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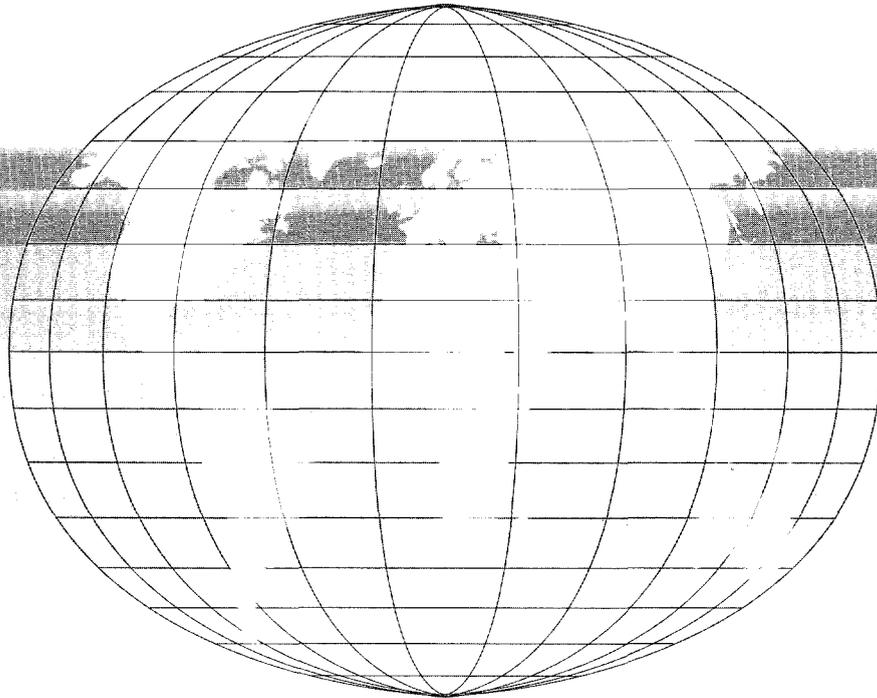
# Report of Audit

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## Audit of the USAID/Egypt's Role in Obtaining Audit Coverage of Its Contracts, Grants, and Cooperative Agreements

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Report No. 6-263-97-001-P  
January 31, 1997



Regional Inspector General for Audit  
Cairo, Egypt

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

January 30, 1997

**MEMORANDUM**

TO: USAID/Egypt Director, John R. Westley

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

SUBJECT: Audit of USAID/Egypt's Role in Obtaining Audit Coverage of Its Contracts, Grants, and Cooperative Agreements

This is our report on the subject audit. In finalizing the report, we considered the Mission's comments on the draft report, which are included in Appendix II. This report does not contain any recommendations for your action.

We appreciate the cooperation and assistance provided to the auditors on this assignment.

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**Background**

In March 1992, USAID established an audit management program to improve audit coverage of its assistance activities in developing countries. Recognizing that financial audits could improve accountability for funds provided to grantees and contractors, the audit management program defined a role for USAID missions in the financial audit process, making them responsible for:

- establishing a management control review committee to address all management control issues including audit,
- issuing mission-specific guidance on audit responsibilities and procedures,
- including specific audit management responsibilities in employees' performance evaluation reports,
- designating an audit management officer to manage the audit program at the mission level,
- preparing a database of all contracts and assistance agreements which may need to be audited, and

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- developing an audit plan to help ensure complete audit coverage of contracts and assistance agreements.

In May 1996, USAID consolidated its policies and procedures for financial audits, previously found in several different directives, in Chapter 591 of the Automated Directives System. The audit requirements and USAID's role in making sure that the audits are actually performed are summarized below.

**U.S. non-profit organizations** receiving \$25,000 or more in USAID funds in any one year (under grants, cooperative agreements, or contracts) shall have periodic audits performed in accordance with Office of Management and Budget Circular A-133. These audits will normally be performed annually, but must be performed no less frequently than every two years. The Office of Procurement in USAID/Washington is responsible for making sure that USAID funds provided to these organizations are audited.

**U.S. for-profit firms** receiving USAID funds under direct contracts, grants, or cooperative agreements (or cost-reimbursable host country contracts or subcontracts over \$250,000) will have annual audits performed. The Office of Procurement in USAID/Washington is responsible for making sure that USAID funds provided to these organizations are audited.

**Foreign private for-profit and non-profit organizations** receiving \$100,000 or more in USAID funds during the recipient's fiscal year will have an annual audit performed. USAID overseas missions are responsible for making sure that these audits are done.

**Foreign government agencies** receiving \$25,000 or more in USAID funds during a calendar year will have an annual audit performed. USAID overseas missions are responsible for making sure that these audits are done.

**International organizations** may agree to perform audits of USAID funds but USAID oversight of these audits is not required.

During the period from January 1, 1993 through September 30, 1995, USAID/Egypt disbursed \$2.5 billion.<sup>1</sup>

	<i>(millions)</i>
U.S. entities (USAID/Washington responsibility)	\$1,718
Non-U.S. entities (USAID/Egypt responsibility)	796
International entities (no audit requirements)	<u>5</u>
Total	<u>\$2,519</u>

<sup>1</sup> This figure includes disbursements under all types of agreements: e.g., contracts, grants, cooperative agreements, personal services contracts, bank letters of commitment, agreements with other U.S. Government agencies, etc. We estimate that more than 98 percent of the disbursements were made under contracts, grants, and cooperative agreements. The figure excludes disbursements that USAID/Egypt made on behalf of other USAID missions and offices and charged to the other missions and offices. Throughout this report, Egyptian pounds are converted to dollars at the rate of LE 3.40 to \$1.00.

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## **Audit Objective**

The Office of the Inspector General/Cairo performed an audit to answer the following audit question: Has USAID/Egypt carried out its role in obtaining audits of its contracts, grants, and cooperative agreements? Appendix I contains a discussion of the scope and methodology for the audit.

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## **Audit Findings**

Our answer to the following audit question is qualified to the extent of the effect, if any, of not having received written representations for the audit from the USAID/Egypt officials directly responsible for the audited activities. Appendix I discusses this qualification.

### **Has USAID/Egypt carried out its role in obtaining audits of its contracts, grants, and cooperative agreements?**

USAID/Egypt has carried out its role in obtaining audits of its contracts, grants, and cooperative agreements, although audits were not performed as frequently as required. The Mission has otherwise established an effective financial audit management program, and it has recently taken action to better ensure that financial audits are performed as frequently as required.

USAID/Egypt has taken several steps to implement an effective audit management program. For example, the Mission has:

- established a management control review committee to provide overall direction for the Mission's audit management program,
- designated an audit management officer in the Office of Financial Management to manage the audit program and advise the management control review committee on audit matters,
- prepared a database listing all grants and contracts that may be subject to audit requirements,
- developed an annual audit plan, and
- for the contracts and grants we examined, generally included appropriate audit provisions in the contracts and grants.

Audits were required for about \$103 million of USAID/Egypt's \$796 million in disbursements to non-U.S. entities during the period from January 1, 1993 through September 30, 1995. The following information shows the reasons why audits were not required for the other disbursements.

	<i>Disbursements (millions)</i>	
Audit required by USAID directives		\$103
Policy reform activities (Disbursements are for policy reforms undertaken by the host government and not for reimbursement of actual expenses.)		445
Fixed price contracts (Disbursements are not for reimbursement of actual expenses.)		167
Agreements funded by trust funds which belong to the host government (The funds do not belong to the U.S. Government. The funds are managed by USAID on behalf of the host government pursuant to a trust fund agreement. Audits of these funds are the responsibility of the host government.)		43
Personal services contracts and other payroll-related costs (Disbursements are for personal services, not for reimbursement of actual expenses incurred by an entity.)		12
Other:		
Collateral for loan funds (USAID funds were used to establish collateral funds for loans to small entrepreneurs. Once disbursed by USAID, the funds became the property of the host government.)	\$14	
Block grant disbursements (Disbursements were made upon the submission of acceptable plans for local development projects. They were not used to reimburse the actual expenses incurred on these projects.)	4	
Expenses incurred under travel authorizations (Disbursements are for travel expenses such as airline tickets, hotels, and allowances for meals and incidental expenses. It would not be cost effective to routinely audit such expenses because of the relatively small amounts involved.)	3	
Time and materials contracts (No audits are required by either the Federal Acquisition Regulations or USAID procedures.)	1	
Miscellaneous	<u>4</u>	<u>26</u>
Total		<u>\$796</u>

As of October 31, 1996, 148 audits of \$84 million in disbursements should have been performed. (Audits of another \$19 million in disbursements were due after October 31, 1996, or had no specific due date.) As shown in the following table, many of these required audits were not performed (detail may not add to totals due to rounding):

	<i>Required</i>	<i>Actually Performed</i>	<i>Required But Not Performed</i>
Number of audits:	148	52	96
Disbursements covered:	\$84 million	\$38 million	\$47 million

Of the 52 audits that were performed, 29 audits were submitted to the mission on time (within 13 months of the end of the recipient's fiscal year), and 23 audits were submitted late, by an average of 6 months.

Required audits were not performed, or not performed on time, primarily because USAID/Egypt officials believed that local public accounting firms did not have sufficient capacity to perform more audits. In August 1994, the Office of the Regional Inspector General for Audit in Cairo agreed with this assessment. Therefore, instead of requiring annual audits as required by USAID policies and procedures, the mission planned audits at longer intervals. This created the risk that accountability problems might not be detected or might not be detected in a timely manner.

However, USAID/Egypt's fiscal year 1997 audit plan, which included 56 planned audits, recognized that audits should generally be performed annually. If accomplished, these audits will cover \$40 million of the \$47 million for which audits were required but not performed. In view of this plan, which represents a sharp increase in the number of audits to be performed (the 56 planned audits represent a 124 percent increase over the 25 audits actually completed in fiscal year 1996), we are not making a recommendation to the mission to increase its audit coverage.

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## **Management Comments and Our Evaluation**

After reviewing the draft report, USAID/Egypt did not have any comments to offer since the report does not contain any recommendations for Mission action.

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## SCOPE AND METHODOLOGY

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### Scope

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

Fieldwork for the audit took place from July 31, 1996 through January 28, 1997. The audit scope covered whether USAID/Egypt (1) provided adequate direction over its financial audit program, (2) included appropriate audit clauses and budgets in grants and cooperative agreements with overseas entities, (3) established an accurate audit universe, and (4) requested audits when required. The audit examined USAID/Egypt's role in obtaining audit coverage of \$796 million disbursed to non-U.S. entities from January 1, 1993 through September 30, 1995. The audit considered financial audits completed as of October 31, 1996.

The audit included an assessment of USAID/Egypt's internal controls over the financial audit process and the foreign recipient-contracted audit program. We limited our conclusions to the items actually tested: that is, we did not attempt to project the results of our tests to items that we did not test.

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### Methodology

We performed the following procedures in answering the audit question of whether USAID/Egypt obtained the needed audit coverage of its overseas grantees and contractors:

- *An examination of whether appropriate audit clauses and funding for audits were included in grants, cooperative agreements, and contracts with overseas entities, including*

reviewing a judgmental sample of four bilateral grants, seven cooperative agreements, and eight contracts.

- *A determination of whether USAID/Egypt published guidance and established direction for financial audits, including reviewing (1) Mission Order 19-8, (2) minutes of meetings of the Mission's Management Control Review Committee and related correspondence, and (3) work objectives for selected Mission staff. We also interviewed selected USAID/Egypt personnel.*
- *A determination of whether the Mission established an audit universe, including (1) reviewing and testing the methodology for preparation of the audit universe, (2) reviewing the justification for the exclusion of certain contracts and grants, (3) verifying the accuracy of selected data entered into the audit universe by comparing the data with source documents, and (4) tracing 22 judgmentally-selected agreements for 4 projects into the audit universe to make sure that they were all included in the universe and that correct determinations were made about whether audits were required.*
- *An examination of whether USAID/Egypt made sure that audits were performed when required by USAID directives, including (1) obtaining a list of USAID/Egypt disbursements from January 1, 1993 through September 30, 1995 from the Mission Accounting and Control System; (2) classifying the disbursements as being made to U.S. entities, non-U.S. entities, or international entities; (3) determining how many audits were required to be performed for each non-U.S. recipient as of October 31, 1996; (4) determining how many audits were actually performed, and reviewing the audit reports to verify that they included an opinion on the funds audited, a report on internal controls, and a report on compliance with applicable laws and regulations; and (5) determining whether audits were completed within 13 months of the end of each recipient's fiscal year as required by USAID policies and procedures.*

Our threshold level for reporting material exceptions was a five percent error rate.

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**USAID**



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

November 27, 1996

**MEMORANDUM**

RECEIVED  
01 DEC 1996

To : RIG/A/C, Lou Mundy  
From : *[Signature]* AD/DIA, T. Christiansen-Wagner  
Subject : Audit of USAID/Egypt's Audit Coverage of  
Contracts, Grants, and Cooperative  
Agreements  
Draft Report dated November 4, 1996

Mission has reviewed the subject draft report and has no comments to offer since it contains no recommendations for Mission action.

Thank you for the extensive efforts performed by your Office under this audit.

Please issue the final report.

Regional Inspector General  
for Audit, Cairo, Egypt

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Tim Cox, Audit Manager  
Ken Reager, Auditor-in-Charge  
Mary Eileen Devitt, Referencer