Note 1)	<u>Project Cost</u> <u>Reclassifications</u> (Note 4)	<u>Revised</u> <u>Actual</u> (Note 1)	<u>Questionable Project Costs</u>		<u>Finding</u> <u>Ref.</u> (Note 5)
					<u>Ineligible</u> (Note 5)	<u>Unsupported</u> (Note 5)	
<b>REVENUES - USAID/EGYPT</b>		\$ 978,885		\$ 978,885			
<b>EXPENDITURES</b>							
Transportation	\$ 66,539	\$ 51,774	\$ (919)	\$ 50,855	\$ 1,331	\$ -	Page 10, (A)
Office Renovation	23,939	20,355	252	20,607	203	490	Page 12, (B)
Office Equipment	24,054	17,704	(715)	16,989	1,768	642	Page 12, (C)
Office Furniture	11,719	10,315	(1,337)	8,978	191	1,458	Page 14, (D)
Office Supplies and Expenses	59,007	58,069	1,895	59,964	80	38,453	Page 15, (E)
Drinking Water and Sanitation	-	-	-	-	-	-	-
Technical Contracts	66,245	61,690	-	61,690	9,871	-	Page 15, (F)
Travel and Per diem	126,254	113,855	(469)	113,386	-	-	-
Laboratory Costs	593	593	-	593	-	-	-
Structural Equipment O&M	491,876	394,750	2,341	397,091	4,132	92,712	Page 18, (G)
Heavy Equipment O&M	57,147	20,223	(4,092)	16,131	-	-	-
Miscellaneous	79,020	31,942	2,575	34,517	4,964	-	Page 19, (H)
Local Commodity Support	169,361	110,013	-	110,013	-	-	-
On-Shore Training	177,705	90,234	469	90,703	279	-	Page 20, (I)
<b>Total Expenditures</b>	<u>\$ 1,353,459</u>	<u>\$ 981,517</u>	<u>\$ -</u>	<u>\$ 981,517</u>	<u>\$ 22,819</u>	<u>\$ 133,755</u>	
<b>OUTSTANDING BALANCE (Note 1)</b>		<u>\$ (2,632)</u>		<u>\$ (2,632)</u>			

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

**PREVENTIVE MAINTENANCE COMPONENT**  
**PROJECT IMPLEMENTATION LETTER NO. 101**  
**UNDER THE USAID/EGYPT FUNDED**  
**IRRIGATION MANAGEMENT SYSTEMS PROJECT**  
**GRANT AGREEMENT NO. 263-0132**

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT**

**NOTE 1 - SCOPE OF STATEMENT:**

The fund accountability statement of PMC includes project revenues received and costs incurred by PMC under PIL No. 101 of the Grant Agreement for the period January 1, 1993 through May 31, 1995 (the "audit period").

"Budget" includes USAID/Egypt approved project costs in accordance with the most recent budget amendment of PIL No. 101 within the audit period, and is presented for informational purposes only. Amendment No. 12 to PIL No. 101, dated November 28, 1994, approved total project costs in the amount of \$2,804,452 or Egyptian pounds ("LE") 9,451,001 for the period July 1, 1989 through June 30, 1995. PMC records as of December 31, 1992 indicate that expenditures of \$1,450,993 or LE 4,889,849 were incurred from July 1, 1989 through December 31, 1992. Accordingly, total "Budget" during the audit period has been calculated to be \$1,353,459 or LE 4,561,152. "Budget" in LE has been converted to US dollars at an average exchange rate of 3.37 LE to one US dollar as explained below in Note 3.

"Actual" represents cumulative project revenues received and costs incurred by PMC under PIL No. 101 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 3.37 LE to one US dollar as explained below in Note 3. Actual revenues are less than project expenditures due to timing differences between the receipt of funds from USAID/Egypt and project disbursements. Accordingly, the "Actual" and "Revised Actual" have outstanding negative balances of \$2,632 or LE 8,873. In accordance with PIL No. 101, 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 PMC 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 3.37 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 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. 101, the 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 as follows:

Questionable Costs

Ineligible

Unsupported

ITEM DESCRIPTION

**A. Transportation:**

<p>1. Fire extinguishers were purchased for project vehicles in an amount of \$844. A USAID/Egypt Action Memorandum, dated November 19, 1991, states that "Fire extinguishers are a requirement of the GOE and as such, these costs must be borne by the (GOE)." According to PMC management, the cost of such fire extinguishers has been refunded to USAID/Egypt; however, no such evidence was provided. Therefore, the amounts are considered ineligible.</p>	\$ 844	\$ -
<p>2. An amount equivalent to \$68, representing the GOE's share of vehicle freight agent charges, was paid in the Gharbia Governorate, with checks No. 11388 and 11393, dated December 1993, and billed to USAID/Egypt. A USAID/Egypt Action Memorandum dated November 19, 1991 states that "... AID will support project funding of up to 50 percent of items (1) off loading and (2) local freight agent." According to PMC management, the GOE's share of such costs were refunded to USAID/Egypt; however, no such evidence was provided. Therefore, the amount is considered ineligible.</p>	68	-
<p>3. The equivalent of \$65 of sales taxes and \$95 of stamp taxes was billed to USAID/Egypt related to fire extinguishers purchased in Giza in July 1993 using check No. 1158791. Section B.4 (a) and (b) of Annex 2, 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 .... The Grantee will... reimburse (such amounts) with funds other than those provided under the Grant." According to PMC management, such tax amounts may have been refunded by the GOE; however, no such evidence was provided. Accordingly, the total tax amount equivalent to \$160 is considered ineligible.</p>	160	-
<p>4. The cost of plane tickets in an amount of \$259, purchased by the PMC office in the Giza Governorate, was paid by check No. 1158784 dated 9/20/92, and billed to USAID/Egypt. According to PMC's detailed budget approved by USAID/Egypt, plane tickets are not an authorized expenditure under PIL No. 101. According to PMC management, such amount should have been borne by the GOE; however, due to the urgency of travel, such costs were drawn from USAID/Egypt funds. Therefore, the amount is considered ineligible.</p>	259	-
<p><b>Total Transportation Line Item</b></p>	\$ 1,331	\$ -

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Ineligible

Unsupported

ITEM DESCRIPTION

**B. Office Renovation:**

1. Sales taxes in the equivalent of \$203 were paid in connection with the acquisition of air conditioners purchased by the PMC office in the Giza Governorate, using check No. 243325 dated 11/7/93. Section B.4 (a) and (b) of Annex 2 to the Standard Provisions of the Grant Agreement, 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,.... The Grantee will.... reimburse (such amounts) with funds other than those provided under the Grant." According to PMC management, such tax exemption status is not accepted by all vendors. Nevertheless, this cost is questioned as ineligible.

\$ 203

\$ -

2. Painting oil in an amount equivalent to \$117, purchased in Giza during July 1993, in cash, could not be traced to the Giza project warehouse receiving log even though its related warehouse receiving report indicated receipt in the Giza Governorate. GOE warehouse receiving reports (form 112) and warehouse receiving logs are key internal controls used in determining if funds were expended for their intended purpose. Section B.5 (b) of Annex 2, Grant Agreement Standard Provisions Amendment No. 8, states that "The Grantee shall maintain accounting books, records, documents, and other evidence relating to the project and to this Agreement, adequate to show without limitation, all costs incurred under the Grant, (and) the receipt and use of goods and services acquired under the Grant." According to PMC management, such items were transferred to a project warehouse other than that in Giza. Since the receipt and use of such items cannot be verified, the amount is considered unsupported.

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3. PMC's office in the Dakahlia Governorate purchased a water lift in an amount equivalent to \$392 by check No. 469028 on 11/30/93 without prior USAID/Egypt approval. Section 5.10 of Amendment No. 1 to the Grant Agreement, states that "The Grantee shall not expend any funds under this project for structures related to water lifts over 15 meters without....the specific approval of AID." PMC management was unaware of the need for USAID/Egypt approval. Further, management has stated that the purchased water lift was used to pump water through project workshop pipes, even though its specifications include pumping power of over 15 meters. Accordingly, this amount has been questioned as ineligible.

*Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been removed from the final report.*

Questionable Costs

Ineligible

Unsupported

**ITEM DESCRIPTION**

4. Expenditures made for electrical supplies and paint material in Giza in an amount of \$373 did not have a warehouse receiving report. GOE warehouse receiving reports (form 112) and warehouse receiving logs are key internal controls used in determining if funds were expended for their intended purpose. Section B.5 (b) of Annex 2, Grant Agreement Standard Provisions Amendment No. 8, states that "The Grantee shall maintain accounting books, records, documents, and other evidence relating to the project and to this Agreement, adequate to show without limitation, all costs incurred under the Grant, (and) the receipt and use of goods and services acquired under the Grant." Management has stated that the items in question were used immediately upon receipt; hence, no warehouse receiving reports are available for them. As receipt and use of such items cannot be verified as to whether they relate to PMC, this amount is considered unsupported.

\$ -	\$ 373
\$ 203	\$ 490

**Total Office Renovation Line Item**

**C. Office Equipment**

1. A warehouse receiving report was not provided for a number of office equipment expenditures in Giza. Accordingly, purchased items in the amount of \$642 are not recorded in the project warehouse receiving log. GOE warehouse receiving reports (form 112) and warehouse receiving logs are key internal controls used in determining if funds were expended for their intended purpose. Section B.5 (b) of Annex 2, Grant Agreement Standard Provisions Amendment No. 8, states that "The Grantee shall maintain accounting books, records, documents, and other evidence relating to the project and to this Agreement, adequate to show without limitation, all costs incurred under the Grant, (and) the receipt and use of goods and services acquired under the Grant." According to PMC management, these items were used immediately upon receipt; hence, no warehouse receiving reports are available for them. As receipt and use of these items cannot be verified, the amounts are considered unsupported.

*Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been adjusted to the final questioned cost amounts shown.*

642

2. Check No. 350386 dated 11/28/94, for an amount equivalent to \$884 related to computer expenditures, was billed to USAID/Egypt three times in error. Section B.5 (b) of Annex 2, Grant Agreement Standard Provisions Amendment No. 8, states that "The Grantee shall maintain accounting books, records, documents, and other evidence relating to the project and to this Agreement, adequate to show without limitation, all costs incurred under the Grant, (and) the receipt and use of goods and services acquired under the Grant." Therefore, \$1,768 representing the excess of amounts billed is considered ineligible.

1,768	-
\$ 1,768	\$ 642

**Total Office Equipment Line Item**

177

Ineligible

Unsupported

**ITEM DESCRIPTION**

**D. Office Furniture**

- |   |      |  |        |
|---|------|--|--------|
| <p>1. Office furniture in the equivalent of \$295 purchased in Giza by check No. 350365 on 8/29/94, did not have a warehouse receiving report. Accordingly, it could not be traced to the project warehouse receiving log and verified as to existence. GOE warehouse receiving reports (form 112) and warehouse receiving logs are key internal controls used in determining if funds were expended for their intended purpose. Section B.5 (b) of Annex 2, Grant Agreement Standard Provisions Amendment No. 8, states that "The Grantee shall maintain accounting books, records, documents, and other evidence relating to the project and to this Agreement, adequate to show without limitation, all costs incurred under the Grant, (and) the receipt and use of goods and services acquired under the Grant." According to PMC management, such furniture items were sent to the Kafr El Zayat Governorate warehouse. As receipt and use of the furniture cannot be verified, the amount is questioned as unsupported.</p>  | \$ - |  | \$ 295 |
| <p>2. Office furniture in an amount equivalent to \$390 purchased in Giza on 4/6/93 with cash, could not be traced to the Giza project warehouse receiving log or verified to exist, even though the related warehouse receiving report indicated receipt in Giza. GOE warehouse receiving reports (form 112) and warehouse receiving logs are key internal controls used in determining if funds were expended for their intended purpose. Section B.5 (b) of Annex 2, Grant Agreement Standard Provisions Amendment No. 8, states that "The Grantee shall maintain accounting books, records, documents, and other evidence relating to the project and to this Agreement, adequate to show without limitation, all costs incurred under the Grant, (and) the receipt and use of goods and services acquired under the Grant." According to PMC management, the office furniture purchased was sent to the Minia Governorate, and the related warehouse receiving report indicated Giza in error. As receipt and use of the furniture purchased cannot be verified, the amount is considered unsupported.</p> |      |  | 390    |
| <p>3. An amount equivalent to \$208 paid in cash for the purchase of office furniture in Giza on 2/7/93, did not have a warehouse receiving report, and hence could not be traced to the warehouse receiving log or verified to exist. GOE warehouse receiving reports (form 112) and warehouse receiving logs are key internal controls used in determining if funds were expended for their intended purpose. Section B.5 (b) of Annex 2, Grant Agreement Standard Provisions Amendment No. 8, states that "The Grantee shall maintain accounting books, records, documents, and other evidence relating to the project and to this Agreement, adequate to show without limitation, all costs incurred under the Grant, (and) the receipt and use of goods and services acquired under the Grant." PMC management provided no explanation. As the receipt and use of the purchased items cannot be verified, the amount is questioned as unsupported.</p>   |      |  | 208    |

12







Questionable Costs

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Ineligible

Unsupported

ITEM DESCRIPTION

<p>4. Net billings in the equivalent of \$3,150 in excess of amounts accumulated in payment vouchers at the different Governorates were identified. Section B.5 (b) of Annex 2, Grant Agreement Standard Provisions Amendment No. 8, states that "The Grantee shall maintain accounting books, records, documents, and other evidence relating to the project and to this Agreement, adequate to show without limitation, all costs incurred under the Grant, (and) the receipt and use of goods and services acquired under the Grant." Management considers this a result of recording errors. Over-billings are ineligible, and are questioned as such.</p>	\$ 3,150	\$ -
<p>5. A number of Structural Operation and Maintenance expenditures in Giza in the equivalent of \$5,796, were inadequately supported by invoices, warehouse receiving reports, and/or inspection committee reports. Section B.5 (b) of Annex 2, Grant Agreement Standard Provisions Amendment No. 8, states that "The Grantee shall maintain accounting books, records, documents, and other evidence relating to the project and to this Agreement, adequate to show without limitation, all costs incurred under the Grant, (and) the receipt and use of goods and services acquired under the Grant." PMC management is unable to provide an explanation relating to the lack of support. As such the amount has been questioned as unsupported.</p>		5,796
<p>6. For various Structural Operation and Maintenance related expenditures made in Giza on behalf of other Governorates in the amount of \$32,114, the supporting warehouse receiving reports ("WRR's") do not provide sufficient evidence as to whether these expenditures relate to PMC. Specifically, the WRR's provided, contain insufficient information to identify which Governorate the expenditure relates. GOE warehouse receiving reports (form 112) and warehouse receiving logs are key internal controls used in determining if funds were expended for their intended purpose. Section B.5 (b) of Annex 2, Grant Agreement Standard Provisions Amendment No. 8, states that "The Grantee shall maintain accounting books, records, documents, and other evidence relating to the project and to this Agreement, adequate to show without limitation, all costs incurred under the Grant, (and) the receipt and use of goods and services acquired under the Grant." Accordingly, the amounts are considered unsupported.</p>		32,114
<p>7. For various expenditures incurred at the Kalubiyah Governorate, the amount of the expenditures recorded in the general ledger and billed to USAID/Egypt exceeded actual costs incurred as detailed in the expense vouchers by the equivalent of \$2,389. Documentation supporting the excess expenditures recorded is unavailable. Section B.5 (b) of Annex 2, Grant Agreement Standard Provisions Amendment No. 8, states that "The Grantee shall maintain accounting books, records, documents, and other evidence relating to the project and to this Agreement, adequate to show without limitation, all costs incurred under the Grant, (and) the receipt and use of goods and services acquired under the Grant." PMC management believes that support must exist for the excess amounts identified but may have been inadvertently misplaced. As such, the amounts are considered unsupported.</p>		2,389



Questionable Costs

Ineligible

Unsupported

ITEM DESCRIPTION

H. Miscellaneous:

1. In January 1993, PMC billed USAID/Egypt for the GOE's share of freight agent charges related to heavy equipment purchased in an amount equivalent to \$1,684 paid by checks No. 79324, 79327, 1158770, 1158771 and 1158787. However, in March 1993, this amount was remitted to the PMC bank account, but no subsequent deduction from billings to USAID/Egypt was made by PMC. A USAID/Egypt Action Memorandum dated November 19, 1991, states that "....AID will support project funding of up to 50 percent of items (1) off loading and (2) local freight agent." According to PMC management, the amount was errantly not deducted from USAID/Egypt billings. The amount is therefore considered ineligible.

*Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been adjusted to the final questioned cost amounts shown.*

\$ 1,684

\$ -

2. Expenditures in an amount equivalent to \$3,001 relating to the purchase of jewelry boxes and souvenirs for the participants of a training program and their wives, were paid in Giza on 1/22/95, by check No. 350405, and billed to USAID/Egypt. Paragraph 12, of Attachment B of OMB A-122 states that "Entertainment costs, costs of amusement,.... and costs related thereto,.... are unallowable." According to PMC management such items were purchased as a goodwill gift to the participants. As such, these costs are considered ineligible.

3,001

3. The equivalent of \$279 of sales taxes and service charges were billed to USAID/Egypt in relation to a training luncheon. The amount was paid by check No. 350405 on 1/31/95. Section B.4 (a) and (b) of Annex 2, 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,.... The Grantee will... reimburse (such amounts) with funds other than those provided under the Grant." According to PMC management, such tax exemption status is not accepted by all vendors. Nevertheless, the amount is considered ineligible.

279

**Total Miscellaneous Line Item**

\$ 4,964

\$ -

24

Questionable Costs

Ineligible

Unsupported

ITEM DESCRIPTION

**I. On-Shore Training:**

1. PMC billed USAID/Egypt for taxes and service charges relating to several training courses in an amount equivalent to \$279. Section B.4 (a) and (b) of Annex 2, 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.... The Grantee will.... reimburse (such amounts) with funds other than those provided under the Grant." PMC management acknowledged ineligibility of such charges and that the billing of these charges was an error. Accordingly, these amounts are considered ineligible.

**Total On-Shore Training line Item**

**TOTAL QUESTIONABLE COSTS**

\$ 279	\$ -
\$ 279	\$ -
\$ 22,819	\$ 133,755

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

June 9, 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 Preventive Maintenance Component ("PMC") of the Irrigation Management Systems ("IMS") Project under Project Implementation Letter ("PIL") No. 101 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") funded Grant Agreement No. 263-0132 ("Grant Agreement" or "Project") for the period January 1, 1993 through May 31, 1995 (the "audit period"), and have issued our report thereon dated June 9, 1996.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards ("GAS"), 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 GAS 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 GAS 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 PMC 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 terms of the Grant Agreement and the basis of accounting described in Note 2 of the report on the Fund Accountability Statement. 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 PMC for the audit period we obtained an understanding of the internal control structure as it relates to PIL No. 101 of the Grant Agreement. 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 ("AICPA"). 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.

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 reportable conditions that are also considered to be material weaknesses as defined above. However, we noted the following matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above. These conditions were considered in determining the nature, timing and extent of the procedures performed in our audit of the Fund Accountability Statement of PMC for the audit period.

#### REPORTABLE CONDITIONS - MATERIAL WEAKNESSES

##### **1. PMC's controls over cash receipts and disbursements are inadequate.**

During our review of controls surrounding the system of cash receipts and disbursements at the Governorates, we noted that many items for the project are apparently purchased in cash for amounts exceeding petty cash limits. For cash payments made, the Governorates issue checks in the name of employees who are responsible for cashing the check and providing payment to the vendors. These employees are not bonded increasing the risk that misappropriated funds will not be recovered. In addition, logs are not maintained by every Governorate to reconcile amounts drawn from the bank to pay vendor invoices. This system is also frequently used to advance funds to individual Governorates from Headquarters. Checks issued in this manner are also frequently not marked unendorseable.

Statement of Auditing Standard No. 55 ("SAS No. 55") **Consideration of the Internal Control Structure in a Financial Statement Audit**, states that an entity's control procedures should include "....adequate safeguards over access to, and use of assets and records." Section B.5 (b) of Annex 2, Grant Agreement Standard Provisions Amendment No. 8, states that "the Grantee shall maintain accounting books, records, documents and other evidence relating to the Project and to this Agreement, adequate to show without limitation, all costs incurred under the Grant, (and) the receipt and use of goods and services acquired under the Grant."

According to PMC management at Headquarters, controls over cash maintained at the Governorates are the responsibility of each Governorate and not of Headquarters. Management stated however, that checks provided in the name of employees are a necessity to meet urgent cash needs and pay vendors who only accept cash, since bank transfers are time consuming.

Lack of adequate controls over cash disbursements and receipts exposes PMC to the risk of the occurrence and non-detection of errors and irregularities.



**Recommendation No. 1**

We recommend that PMC adopt the following control procedures over cash receipts and disbursements:

1. Use checks in payment for expenditures in excess of petty cash limits. Checks should be in the name of the vendor.
2. Each Governorate should maintain a log to reconcile checks issued in the name of employees to subsequent payments to vendors who only accept cash and the proper disposition of surplus monies. These reconciliation logs should be reviewed by PMC management at Headquarters. Further, additional checks in the name of employees should only be issued after proper settlement of such prior checks.
3. Advances issued from Headquarters to the Governorates should be in the form of bank wire transfers.

\* \* \* \* \*

2. **PMC has not properly segregated the incompatible financial functions of approval, custody, and recording at various locations.**

During our assessment of PMC's internal control structure, we noted that the Chief Accountant at Headquarters performs several incompatible functions. Specifically, he is responsible for the following:

- ▶ The issuance of checks for payment. He is also a second signatory on PMC checks.
- ▶ The cashing of any checks received by PMC.
- ▶ The preparation and review of monthly bank reconciliations for PMC's main cash account.
- ▶ Maintaining custody over blank checks.
- ▶ Maintaining the project's books and records.
- ▶ Approving payment of vendor invoices.
- ▶ Being a member of the vendor selection committee.
- ▶ Reviewing the books and records maintained by the Governorates.

Similar segregation problems also existed with the Chief Accountants at the Governorates visited.

Statement of Auditing Standard No. 55 ("SAS No. 55") **Consideration of the Internal Control Structure in a Financial Statement Audit**, paragraph 11, states that, adequate control procedures include "Segregation of duties that reduce the opportunities to allow any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of his duties. (This entails) ....assigning different people the responsibilities of authorizing transactions, recording transactions, and maintaining custody of assets."

PMC management advised us that, a reduction of financial personnel resulted in only one Chief Accountant at Headquarters. Having one person responsible for the above mentioned functions exposes PMC to the risk of errors and irregularities going undetected.

**Recommendation No. 2**

We recommend that, in future USAID/Egypt financed projects, an additional accountant be hired or the incompatible jobs mentioned above be reallocated and segregated among existing management.

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Our audit disclosed the following reportable conditions not considered material weaknesses:

**REPORTABLE CONDITIONS - NON-MATERIAL WEAKNESSES**

- 1. **PMC has inadequate controls to ensure the accurate accumulation, recording and review of program expenditures in the general ledger.**

During our audit, we noted several items that were not recorded or had been excluded from the general ledger, for which no explanation could be provided by PMC management. In addition, supervisory review of general ledger entries does not occur consistently. As a result, we identified several instances of over and under billings to USAID/Egypt. Further, PMC does not utilize prenumbered forms to generate journal entries to the general ledger. Supporting documentation related to expenditures incurred, are not maintained consistently by check number issued, invoice number, or journal entry, to facilitate an easy audit trail. Management attributes the lack of review procedures to a shortage in staffing. There is only one person responsible for the majority of the accounting functions.

Statement of Auditing Standard No. 55 ("SAS No. 55"), **Consideration of the Internal Control Structure in a Financial Statement Audit**, states that an entity's control procedures should include "...adequate safeguards over access to, and use of assets and records." Also, control procedures should include the design and use of adequate documents and records and appropriate monitoring to help ensure the proper recording of transactions and events, independent checks on performance and proper valuation of recorded amounts.

Lack of such controls may lead to the occurrence and non-detection of errors or irregularities.

**Recommendation No. 1**

We recommend that PMC management improve their controls over accumulation, recording and review of the general ledger. Specifically, (1) prenumbered forms should be utilized to generate journal entries, (2) periodic management review of expenditures and general ledger entries should be performed to ensure proper recording of such expenditures, and (3) periodic reconciliations of USAID/Egypt billings and vendor invoices to the general ledger should be performed.

\* \* \* \* \*

- 2. **PMC does not have adequate controls to safeguard petty cash funds.**

During our testing and review of PMC cash management controls, we noted the following :

- a. Reconciliations of petty cash balances are not made.
- b. Pre-set petty cash replenishment limits are not established, at all Governorates.
- c. No periodic petty cash counts are performed.
- d. Use of the petty cash fund is not limited to daily, small transaction, operational needs. We noted the purchase of many items not typically purchased through petty cash; for example, maintenance equipment and refrigerators.



Statement of Auditing Standard No. 55 ("SAS No. 55"), **Consideration of the Internal Control Structure in a Financial Statement Audit**, states that an entity's control procedures should include "...adequate safeguards over access to, and use of assets and records." Also, control procedures should include the design and use of adequate documents and records and appropriate monitoring to help ensure the proper recording of transactions and events, independent checks on performance and proper valuation of recorded amounts.

PMC management has acknowledged the need for stronger controls over petty cash. Given the inherently risky nature of cash, the lack of adequate controls surrounding petty cash increases the potential for the misuse of project funds and unanticipated cash shortages.

#### Recommendation No. 2

We recommend that PMC management apply the following controls with regards to petty cash:

1. Reconciliations of petty cash funds should be regularly performed.
2. A minimum level of petty cash should be established based on historical expenditures at each PMC Governorate. Petty cash should be replenished at that level.
3. Surprise checks of petty cash funds should be performed by independent individuals.
4. Use of petty cash funds should be limited to daily, small transaction, operational needs.

\* \* \* \* \*

3. **PMC does not have an appropriate mechanism for canceling invoices paid to avoid duplicate payments.**

During our testing, we noted that PMC does not have proper controls in place to ensure that invoices are canceled, once paid, to avoid duplicate payments from being made. Statement of Auditing Standard No. 55 ("SAS No. 55"), **Consideration of the Internal Control Structure in a Financial Statement Audit**, states that an entity's control procedures should include "...adequate safeguards over access to, and use of assets and records." Also, control procedures should include the design and use of adequate documents and records and appropriate monitoring to help ensure the proper recording of transactions and events, independent checks on performance and proper valuation of recorded amounts. According to PMC management, every invoice is approved by an inspection committee responsible for ensuring that items purchased are in accordance with the terms of the purchase and GOE requirements. The signatures on the invoice indicate that the invoice has been paid and that duplicate payment is prevented. However, during our review we noted that it is difficult to discern these signatures as many other signatures are also on the invoices. As such, we believe that management's review of the invoices does not necessarily prevent duplicate payment.

Lack of an appropriate invoice canceling mechanism, increases the risk of double payment and double billing of expenditures.

#### Recommendation No. 3

We recommend that PMC cancel the invoices by stamping them "PAID".

\* \* \* \* \*



**4. PMC does not consistently maintain bank statements for accounts maintained at the six Governorate offices and does not perform timely reconciliations of cash balances.**

During our review of cash balances maintained by PMC, we noted that the project does not perform timely bank reconciliations at all locations, in particular, at the Governorates. Reconciliations prepared at Headquarters are not reviewed by an individual other than the preparer. In addition, the Governorates do not maintain bank statements to monitor cash balances held. It was only at our request that PMC obtained the bank statements and reconciled cash balances for some locations.

Section B.5 (b) of Annex 2. of the Grant Agreement Standard Provisions Amendment No. 8, states that "the Grantee shall maintain accounting books, records, documents and other evidence relating to the Project and to this Agreement, adequate to show without limitation, all costs incurred under the Grant, (and) the receipt and use of goods and services acquired under the Grant."

Statement of Auditing Standard No. 55 ("SAS No. 55"), **Consideration of the Internal Control Structure in a Financial Statement Audit**, states that an entity's control procedures should include "...adequate safeguards over access to, and use of assets and records." Also, control procedures should include the design and use of adequate documents and records and appropriate monitoring to help ensure the proper recording of transactions and events, independent checks on performance and proper valuation of recorded amounts.

According to PMC management, bank reconciliations are not consistently performed due to the fact that bank statements are not regularly provided by the banks. Unavailability of bank statements prevents the reconciliation of bank accounts. Lack of bank reconciliations increases the potential for the occurrence and non-detection of errors and irregularities.

**Recommendation No. 4**

We recommend that PMC apply the following controls:

1. Bank statements should be requested monthly by the responsible individuals at the Governorates and copies of these statements sent to PMC Headquarters.
2. Bank reconciliations should be performed monthly by all Governorates and copies of these reconciliations provided to PMC Headquarters.
3. Bank reconciliations should be reviewed and initialed by management to ensure their accuracy and timely disposition of reconciling items.

*Subsequent to the exit conference, management obtained copies of bank statements noted missing during our audit. However, we believe this condition continues to exist and that management needs to ensure consistent receipt of bank statements and performance of reconciliations.*

\* \* \* \* \*

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**5. PMC's controls over the receipt and use of goods and services are weak.**

During our testing, we noted the following control deficiencies over PMC's receiving operations:

- Many disbursements were not supported with warehouse receiving reports.
- For many warehouse receiving reports issued, we were unable to agree the receipt to the issuing Governorate's inventory log.
- Copies of many warehouse receiving reports reviewed at Headquarters, could not be traced to original documentation maintained at the Governorates visited.

These deficiencies have resulted in a large number of questioned costs in our report on the Fund Accountability Statement.

Statement of Auditing Standard No. 55 ("SAS No. 55") **Consideration of the Internal Control Structure in a Financial Statement Audit**, states that an entity's control procedures should include "....adequate safeguards over access to, and use of assets and records." Section B.5 (b) of Annex 2, Grant Agreement Standard Provisions Amendment No. 8, states that "the Grantee shall maintain accounting books, records, documents and other evidence relating to the Project and to this Agreement, adequate to show without limitation, all costs incurred under the Grant, (and) the receipt and use of goods and services acquired under the Grant."

Based on discussions with PMC management, the lack of warehouse receiving projects is primarily attributable to the immediate consumption of the goods purchased. Further, management explained that receiving reports that could not be traced to the issuing Governorates resulted because of errors in the preparation of these reports.

**Recommendation No. 5**

We recommend the following to improve controls over PMC's receiving operations:

1. Use warehouse receiving reports for all receipts, regardless of when the item is consumed.
2. Ensure that the warehouse receiving reports are properly recorded into the receiving Governorate's inventory log.
3. Strengthen the audit trail to ensure that copies of warehouse receiving reports are easily traceable to the originals in the issuing Governorate.

\*\*\*\*\*

This report is intended for the information of PMC 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*

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**REPORT OF INDEPENDENT ACCOUNTANTS  
ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS AND GRANTS**

June 9, 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 Preventive Maintenance Component ("PMC") of the Irrigation Management Systems ("IMS") Project under Project Implementation Letter ("PIL") No. 101 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") funded Grant Agreement No. 263-0132 ("Grant Agreement" or "Project") for the period January 1, 1993 through May 31, 1995 (the "audit period"), and have issued our report thereon dated June 9, 1996.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards ("GAS"), 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 GAS 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 GAS 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 PMC is the responsibility of PMC management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of PMC's 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

Material instances of non-compliance are failures to follow requirements, or violations of prohibitions, contained in laws, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have been corrected in PMC's fund accountability statement.



**MATERIAL INSTANCES OF NON-COMPLIANCE**

- 1. PMC management did not consistently apply GOE procurement procedures for items purchased for project activities.**

During our audit we noted that PMC did not consistently obtain competitive offers when acquiring goods and services for the project. We noted that several items costing in excess of LE 4,000 totaling LE 78,763 were procured without having a competitive bidding process. However, the items were properly supported as to their allocability and allowability.

Section C.4. of Annex 2. Grant Agreement Standard Provisions, states that "No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Grant. Such items will be procured on a fair and, to the maximum extent practicable, 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, and less than LE 4,000 per year for construction items. Further, the administrative regulations of Law No. 9 deny the use of direct procurement more frequently than once a year without ministerial approval.

PMC management informed us that, competitive procedures are not consistently applied for PMC purchases as it was not always practical to do so. Lack of competitive offers may result in excessive amounts being paid for goods and services.

**Recommendation No. 1**

We recommend that PMC management comply, fully, with the competitive principle of both the Grant Agreement and GOE Law No. 9.

\*\*\*\*\*

- 2. PMC billed USAID/Egypt for advances provided to Governorates that were not yet expended for project related goods or services.**

We noted that during the period January 1993 through November 1993, PMC billed USAID/Egypt for advances provided to Governorates for anticipated project expenditures, before actual disbursement took place at the Governorates.

Pursuant to the Protocol for Cash Advances between the GOE and USAID/Egypt, dated September 30, 1990, PMC follows the cost reimbursement billing system in reporting to USAID/Egypt. The aforementioned basis requires that billing be made subsequent to the receipt of goods and services. At the time of billing of the above mentioned advance amounts, goods or services were not yet received.

PMC management acknowledged their non-compliance with USAID/Egypt regulations. However, we noted that advance billings identified during the period January 1993 through November 1993 were subsequently settled, and this practice discontinued thereafter by PMC management. As such, no outstanding advances were noted as of May 31, 1995.

**Recommendation No. 2**

We recommend that PMC continue to comply with USAID/Egypt regulations regarding billing of advances. Accordingly, only actual costs incurred should be billed.

\*\*\*\*\*



**3. PMC billed USAID/Egypt for costs which should have been borne by the GOE.**

During our review of PMC project expenditures, we noted that the cost of items such as fire extinguishers, freight agent charges, employer's share of social insurance and taxes, that should have been borne by the GOE, were billed to USAID/Egypt.

According to the terms of the Grant Agreement, the cost of fire extinguishers, social insurance and taxes are to be paid by the Grantee from its own resources. Freight agent charges are to be shared equally between the GOE and USAID/Egypt. We have questioned as ineligible \$844 of fire extinguisher costs, \$1,752 of freight agent charges, \$9,871 of social insurance costs, and \$1,983 of taxes in our report on the fund accountability statement. Management has indicated that this was an error.

**Recommendation No. 3**

We recommend that PMC comply with the terms of the Grant Agreement regarding billing USAID/Egypt only for costs that are allowable under the Grant Agreement. Costs indicated to be borne by the GOE should not be billed to USAID/Egypt; any such costs billed, should be refunded to USAID/Egypt.

*Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, the questioned cost amounts noted above have been adjusted to the final amounts shown.*

\* \* \* \* \*

**4. PMC used USAID/Egypt provided funds as an advance to cover the GOE's share of project expenditures.**

During our review of PMC cash controls, we noted that on several occasions PMC management used USAID/Egypt funds as an advance to cover the GOE's share of program expenditures. Settlement of such advances by the GOE was subsequently provided to PMC, and deposited in PMC's USAID/Egypt bank account. In accordance with the Grant Agreement terms and regulations, USAID/Egypt monies may only be used to fund USAID/Egypt approved activities.

According to PMC management, this practice was used to temporarily cover cash shortfalls resulting from delays in the receipt of GOE funds. USAID/Egypt monies are refunded as soon as GOE funds are received. We noted no such advances outstanding as of May 31, 1995. However, PMC management acknowledged their non-compliance with the terms and regulations of the Grant Agreement.

**Recommendation No. 4**

We recommend that PMC discontinue the practice of using USAID/Egypt funds to finance GOE funded expenditures, and hence comply with the terms of the Grant Agreement.

\* \* \* \* \*

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

*Pam Waterhouse*

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PREVENTIVE MAINTENANCE COMPONENT  
PROJECT IMPLEMENTATION LETTER NO. 101  
UNDER THE USAID/EGYPT FUNDED  
IRRIGATION MANAGEMENT SYSTEMS PROJECT  
GRANT AGREEMENT NO. 263-0132

MANAGEMENT'S COMMENTS

SUMMARY OF PREVENTIVE MAINTENANCE PROJECT RESPONSE  
TO AUDIT REPORT

- A- TRANSPORTATION
  - A-1 Agree to report - Corrective action in process
  - A-2 Agree to report - Corrective action in process
  - A-3 Agree to report - Corrective action in process
  - A-4 We are requesting USAID approval
  
- B- OFFICE RENOVATION
  - B-1 Agree to report - Corrective action in process
  - B-2 Amount(s) recorded in log books  
Books are available for inspection
  - B-3 We are requesting USAID approval
  - B-4 See detailed report  
Attached copy of documents
  
- C- OFFICE EQUIPMENT
  - C-1 See detailed report attached copy of documents
  - C-2 Agree to report - Corrective action in process
  
- D- OFFICE FURNITURE
  - D-1 See detailed report  
Attached copy of documents
  - D-2 Amount(s) recorded in log books  
Books are available for inspection
  - D-3 See detailed report  
Attached copy of documents

PREVENTIVE MAINTENANCE COMPONENT  
PROJECT IMPLEMENTATION LETTER NO. 101  
UNDER THE USAID/EGYPT FUNDED  
IRRIGATION MANAGEMENT SYSTEMS PROJECT  
GRANT AGREEMENT NO. 263-0132

MANAGEMENT'S COMMENTS

- D-4 We are requesting USAID approval
- D-5 See detailed report, will provide copy of documents within one week
- E- OFFICE SUPPLIES
- E-1 Agree to report - Corrective action in process
- E-2 Amount(s) recorded in log books  
Books are available for inspection
- E-3 See detailed report  
Attached copy of documents
- F- TECHNICAL CONTRACTS
- F-1 Agree to report - Corrective action in process
- G- STRUCTURAL OPERATION AND MAINTENANCE
- G-1 We are requesting USAID approval
- G-2 Agree to report - Corrective action in process
- G-3 See detailed report  
Attached copy of documents
- G-4 Agree to report - Corrective action in process
- G-5 See detailed report  
Attached copy of documents
- G-6 Amounts(s) recorded in log books  
Books are available for inspection  
Attached copy of Book 118
- G-7 See detailed report  
Attached copy of documents
- G-8 Amount(s) recorded in log books  
Books are available for inspection  
Attached copy of Book 118

PREVENTIVE MAINTENANCE COMPONENT  
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MANAGEMENT'S COMMENTS

G-9 See detailed report  
Attached copy of documents

G-10 See detailed report  
Attached copy of documents

H- MISCELLANEOUS

H-1 Agree to L.E. 5675, corrective action in process

H-2 We are requesting USAID approval

H-3 Agree to report - Corrective action in process

I- ON SHORE TRAINING

I-1 Agree to report - Corrective action in process

Date: 9 June, 1996

Chief Accountant  
Yehia Eissa

*Yehia Eissa*

PREVENTIVE MAINTENANCE COMPONENT  
PROJECT IMPLEMENTATION LETTER NO. 101  
UNDER THE USAID/EGYPT FUNDED  
IRRIGATION MANAGEMENT SYSTEMS PROJECT  
GRANT AGREEMENT NO. 263-0132

INDEPENDENT ACCOUNTANTS' RESPONSE

Management of the Preventive Maintenance Component ("PMC") of the Irrigation Management Systems ("IMS") project provided comments to our report presented at the exit conference held on May 9, 1996. These comments have been included, unedited, in Appendix A of this report. We have reviewed management's comments and have either adjusted our final report or clarified our positions. Our response below parallels the audit report findings and management's comments.

RESPONSE TO PMC MANAGEMENT COMMENTS TO QUESTIONABLE COSTS AS  
DETAILED IN SUPPLEMENTAL SCHEDULE NO. 2

**A. Transportation:**

1. Management agrees with our finding.
2. Management agrees with our finding.
3. Management agrees with our finding.
4. PMC management indicated that they are seeking USAID approval for the expenditures incurred. Through the date of our response, no such approval has been provided. As such, our position remains unchanged and the amount remains questioned as shown.

**B. Office Renovation:**

1. Management agrees with our finding.
2. Based on our review of additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.
3. Subsequent to the issuance of our report, PMC management obtained a retroactive approval from USAID for the purchase of water lifts. Accordingly, we have adjusted our report to exclude the amount of \$392 or LE 1,320 previously questioned as ineligible.
4. Based on our review of additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.

**C. Office Equipment:**

1. Based on our review of additional support provided subsequent to the exit conference, we have adjusted our report to exclude \$322 or LE 1,085 of costs included in the total previously questioned amount of \$964 or LE 3,248. Management was able to provide adequate support for these costs. Accordingly, the total revised questioned cost amount is now \$642 or LE 2,163.
2. Management agrees with our finding.

**D. Office Furniture:**

1. Based on our review of additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.
2. Based on our review of additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.
3. Based on our review of additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.
4. PMC management indicated that they are seeking USAID approval for the expenditures incurred. Through the date of our response, no such approval has been provided. As such, our position remains unchanged and the amount remains questioned as shown.
5. Management was unable to provide additional support relating to this item. Accordingly, our position remains unchanged and the amounts remain questioned as shown.

**E. Office Supplies:**

1. Management agrees with our finding..
2. Based on our review of additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.
3. Based on our review of additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.

**F. Technical Contracts:**

1. Management agrees with our finding.

**G. Structural Operation & Maintenance:**

1. Subsequent to the issuance of our report, PMC management obtained a retroactive approval from USAID/Egypt for the purchase of water lifts. Accordingly, we have adjusted our report to exclude the amount of \$609 or LE 2,054 previously questioned as ineligible.
2. Management agrees with our finding.

**APPENDIX B**  
**Page 3 of 4**

3. Subsequent to the exit conference, PMC management obtained copies of bank statements supporting the expenditures previously questioned as unsupported. We have reviewed the bank statements and have been able to verify the validity of the expenditures. Accordingly, we adjusted our report to exclude \$14,275 or LE 48,106 in amounts previously questioned as unsupported.
4. Management agrees with our finding.
5. Based on our review of additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.
6. Based on our review of additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.
7. Management was unable to provide additional support relating to this item. Accordingly, our position remains unchanged and the amounts remain questioned as shown.
8. Based on our review of additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.
9. Management was unable to provide additional support relating to this item. Accordingly, our position remains unchanged and the amounts remain questioned as shown.
10. Based on our review of additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.

**H. Miscellaneous:**

1. Based on further review of documentation supporting the excess amount billed to USAID/Egypt, we noted that the excess amount billed was LE 5,675. Accordingly, we have adjusted this finding to exclude \$ 1,118 or LE 3,767 representing the excess amount questioned.
2. PMC management indicated that they are seeking USAID approval for the expenditures incurred. Through the date of our response, no such approval has been provided. As such, our position remains unchanged and the amount remains questioned as shown.
3. Management agrees with our finding.

**I. On-Shore Training:**

1. Management agrees with our finding.

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

With the exception of the findings noted below; management provided no comments relating to the report on internal control structure. Accordingly, our position with regards to the findings noted remains unchanged.

**REPORTABLE CONDITIONS - NON-MATERIAL WEAKNESSES**

**PMC does not consistently maintain bank statements for accounts maintained at the six Governorate offices and does not perform timely reconciliations of cash balances.**

Management obtained the bank statements noted missing during our audit subsequent to the exit conference. We adjusted our report to exclude items previously questioned as unsupported. However, our position with respect to management consistently obtaining bank statements and performing reconciliations of cash balances remains unchanged.

**RESPONSE TO MANAGEMENT COMMENTS TO THE REPORT ON COMPLIANCE WITH  
LAWS, REGULATIONS, CONTRACTS AND GRANTS**

With the exception of the findings noted below management provided no comments relating to the report on compliance with laws regulations, contracts and grants. Accordingly, our position with regards to the findings noted remains unchanged.

**PMC billed USAID/Egypt for costs which should have been borne by the GOE.**

Based on our review of additional documentation provided by management subsequent to the exit conference, we have adjusted the questioned costs noted as a result of this instance of non-compliance, to reflect the correct amounts shown in the report on compliance with laws, regulations, contracts and grants.

**PMC purchased items that were not in accordance with USAID/Egypt approved work plan.**

Subsequent to the issuance of our report, PMC management obtained retroactive approval from USAID/Egypt for the purchase of water lifts. Accordingly, we have excluded this finding from our final report.

PREVENTIVE MAINTENANCE COMPONENT  
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MISSION RESPONSE

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

August 18, 1996

CAIRO, EGYPT

MEMORANDUM

To : Lou Mundy, RIG/A/C

From : Shirley Hunter, OD/FM/FA 

Subject : Financial Audit of the Ministry of Public works and Water Resources, Expenditures Incurred Under the Preventive Maintenance Component of the Irrigation Management Systems Project (USAID/Egypt Project No. 263-0132)

Following is Mission response to the subject draft report:

Recommendation No. 1:

We recommend that USAID/Egypt make a final management decision on the questioned costs of \$156,574 (ineligible costs of \$22,819 and unsupported costs of \$133,755, detailed on pages 9 through 20 of the Price Waterhouse audit report, and recover from the Ministry of Public Works and Water Resources the amount determined to be unallowable.

Based on the CPA firm observations while conducting the Audit, Mission has transferred the action on recommendation No. 1 to RIG/I.

Therefore, Mission requests resolution of the recommendation No. 1. Closure will be requested upon receiving and implementing RIG/I's determination.

Recommendation No. 2:

We recommend that USAID/Egypt obtain evidence that the Ministry of public Works and Water Resources has addressed the internal control material weaknesses (inadequate controls over cash receipts and disbursements and improper segregation of financial functions) and previously reported reportable conditions (inadequate controls over the review of program expenditures and no appropriate mechanism for canceling paid vouchers) detailed on pages 22 through 25 of the Price Waterhouse audit report.

PIL 101 activities were completed on September 30, 1995. There are currently no active commitments with the Preventive Maintenance Component (PMC) under the Irrigation Management System Project, and none are planned. Should the Mission decide to have any future commitment with the PMC or with any other component under the Irrigation Management Project, a full assessment of the internal control environment and structure, and a host country contracting capabilities assessment will be required.

Based on the above, Mission requests closure of recommendation No. 2.

Recommendation No. 3:

We recommend that USAID/Egypt obtain evidence that the Ministry of public Works and Water Resources has addressed the material noncompliance issues (inconsistently applied procurement procedures, billing for anticipated expenditures, billing for the costs unallowed by the Grant Agreement, and using USAID/Egypt funds as an advance for Government of Egypt project expenditures) detailed on pages 29 and 30 of the Price Waterhouse audit report.

As mentioned under recommendation No. 2, above, there are currently no active commitments under the PMC and non are planned.

Therefore, Mission requests closure of recommendation No. 2.