

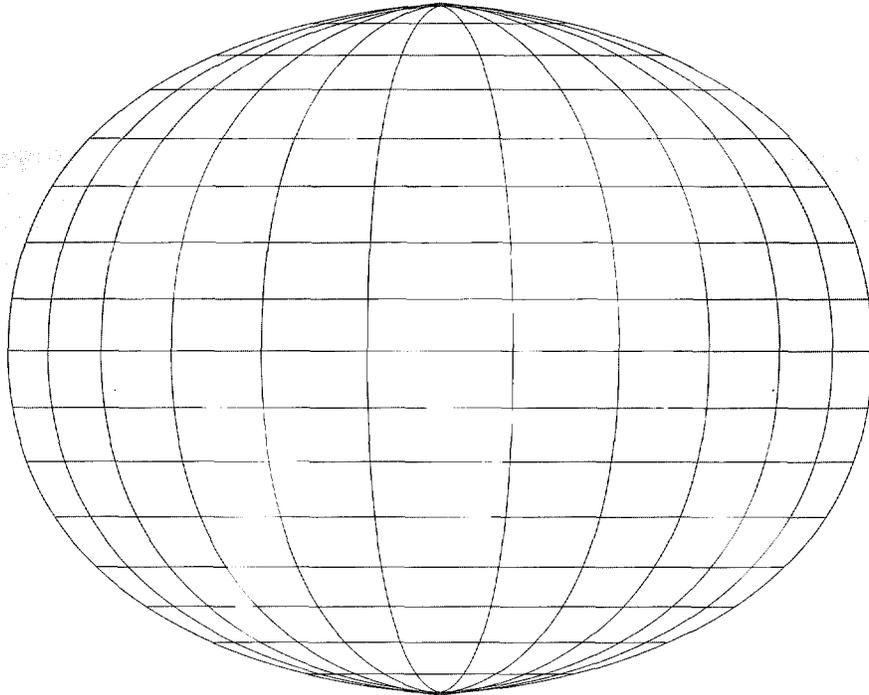
# Report of Audit

---

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

---

**Report No. 6-263-97-032-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 N. Boyer*  
for

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

The attached report, transmitted on July 3, 1997 by KPMG Hazem Hassan, presents the results of a financial audit of the Main Systems Management component, managed by the Ministry of Public Works and Water Resources (Ministry) under Project Implementation Letter (PIL) No. 72 of the Irrigation Management Systems Project, USAID/Egypt Project No. 263-0132. The purpose of the component was to establish an automated water measuring data collection and communications network.

We engaged KPMG Hazem Hassan to perform a financial audit of the Ministry's incurred expenditures of \$1,092,763 (equivalent to LE 3,701,189) for the period July 1, 1993 through February 28, 1997. The purpose of the audit was to evaluate the propriety of costs incurred during this period. KPMG Hazem Hassan also evaluated the Ministry's internal controls as they pertained to the component, 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, KPMG Hazem Hassan did not issue reports on internal controls or compliance.

The audit report questions \$6,461 (equivalent to LE 21,883) in costs billed to USAID/Egypt by the Ministry. The questioned costs related primarily to bonuses paid to employees, the purchase of publications for general use, and to advances for workshops.

*U.S. Mailing Address*  
USAID-RIG/A/C Unit 64902  
APO AE 09839-4902

*Tel. Country Code (202)*  
357-3909  
*Fax # (202) 355-4318*

*#106 Kasr El Aini St.,  
Cairo Center Building,  
Garden City, Cairo, Egypt*

A

In response to the draft report, responsible Ministry officials provided additional explanation to the report findings. KPMG Hazem Hassan reviewed the officials' response to the draft report and where applicable, made adjustments to the report or provided further clarification (see Appendices I and II).

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 \$6,461 (ineligible costs of \$4,788 and unsupported costs of \$1,673) detailed on pages 13 to 17 of the KPMG Hazem Hassan 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 reported that of the total questioned costs of \$6,461, it had determined that \$2,539 is allowable and the remaining \$3,922 is sustained and will be offset against outstanding voucher number 7-4418 for Irrigation Improvement Project expenditures for December 1996. 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

B

Financial Audit of the  
Main Systems Management (MSM)  
USAID/Egypt Project No. 263-0132  
Project Implementation Letter (PIL) No. 72  
for the Period July 1, 1993 Through February 28, 1997

"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."

Financial Audit of the  
Main Systems Management (MSM)  
USAID/Egypt Project No. 263-0132  
Project Implementation Letter (PIL) No. 72  
for the Period July 1, 1993 Through February 28, 1997

TABLE OF CONTENTS

	<u>Page</u>
<u>INTRODUCTION</u>	
Background	1
Audit Objectives and Scope	2
Results of Audit	5
Management's Comments	6
 <u>Fund Accountability Statement</u>	
Independent Auditor's Report	7
Fund Accountability Statement	10
Notes to the Fund Accountability Statement	11
details of Questioned Costs	13
 <u>Appendices</u>	
Appendix I	Management's Response
Appendix II	Auditor's Comments
Appendix III	Mission's Comments

*d*

# **KPMG** Hazem Hassan

## **Public Accountants & Consultants**

72 Mohi Eldin Abul Ezz Street  
Mohandseen, Cairo  
Egypt

Telephone: (202) 3499588 - 3499677  
Telefax : (202) 3497224 - 3487819  
Telex : 20457 (hhco - un)

Mr. Lou Mundy  
Regional Inspector General for Audit-Cairo  
United States Agency for International Development  
Cairo, Egypt.

July 3, 1997

Dear Mr. Mundy,

This report represents the results of our financial audit of the Main Systems Management (MSM) USAID/Egypt Project No.263-0132 for Project Implementation Letter (PIL) No. 72 for the period July 1, 1993 through February 28, 1997.

### **Background**

The grant from USAID/Egypt to the Government of Egypt (GOE) provided funding for Irrigation Management System (IMS) projects. Supporting the Ministry of Public Works and Water Resources (MPWWR) was the grant agreement's primary objective. Such support consists of technical and capital assistance for the planning, design, rehabilitation and management of Egypt's irrigation system. Increasing production and productivity in the agricultural sector and improving the system-wide water use efficiency for irrigation were the goals by which the grant agreement's primary objective would be met. Assistance was provided to include technical advisory services, commodities, training and evaluation.

The grant agreement's goals were to be accomplished through activities implemented by ten components that are administered by existing units of MPWWR of which the MSM component, PIL No. 72, is one. The MSM component is responsible for project activities related to PIL No. 72

which was intended to accomplish the enhancement of the capability of MPWWR to manage effectively the release and distribution of water for irrigation and other purposes. The MSM component was to establish an automated water measuring, data collection and communications network to provide MPWWR with the information required on a timely basis. Support was also provided to develop the capability to manage competently, operate, and maintain the information network.

PIL No. 72 has been amended twenty seven times. The last amendment was issued on January 8, 1997 to extend the project completion date to February 28, 1997. Our scope was to audit PIL No. 72 for the period from July 1, 1993 through February 28, 1997, when the project ended.

A non-federal audit (NFA) was conducted for PIL No. 72 for the period March 10, 1986 through June 30, 1993.

We have not issued Reports on Internal Control and Compliance with Applicable Laws and regulations as required by Paragraph 15 of Chapter 5 of the Government Auditing Standards. In addition, we have not reported on follow-up of Prior Audit Recommendations as required by Paragraph 26 of Chapter 5 of Government Auditing Standards. As of the date of our report on the fund accountability statement the project was completed and no additional funding had been provided for PIL No. 72.

#### Audit Objectives and Scope

The objective of this engagement was to conduct a financial audit of USAID/Egypt's resources managed by the Main Systems Management USAID/Egypt Project No.263-0132 for Project Implementation Letter (PIL) No. 72 for the period July 1, 1993 through February 28, 1997. The audit covered an examination of MSM's expenses, billed to and reimbursed by USAID/Egypt, in order to determine whether they were in compliance with the terms and conditions of the PIL and USAID/Egypt rules and regulations. At the request of USAID/Egypt, the scope of our audit was limited to issuing an audit report on the fund accountability statement. Because the project had ended and was not expected to

receive future USAID/Egypt funding, we were informed that additional procedures, necessary for issuing a report on the Project's internal controls and the Project's compliance with Laws and Regulations, were not required.

The specific objectives of our audit were to:

1. express an opinion on whether the fund accountability statement, for the USAID financed agreement with MSM, 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 bases of accounting; and
2. determine whether the costs, reported as incurred under the PIL, are, in fact, allowable, allocable, and reasonable in accordance with the terms of the PIL.

Preliminary planning and review procedures started in February, 1997 and consisted of:

- discussions with RIG/A/C officials;
- a review of the PIL;
- interviews and discussions with MSM's key personnel concerning the status of the PIL, accomplishments during the period, the statutory reporting requirements, the PIL's budget, procedures governing actual expenditures incurred by MSM and billed to USAID/Egypt; and
- reviews of the MSM organizational structure and MSM's established policies and procedures, and controls related to personnel, procurement, financial accounting and reporting, and billing to USAID/Egypt.

The field work segment of our audit was completed on April 29, 1997. The scope of our work was to audit costs incurred by MSM and reimbursed by USAID/Egypt under PIL No. 72. Within each budget line item, we selected transactions on a judgmental basis in order to perform a substantive test of

details. We tested expenditures of \$624,463 (equivalent to LE2,115,056) out of total expenditures amounting to \$1,092,763 (equivalent to LE3,701,189).

Our tests of expenditures included, but were not limited to, the following:

1. Reconciling MSM's accounting records to invoices issued to USAID/Egypt and testing costs for allowability, allocability, reasonableness, and adequate supporting documentation;
2. Determining whether payroll and professional consultants' costs were appropriate and consistent with the terms of the PIL and applicable rules and regulations and were adequately supported and approved; and
3. Determining whether costs of training, office equipment and supplies, professional equipment and supplies, hoist modification system, stilling wells, communication/reports, travel and per diem, and workshops, were adequately supported and approved.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive

quality control review by partners and managers from other KPMG offices.

We have not issued Reports on Internal Control and Compliance with Applicable Laws and regulations as required by Paragraph 15 of Chapter 5 of the Government Auditing Standards. In addition, we have not reported on follow-up of Prior Audit Recommendations as required by Paragraph 26 of Chapter 5 of Government Auditing Standards. As of the date of our report on the fund accountability statement the project was completed and no additional funding had been provided for PIL No. 72.

As part of our examination, we made a study and evaluation of relevant internal controls and reviewed MSM's compliance with applicable laws and regulations.

#### **Results of Audit**

##### **PIL No. 72 Fund Accountability Statement**

Our audit identified questioned costs totaling \$6,461 (equivalent to LE21,883), which are divided into ineligible costs, amounting to \$4,788 (equivalent to LE16,218), and unsupported costs, amounting to \$1,673 (equivalent to LE5,665)

#### **Supplementary Information**

The supplementary fund accountability statement, presented in the functional currency, and detailed schedules of questioned costs, including dates, numbers of vouchers and amounts, were communicated to MSM's management and are available upon request.

**Management's Comments**

We have reviewed MSM's response to the questioned costs identified as a result of our audit, which is included as Appendix I. Where applicable, we have made adjustments in our report or provided further clarification of our position in Appendix II. For those items not adjusted in the final report, the responses provided by MSM's management have not changed our understanding of the fund accountability statement.

This report is intended for the information of the United States Agency for International Development and MSM's management. However this report is a matter of public record and its distribution is not limited.



KPMG Hazem Hassan  
Cairo, Egypt

FUND ACCOUNTABILITY STATEMENT

6A

# **KPMG** Hazem Hassan

## **Public Accountants & Consultants**

72 Mohi Eldin Abul Ezz Street  
Mohandseen, Cairo  
Egypt

Telephone: (202) 3499588 - 3499677  
Telefax : (202) 3497224 - 3487819  
Telex : 20457 (hhco - un)

### **Report on the Fund Accountability Statement** **Independent Auditor's Report**

Mr. Lou Mundy  
Regional Inspector General for Audit-Cairo  
United States Agency for International Development  
Cairo, Egypt.

We have audited the accompanying fund accountability statement of funds received and costs incurred locally in Egypt by the Main Systems Management (MSM) USAID/Egypt Project No.263-0132 for Project Implementation Letter (PIL) No. 72 for the period July 1, 1993 through February 28, 1997. This fund accountability statement is the responsibility of MSM's management. Our responsibility is to express an opinion on this fund accountability statement, based upon our audit.

Except as discussed in the following two paragraphs, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audits 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 the significant estimates made by management, as well as evaluating the presentation of the overall fund accountability statement. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

We have not issued Reports on Internal Control and Compliance with Applicable Laws and regulations as required by Paragraph 15 of Chapter 5 of the Government Auditing Standards. In addition, we have not reported on follow-up of Prior Audit Recommendations as required by Paragraph 26 of Chapter 5 of Government Auditing Standards. As of the date of our report on the fund accountability statement the project was completed and no additional funding had been provided for PIL No. 72.

The aforementioned fund accountability statement does not include the cost of USAID/Egypt's direct procurement of vehicles, equipment and technical assistance provided by USAID/Egypt directly to MSM, nor the total revenues and costs incurred by MSM on an organization-wide basis.

As described in Note 1, the accompanying fund accountability statement has been prepared on the cash basis, which is a comprehensive basis of accounting other than the generally accepted accounting principles. Included in the fund accountability statement are questioned costs of \$6,461. The basis for questioning these costs is described in the "Details of Questioned Costs" section of this report.

In our opinion, except for the effects of the questioned costs referred to in the preceding paragraph, the fund accountability statement, referred to above, presents fairly, in all material respects, the amounts received and the costs incurred pursuant to Project Implementation Letter No. 72 for the period July 1, 1993 through February 28, 1997 in conformity with the basis of accounting described in Note 1.



KPMG Hazem Hassan  
Cairo, Egypt

April 29, 1997

Main Systems Management (MSM)  
Fund Accountability Statement  
Project Implementation Letter (PIL) No. 72  
Under USAID/Egypt Project No. 263-0132  
For the Period July 1, 1993 Through February 28, 1997

USAID/Egypt funds received

\$  
1,113,060

<u>Expenditures</u>	Actual \$	Reclassification	Actual After	Questioned Costs		Finding No. & Pg.
			Reclassification	Ineligible \$	Unsupported \$	
Support Personnel	50,391	5,486	55,877	2,009	---	Finding No. 1 a) P. 13
Professional Consultants	30,388	-4,702	25,686	---	---	
Training (In Country)	15,795	10,810	26,605	94	27	Finding No. 2 a) and b) P. 14
Office Equipment and Supplies	73,392	0	73,392	---	---	
Professional Equipment and Supplies	11,517	0	11,517	---	---	
Hoist Modification System	115,712	0	115,712	---	---	
Stilling Wells	291,241	0	291,241	---	---	
Workshops	150,665	487	151,152	---	1,646	Finding No. 3 P. 15
Communication/Reports	4,712	0	4,712	2,539	---	Finding No. 4 P. 16
Travel and Per diem	172,470	-12,623	159,847	146	---	Finding No. 5 P. 16
Others (O & M)	176,481	542	177,023	---	---	
<b>Total Expenditures</b>	<b><u>1,092,764</u></b>	<b><u>0</u></b>	<b><u>1,092,764</u></b>	<b><u>4,788</u></b>	<b><u>1,673</u></b>	

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

**Main Systems Management (MSM)**  
**Fund Accountability Statements P/L No. 72**  
**under USAID/Egypt Project No. 263-0132**  
**Notes to the Fund Accountability Statement**

**Note 1: Accounting Basis**

The fund accountability statement has been prepared on the basis of cash receipts and disbursements. Consequently, revenues are recognized when they are actually received and expenditures are recognized when they are actually paid.

**Note 2: Source of Data**

The column labeled "Actual" is the responsibility of MSM management and represents the cumulative costs billed to USAID/Egypt for the period July 1, 1993 through February 28, 1997.

The "Actual After Reclassifications" column represents actual project costs, adjusted for project cost reclassification, as explained in note 6.

**Note 3: Exchange Rate**

Expenditures paid in Egyptian Pounds (LE) have been translated into US Dollars (\$). The period average exchange rate method was used. This rate is \$1 = LE 3.387

**Note 4: Questioned Costs**

Questioned costs are presented in two separate categories, ineligible and unsupported, and consist of proposed audit findings made on the basis of the terms of the PIL and related regulations, which prescribe the nature and treatment of reimbursable costs. Costs in the column labeled "Ineligible" are supported by vouchers or other documentation but are ineligible for reimbursement because they are either unreasonable, not project related, or are prohibited by the PIL or applicable laws and regulations. Costs in the column labeled "Unsupported" are also included in the classification of "Questioned Costs" and are related to costs that are not supported by adequate documentation. All questioned costs are detailed in the "Details of Questioned Costs" section of this report.

**Note 5: Project Cost Reclassifications**

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

**Note 6: Actual Expenditures**

The column entitled "Actual Expenditures" represents total expenditures incurred by the project for the period from July 1, 1993 through February 28, 1997. However, the expenditures for the period from November 1, 1996 through February 28, 1997 amounting to \$32,308 (equivalent to LE109,426) were billed to USAID/Egypt but not reimbursed until the end of our audit. Additionally, the column contains an amount of \$60,113 (equivalent to LE203,602) which represents expenses billed to and not reimbursed by USAID/Egypt as a settlement of the financial findings noted in the previous audit report.

Details of Questioned Costs  
Project Implementation Letter No. 72  
Main Systems Management (MSM)  
under USAID/Egypt Project No. 263-0132  
Fund Accountability Statement

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	\$	\$
<b>1. <u>Support Personnel</u></b>		
a) This amount represents bonuses paid to the employees on the occasions of the feast and Labor Day. MSM's management believes that the project should comply with the Ministry's policy which allows such bonuses. Clause 5.5, Section B of the Grant Agreement stated that "Bonuses should be paid from any sources other than USAID/Egypt's fund". Therefore, we consider this amount to be ineligible.	2,009	
b) Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.	---	
<b>Total Line Item</b>	<b><u>2,009</u></b>	<b><u>---</u></b>

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
<b>2. <u>Training (In Country)</u></b>		
a) This amount represents the cost of transportation paid to a trainee as a transportation allowance. MSM's management stated that this trainee was assigned to the project based upon a ministerial decree. According to OMB Circular No. A-122 amounts charged to USAID/Egypt should be allocable to the project. We consider this amount not related to the project. Therefore we consider this amount to be ineligible.	94	
b) This amount represents an amount charged to USAID/Egypt without supporting documents. MSM's management stated that this amount was posted wrongly to the USAID/Egypt invoice. Section B.5 of the Project Grant Standard Provisions requires the project to maintain the supporting documents necessary to substantiate amounts billed to USAID/Egypt. Therefore, we consider this amount to be unsupported.		27

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
c) Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.	---	
<b>Total line item</b>	<b><u>94</u></b>	<b><u>27</u></b>
<b>3. <u>Workshop</u></b>		
This amount represents advances for workshops billed to USAID/Egypt. No supporting documents were available for this amount. MSM's management agrees with this finding. Section B.5 of the Project Grant Standard Provisions requires the project to maintain the supporting documents necessary to substantiate amounts billed to USAID/Egypt. Therefore, we consider this amount to be unsupported.		
<b>Total line item</b>	<b><u>---</u></b>	<b>1,646</b> <b><u>1,646</u></b>

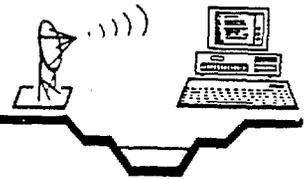
<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
<b>4. <u>Communication/Reports</u></b>		
<p>This amount represents the cost of publications for general use. MSM's management stated that these publications represent newsletters which were approved by the project officer. However, this approval had not been provided to us as of the date of this report. OMB Circular No. A-122 states that publications for general use are not allowable. Therefore, we consider this amount to be ineligible.</p>	2,539	
<b>Total line item</b>	<b><u>2,539</u></b>	<b><u>---</u></b>
<b>5. <u>Travel &amp; Per diem</u></b>		
<p>This amount represents gratuities paid to obtain the release of a car license taken by the traffic control. MSM's management agrees with this finding. OMB Circular No. A-122 stated that gratuities are not allowable. Therefore, we consider this amount to be ineligible.</p>	146	
<b>Total Line Item</b>	<b><u>146</u></b>	<b><u>---</u></b>

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
6. <u>Others (O &amp; M)</u>		
Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.	---	
Total Line Item	---	---
Total Questioned Costs	<u>4,788</u>	<u>1,673</u>
		<u>6,461</u>

APPENDIX I  
MANAGEMENT RESPONSE

# MAIN SYSTEMS MANAGEMENT PROJECT

Ministry of Public Works and Water Resources  
Consultant: Harza Engineering Company  
Chicago, U.S.A.



June 16, 1997

Mr. Mahmoud Mabrouk  
MSM Project Officer  
USAID Cairo Mission  
106 Kasr El-Aini St.,  
Cairo, Egypt

File : Admin -004/395  
Subject : Response to the Auditor's Report

Dear Mr. Mabrouk:

You will find attached with the response to the Auditor's report and the check No. 564139 amount LE84,839 (eighty four thousand eight hundred thirty nine) - dated 5/10/1995 to the USAID for your information.

Sincerely yours,

*S. M. Abou-Zeid*

Eng. Soliman Abou-Zeid  
MSM Project Director

Encl.: As noted

RESPONSE TO THE FINANCIAL AUDIT OF  
THE SYSTEMS MANAGEMENT (MSM)  
USAID - EGYPT PROJECT NO. 263-0132  
PROJECT IMPLEMENTATION LETTER (PIL) NO. 72  
FOR THE PERIOD FROM JULY 1, 1993 THROUGH 28, 1997

ITEM DESCRIPTION

1. Support Personnel
  - a. \$2009 agree to refund this amount
  - b. \$2231 refund by check No. 0564139 dated 5/10/1995
  
2. Training (in-country)
  - a. \$94 agree to refund this amount
  - b. \$27 agree to refund this amount
  - \$11921 refund by check No. 564139 dated 5/10/1995
  
3. Workshop  
\$1646 deposited to Bank ACC
  
4. Communication / reports  
\$2539 request approval from the Project Officer - USAID
  
5. Travel / per diem  
\$146 agree to refund this amount
  
6. Others (O&M)  
\$5859 refund by check No. 564139 dated 5/10/1995

APPENDIX II  
AUDITOR'S COMMENTS

**AUDITOR'S COMMENTS**

Page 1 of 2

**PIL No. 72**

**Finding No. 1 a**

MSM's management agrees with this finding. Therefore, this finding will remain the same.

**Finding No. 1 b**

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

**Finding No. 2 a**

MSM's management agrees with this finding. Therefore, this finding will remain the same.

**Finding No. 2 b**

MSM's management agrees with this finding. Therefore, this finding will remain the same.

**Finding No. 2 c**

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

22

**Finding No. 3**

MSM's management stated that this amount was deposited to the bank account. Although this amount was deposited to the bank, it was not deducted from the vouchers sent to USAID/Egypt. Therefore, this finding will remain the same.

**Finding No. 4**

MSM's management stated that a request for approval was submitted to the project officer to approve this expense. However, we did not receive this approval until the issuance date of this report. Therefore, this finding will remain the same.

**Finding No. 5**

MSM's management agrees with this finding. Therefore, this finding will remain the same.

**Finding No. 6**

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

23

APPENDIX III  
MISSION'S COMMENTS



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

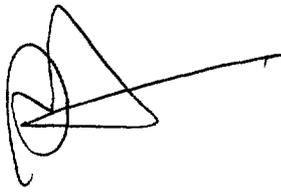
CAIRO, EGYPT

31 JUL 1997

**M E M O R A N D U M**

**DATE** : July 30, 1997

**TO** : Bruce Boyer, RIG/A/C

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

**SUBJECT** : Draft Financial Audit of the Ministry of Public Works and Water Resources, Expenditures Incurred Under the Main Systems Management (MSM) Systems Project PIL No. 72 under USAID Egypt Project No. 263-0132, Mission response to the draft audit report

Following is the action 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 \$6,461 (ineligible costs of \$4,788 and unsupported costs of \$1,673) detailed on pages 13 to 17 of the KPMG Hazem Hassan audit report, and recover from the Ministry of Public Works and Water Resources the amounts determined to be unallowable.

**Mission response:**

Based on Mission review, of the \$6,461 (LE 21,883) questioned, \$2,539 (LE 8,600) is considered allowable, and \$3,922 (LE 13,283) is sustained. The sustained amount will be deducted from the IIP Expenditures voucher Log No. 7-4418 for December 1996, of LE 2,624,784. Therefore, Mission requests resolutions of Recommendation No. 1. Closure will be requested from M/MPI/MIC.

Following are the details of Mission determination and a summary table of amounts allowed and amounts sustained.

25

**Allowed amounts:**

Finding No. 4: for \$2,539:

In their request for the Project Officer approval, dated June 12, 1997, MSM indicated that this amount was utilized for publishing and distributing the Newsletters to all Directorates, MPWWR Senior Staff, Project Officers in USAID and other concerned projects. They also have utilized this amount in publishing the Project English and Arabic brochures which lay down the project objectives. The request was approved by the Project Officer, attachment a.

Furthermore, on a separate letter dated July 8, 1997, the CPA firm indicated their approval for removing the finding, attachment b.

**Sustained amounts:**

findings No. 1.a, 2.a., 2.b. and 5 totaling \$2,276

MSM agreed to the findings.

Finding No. 3, for \$1,646

The amount is sustained since it has been remitted to MSM/NIB Account but never credited in their monthly Billing to USAID.

Thank you for your cooperation.