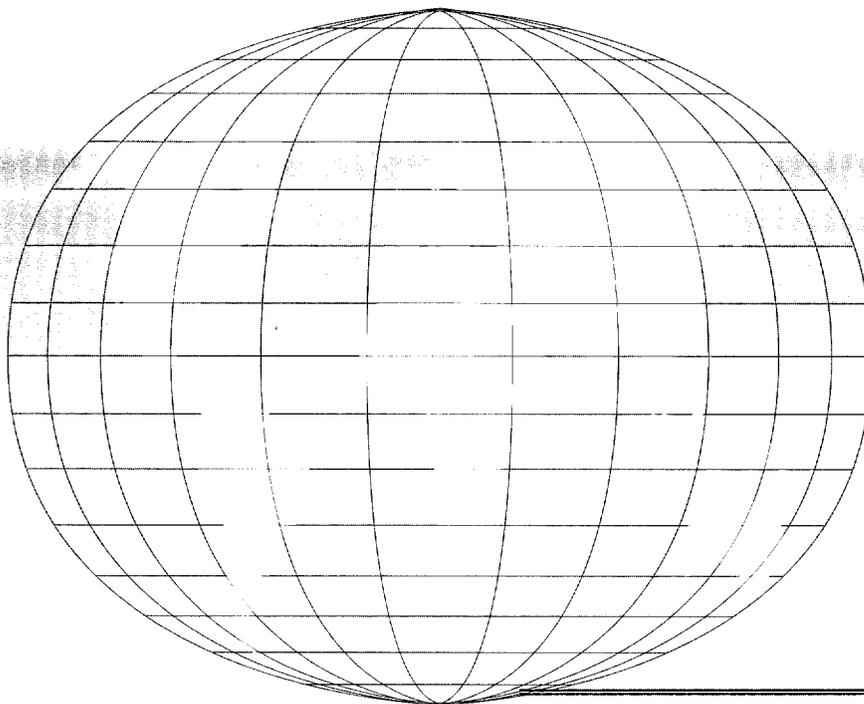


Report of Audit

**Financial Audit of the Ministry of Economy and
International Cooperation's Monitoring Unit,
Expenditures Incurred Under the Technical
Support for Sector Policy Reform Project
(USAID/Egypt Project No. 263-0233)**

**Report No. 6-263-97-033-N
August 4, 1997**



**FINANCIAL INFORMATION CONTAINED
IN THIS REPORT MAY BE PRIVILEGED.
THE RESTRICTION OF 18 US 1905 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**



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

CAIRO, EGYPT

August 4, 1997

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley

FROM: RIG/A/C, Lou Mundy *Bruce Bayer*
for

SUBJECT: Financial Audit of the Ministry of Economy and International Cooperation's Monitoring Unit, Expenditures Incurred Under the Technical Support for Sector Policy Reform Project (USAID/Egypt Project No. 263-0233)

The attached report, transmitted on July 15, 1997, by Coopers & Lybrand, presents the results of a financial audit of the Ministry of Economy and International Cooperation's Monitoring Unit (Monitoring Unit) of expenditures incurred under Project Implementation Letter (PIL) No. 2 of the Technical Support for Sector Policy Reform Project, USAID/Egypt Project No. 263-0233. PIL No. 2 financed the establishment of the Monitoring Unit within the Ministry for monitoring performance of the sector policy reform program and to assess the impact of those policy reforms.

We engaged Coopers & Lybrand to perform a financial audit of the Monitoring Unit's incurred expenditures of \$192,521 (equivalent to LE 656,881) for the period August 1, 1994 through June 30, 1996 for the PIL. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Coopers and Lybrand also evaluated the Monitoring Unit's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement.

The audit report questions \$470 (equivalent to LE 1,605) in costs billed to USAID/Egypt by the Monitoring Unit. The questioned costs related to ineligible payments of sales taxes.

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

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USAID-RIG/A/C Unit 64902
APO AE 09839-4902

Tel. Country Code (202)
357-3909
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Cairo Center Building,
Garden City, Cairo, Egypt*

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Recommendation No. 1: We recommend that USAID/Egypt make a management decision on the questioned ineligible costs of \$470 detailed on page 8 of the Coopers & Lybrand audit report, and recover from the Ministry of Economy and International Cooperation's Monitoring Unit the amounts determined to be unallowable.

In response to the recommendation, the Mission reported that the Ministry has reimbursed the \$470 with their check no. 959198 dated July 31, 1997 (see Appendix A). Based on the above final action, Recommendation No. 1 is considered closed upon issuance of this report.

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

**FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES PROVIDED
THROUGH PROJECT IMPLEMENTATION LETTER NUMBER 2 TO THE
MINISTRY OF ECONOMY AND INTERNATIONAL COOPERATION'S
MONITORING UNIT UNDER THE
TECHNICAL SUPPORT FOR SECTOR POLICY REFORM
PROJECT NO. 263-0233**

**FOR THE PERIOD FROM
AUGUST 1, 1994 THROUGH JUNE 30, 1996**

**FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES PROVIDED
THROUGH PROJECT IMPLEMENTATION LETTER NUMBER 2 TO THE
MINISTRY OF ECONOMY AND INTERNATIONAL COOPERATION'S
MONITORING UNIT UNDER THE
TECHNICAL SUPPORT FOR SECTOR POLICY REFORM
PROJECT NO. 263-0233**

**FOR THE PERIOD FROM
AUGUST 1, 1994 THROUGH JUNE 30, 1996**

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July 15, 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 the United States Agency for International Development Mission to Egypt (USAID/Egypt) resources managed through Project Implementation Letter (PIL) Number 2 by the Ministry of Economy and International Cooperation's (MEIC) Monitoring Unit under the Technical Support for Sector Policy Reform (TSSPR) Project Number 263-0233 for the period from August 1, 1994 through June 30, 1996.

Background

The grant agreement No. 263-0233, dated August 24, 1992, provided for three years of technical assistance to assist the Government of Egypt (GOE) in its agenda to complete policy reforms as described in the Cash Transfer for Sector Policy Reform Program. Ten million U.S. Dollars were provided under this agreement for four sectors: financial, fiscal, trade, and privatization. Specifically, the technical assistance was focussed on developing, carrying out, monitoring, and evaluating the GOE's Sector Policy Reform Program. In addition, to the sector-oriented technical assistance, the project financed a limited amount of staff support for the MEIC. This includes responsibility for monitoring and reporting to USAID/Egypt. Monitoring is the responsibility of the Ministry's Monitoring Unit. Direction is provided through PIL No. 2.

PIL No. 2, dated August 1, 1994, provided a LE 500,000 line of credit for a budget of LE 618,200 for the first year to accomplish the objectives set forth in the grant agreement. PIL No. 2 has been amended eight times and the total funding to date is LE 1,613,325.

Audit objectives and scope

The objective and scope of this engagement was to perform a financial-related audit of USAID/Egypt resources provided through PIL Number 2 under the TSSPR Project Number 263-0233 for the period from August 1, 1994 through June 30, 1996. Specific objectives were to:

1. express an opinion on whether the fund accountability statement presents fairly, in all material respects, project revenues received and project costs incurred related to PIL No. 2 during the audit period in conformity with generally accepted accounting principles or another comprehensive basis of accounting;
2. determine if the project costs reported as incurred for PIL No. 2 are allowable, allocable, and reasonable in accordance with PIL terms;
3. evaluate and obtain a sufficient understanding of Monitoring Unit internal control structure related to PIL No. 2, assess control risk and identify reportable conditions, including material internal control weaknesses;

4. determine whether the Monitoring Unit complied, in all material respects, with the terms of PIL No. 2 and applicable laws and regulations;
5. perform an audit of the indirect cost rate if the grantee has been authorized to charge indirect costs using provisional rates, and USAID/Egypt has not yet negotiated final rates with the organization; and
6. determine if the Monitoring Unit has taken corrective action on prior audit report recommendations.

Preliminary planning and review procedures began in March, 1997 and consisted of discussions with personnel from the Office of the Regional Inspector General for Audit in Cairo ("RIG/A/C") and the Monitoring Unit's personnel, and a review of the grant agreement and PIL Number 2. Audit fieldwork commenced in May and was completed in June, 1997.

The audit population was \$192,521 (equivalent to LE 656,881) in project cost incurred under PIL Number 2 for the audit period. We selected, on a judgmental basis, and tested from the audit population, project costs incurred of \$165,103 (equivalent to LE 563,332) which resulted in testing 85% of the audit population. Project costs incurred were converted to U.S. dollars at the exchange rate of 1 U.S. dollar = LE 3.412. Our tests of project costs incurred by the Monitoring Unit included, but were not limited to, the following:

1. reconciling project accounting records to billings issued by the Monitoring Unit to USAID/Egypt to ensure that project costs were supported with appropriate books and records;
2. testing of project costs incurred by the Monitoring Unit and funded by USAID/Egypt for allowability, allocability, reasonableness and appropriate support;
3. determining that procurement was made using sound commercial practices including competition, reasonable prices were obtained, and there were adequate controls on qualities and quantities received; and
4. reviewing travel and transportation charges to determine whether they were adequately supported and approved.

As part of our audit of the Monitoring Unit, we assessed relevant internal controls and reviewed the Monitoring Unit's compliance with related agreement terms and applicable laws and regulations.

Audit results

Fund accountability statement:

Our audit procedures identified \$470 of ineligible questioned project costs related to the payment of sales tax.

Internal control structure:

We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses. However, we did identify other non reportable conditions which we have communicated to the Monitoring Unit management in a separate letter dated June 19, 1997.

Compliance with agreement terms and applicable laws and regulations:

The results of our test disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

Indirect costs:

PIL Number 2 does not provide for indirect costs.

Status of prior-audit findings

No prior financial-related audits have been performed for the Monitoring Unit.

Mission response

The mission response is included in Appendix A of this report.

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

June 19, 1997

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

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

We have audited the accompanying fund accountability statement of project costs incurred by the Ministry of Economy and International Cooperation's (MEIC) Monitoring Unit under the Technical Support for Sector Policy Reform (TSSPR) Project Number 263-0233 through Project Implementation Letter (PIL) Number 2 for the period from August 1, 1994 through June 30, 1996. The fund accountability statement is the responsibility of the Monitoring Unit's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statement presentation. 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 31 of Chapter 3 of *Government Auditing Standards* since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of *Government Auditing Standards* is not material because we participate in the Coopers & Lybrand worldwide internal quality control program which requires the Coopers & Lybrand Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Coopers & Lybrand offices.

As described in Note 2, the accompanying fund accountability statement was prepared on the basis of cash disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

As detailed in the accompanying fund accountability statement and as more fully described in Note 4 thereto, the results of our tests disclosed \$470 (equivalent to LE 1,605) in ineligible questioned project costs and no unsupported project costs. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program-related or are prohibited by Contract terms or applicable laws and regulations. Unsupported project costs are those lacking proper documentation.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the fund accountability statement referred to in the first paragraph presents fairly,

in all material respects, project costs incurred by the Monitoring Unit related to PIL No. 2 during the audit period in conformity with the method of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have issued a report dated June 19, 1997 on our consideration of the Monitoring Unit's internal control structure and a report dated June 19, 1997 on its compliance with agreement terms and applicable laws and regulations.

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

MINISTRY OF ECONOMY AND INTERNATIONAL COOPERATION'S
MONITORING UNIT UNDER THE
TECHNICAL SUPPORT FOR SECTOR POLICY REFORM
PROJECT NO. 263-0233
PROJECT IMPLEMENTATION LETTER NUMBER 2

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD FROM AUGUST 1, 1994 THROUGH JUNE 30, 1996

<u>Item Description</u>	<u>Actual</u>	<u>Questioned Project Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
Revenues:	\$192,521		
Expenditures:			
Personnel	\$ 138,852	-	-
Maintenance-General	2,482	-	-
Stationery, Printing and Materials	11,105	-	-
Consultant	1,758	-	-
External Auditor	2,931	-	-
Data Collection and Publications	274	-	-
Travel-in-country	1,706	-	-
Contingency and Miscellaneous	2,979	-	-
Telephone Lines	2,185	78	-
Office Space	<u>28,249</u>	<u>392</u>	<u>-</u>
Totals	<u>\$192,521</u>	<u>\$470</u>	<u>\$ -</u>

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

MINISTRY OF ECONOMY AND INTERNATIONAL COOPERATION'S
MONITORING UNIT UNDER THE
TECHNICAL SUPPORT FOR SECTOR POLICY REFORM
PROJECT NO. 263-0233
PROJECT IMPLEMENTATION LETTER NUMBER 2

FOR THE PERIOD FROM
AUGUST 1, 1994 THROUGH JUNE 30, 1996

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF AUDIT:

The "Actual" column represents project revenues received (excluding the LE 500,000 credit line) and project costs incurred by the Monitoring Unit and billed to USAID/Egypt related to PIL Number 2 during the period from August 1, 1994 through June 30, 1996.

NOTE 2 - BASIS OF PRESENTATION:

The fund accountability statement of the Monitoring Unit has been prepared on the cash disbursements method of accounting. Consequently, project revenues are recognized when received rather than when earned and project costs are recognized when paid rather than when the obligation is incurred.

NOTE 3 - FOREIGN EXCHANGE:

Project costs incurred in Egyptian pounds have been converted to U.S. dollars at the exchange rate of 3.412 LE to 1 U.S. dollar. The exchange rate used is the average monthly free market exchange rate for the period from August 1, 1994 through June 30, 1996 as quoted by the Cairo Barclays Bank.

NOTE 4 - QUESTIONED PROJECT COSTS:

Questioned project costs are presented in two separate categories -- ineligible and unsupported. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program-related or are prohibited by contract terms or applicable laws and regulations. Unsupported project costs are those that are not supported with adequate documentation.

Questioned project costs identified as either ineligible or unsupported are detailed as follows:

<u>Questioned Project Costs</u>	
<u>Ineligible</u>	<u>Unsupported</u>

Item Description

- A. Telephone Lines
1. Sales taxes related to international telephone bills were paid.

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED):

Questioned Project Costs
Ineligible Unsupported

Item Description

A. Telephone Lines (continued)

The grant agreement, Section 5.4 - Taxation and Duties, states that the agreement and the grant funds will be free from any taxation or fees imposed under laws in effect in the Arab Republic of Egypt.

The project management agreed with the finding and stated that MEIC will take immediate steps to obtain a tax exemption letter.

\$ 78 \$ -

Total Questioned Project Costs - Telephone Lines

\$ 78 \$ -

B. Office Space

1. Sales taxes related to international telephone bills were paid.

The grant agreement, Section 5.4 - Taxation and Duties, states that the agreement and the grant funds will be free from any taxation or fees imposed under laws in effect in the Arab Republic of Egypt.

The project management agreed with the finding and stated that MEIC will take immediate steps to obtain a tax exemption letter.

\$ 392 \$ -

Total Questioned Project Costs - Office Space

\$ 392 \$ -

TOTAL QUESTIONED PROJECT COSTS

\$ 470 \$ -

June 19, 1997

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

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

We have audited the fund accountability statement of project costs incurred by the Ministry of Economy and International Cooperation's (MEIC) Monitoring Unit under the Technical Support for Sector Policy Reform (TSSPR) Project Number 263-0233 through Project Implementation Letter (PIL) Number 2 for the period from August 1, 1994 through June 30, 1996 and have issued our report thereon dated June 19, 1997.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 31 of Chapter 3 of *Government Auditing Standards* since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of *Government Auditing Standards* is not material because we participate in the Coopers & Lybrand worldwide internal quality control program which requires the Coopers & Lybrand Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Coopers & Lybrand offices.

The management of the Monitoring Unit is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with the cash disbursements method of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the Monitoring Unit's fund accountability statement as described in the first paragraph, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing an 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific 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. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we noted other matters involving the internal control structure and its operation that we have reported to the management of the Monitoring Unit in a separate letter dated June 19, 1997.

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

June 19, 1997

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

**REPORT OF INDEPENDENT ACCOUNTANTS
ON COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS**

We have audited the fund accountability statement of project costs incurred by the Ministry of Economy and International Cooperation's (MEIC) Monitoring Unit under the Technical Support for Sector Policy Reform (TSSPR) Project Number 263-0233 through Project Implementation Letter (PIL) Number 2 for the period from August 1, 1994 through June 30, 1996 and have issued our report thereon dated June 19, 1997.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 31 of Chapter 3 of *Government Auditing Standards* since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of *Government Auditing Standards* is not material because we participate in the Coopers & Lybrand worldwide internal quality control program which requires the Coopers & Lybrand Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Coopers & Lybrand offices.

Compliance with agreement and PIL terms and applicable laws and regulations applicable to the Monitoring Unit is the responsibility of the Monitoring Unit's management. As part of obtaining reasonable assurance about whether the fund accountability statement are free of material misstatement, we performed tests of the Monitoring Unit's compliance with certain provisions of agreement and PIL terms and applicable laws and regulations. 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.

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

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

MINISTRY OF ECONOMY AND INTERNATIONAL COOPERATION'S
MONITORING UNIT UNDER THE
TECHNICAL SUPPORT FOR SECTOR POLICY REFORM
PROJECT NO. 263-0233
PROJECT IMPLEMENTATION LETTER NUMBER 2

MISSION RESPONSE



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

04 AUG 1997

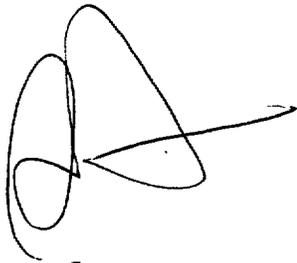
MEMORANDUM

DATE : August 3, 1997

TO : B. Boyer, A/RIG/A/C

FROM : Shirley A. Hunter, OD/FM/FA

SUBJECT : Financial Audit of the Ministry of Economy and International Cooperation's Monitoring Unit under the Technical Support for Sector Policy Reform Project No. 263-0233, Project Implementation Letter No. 2 Draft Report



With reference to the RIG/A/C E-mail dated July 22, 1997 regarding the subject audit, it was stated that the draft report has no findings except for \$470 of ineligible questioned costs relating to the payment of sales taxes. Further, the report stated that project management agreed with the finding.

Mission believes, and the auditee agrees, that no exit conference is required.

MEIC has submitted check No. 959198 dated July 31, 1997, in the amount of LE 1,605 (equivalent of \$470) in settlement of the questioned costs (copies of check and receipt are attached).

Accordingly, please issue the final report with the recommendation closed.

Thank you for your cooperation.