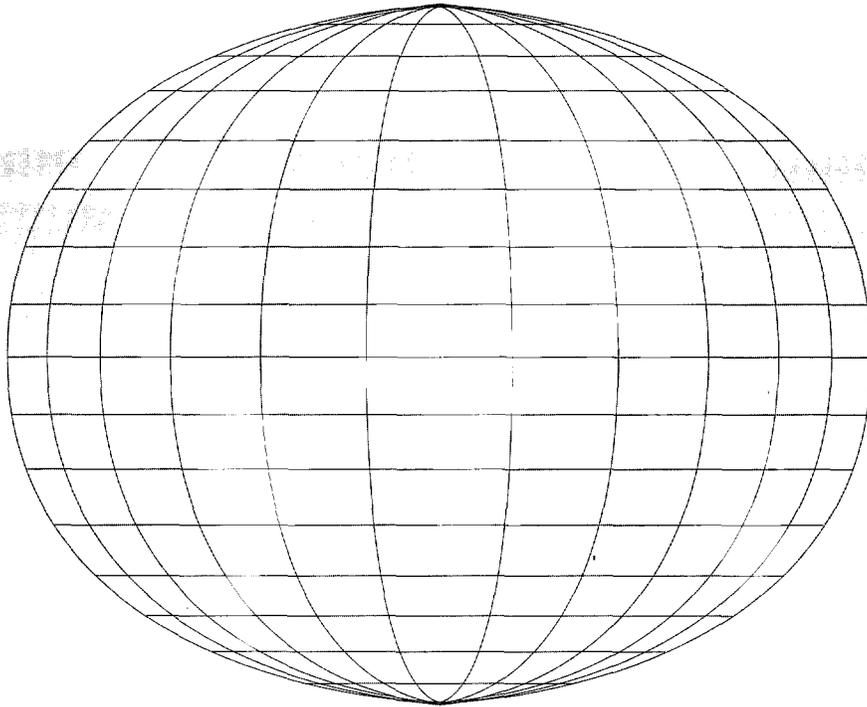


Report of Audit

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

**Report No. 6-263-97-031-N
July 31, 1997**



**FINANCIAL INFORMATION CONTAINED
IN THIS REPORT MAY BE PRIVILEGED.
THE RESTRICTION OF 18 US 1906 SHOULD
BE CONSIDERED BEFORE ANY INFORMATION
IS RELEASED TO THE PUBLIC.**

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

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

USAID



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

CAIRO, EGYPT

July 31, 1997

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley

FROM: RIG/A/C, Lou Mundy *Bruce M. Boyer* for _____

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

The attached report, transmitted on June 18, 1997, by Price Waterhouse, presents the results of a financial audit of the Irrigation Improvement Project Component, managed by the Ministry of Public Works and Water Resources (Ministry) under Project Implementation Letters (PILs) Nos. 99 and 102 of the Irrigation Management Systems Project, USAID/Egypt Project No. 263-0132. The purpose of the overall project was to increase production and productivity in the agricultural sector by improving irrigation efficiency.

We engaged Price Waterhouse to perform a financial audit of the Ministry's incurred expenditures of \$2,220,642 (equivalent to LE 7,546,849) for the periods April 1, 1995 through December 21, 1996 for PIL No. 99, and October 1, 1994 through September 21, 1995 for PIL No. 102. The purpose of the audit was to evaluate the propriety of costs incurred during these periods. Price Waterhouse also evaluated the Ministry's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement. As of the date of the audit report, the project was completed and no additional funding was being provided for any purpose. Therefore, Price Waterhouse did not issue reports on internal controls or compliance.

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The audit report questions \$1,266 (equivalent to LE 4,306) in costs billed to USAID/Egypt by the Ministry. The questioned costs related to unsupported costs for construction activities.

In response to the draft report, responsible Ministry officials provided additional explanation to the report findings. Price Waterhouse reviewed the Ministry's response to the findings and where applicable made adjustments to the report or provided further clarification of their position (see Appendices A and B).

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

Recommendation No. 1: We recommend that USAID/Egypt make a management decision on the questioned costs of \$1,266 (unsupported costs) detailed on page 9 of the Price Waterhouse audit report, and recover from the Ministry of Public Works and Water Resources the amounts determined to be unallowable.

In response to the recommendation, the Mission has sustained the entire \$1,266 and will offset that amount against voucher number 7-4418 for Irrigation Improvement Project expenditures under PIL No. 147 (see Appendix C). Based on the Mission's management decision, Recommendation No. 1 is resolved and will be considered to have had final action upon the offset of funds.

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

Attachment: a/s

**THE MINISTRY OF PUBLIC WORKS
AND WATER RESOURCES
IRRIGATION IMPROVEMENT PROJECT**

**PROJECT IMPLEMENTATION LETTERS
("PILs") Nos. 99 AND 102
UNDER THE USAID/EGYPT FUNDED
IRRIGATION MANAGEMENT SYSTEMS ("IMS") PROJECT
GRANT AGREEMENT No. 263-0132**

**FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION
FOR THE PERIODS**

**APRIL 1, 1995 THROUGH DECEMBER 21, 1996 FOR PIL No. 99 AND
OCTOBER 1, 1994 THROUGH SEPTEMBER 21, 1995, FOR PIL No. 102**

"Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public"

THE MINISTRY OF PUBLIC WORKS
AND WATER RESOURCES
IRRIGATION IMPROVEMENT PROJECT

PROJECT IMPLEMENTATION LETTERS ("PILs") Nos. 99 AND 102
UNDER THE USAID/EGYPT FUNDED
IRRIGATION MANAGEMENT SYSTEMS ("IMS") PROJECT
GRANT AGREEMENT No. 263-0132

FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION
FOR THE PERIODS
APRIL 1, 1995 THROUGH DECEMBER 31, 1996 FOR PIL No. 99 AND
OCTOBER 1, 1994 THROUGH SEPTEMBER 31, 1995, FOR PIL No. 102

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Price Waterhouse



June 18, 1997

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 Ministry of Public Works and Water Resources' ("MPWWR") Irrigation Improvement Project ("IIP") under the Irrigation Management Systems ("IMS") Project. The audit population includes revenues received and costs incurred by IIP under Project Implementation Letters ("PILs") Nos. 99 and 102, under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") funded Grant Agreement No. 263-0132 (the "Grant Agreement" or "Project"), for the periods April 1, 1995 through December 21, 1996 for PIL No. 99 and October 1, 1994 through September 21, 1995 for PIL No. 102, (collectively, the "audit periods").

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's purpose was to increase production and productivity in the agricultural sector by improving irrigation efficiency. The activities of the IMS project were carried out by 10 separate IMS components, one of which was IIP. The principal goal of IIP was to establish and field test an organizational structure within the GOE's MPWWR capable of providing technical and construction assistance, economic analysis, development assistance, and user involvement to remodel selected irrigation canal system commands.

PILs Nos. 99 and 102 activities are financed jointly by USAID/Egypt and the GOE. USAID/Egypt provided 30% and the GOE provided 70% of the funding under PIL No. 99. USAID/Egypt provided 80% and the GOE provided 20% of the funding under PIL No. 102. Funds provided under PIL No. 99 are designated to cover operating costs needed to monitor and control project activities such as: salaries, travel expenses, technical assistance, and cost of equipment and supplies needed. PIL No. 102 earmarked funds for the establishment of irrigation networks at selected canal command areas at the various GOE governorates. USAID committed funds in the amount of 80% of the cost of construction of approved irrigation system improvements such as water control structure, monitoring systems, and canal lining. The GOE also provides in-kind contributions in the form of personnel, operating cost support and certain fixed assets and commodities for both PILs.

Amendment No. 19 of PIL No. 99, dated December 2, 1996, approved USAID/Egypt funding to IIP of \$1,409,544 or LE 4,778,355 Egyptian Pounds ("LE") through December 21, 1996, and GOE funding of \$1,593,242 or LE 5,401,090. Amendment No. 13 of PIL No. 102, dated June 29, 1995, approved USAID/Egypt funding to IIP of \$12,002,072 or LE 40,807,044 through September 21, 1995. Amendment No. 9 of Grant Agreement No. 263-0132, 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 IIP under PILs Nos. 99 and 102 of the Grant Agreement during the audit periods. Specific objectives were to perform and determine the following:



1. Express an opinion on whether the fund accountability statement for the USAID/Egypt financed IIP 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 PILs Nos. 99 and 102 are in fact allowable, allocable and reasonable in accordance with the terms of the PILs and the Grant Agreement:
3. Obtain a sufficient understanding of the internal control structure of IIP, to assess control risk to adequately plan the nature, timing, and extent of tests performed:
4. Test expenditures for compliance with appropriate laws, regulations, contracts, and the Grant Agreement: and,
5. Determine if IIP has taken corrective action on prior audit report recommendations.

Preliminary planning and review procedures began in November, 1996. These procedures consisted of discussions with personnel from the Office of the Regional Inspector General for Audit in Cairo and IIP management, as well as a review of Financial Analysis Support Team and prior Non-Federal Audit reports. Audit fieldwork commenced in February, 1997 and was completed in June 18, 1997.

The scope of our audit included a population of project costs amounting to \$333,244 or LE 1,129,696 and \$1,887,398 or LE 6,417,153 for PILs Nos. 99 and 102, respectively. On a judgmental basis, we selected and tested \$80,963 or LE 274,469 representing a coverage of 24% of costs incurred under PIL No. 99 and \$867,903 or LE 2,950,871 with a coverage of 46 % of costs incurred under PIL No. 102. This level of testing for PIL No. 102 was warranted due to the nature of expenditures incurred, in connection with construction work performed, which required the examination of several construction contracts from inception to completion of work. Our audit population also included \$245,977 or LE 833,861 and \$1,833,148 or LE 6,232,704 of project revenues received for PILs Nos. 99 and 102, respectively. We tested one hundred percent of these revenues.

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

1. Reconciling IIP 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; and,
3. Determining if project costs were adequately supported and approved.

Except as discussed in the following paragraphs, 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. This program 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.

USAID/Egypt has requested we not report on IIP's internal control structure and overall compliance with laws, regulations, contracts and grants with respect to the PILs under audit as required by Chapter 5 of GAS. This is because recommendations to improve weaknesses in the internal control, and corrective actions to rectify instances of material noncompliance, cannot be implemented. Furthermore, the IIP project and the activities conducted under the PILs, and consequently, the internal control structure of MPWWR with respect to the Project and the PILs under audit, have ceased, with no additional funds being provided by USAID/Egypt. We believe that the effect of this departure from the financial audit reporting requirements of GAS is not material because, in planning and performing our audit of the fund accountability statement of MPWWR with respect to the IIP project and the related PILs for the audit periods, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures, and 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. Additionally, as part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of IIP's compliance with certain provisions of laws, regulations, contracts and grants that related directly to the allowability of revenues received and costs incurred under the PILs under audit. 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.

Results of Audit

Fund accountability statement

Our audit procedures identified \$1,266 or LE 4,306 of questionable project costs relating to PIL No. 102. These amounts are comprised of \$1,266 or LE 4,306 of unsupported costs for PIL No. 102. No ineligible costs were identified for PIL No. 102 and no questionable costs were identified for PIL No. 99. 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

As stated previously, the IIP project term has lapsed. PILs Nos. 99 and 102, and consequently, their related internal control structures have ceased. As a result, we did not perform a detailed evaluation of the MPWWR's internal control structure with respect to the IIP project for the PILs under audit.

Compliance with laws, regulations, contracts and grant

As stated above, the IIP project term has lapsed. PILs Nos. 99 and 102, and consequently, their related internal control structures have ceased. As a result, we did not evaluate the IIP project's overall compliance with applicable laws and regulations with respect to the PILs under audit.



Follow-up on Prior Audit Recommendations

We have reviewed the prior audit reports of IIP PILs Nos. 99 and 102 for the audit periods January 1, 1993 through March 31, 1995 and January 15, 1991 through September 30, 1994 (the "prior audit") respectively. Our review revealed the following:

Fund accountability statement

The prior audit report of PIL No. 99 identified questionable project costs of \$8.178 of ineligible costs and \$2.542 of unsupported costs. The prior audit report for PIL No. 102 questioned a cumulative amount of \$360.016 in ineligible costs. For PIL No. 99, USAID/Egypt sustained \$8.178 of ineligible costs and \$1.357 of unsupported costs. For PIL No. 102, USAID/Egypt officials sustained \$71.379, and accepted IIP's justifications for the remaining \$288.637. All prior audit questioned costs have been reimbursed to USAID/Egypt through the January and February 1996 billing vouchers for PIL No. 102, and the June 1996 billing voucher for PIL No. 99.

Internal control

As stated previously, the internal control structure of IIP as it relates to the PILs under audit has ceased. Therefore, we were unable to determine whether recommendations to correct deficiencies in the internal control structures have been implemented. However, based on our review of USAID/Egypt's Financial Analysis Support Team's audit resolution report, it appears IIP addressed these weaknesses and USAID/Egypt considers these findings closed.

Compliance with laws, regulations, contracts and grant

The prior audit report identified no instances of noncompliance as it relates to PILs Nos. 99 and 102.

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 MPWWR and IIP 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 THE FUND ACCOUNTABILITY STATEMENT**

June 18, 1997

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 Ministry of Public Works and Water Resources' ("MPWWR") Irrigation Improvement Project ("IIP") under the Irrigation Management Systems ("IMS") Project under Project Implementation Letters ("PILs") Nos. 99 and 102, of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") funded Grant Agreement No. 263-0132 (the "Grant Agreement" or "Project"), for the periods April 1, 1995 through December 21, 1996 for PIL No. 99, and October 1, 1994 through September 21, 1995 for PIL No. 102, (collectively, the "audit periods"). The fund accountability statement is the responsibility of MPWWR and IIP management. Our responsibility is to express an opinion on this statement based on our audit.

Except as discussed in paragraphs three and four, 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. This program 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.

USAID/Egypt has requested we not report on IIP's internal control structure and overall compliance with laws, regulations, contracts and grants with respect to the PILs under audit as required by Chapter 5 of GAS. This is because recommendations to improve weaknesses in the internal control, and corrective actions to rectify instances of material noncompliance, cannot be implemented. Furthermore, the IIP project and the activities conducted under the PILs, and consequently, the internal control structure of MPWWR with respect to the Project and the PILs under audit, have ceased, with no additional funds being provided by USAID Egypt. We believe that the effect of this departure from the financial audit reporting requirements of GAS is not material because, in planning and performing our audit of the fund accountability statement of MPWWR with respect to the IIP project and the related PILs for the audit periods, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures, and 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. Additionally, as part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of IIP's compliance with certain provisions of laws, regulations, contracts and grants that related directly to the allowability of revenues received and costs incurred under the PILs under audit. 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.



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 \$1,226 or LE 4.306 of questionable project costs relating to PIL No. 102. These amounts are comprised of \$1,266 or LE 4.306 of unsupported costs for PIL No. 102. No ineligible costs were identified for PIL No. 102 and no questionable costs were identified for PIL No. 99. Project costs that are ineligible for USAID/Egypt reimbursements are those that are not program related or are prohibited by PILs terms, 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 sixth paragraph, the fund accountability statement referred to in the first paragraph presents fairly, in all material respects, project revenues received and costs incurred by IIP under the PILs Nos. 99 and 102 of the Grant Agreement for the audit periods, in conformity with the basis of accounting described in Note 2.

This report is intended for the information of MPWWR and IIP 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

THE MINISTRY OF PUBLIC WORKS AND WATER RESOURCES'
 IRRIGATION IMPROVEMENT PROJECT ("IIP")
 PROJECT IMPLEMENTATION LETTERS ("PILs") Nos. 99 AND 102
 UNDER THE USAID/EGYPT FUNDED
 IRRIGATION MANAGEMENT SYSTEMS PROJECT
 GRANT AGREEMENT No. 263-0132

FUND ACCOUNTABILITY STATEMENT
 FOR THE PERIODS

APRIL 1, 1995 THROUGH DECEMBER 21, 1996 (FOR PIL No. 99)
 AND OCTOBER 1, 1994 THROUGH SEPTEMBER 21, 1995 (FOR PIL No. 102)

	Approved Budget (Note 1)	Actual (Note 1)	Project Cost Disallowances (Note 4)	Revised Actual (Note 1)	Questionable Project Costs		Finding Reference (Note 5)
					Ineligible (Note 5)	Unsupported (Note 5)	
REVENUES - USAID/EGYPT							
PIL No. 99		\$ 245,977		\$ 245,977			
PIL No. 102		1,833,148		1,833,148			
TOTAL REVENUES		\$ 2,079,125		\$ 2,079,125			
EXPENDITURES							
PIL No. 99:							
Support Personnel	\$ 9,750	\$ 15,452	\$ (6,104)	\$ 9,348	\$ -	\$ -	Page 9 No. I (A)
Vehicle Operation/ Maintenance	-	-	(6,156)	(6,156)	-	-	
Office Supplies	8,727	8,723	-	8,723	-	-	
Office Equipment/ Furniture	66,714	66,710	(939)	65,771	-	-	
Office Renovation	4,633	4,633	-	4,633	-	-	
Communication and Report	1,770	1,737	-	1,737	-	-	
TA Support	8,252	6,719	-	6,719	-	-	
Vehicle Insurance	-	-	-	-	-	-	
Travel / Per diem	197,312	199,925	-	199,925	-	-	
Training	68	68	-	68	-	-	
Other Support Costs	30,354	29,277	-	29,277	-	-	
Total PIL No. 99	\$ 327,580	\$ 333,244	\$ (13,198)	\$ 320,045	\$ -	\$ -	
PIL No. 102							
Construction Activities	\$ 2,069,556	\$ 1,887,398	\$ (54,247)	\$ 1,833,151	\$ -	\$ 1,266	Page 9 No. II (A)
Total PIL No. 102	\$ 2,069,556	\$ 1,887,398	\$ (54,247)	\$ 1,833,151	\$ -	\$ 1,266	
ENDING FUND BALANCE							
PIL No. 99		\$ (87,267)		\$ (74,068)			
PIL No. 102		(54,250)		(3)			
TOTAL ENDING FUND BALANCE		\$ (141,517)		\$ (74,071)			

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

**THE MINISTRY OF PUBLIC WORKS AND WATER RESOURCES' ("MPWWR")
IRRIGATION IMPROVEMENT PROJECT ("IIP")
PROJECT IMPLEMENTATION LETTERS ("PILs") Nos. 99 AND 102**

**UNDER THE USAID/EGYPT FUNDED
IRRIGATION MANAGEMENT SYSTEMS ("IMS") PROJECT
UNDER GRANT AGREEMENT No. 263-0132**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF STATEMENT:

The fund accountability statement includes project revenues received and costs incurred by IIP under PILs Nos. 99 and 102 under Grant Agreement No. 263-0132 (the "Grant Agreement" or "Project"), for the periods April 1, 1995 through December 21, 1996 for PIL No. 99, and October 1, 1994 through September 21, 1995 for PIL No. 102 (collectively, the "audit periods").

"Budget" includes USAID/Egypt approved project costs in accordance with the most recent budget amendments of PILs Nos. 99 and 102 within the audit periods, and is presented for informational purposes only. Amendment No. 19 to PIL No. 99, dated December 2, 1996, approved total project costs of \$1,409,544 or Egyptian pounds ("LE") 4,778,355 project inception to December 21, 1996, the project termination date. IIP's certified fiscal report for PIL No. 99 dated April 1, 1995 indicates cumulative expenditures of \$1,081,964 or LE 3,667,859 were incurred from project inception through March 31, 1995. Accordingly, total "Budget" during the audit period for PIL No. 99 has been calculated to be \$327,580 or LE 1,110,496. Amendment No. 13 to PIL No. 102 approved a budget of \$12,002,072 or LE 40,807,044 from project inception through September 21, 1995. IIP's certified fiscal report for PIL No. 102 dated February 1, 1995 indicates cumulative expenditures of \$9,932,516 or LE 33,770,556 were incurred from project inception through September 30, 1994. Accordingly, total "Budget" during the audit period for PIL No. 102 has been calculated to be \$ 2,069,556 or LE 7,036,488. "Budget" amount in LE has been converted to US dollars at an average exchange rate of 3.39 and 3.4 LE to one US dollar for PILs Nos. 99 and 102, respectively, as explained in Note 3 below.

"Actual" represents cumulative project revenues received and costs incurred by IIP under PILs Nos. 99 and 102 during the audit periods. "Revised Actual" represents actual project costs adjusted for USAID/Egypt disallowances of costs during the audit periods as explained in Note 4 below. Expenditures in LE have been converted to US dollars at an average exchange rate of 3.39 and 3.4 LE to one US dollar for PILs Nos. 99 and 102, respectively, as explained in Note 3 below. Actual revenues for PIL No. 99 are less than project expenditures due to timing differences between the receipt of funds from USAID/Egypt and project disbursements and USAID/Egypt disallowances of costs incurred, as explained in Note 4 below. Accordingly, "Actual" and "Revised Actual" for PIL No. 99 have outstanding negative balances of \$87,267 or LE 295,835 and \$74,068 or LE 251,093, respectively. PIL No. 102 project expenditures exceed actual revenues received due to disallowances of costs as explained in Note 4 below by USAID/Egypt that were not reimbursed to IIP. As such, "Actual" and "Revised Actual" for PIL No. 102 have outstanding negative balances of \$54,250 or LE 184,449 and \$3 or LE 10, respectively.

NOTE 2 - BASIS OF PRESENTATION:

The fund accountability statement of IIP, for the PILs under audit, 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 3.39 LE to one US dollar for PIL No. 99 and 3.4 LE to one US dollar for PIL No. 102. The exchange rate has been calculated by averaging the ending monthly exchange rates during the audit periods.

NOTE 4 - PROJECT COST DISALLOWANCES:

Disallowances represent project costs disallowed by USAID/Egypt during the audit periods. These costs have not been reimbursed to IIP by USAID/Egypt, and have been reduced from the actual expenditures to reflect expenditures actually reimbursed to IIP.

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NOTE 5 - QUESTIONABLE PROJECT COSTS:

Questionable project costs are presented separately, by respective PIL number, and budget line item, 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 the PILs, 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:

<u>ITEM DESCRIPTION</u>	Questionable Costs	
	<u>Ineligible</u>	<u>Unsupported</u>
I. PIL No. 99		
A. Support Personnel		
<i>1. 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.</i>	\$ -	\$ -
Total Support Personnel Questionable Costs	\$ -	\$ -
TOTAL PIL No. 99 QUESTIONABLE COSTS	\$ -	\$ -
II. PIL No. 102		
A. Construction		
<i>1. An amount of \$1,266 related to construction activities in the area of "Qiman Arous" at the Minia governorate for the quarter January 1995 through March 1995, billed to USAID/Egypt, lacked adequate supporting documentation. According to Section B.5(b) of Annex 2 of the Grant Agreement Standard Provisions, "...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." IIP management could not locate the support for this payment. Therefore, the amount is questioned as unsupported.</i>	\$ -	\$ 1,266
Total Construction Questionable Costs	\$ -	\$ 1,266
TOTAL PIL No. 102 QUESTIONABLE COSTS	\$ -	\$ 1,266
TOTAL PIL Nos. 99 AND 102 QUESTIONABLE COSTS	\$ -	\$ 1,266

THE MINISTRY OF PUBLIC WORKS
AND WATER RESOURCES
IRRIGATION IMPROVEMENT PROJECT

PROJECT IMPLEMENTATION LETTERS ("PILs") Nos. 99 AND 102
UNDER THE USAID/EGYPT FUNDED
IRRIGATION MANAGEMENT SYSTEMS PROJECT
GRANT AGREEMENT No. 263-0132

MANAGEMENT COMMENTS

MINISTRY OF PUBLIC WORKS
AND WATER RESOURCES
IRRIGATION IMPROVEMENT SECTION
PUM ELBARAJIA, IRRIGATION BLDG.
BHOULIFA, ELBARAJIAT
ISMAILIYAH POST NO. 11014
PHONE : 2384704 / 2380802
FAX : 2384913 / 2316882



IRRIGATION IMPROVEMENT PROJECT

وزارة الأشغال العامة
والمياه
قطاع تطوير الري
شعبة المظلات - قسم نظم الري
ص.ب. 11014 - إسماعيلية
ت : 2384704 / 2380802
ف : 2384913 / 2316882

الإدارة العامة للمشروعات
رقم المسار : ٤٤
رقم الملف :
التاريخ : ١٨ / ١١ / ١٩٩٧

To: Price Water House
4, Road 261
New Maadi, Cairo
Egypt

From: IIP Project Director Ministry of Public Works and Water Resource.

Subject: Audit Review Report Pils 99 & 102

Referring to the meeting held on 11/6/97 in the USAID Office , We hereby wish to waive the exit conference , and here are our comments on the two cost questioned in the audit report:-

I- Pill No 99 :-

A- Support Personnel

Attached are the minutes of meeting of the high committee of I.M.S which approved the extra effort mentioned the audit report so, the amount of 6203 L.E. is eligible and we don't agree about deducting such amount.

II- Pil No 102:-

A- Construction:-

The amount of 320055.17 L.E. was reimbursed as representing the 80% of the USAID sharing of the contract value , But the actual amount of the final statement of account (as attached) is 314671.930 L.E. , for which the USAID share is equal to 251,737.50 L.E. , So the difference of 4306 L.E. is ineligible.

Thus we agree about deducting that amount .

With Best Regards ..

IIP Director

18/11/97

Eng. Nabil Fawzy

CC: to Eng. Mahmoud Mabrouk
USAID

THE MINISTRY OF PUBLIC WORKS
AND WATER RESOURCES
IRRIGATION IMPROVEMENT PROJECT

PROJECT IMPLEMENTATION LETTERS ("PILs") Nos. 99 AND 102
UNDER THE USAID/EGYPT FUNDED
IRRIGATION MANAGEMENT SYSTEMS PROJECT
GRANT AGREEMENT No. 263-0132

MANAGEMENT COMMENTS

IIP'S RESPONSE TO THE DRAFT AUDIT

REPORT PREPARED BY

PRICE WATERHOUSE

The following is IIP's response to the draft audit report of Price Waterhouse for the questioned costs disclosed related to the PILs under audit.

QUESTIONED COSTS:

A. PIL No. 99

1. IIP disagrees with the auditors and has determined that the amount of overtime paid to janitors and drivers for exerting "extra effort" are allowable under the IMS High Committee rules and regulations. IIP has provided Price Waterhouse with the minutes of the IMS High Committee meeting, approving the payment of overtime to contracted employees, for the extra effort exerted on project related activities.

B. PIL No. 102

1. IIP agrees with the auditors that unsupported costs are not allowed under the terms of the agreement with USAID and will assume financial responsibility for these costs.

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THE MINISTRY OF PUBLIC WORKS
AND WATER RESOURCES
IRRIGATION IMPROVEMENT PROJECT

PROJECT IMPLEMENTATION LETTERS ("PILs") Nos. 99 AND 102
UNDER THE USAID/EGYPT FUNDED
IRRIGATION MANAGEMENT SYSTEMS PROJECT
GRANT AGREEMENT No. 263-0132

Independent Accountants' Response

Management of the Irrigation Improvement Project ("IIP") of the Irrigation Management Systems Project provided comments to our report presented at the exit conference held on June 11, 1997. 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 IIP MANAGEMENT COMMENTS TO QUESTIONABLE COSTS AS
DETAILED IN SUPPLEMENTAL SCHEDULE NO. 2

PIL No. 99

A. Support Personnel

1. Subsequent to the exit conference, management provided additional support relating to the overtime amount paid. Management has indicated in the support provided that these amounts were based on established guidelines set forth by the IMS High Committee. Based on our review of the additional support provided, we have adjusted our report to exclude the amount of \$1,830 or LE 6,203, previously questioned as ineligible.

PIL No. 102

1. Management agrees with our finding. Accordingly, the cost remains questioned as shown.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

July 30, 1997

CAIRO, EGYPT

MEMORANDUM

30 JUL 1997

To : Bruce Boyer, RIG/A/C

From : Shirley Hunter, Division Chief, FM/FA 

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

Following are the actions taken by the Mission to resolve Recommendation No. 1 under the subject audit.

Recommendation No. 1:

We recommend that USAID/Egypt make a management decision on the questioned costs of \$1,266 (unsupported costs) detailed on pages 9 of the Price Waterhouse audit report, and recover from the Ministry of Public Works and Water Resources the amounts determined to be unallowable.

Mission response

In their response to the auditors dated June 18, 1997, IIP indicated that the un-supported costs of \$1,266 (LE 4,306) resulted from a computation error between the amount billed to USAID and the actual financial statement, attachment a.

Therefore, the amount is sustained and will be offset from the IIP's expenditures No. 1, Log No. 7-4418 for LE 2,624,784 under the IMS Project, PIL No. 147, attachment b.

Based on the above, Mission requests resolutions of Recommendation No. 1. Closure will be requested from M/MPI/MIC upon recovery of the sustained amount.

M