PD-ABQ-196

Report of Audit

Financial Audit of the Development Research and Technological Planning Center, Expenditures Incurred Under Project Implementation Letter Nos. 4 and 10 of USAID/Egypt's Energy Conservation and Environment Project

Report No. 6-263-98-012-N
February 3, 1998

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

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

Report No. 6-263-98-012-N
February 3, 1998

MEMORANDUM

TO: DIRECTOR USAID/Egypt, John R. Westley

FROM: RIG/A/Cairo, Lou Mundy

SUBJECT: Financial Audit of the Development Research and Technological Planning Center, Expenditures Incurred Under Project Implementation Letter Nos. 4 and 10 of USAID/Egypt's Energy Conservation and Environment Project

The attached report, transmitted on December 1, 1997 by Price Waterhouse, presents the results of a financial audit of the Development Research and Technological Planning Center (the Center) funded under USAID/Egypt's Energy Conservation and Environment Project No. 263-0140.3. The purpose of the project was to provide and accelerate the adoption of better commercial technologies, processes, and practices to save energy, increase energy efficiency and protect the environment. The audit included costs incurred by the Center and reimbursed by USAID/Egypt under Project Implementation Letters (PILs) Nos. 4 and 10. PIL No. 4 provided funds for local management and technical services to private sector entities participating in the project. PIL No. 10 provided funds for overseas travel to attend training courses.

We engaged Price Waterhouse to perform a financial audit of project revenues received and costs incurred by the Center under the above-mentioned PILs for the period February 1, 1995 through June 30, 1996, as well as indirect costs charged to USAID/Egypt during that same period. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Price Waterhouse also evaluated the Center's internal controls and compliance with applicable laws, regulations and agreement terms, as necessary, in forming an opinion regarding the Fund Accountability Statement.

The auditors questioned, as ineligible, $1,568 of $466,217 in direct project costs reimbursed by USAID/Egypt under PIL No. 4. The auditors also identified $61,085 of ineligible charges included in the Center's indirect cost rate computation for the period July 1, 1996 through June 30, 1997. The auditors did not question any of the $11,960 in direct project costs reimbursed under PIL No. 10. The auditors identified two reportable conditions in the Center's internal control structure pertaining to the audited PILs, but they did not consider these conditions to be material weaknesses. The auditors did identify one instance of material noncompliance with Egyptian laws regarding the deduction and payment of income taxes and social insurance.

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

> **<u>Recommendation No. 1:</u> We recommend that USAID/Egypt make a management decision on the questioned costs of $1,568 (ineligible) detailed on pages 10 and 11 of the Price Waterhouse audit report, and recover from the Development Research and Technological Planning Center the amounts determined to be unallowable.**
>
> **<u>Recommendation No. 2:</u> We recommend that USAID/Egypt finalize the Development Research and Technological Planning Center's indirect cost rate of 29.73 percent under Project Implementation Letter No. 4 for the period July 1, 1995 through June 30, 1996, as calculated on page 8 of the Price Waterhouse audit report, and recover any amounts determined to be owed USAID/Egypt.**

In response to Recommendation No. 1, USAID/Egypt officials determined that the entire amount of the $1,568 in questioned costs was unallowable. The Center refunded that amount by check to USAID/Egypt. Accordingly, USAID/Egypt requested closure of the recommendation. Based on this management decision and final action, we consider Recommendation No. 1 closed upon issuance of this report.

In response to Recommendation No. 2, USAID/Egypt officials indicated that, due to inconsistency between the predecessor and the successor auditors in judging an indirect cost element, this subject was referred to the Mission's Office of Procurement for a management decision. This recommendation remains open pending that decision.

In response to the material noncompliance issue (deduction and payment of income taxes and social insurance per Egyptian law) detailed on page 19 of the Price Waterhouse audit report, USAID/Egypt officials indicated that the Center bears primary responsibility for compliance with Egyptian tax laws and that its compliance has no impact on USAID funds. Accordingly, the Mission believed that it was not cost-effective to follow up on this issue. Based on this response, we have not included a recommendation dealing with material noncompliance in the Office of Inspector General's recommendation follow-up system. This issue, as well as the non-material internal control weaknesses identified by the auditors, should be handled directly between Mission and Center officials.

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

Attachment: a/s

DEVELOPMENT RESEARCH AND
TECHNOLOGICAL PLANNING CENTER

PROJECT IMPLEMENTATION LETTERS
No. 4 AND 10
UNDER THE USAID/EGYPT FUNDED
ENERGY CONSERVATION AND
ENVIRONMENT PROJECT
SUBGRANT AGREEMENT NO. 263-0140.3

FUND ACCOUNTABILITY STATEMENT,
SCHEDULE OF COMPUTATION OF
INDIRECT COST RATE AND
ADDITIONAL INFORMATION

FOR THE PERIOD
FEBRUARY 1, 1995 THROUGH JUNE 30, 1996

"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"

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DEVELOPMENT RESEARCH AND
TECHNOLOGICAL PLANNING CENTER

PROJECT IMPLEMENTATION LETTERS ("PILs") NO. 4 AND 10
UNDER THE USAID/EGYPT FUNDED
ENERGY CONSERVATION AND ENVIRONMENT PROJECT
SUBGRANT AGREEMENT NO. 263-0140.3

FUND ACCOUNTABILITY STATEMENT,
SCHEDULE OF COMPUTATION OF INDIRECT COST RATE AND
ADDITIONAL INFORMATION

FOR THE PERIOD
FEBRUARY 1, 1995 THROUGH JUNE 30, 1996

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Price Waterhouse

December 1, 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 and the schedule of computation of indirect cost rate of the Development Research and Technological Planning Center ("DRTPC") of the Energy Conservation and Environmental Protection Component of the Science and Technology for Development Project. The audit population includes revenues received and costs incurred by DRTPC under Project Implementation Letters ("PILs") No. 4 and 10 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") funded Sub-Grant Agreement No. 263-0140.3 ("Sub-Grant Agreement" or "Project"), for the period February 1, 1995 through June 30, 1996 (the "audit period").

Background:

USAID/Egypt entered into the Sub-Grant Agreement with the Arab Republic of Egypt on September 27, 1988. The Sub-Grant Agreement established the Energy Conservation and Environment Project ("ECEP"). ECEP is designed to provide and accelerate the adoption of better commercial technologies, processes and practices to save energy, increase energy efficiency and protect the environment, as well as to improve the capabilities of Egyptian institutions to promote and implement energy-saving and environmental protection technologies. ECEP purpose-directed activities include the selection, design, installation, operation and monitoring of environment and energy efficient technologies, financing the first demonstrations of these technologies, and promoting and facilitating the replication of those successfully applied through public relations, training activities and the reduction of policy and regulatory constraints. To achieve its objectives and perform these activities, three implementing agencies were selected to operate under ECEP; DRTPC, the Tabbin Institute for Metallurgical Studies ("TIMS") and the Federation of Egyptian Industries ("FEI").

ECEP is segregated into two components; one for Egyptian private sector firms and one for public sector firms. DRTPC is the implementing agency for private sector firms. TIMS is the implementing agency for public sector firms. FEI supports the activities of DRTPC and TIMS through the development of a data base of information on energy conservation and environmental management. PIL No. 4 under DRTPC designates funds to be used for providing local management and technical services to the private sector entities participating in the project. PIL No. 10 under DRTPC designates funds for overseas travel to attend training courses.

DRTPC receives 100% of its capital funding from USAID/Egypt. However, the host country private sector does provide in-kind and cash contributions in the form of commodities and equipment custom clearance services, respectively.

DRTPC's contract with USAID/Egypt is on a cost reimbursement basis for both PILs. In addition, PIL No. 4 is reimbursed a "provisional" indirect cost rate of 38.5%.

Amendment No. 9 to PIL No. 4, dated March 14, 1996 approved funding to DRTPC of LE 7,272,049 through February 28, 1997. Amendment No. 5 to PIL No. 10, dated December 19, 1995 approved funding to DRTPC of LE 389,000 through December 31, 1996. Amendment No. 5 to the Sub-Grant Agreement approved host country private sector in-kind and cash contributions of LE 16,600,000 and LE 16,200,000, respectively.

Audit Objectives and Scope:

The purpose of this engagement was to perform a financial related audit of project revenues received and costs incurred by DRTPC under the PILs, and DRTPC's indirect cost rate calculation approved under PIL No. 4 for the audit period. Specific objectives were to perform and determine the following:

1. Express an opinion on whether the fund accountability statement for USAID/Egypt funds managed by DRTPC under the PILs, presents fairly, in all material respects, project revenues received and costs incurred for the audit period in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including the cash receipts and disbursements basis;

2. Determine if the costs reported as incurred under the PILs are in fact allowable, allocable and reasonable in accordance with the terms of the PILs and the Sub-Grant Agreement;

3. Evaluate and obtain a sufficient understanding of the internal control structure of DRTPC as it relates to the PILs, assess control risk, and identify reportable conditions, including material internal control weaknesses;

4. Perform tests to determine whether DRTPC complied, in all material respects, with the terms of the PILs, the Sub-Grant Agreement and with applicable laws and regulations;

5. Perform an audit of the indirect cost rate calculation used by DRTPC under PIL No. 4 of the Sub-Grant Agreement; and

6. Determine if DRTPC has taken corrective action on prior audit report recommendations.

Preliminary planning and review procedures began in February 1997. These procedures consisted of discussions with personnel from the Office of the Regional Inspector General for Audit in Cairo and DRTPC management. Audit fieldwork commenced in May 1997 and was completed in December 1, 1997.

The audit population included $337,298 or LE 1,146,812 and $11,960 or LE 40,665 of direct project costs for PILs No. 4 and 10, respectively. The audit population also included $128,919 or LE 438,324 of indirect costs billed under PIL No. 4 during the audit period. These indirect costs were calculated and billed using the USAID/Egypt approved provisional indirect cost rate of 38.5%. On a judgmental basis, we selected and tested $87,630 or LE 297,942 (26%) of direct costs incurred under PIL No. 4 and $3,483 or LE 11,841 (29%) of direct costs incurred under PIL No. 10. We also judgementally selected and tested $121,198 or LE 412,072 (64%) of costs included in the indirect cost pool. Our audit population also included $474,528 or LE 1,613,394 and $28,235 or LE 96,000 of project revenues received for PILs No. 4 and 10, respectively. We tested one hundred percent of these revenues.

Our tests of direct and indirect costs incurred by DRTPC, included, but were not limited to, the following:

1. Reconciling DRTPC's accounting records to billings issued to USAID/Egypt to ensure that project costs were appropriately supported.

2. Testing a representative sample of project costs funded by USAID/Egypt for allowability and allocability.

3. Determining whether appropriate procurement procedures were applied that conformed with the terms of the Sub-Grant Agreement, the PILs and applicable laws and regulations.

4. Determining if salary costs were properly supported and approved.

5. Determining the adequacy of DRTPC's control procedures to safeguard project funds/assets.

6. Examining support for a sample of items included in the indirect cost pool, and recalculating the actual indirect cost rate for the audit period.

7. Determining if project revenues received are presented fairly, in all material respects, in the fund accountability statement.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards ("GAS") issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement and schedule of computation of indirect cost rate are 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 that requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

As part of our examination of DRTPC, we assessed relevant internal controls as they relate to the PILs and the Sub-Grant Agreement. We also reviewed DRTPC's compliance with laws, regulations, contracts and grants.

Results of Audit:

Fund Accountability Statement and Schedule of Computation of Indirect Cost Rate

Our audit procedures identified $1,568 or LE 5,333 of ineligible direct project costs. No unsupported direct project costs were identified. We also identified $61,085 or LE 207,688 of ineligible charges included in the schedule of computation of indirect cost rate. No unsupported indirect costs were identified. The fund accountability statement, the schedule of computation of indirect cost rate and the detail of questionable costs, as incurred in Egyptian pounds, are included in supplemental schedules to this report.

Internal Control Structure

Our audit procedures identified two reportable conditions in the internal control structure of DRTPC, as it relates to the PILs under audit.

Reportable Conditions - Non-Material Weaknesses

1. Project employees handling large amounts of cash are not bonded.

2. Bank reconciliations for PIL No. 10 are not reviewed and approved by management.

Compliance with Laws, Regulations, Contracts and Grants

Our audit procedures and tests identified one instance of non-compliance with the terms of the Sub-Grant Agreement, the PILs or with applicable laws and regulations that is required to be reported.

1. DRTPC, under PIL No. 4, has not complied with the Egyptian laws with regards to the deduction and payment of income taxes and social insurance.

Follow up on Prior Audit Recommendations

We have reviewed the prior audit report of DRTPC for the period July 1, 1992 through January 31, 1995. The internal control and non-compliance findings and recommendations from the prior audit report have been addressed and implemented.

Management Comments

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

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REPORT OF INDEPENDENT ACCOUNTANTS ON THE FUND ACCOUNTABILITY STATEMENT AND SCHEDULE OF COMPUTATION OF INDIRECT COST RATE

December 1, 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 and the schedule of computation of indirect cost rate of the Development Research and Technological Planning Center ("DRTPC") of the Energy Conservation and Environmental Protection Component, of the Science and Technology for Development Project, under Project Implementation Letters ("PILs") No. 4 and 10 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") funded Sub-Grant Agreement No. 263-0140.3 ("Sub-Grant Agreement" or "Project") for the period February 1, 1995 through June 30, 1996 (the "audit period"). The fund accountability statement and schedule of computation of indirect cost rate are the responsibility of DRTPC management. Our responsibility is to express an opinion on this statement and schedule 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 ("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 and schedule of computation of indirect cost rate are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement and schedule of computation of indirect cost rate. 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 and schedule of computation of indirect cost rate. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 of Chapter 3 of GAS since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of GAS is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

The fund accountability statement and schedule of computation of indirect cost rate have been prepared on the basis of cash receipts and disbursements, modified as described in Note 2, which is a comprehensive basis of accounting other than generally accepted accounting principles in the United States of America.

As detailed in the fund accountability statement and more fully described in Note 7 thereto, the results of our tests disclosed $1,568 or LE 5,333 of ineligible direct costs. No unsupported direct project costs were identified. We also identified $61,085 or LE 207,688 of ineligible charges included in the schedule of computation of indirect cost rate. No unsupported indirect costs were identified. Project costs that are ineligible for USAID/Egypt reimbursements are those that are not program-related or are prohibited by the PILs, the Sub-Grant Agreement, or applicable laws and regulations. Unsupported project costs are those lacking proper documentation.

In our opinion, except for the effects of the questioned costs discussed in the fifth paragraph, the fund accountability statement and schedule of computation of indirect cost rate referred to in the first paragraph present fairly, in all material respects, project revenues received and costs incurred, and the indirect cost rate of DRTPC under the Sub-Grant Agreement during the audit period, in conformity with the basis of accounting described in Note 2.

In accordance with GAS, we have also issued a report dated December 1, 1997, on our consideration of DRTPC's internal control structure, as it relates to the PILs, and a report dated December 1, 1997 on DRTPC's compliance with laws, regulations, contracts and grants.

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

Price Waterhouse

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER ("DRTPC")
PROJECT IMPLEMENTATION LETTERS ("PILs") No. 4 AND 10
UNDER THE USAID/EGYPT FUNDED
ENERGY CONSERVATION AND ENVIRONMENT PROJECT
SUB-GRANT AGREEMENT NO. 263-0140.3

FOR THE PERIOD FEBRUARY 1, 1995 THROUGH JUNE 30, 1996

FUND ACCOUNTABILITY STATEMENT

EXPRESSED IN US DOLLARS

	Approved Budget (Note 1)	Actual Expenditures (Note 1)	Project Cost Reclassifications (Note 4)	Revised Actual (Note 1)	Questionable Project Costs Ineligible (Note 7)	Questionable Project Costs Unsupported (Note 7)	Audit Finding Reference
REVENUES - USAID/EGYPT							
PIL No. 4	$ -	$ 474,528	$ -	$ 474,528	$ -	$ -	-
PIL No. 10	-	28,235	-	28,235	-	-	-
Total Revenues	$ -	$ 502,763	$ -	$ 502,763	$ -	$ -	
EXPENDITURES							
PIL No. 4							
Salaries	$ 412,280	$ 183,635	$ (511)	$ 183,124	$ -	$ -	-
Consultant Fees	57,963	16,765	-	16,765	701	-	Page 10, I.A
Honoraria	5,254	58	(58)	-	-	-	-
Travel & Per Diem	56,358	29,075	871	29,946	176	-	Page 10, I.B
Training/Workshops/Conferences	76,261	24,481	2,707	27,188	691	-	Page 11, I.C
Materials & Supplies	34,852	19,113	-	19,113	-	-	-
Equipment & Instrumentation	94,754	49,453	-	49,453	-	-	-
Subcontract with CPA Firm	7,353	-	-	-	-	-	-
Other Direct Costs	20,327	14,718	(3,009)	11,709	-	-	-
Indirect Costs	295,261	128,919	-	128,919	-	-	-
Total Expenditures PIL No. 4	$ 1,060,663	$ 466,217	$ -	$ 466,217	$ 1,568	$ -	
PIL No. 10							
Air Tickets	$ 40,299	$ 11,935	-	11,935	-	-	-
Bank Annual Fees	-	25	-	25	-	-	-
Total Expenditures PIL No. 10	$ 40,299	$ 11,960	$ -	$ 11,960	$ -	$ -	
OUTSTANDING BALANCE							
PIL No. 4		$ 8,311		$ 8,311			
PIL No. 10		$ 16,275		$ 16,275			

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

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER ("DRTPC")

SCHEDULE OF COMPUTATION OF INDIRECT COST RATE
UNDER PROJECT IMPLEMENTATION LETTER ("PIL") No. 4
FOR THE PERIOD JULY 1, 1995 THROUGH JUNE 30, 1996

EXPRESSED IN US DOLLARS

Indirect Cost Pool (Note 5)	Total Expenditures	Project Reclassifications (Note 4)	Questionable Project Costs Ineligible (Note 7)	Questionable Project Costs Unsupported (Note 7)	Adjusted Indirect Cost Pool (Note 6)	Audit Finding Reference
Salaries	$ 65,143	$ -	$ -	$ -	$ 65,143	-
Stationery and Publications	5,946	-	-	-	5,946	-
Photocopying	12,957	-	(14,486)	-	(1,529)	Page 11, II.A.1.2
Car Expenses	3,802	-	-	-	3,802	-
Telephone	2,370	-	(22)	-	2,348	Page 12, II.A.3
Social Insurance	2,337	-	(2,337)	-	-	Page 12, II.A.4
Electricity	6,279	-	-	-	6,279	-
Benefits	2,101	-	(1,360)	-	741	Page 12, II.A.5
Bank Charges	1,928	-	-	-	1,928	-
Purchases	20,947	-	-	-	20,947	-
Repair and Maintenance	8,628	-	-	-	8,628	-
Computer-Related Purchases	1,735	-	-	-	1,735	-
Fees and Wages	1,887	-	-	-	1,887	-
Mail and Correspondence	626	-	-	-	626	-
Transportation	341	-	-	-	341	-
Advertising	4,350	-	(4,350)	-	-	Page 13, II.A.7
Subscriptions	256	-	-	-	256	-
Technical and Financial Proposals	2,920	(1,176)	-	-	1,744	-
Per Diem	906	-	(906)	-	-	Page 13, II.A.8
Intangible Services	11,765	-	-	-	11,765	-
Meetings and Conferences	1,439	-	-	-	1,439	-
Depreciation - Equipment	25,481	-	-	-	25,481	-
Use Allowance - Building	5,485	-	-	-	5,485	-
Total Indirect Costs	**$ 189,629**	**$ (1,176)**	**$ (23,461)**	**$ -**	**$ 164,992**	
Direct Cost Pool						
PIL No. 4 Direct Costs	$ 263,887	$ -	$ (37,624)	$ -	$ 226,263	Page 14, II.B.1
Other DRTPC Direct Costs	327,442	1,176	-	-	328,618	-
Total Direct Costs	**$ 591,329**	**$ 1,176**	**$ (37,624)**	**$ -**	**$ 554,881**	

DRTPC INDIRECT COST RATE (NOTE 5):

Total Indirect Costs	$ 164,992	=	**29.73%**
Total Direct Costs	$ 554,881		

The accompanying notes are an integral part of the schedule of computation of indirect cost rate

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER ("DRTPC")
ENERGY CONSERVATION AND ENVIRONMENT PROJECT

NOTES TO THE FUND ACCOUNTABILITY STATEMENT AND SCHEDULE OF COMPUTATION OF INDIRECT COST RATE

NOTE 1 - SCOPE OF FUND ACCOUNTABILITY STATEMENT:

The fund accountability statement includes project revenues received and costs incurred by DRTPC under PILs No. 4 and 10 of the Sub-Grant Agreement for the period February 1, 1995 through June 30, 1996 (the "audit period").

"Approved Budget" includes USAID/Egypt approved costs in accordance with the most recent budget amendment of PILs No. 4 and 10 within the audit period, and is presented for informational purposes only.

Amendment No. 9 to PIL No. 4, dated March 14, 1996, approved project costs of $2,138,838 or LE 7,272,049 during the period March 1, 1989 through February 28, 1997. DRTPC records as of January 31, 1995 indicate that expenditures of $1,078,175 or LE 3,665,794 were incurred under PIL No. 4 from March 1, 1989 through January 31, 1995. Accordingly, total budget for PIL No. 4 during the audit period has been calculated to be $1,060,663 or LE 3,606,255. Amendment No. 5 to PIL No. 10, dated December 19, 1995, approved project costs of $114,412 or LE 389,000 for the period November 1, 1990 through December 31, 1996. DRTPC records as of January 31, 1995 indicate that expenditures of $74,113 or LE 251,985 were incurred under PIL No. 10 from November 1, 1990 through January 31, 1995. Accordingly, total budget for PIL No. 10 during the audit period has been calculated to be $40,299 or LE 137,015. Budget amounts in Egyptian Pounds ("LE") have been converted to US dollars as explained in Note 3 below.

"Actual expenditures" represents cumulative project revenues received and costs incurred under the PILs during the audit period. "Revised Actual" represents actual project costs adjusted for project cost reclassifications as explained in Note 4 below. Expenditures in LE have been converted to US dollars as explained in Note 3 below.

NOTE 2 - BASIS OF PRESENTATION:

The fund accountability statement and schedule of computation of indirect cost rate of DRTPC have been prepared on the basis of cash receipts and disbursements, modified for certain items. Project revenues are recognized when received. Project costs are recognized when paid rather than when the obligation is incurred. However, the indirect cost pool also contains depreciation charges.

NOTE 3 - FOREIGN EXCHANGE:

Actual and budgeted project revenues and costs in LE have been converted to US dollars at an exchange rate of LE 3.40 to one U.S. Dollar. The exchange rate has been calculated by averaging the ending monthly exchange rates during the audit period.

NOTE 4 - PROJECT COST RECLASSIFICATIONS:

Certain project costs associated with various budget line items and the indirect cost pool were recorded in the project's accounting records in the incorrect budget line item or incorrect indirect cost pool. These costs have been reclassified to the appropriate line item or indirect cost pool where applicable.

NOTE 5 - BASIS OF COMPUTATION OF THE INDIRECT COST RATE:

PIL No. 4 to the Sub-Grant Agreement includes a provision for the recovery of indirect costs incurred by DRTPC that are not directly associated with, or specifically identifiable to, any particular activity conducted by DRTPC. These costs have been recovered during the audit period based on a USAID/Egypt approved provisional indirect cost rate of 38.5%. PIL No. 4 provides for the recovery of indirect costs based on a rate computed by dividing total indirect costs incurred by DRTPC by the sum of the total PIL No. 4 direct costs plus the other DRTPC direct costs. The schedule of computation of indirect cost rate has been prepared, on an entity wide basis, in accordance with the above mentioned methodology for the fiscal year July 1, 1995 through June 30, 1996 within the audit period.

NOTE 6 - ADJUSTED INDIRECT COST POOL:

The "Adjusted Indirect Cost Pool" represents expenditures for each indirect cost pool line item net of questionable project costs and after considering the effect of project cost reclassifications. The photocopying indirect cost line item shows a negative balance of $1,529 since the aggregate of questionable costs under this line item exceeds costs incurred. DRTPC generated revenues relating to photocopying services provided to the various projects in the amount of $14,201 during the period July 1, 1995 through June 30, 1996. This amount was credited to the photocopying line item expenditures and excluded from the indirect cost pool since the amounts were included as direct costs of the various projects. This was in addition to $285 of sales tax that has been questioned as ineligible.

NOTE 7 - QUESTIONABLE COSTS:

Questionable costs are presented in two separate categories: ineligible and unsupported. Costs in the column labeled "Ineligible" are those not program-related or are prohibited by the PILs, the Sub-Grant Agreement or applicable laws and regulations. Costs in the column labeled "Unsupported" are those lacking adequate documentation. Questionable project costs have been segregated between fund accountability statement direct and schedule of computation of indirect cost rate indirect and direct costs. Fund accountability statement direct questionable costs have been further segregated by individual budget line item; schedule of computation of indirect cost rate indirect and direct questionable costs have been segregated by cost pool line item. Questionable costs identified as either ineligible or unsupported are detailed as follows:

	Questionable Costs			
		Ineligible		Unsupported
I. FUND ACCOUNTABILITY STATEMENT				
DIRECT COSTS - PIL NO. 4				
A. Consultant Fees				
1. DRTPC billed USAID Egypt for performance incentives (bonuses) that were paid to project consultants in the equivalent of $701. Section 5.8 of the Sub-Grant Agreement states: "Neither A.I.D. funds..... nor LE generated under this project, will be used to pay salary supplements under the component except pursuant to mutually agreeable criteria." Management acknowledged the ineligibility of these charges and that the billing of these charges was done in error. Accordingly, the amount of $701 has been questioned as ineligible.	$	701	$	-
Total Consultant Fees Line Item	$	701	$	-
B. Travel and Per Diem				
1. Travel and per diem expenditures, billed during October 1995, exceeded expenditures recorded in the general ledger by $176. Section B.5(b) of Annex 2, Sub-Grant Agreement Standard Provisions, as amended in Sub-Grant Agreement Amendment No. 2, states: "The Grantee shall maintain accounting books, records, (and) documents, ...adequate to show without limitation, all costs incurred under the Grant." Management acknowledged that this billing contained an error. Accordingly, the amount of $176 has been questioned as ineligible.		176		-
Total Travel and Per Diem Line Item	$	176	$	-

NOTE 7 - QUESTIONABLE COSTS (CONT'D):

	Questionable Costs	
	Ineligible	Unsupported
C. Training/Workshops/Conferences		
1. DRTPC billed USAID/Egypt for sales taxes incurred in relation to several workshops. Section B.4 (a) and (b) of Annex 2, Sub-Grant Agreement Standard Provisions, states: "This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee..... The Grantee will .... pay or reimburse the same with funds other than those provided under the Grant." Management asserts that payment of these taxes was inevitable, even though they acknowledged the ineligibility of the expenditures. Accordingly, the amount of $691 has been questioned as ineligible. DRTPC mistakenly billed $366 of these costs under the travel and per diem line item. These costs have been reclassified to the training/workshops/conferences line item as indicated in the fund accountability statement, and questioned herein. Further clarification has reduced this amount from the $1,959 included in our draft report. The reduction is the result of allowable service charges being removed.	$ 691	$ -
Total Training/Workshops/Conferences Line Item	$ 691	$ -
Total PIL No. 4 Questionable Direct Costs	$ 1,568	$ -
TOTAL FUND ACCOUNTABILITY STATEMENT QUESTIONABLE DIRECT COSTS	$ 1,568	$ -
II. SCHEDULE OF COMPUTATION OF INDIRECT COST RATE		
A. INDIRECT COSTS		
Photocopying		
1. DRTPC does not offset photocopying expenses with revenues generated from the photocopying and binding services provided to the projects and subsequently billed to USAID/Egypt or charged as direct costs of other projects. OMB A-122, Attachment A, Section A.5, states: "The term applicable credits refers to those receipts or reductions of expenditures which operate to offset or reduce expense items that are allocable to awards as direct or indirect costs.... To the extent that such credits accruing or received by the organization relate to allowable costs, they shall be credited to the government either as a cost reduction or cash refund as appropriate." Management does not agree that the revenues should be excluded from the indirect cost pool. According to management, no more than costs actually incurred should be reduced from the indirect cost pool. Nevertheless, the total amount of $14,201 generated as revenue from PIL No. 4 and other DRTPC projects, and not credited against related costs, has been questioned as ineligible.	14,201	-

NOTE 7 - QUESTIONABLE COSTS (CONT'D):

	Questionable Costs			
		Ineligible		Unsupported
2. Sales taxes in the amount of $285 were included in this line item. Section B.4 (a) and (b) of Annex 2, Sub-Grant Agreement Standard Provisions, states: "This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee..... The Grantee will .... pay or reimburse the same with funds other than those provided under the Grant." Management asserts that payment of these taxes was inevitable, even though they acknowledged the ineligibility of the expenditures for USAID/Egypt purposes. Accordingly, the amount of $285 has been questioned as ineligible.		285		-
Telephone				
3. Sales tax of $22 was paid with the purchase of fax paper rolls. Section B.4 (a) and (b) of Annex 2, Sub-Grant Agreement Standard Provisions, states: "This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee..... The Grantee will .... pay or reimburse the same with funds other than those provided under the Grant." Management asserts that the payment of these taxes was inevitable, even though they acknowledged the ineligibility of the expenditures for USAID/Egypt purposes. Accordingly, the amount of $22 has been questioned as ineligible.	$	22	$	-
Social Insurance				
4. DRTPC has billed USAID/Egypt the employer's share of social insurance for DRTPC employees. Section B.4 (a) and (b) of Annex 2, Sub-Grant Agreement Standard Provisions, states: "This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee..... The Grantee will .... pay or reimburse the same with funds other than those provided under the Grant." DRTPC management was unaware of the ineligibility of such expenditures and stated that such costs are considered an integral part of the salary expense. Nevertheless, the total indirect cost pool amount of $2,337 has been questioned as ineligible.		2,337		-
Benefits				
5. The cost of $1,360 for a Ramadan Iftar (breakfast) for DRTPC employees and their families was included in the indirect cost pool. OMB A-122, Attachment B, page 11, states: "Costs of amusement, diversion, social activities, ceremonials, and costs such as meals....are unallowable." Management asserts that this is considered a religious gathering and ceremony provided to employees as a fringe benefit and not as an entertainment activity. Nevertheless, the $1,360 cost of the Iftar has been questioned as ineligible.		1,360		-

NOTE 7 - QUESTIONABLE COSTS (CONT'D):

	Questionable Costs	
	Ineligible	Unsupported
Bank Charges		
6. DRTPC has provided adequate support. This finding has been removed from our final report.	-	-
Advertising		
7. Costs of $4,350 were included for advertising to announce the offering of prizes for various studies and to send condolences to DRTPC Board Members for the death of their family members. OMB A-122, Attachment B, disallows such public information services and advertising costs. Management agrees to the ineligibility of costs related to the condolences, but disagrees with the exclusion of the public information costs. Management states that such costs are in furtherance of DRTPC's activities. Nevertheless, the amount of $4,350 has been questioned as ineligible.	$ 4,350	$ -
Per Diem		
8. DRTPC included in the indirect cost pool an amount of $906 for travel costs of a Faculty of Engineering Professor to Sydney - Australia to attend a conference on transport research. The professor is not an employee of DRTPC. OMB A-122, Attachment A, Section A.2 and A.3 state that "To be allowable under an award, costs must...... be reasonable for the performance of the award and be allocable thereto..... A cost is reasonable if .....(it) is of a type generally recognized as ordinary and necessary for the operation of the organization or the performance of the award." Management was unaware of the ineligibility of such costs and stated that this expenditure was made in response to the Cairo University Vice President's request. Nevertheless, the amount of $906 has been questioned as ineligible.	906	-
Intangible Services		
9. Further clarification has resulted in this finding being removed from our final report.	-	-
Total Schedule of Computation of Indirect Cost Rate Questionable Indirect Costs	**$ 23,461**	**$ -**

NOTE 7 - QUESTIONABLE COSTS (CONT'D):

	Questionable Costs	
	Ineligible	Unsupported
B. DIRECT COSTS		
PIL No. 4 Direct Costs		
1. Included in PIL No. 4 direct cost base was the amount of $37,624 for capital expenditures incurred during the period July 1, 1995 through June 30, 1996. OMB A-122, Attachment A, Section D.2(b) and (c) states: "Both the direct costs and the indirect costs shall exclude capital expenditures and unallowable costs.... The distribution base may be total direct costs (excluding capital expenditures and other distorting items, such as major subcontracts or subgrants)." Management acknowledged the ineligibility of such expenditures. As such, the amount of $37,624 has been questioned as ineligible.	$ 37,624	$ -
Total Schedule of Computation of Indirect Cost Rate Questionable Direct Costs	$ 37,624	$ -
Total Schedule of Computation of Indirect Cost Rate Questionable Indirect and Direct Costs	$ 61,085	$ -
TOTAL FUND ACCOUNTABILITY STATEMENT AND SCHEDULE OF COMPUTATION OF INDIRECT COST RATE QUESTIONABLE COSTS	$ 62,653	$ -

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REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROL STRUCTURE

December 1, 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 and the schedule of computation of indirect cost rate of the Development Research and Technological Planning Center ("DRTPC"), of the Energy Conservation and Environmental Protection Component of the Science and Technology for Development Project, under Project Implementation Letters ("PILs") No. 4 and 10, of the United States Agency for International Development Mission to Egypt ("USAID Egypt")-funded Sub-Grant Agreement No. 263-0140.3 ("Sub-Grant Agreement" or "Project") for the period February 1, 1995 through June 30, 1996 (the "audit period"), and have issued our qualified report thereon dated December 1, 1997.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards ("GAS") issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement and schedule of computation of indirect cost rate are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 of Chapter 3 of GAS since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of GAS is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

The management of DRTPC 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 and schedule of computation of indirect cost rate in accordance with the terms of the related Sub-Grant Agreement and PILs and the basis of accounting described in Note 2 of the report on the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the internal control to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the fund accountability statement and schedule of computation of indirect cost rate of DRTPC for the audit period, we obtained an understanding of the internal control structure as it relates to the PILs of the Sub-Grant Agreement under audit. 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 to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and schedule of computation of indirect cost rate and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the fund accountability statement and schedule of computation of indirect cost rate. Our audit disclosed the following reportable conditions.

REPORTABLE CONDITIONS - NON-MATERIAL WEAKNESSES

1. Project employees handling large amounts of cash are not bonded.

During our review of the controls surrounding the cash management system, we noted that employees responsible for maintaining PIL No. 4 petty cash funds of LE 500 and LE 1,500 are not bonded. One of those employees is also responsible for the collection and distribution of payroll amounts, which exceed LE 30,000 per month. According to Statement of Auditing Standards No. 55 ("SAS No. 55") "Consideration of the Internal Control Structure in a Financial Statement Audit," proper control procedures should include: "adequate safeguards over access to and use of assets and records." Management stated that bonding the custodian of the petty cash funds would not be cost effective given the relatively small amount of cash involved. However, management agreed to the importance of establishing controls on the payroll funds due to the large amount of cash handled. The lack of such controls surrounding cash exposes DRTPC to the risk of misappropriation of funds.

Recommendation No. 1

We recommend that DRTPC implement a policy whereby employees handling cash are adequately bonded. Alternatively, payroll amounts could be transferred to the bank with employees being allowed to draw their salaries from the project's account, thus, eliminating the need to bond an employee.

* * * * *

2. Bank reconciliations for PIL No. 10 are not reviewed and approved by management.

During our review of controls surrounding the project bank accounts, we noted no evidence that PIL No. 10 bank reconciliations are reviewed or approved by an appropriate level of management. Statements on Auditing Standards No. 55 ("SAS No. 55"), "Consideration of the Internal Control Structure in a Financial Statement Audit", states that adequate control procedures should include "Proper authorization of transactions and activities.....(and) independent checks on performance and proper valuation of recorded amounts, such as clerical checks, reconciliations,..... and management review of reports." Management attributed this lack of review and approval to the minimal activity on the PIL account. Lack of such controls could lead to the occurance and non-detection of errors and irregularities.

Recommendation No. 2

We recommend that DRTPC management adequately review and approve bank reconciliations.

* * * * *

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement and schedule of computation of indirect cost rate being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions, and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

* * * * *

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

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

December 1, 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 and the schedule of computation of indirect cost rate of the Development Research and Technological Planning Center ("DRTPC"), of the Energy Conservation and Environmental Protection Component of the Science and Technology for Development Project, under Project Implementation Letters ("PILs") No. 4 and 10, of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") funded Sub-Grant Agreement No. 263-0140.3 ("Sub-Grant Agreement" or "Project") for the period February 1, 1995 through June 30, 1996 (the "audit period"), and have issued our qualified report thereon dated December 1, 1997.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards ("GAS") issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement and schedule of computation of indirect cost rate are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 of Chapter 3 of GAS since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of GAS is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

Compliance with laws, regulations, contracts and grants applicable to DRTPC is the responsibility of DRTPC management. As part of obtaining reasonable assurance about whether the fund accountability statement and schedule of computation of indirect cost rate are free of material misstatement, we performed tests of DRTPC's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the fund accountability statement and schedule of computation of indirect cost rate was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

For purposes of this report, we have categorized the provisions of laws, regulations, contracts and grants we tested as part of obtaining such reasonable assurance into the following categories:

- Procurement policies and procedures
- Restrictions on allowable costs
- Budgetary expenditure limitations
- Maintenance of accounting books, records and documents

Material instances of non-compliance are failures to follow requirements, or violations of prohibitions, contained in laws, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement and schedule of computation of indirect cost rate. The results of our tests of compliance disclosed one material instance of non-compliance.

1. **DRTPC, under PIL No. 4, has not complied with the Egyptian laws with regards to the deduction and payment of income taxes and social insurance.**

During our review of payments made to employees and consultants, we noted that DRTPC does not perform the following:

* Deduct income taxes and social insurance from its employees and pay such amounts to the relevant authorities;
* Deduct income taxes from its consultants and pay such amounts to the relevant authorities;
* Pay the employer share of social insurance.

Egyptian tax law number 157 for 1981 as amended by tax law number 187 for 1993 states that 20% in income taxes should be deducted from labor earnings of up to LE 50,000 per year, and 32% from labor earnings in excess of that. Social insurance law number 75 for 1979 stipulates certain percentages for the employer and employee shares of social insurance to be deducted from salaries paid to employees and submitted to the social insurance authority. Management explained that, they considered the project to be tax exempt in accordance with the regulations of Presidential Decree number 101 for 1989, which dictates the rules under which the Grant is to operate. However, the aforementioned presidential decree exempts only the Grant monies from taxes and not its employees. Therefore, since the payment of income taxes and social insurance to the respective authorities is the responsibility of the employer and not the employee, not complying with the Egyptian laws in this regard subjects the DRTPC to future liability to pay such amounts. However, this results in no questioned costs in the current audit period.

<u>Recommendation No. 1</u>

We recommend that DRTPC comply with the requirements of the income tax and social insurance laws and make such payments to the tax and social insurance authority on a timely and consistent basis.

* * * * *

We considered the above material instance of non-compliance in forming our opinion on whether DRTPC's fund accountability statement and schedule of computation of indirect cost rate are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated December 1, 1997, on that statement and schedule.

This report is intended for the information of DRTPC 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

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER
PROJECT IMPLEMENTATION LETTERS No. 4 AND 10
UNDER THE USAID/EGYPT FUNDED
ENERGY CONSERVATION AND ENVIRONMENT PROJECT
SUB-GRANT AGREEMENT NO. 236-0140.3

MANAGEMENT'S COMMENTS

The attachments included with management's comments have not been included herein because (1) they were in Arabic or (2) they were voluminous. Copies may be obtained upon request.

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER
CAIRO UNIVERSITY

DRTPC

مركز بحوث التنمية والتخطيط التكنولوجي
جامعة القاهرة

Cairo University, December 1, 1997

Mr. Mihir Trivedi

Audit Manager
Price Waterhouse
4, Road 261, Maadi, Cairo

Subject : Draft Report on Fund Accountability Statement (DRTPC, PILS # 4 and 10 of the Energy Conservation and Environment Project, ECEP/DRTPC, Grant No. 263-0140.3)

Dear Mr. Trivedi,

Attached please find our response to the a.m. draft report. During the meeting held at the RIG Office on November 2, 1997, some of the comments mentioned in your a.m. report have been verbally covered. As per the telephone conversation between ECEP/DRTPC and your office, we include them once more in writing.

Please do not hesitate to contact us, if any further information or documents are required. We are ready to arrange for a meeting to clarify any points of disagreement between the PW auditors and our financial experts.

Sincerely yours,

Prof. Osman Lotfy Elsayed

DRTPC Director

CC.: Prof. Osama Elbahar, Executive Director, ECEP/DRTPC

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MANAGEMENT'S COMMENTS

**Development Research and Technological Planning Center (DRTPC),
Cairo University**

Project Implementation Letters No. 4 and 10

Under the USAID/Egypt Funded

Energy Conservation and Environment Project (ECEP/DRTPC)

Sub-Grant Agreement No. 263-0140.3

Response of DRTPC to the Draft Report for the Audit Period February 1, 1995 through June 30, 1996

1- General

The following subsections summarize the response of DRTPC to the a.m. draft audit report (***hereafter simply referred to as the report***). DRTPC is willing to provide any further clarifications and supporting documents, as and when needed by the auditors.

The OMB circular No. A-122 is applicable to strictly non-profit organizations. As communicated in prior USAID/ECEP-related audits, according to its bylaws (copy has been already forwarded to the auditors), DRTPC is not a strictly non-profit organization. It is allowed to make profit in part of its activities. This was not taken into consideration during this audit and as such, the applicability of A-122 as an audit basis is not strictly resolved.

The following subsections contain the response of DRTPC to the comments and findings of the report. DRTPC management considers the discussions held during the audit and at the RIG office (November 2, 1997) to be a substantial part of this response.

In the report, the term "management" has been used to indicate either the financial officer or the executive director. The final report should clearly distinguish between both parties.

2- Internal Control Structure (P. 3, ff. of the Draft Audit Report)

2.1 Reportable Conditions – Non-material Weaknesses

A- Project employees handling large amounts of cash and are not bonded.

The financial officials of ECEP/DRTPC are all government employees, who are on leave of absence to work in the project. It is the common practice with the ECEP project as well as all other projects at DRTPC and Cairo University that financial officials handle

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MANAGEMENT'S COMMENTS

large amounts of money without being bonded. Therefore, DRTPC sees no non-compliance in this matter. No incidents took place since the project started in March, 1989. This issue has been discussed with the audit team representative and clarified to her.

B- Bank Reconciliation for PIL No. 10 Is Not Reviewed And Approved By Management

ECEP/DRTPC financial staff explained to the auditors that the access on this account during the audit period was very scarce. As informed, the money issued under PIL No. 10 is used to fund air travel abroad for local counterpart staff and employees of local industry when project-related activities require international travel. Examples of such travel include training trips and study tours. Requests for funding are based on a project plan for such travel and an associated budget cost. Expenditures are based on actual costs incurred. If trips do not proceed as planned, or costs are less than anticipated, then there can be surplus money in the account. When there is little or no activity planned or projected for some time, it is customary practice to zero the account. This review process involves the management interacting on a routine basis with both the persons responsible for implementing the training function within ECEP/DRTPC as well as the two respective MTA contractors for the project through both regular monthly meetings as well as almost daily communication. The oversight currently provided, we believe, constitutes a reasonable level of management input. In accordance with prior management practice, the money remaining on this account has been returned back to USAID in November, 1996, because the last payment from this account was on January 23, 1996, where the cost of a flight ticket for the ECEP/DRTPC training manager was paid. Attachment 1 indicates the scarce access on this account.

C- Compliance with Egyptian Laws and Regulations

The audit team reported a possible non-compliance of DRTPC with Egyptian laws and regulations regarding the deduction and payment of income taxes and social insurance. However, the report did not indicate with which laws and regulations there is non-compliance.

It is clearly stated in the Presidential Decree No. 101 for the year 1989; published in the official newspaper on October 14, 1989, pp. 2649-2650 - Attachment 2, that the Grant Agreement is exempted from any taxes, fees, .. etc. This tax exemption is extended, according to the Presidential Decree, to any institution, organization, or consulting agency (including the personnel belonging to them) under contract within the Grant Agreement (which completely applies to DRTPC and the ECEP staff). A complete copy of the a.m. Presidential Decree has been delivered to the audit team. Presidential Decrees concerning international agreements between two countries supersede any local laws or regulations.

Moreover, DRTPC has the following further clarification to this issue. The ECEP/DRTPC staff members are not DRTPC employees, since their contracts are linked to the availability of funds and are automatically terminated as soon as USAID funding stops.

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MANAGEMENT'S COMMENTS

2.1.2 Follow-up on Prior Audit Recommendations

A- Indirect Cost Rate

The draft report (p.4) statement that this issue was partially unresolved is incorrect. DRTPC has already refunded the total amount of money. A first installment was paid through a check in the value of L.E. 100,000 as mentioned in the report. The rest was cut from the monthly invoice that ECEP/DRTPC sends to USAID. Attachment 3 (dated 23 September 1997, i.e., before the issuance of the report) shows that USAID had already cut the overhead rates of the months May through August 1997 from the ECEP/DRTPC monthly invoices in order to complete the amount that should have been refunded. Refunding was completed in September 1997.

3- Fund Accountability Statement - Direct Costs (Supplement Schedule No. 3 pp. 1 ff.)

Findings A and B are accepted.

As to finding C (service charges), ECEP/DRTPC has the following clarifications:

- Upon request of ECEP/DRTPC during discussions prior to the issuance of the report, the questioned amount was subdivided in the report into two parts: sales taxes (ineligible expenses according to the grant agreement), and service charges.
- ECEP/DRTPC investigated the service charge and was informed that the service charge is not returned back to the Egyptian Government (as is the case with sales tax for example). Money collected from the service charge is distributed to the staff of the hotels and cannot, therefore, be considered as a tax. It is a charge for a service. If any further documentation about this is needed, ECEP/DRTPC is willing to contact the relevant authorities. The ministerial decree No. 22 for the year 1984 confirms this.
- As per paragraph 1085 of the Circular No. A-122 (point 4), services represent allocable costs. A copy of this page of the a.m. circular is attached (Attachment 4).
- Point 3 of the a.m. Attachment defines the requirements for reasonable costs. The questioned service charges satisfy all the requirements for reasonableness.
- Therefore, ECEP/DRTPC believes that the a.m. service charges represent eligible costs, and should not, therefore, be refunded.

4- Fund Accountability Statement - Indirect Costs (Supplement Schedule No. 3 pp. 3 ff.)

Attachment 5 (in Arabic) represents the response of the financial advisor to DRTPC to some items questioned as ineligible indirect costs during their calculation of the indirect costs of DRTPC in the report. These are:

- **Photocopying costs (L.E. 49,253).**
- **Bank charges (L.E. 238).** Documents therefor were delivered to PW representatives during the meeting held at USAID on November 2, 1997. Thereupon, this amount should not be considered as ineligible cost.
- **The costs annual IFTAR organized by the DRTPC (L.E. 4,623).**
- **The "intangible costs" (L.E. 40,000).**

**DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER
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MANAGEMENT'S COMMENTS

The above mentioned issues were discussed with the auditor representatives more than once. The last discussion took place on November 2, 1997. During the latter discussion, the financial advisor to DRTPC explained the standpoint of DRTPC with reference to photocopying costs. He explained that the photocopying costs of L.E. 44,054 represent the true amount that should have been deducted, but not L.E. 49,253. Attachment 5 is a documentation of his verbal explanation from an accounting point of view. The DRTPC-sponsored IFTAR is an annual event to which the center invites potential clients, and representatives of organizations with which the center enjoys business relations. Being a work-related IFTAR, during which business development, promotion of DRTPC activities, and expansion and maintenance of contacts, take place, it is a business-development event, and as such, this amount should not be considered an ineligible indirect cost.

During the a.m. meeting, the DRTPC team explained the costs incurred under the so-called "intangible costs". As a matter of fact, those costs seem to have been confused with the depreciation and/or use allowance of the building. The DRTPC financial advisor and the ECEP/DRTPC executive director confirmed that the annual payment of L.E. 40,000 has nothing to do with the use allowance and/or the depreciation of the building. Through its existence in the campus, DRTPC receives several services from the university, without which its work might have been seriously affected. These include, but are not limited to, security, gardens care, maintenance of the streets leading to DRTPC (this is not the responsibility of the local authorities, but rather of the Cairo University administration), facilitating telecommunications, and technical, financial and legal advice to the DRTPC.

The L.E. 40,000 represents DRTPC's payment for these services provided by the University. These charges are levied by the University to all centers such as DRTPC that operate within the framework and facilities of Cairo University. As such, this amount should not be considered as ineligible.

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DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER
PROJECT IMPLEMENTATION LETTERS No. 4 AND 10
UNDER THE USAID/EGYPT FUNDED
ENERGY CONSERVATION AND ENVIRONMENT PROJECT
SUB-GRANT AGREEMENT NO. 236-0140.3

INDEPENDENT ACCOUNTANTS' RESPONSE

Management of the Development Research and Technological Planning Center ("DRTPC") of the Energy Conservation and Environment Project ("ECEP") provided comments to our draft report presented at the exit conference held on November 2, 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 position. Our response below parallels the audit report findings and management's comments.

RESPONSE TO DRTPC MANAGEMENT COMMENTS TO QUESTIONABLE COSTS DETAILED IN SUPPLEMENTAL SCHEDULE NO. 3

I. FUND ACCOUNTABILITY STATEMENT
DIRECT COSTS - PIL NO. 4

A. Consultant Fees

1. DRTPC agreed with our finding. Accordingly, our position remains unchanged.

B. Travel and Per Diem

1. DRTPC agreed with our finding. Accordingly, our position remains unchanged.

C. Training/Workshop/Conferences

1. DRTPC disagreed with part of our finding. DRTPC explained that the LE 4,311 of service charges questioned in our draft report were not a tax. After further analysis, we agree with DRTPC. As such, this portion has been removed from our final report.

II. SCHEDULE OF COMPUTATIONS OF INDIRECT COST RATES

A. Indirect Costs

<u>Photocopying</u>

1. DRTPC disagrees with our finding. DRTPC feels that only the actual costs should be removed from the indirect cost pool. However, we disagree for the reasons stated in our finding. It should be noted that the revenues received have already been billed to USAID or charged as direct costs of other projects. To not offset the actual costs incurred and included in the indirect cost pool, with <u>total</u> revenues received, would allow DRTPC to be reimbursed for more than the actual costs they incurred. Accordingly, our position remains unchanged.

2. DRTPC did not respond to this finding. Accordingly, our position remains unchanged.

<u>Telephone</u>

3. DRTPC did not respond to this finding. Accordingly, our position remains unchanged.

<u>Social Insurance</u>

4. DRTPC did not respond to this finding. Accordingly, our position remains unchanged.

Benefits

5. DRTPC disagrees with our finding. DRTPC asserts that business was discussed at the Ramadan Iftar and that it should therefore be an allowable cost. Our position remains unchanged because the Ramadan Iftar was for employees and families, the purpose of which was entertainment. Accordingly, our report remains unchanged.

Bank Charges

6. DRTPC provided sufficient supporting documentation. This finding has been removed from our report.

Advertising

7. DRTPC did not respond to this finding. Accordingly, our position remains unchanged.

Per Diem

8. DRTPC did not respond to this finding. Accordingly, our position remains unchanged.

Intangible Services

9. DRTPC disagreed with this finding. They have asserted to us that this payment is for services not covered in the use allowance. Further clarification has been provided to us by DRTPC. As such, this finding has been removed from our report.

RESPONSE TO DRTPC MANAGEMENT COMMENTS TO THE REPORT ON INTERNAL CONTROL STRUCTURE

REPORTABLE CONDITIONS - NON-MATERIAL WEAKNESSES

1. DRTPC disagrees with this finding. DRTPC states that it is common practice for financial officials at ECEP and DRTPC to handle large amounts of money without being bonded and that no incidents have taken place since the start of the project in March of 1989. Nevertheless, we feel that individuals handling large amounts of cash, without being bonded, is a weakness in internal control. Our finding remains unchanged.

2. DRTPC disagrees with this finding because there is very little activity in this account. Nevertheless, independent review of bank reconciliations is a basic internal control. Our finding remains unchanged.

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

1. DRTPC disagrees with this finding. DRTPC states that they are exempt from paying taxes. However, we still believe that it is DRTPC's responsibility to withhold, and pay on behalf of there employees, social security contributions in accordance with Egyptian tax law number 157. DRTPC further states that "ECEP/DRTPC staff members are not DRTPC employees, since their contracts are linked to the availability of funds and are automatically terminated as soon as USAID funding stops". The existence of contracts and the billing of salaries to USAID seems to indicate that they are in fact employees. Accordingly, our finding remains unchanged.

ITEM 1 - GENERAL

The following response is in reference to management's comments, under ITEM 1 - General on page 2 of 5 of appendix A, regarding the applicability of OMB circular No. A-122.

RESPONSE

These concerns need to ultimately be resolved between DRTPC and USAID/Egypt.

APPENDIX C

DEVELOPMENT RESEARCH AND TECHNOLOGICAL PLANNING CENTER
PROJECT IMPLEMENTATION LETTERS No. 4 AND 10
UNDER THE USAID/EGYPT FUNDED
ENERGY CONSERVATION AND ENVIRONMENT PROJECT
SUB-GRANT AGREEMENT NO. 236-0140.3

MISSION RESPONSE

USAID

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

M E M O R A N D U M

Date : January 25, 1998

To : Lou Mundy, RIG/A

From : Shirley Hunter, OD/FM/FA

Subject: Financial Audit of the Development Research and Technological Planning Center, Expenditures Incurred Under Project Implementation Letter Nos. 4 and 10 of USAID/Egypt's Energy Conservation and Environment Project

Following are the actions taken or will be taken by the Mission to resolve/close the subject audit recommendations.

Recommendation No. 1:

We recommend that USAID/Egypt make a management decision on the questioned costs of $1,568 (ineligible) detailed on pages 10 and 11 of the Price Waterhouse audit report, and recover from the Development Research and Technological Planning Center the amounts determined to be unallowable.

* DRTPC refunded the total amount determined to be unallowable by a check No. 10339462 dated January 21, 1998 for LE5,333 ($1,568), copy attached.

Therefore, Mission requests closure of this recommendation.

Recommendation No. 2:

We recommend that USAID/Egypt finalize the Development Research and Technological Planning Center's indirect cost rate of 29.73 percent under Project Implementation Letter No. 4 for the period July 1, 1995 through June 30, 1996, as calculated on page 8 of the Price Waterhouse audit report, and recover any amounts determined to be owed USAID/Egypt.

The auditors determined DRTPC's overhead at 29.73% compared to the provisional rate of 38.5% for the year ending 1996.

Due to inconsistency between the predecessor and the successor auditors in judging an indirect cost element namely "Contribution", FM has decided to refer this subject to the Procurement Office.

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Garden City
Cairo, Egypt

Recommendation No. 3:

We recommend that USAID/Egypt obtain evidence that the Development Research and Technological Planning Center has addressed the material noncompliance issue (deduction and payment of income taxes and social insurance per Egyptian law) detailed on page 19 of the Price Waterhouse audit report.

Mission believes that DRTPC compliance with tax laws is subject to regular reviews by the auditors of the local authorities. In addition, the DRTPC bears primary responsibility for compliance with tax laws, and its compliance has no impact on USAID funds.

Accordingly, it is not cost effective to follow-up on this recommendation and get involved in legal issues between DRTPC and the local authorities.

Therefore, Mission believes that this recommendation should be closed.

CC:

G. Kinney, PROC