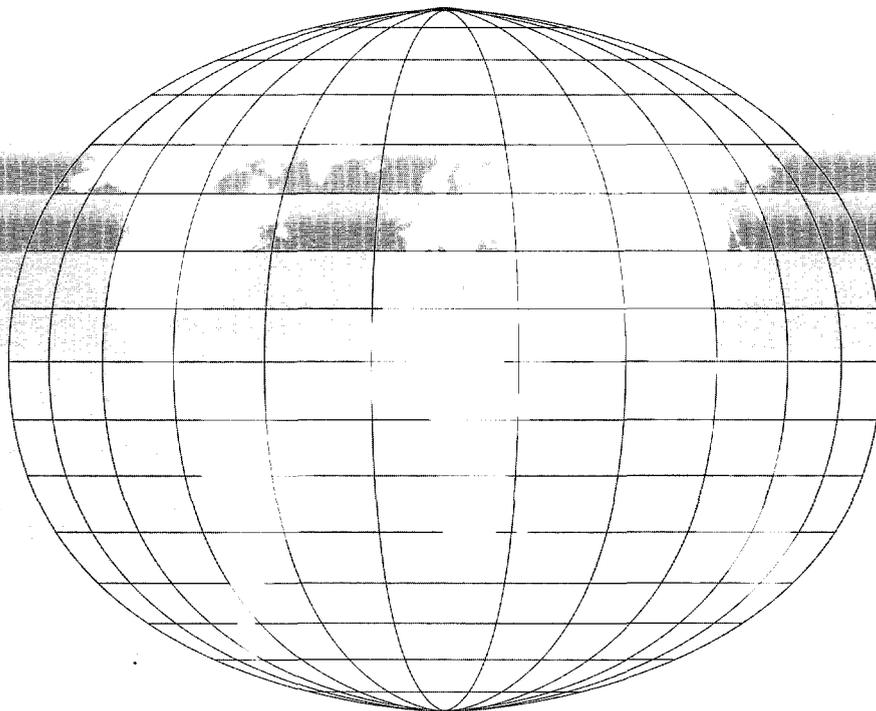


PD-ABQ-234

Report of Audit

**Financial Audit of the State Information Service,
Costs Incurred Under
USAID/Egypt's Population and
Family Planning III Project**

**Report No. 6-263-98-015-N
February 10, 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. 6-263-98-015-N
February 10, 1998

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley
FROM: A/RIG/A/Cairo, Bruce N. Boyer *Bruce N. Boyer*
SUBJECT: Financial Audit of the State Information Service, Costs Incurred Under USAID/Egypt's Population and Family Planning III Project

The attached report, transmitted on December 31, 1997, by Coopers & Lybrand, presents the results of a financial audit of the State Information Service (the "Service"). The Service is the Government of Egypt's lead agency for family planning communication in Egypt. The audit reports on costs incurred under Project Implementation Letter (PIL) No. 5B of the Population and Family Planning III Project (USAID/Egypt Project No. 263-0227). The purpose of the project is to contribute to an increase in the level and effectiveness of contraceptive use in Egypt by generating demand for and increasing the correct use of contraceptives through mass media and local outreach.

We engaged Coopers & Lybrand to perform a financial audit of the Service's incurred costs of \$1,124,718 (equivalent to LE3,835,290) for the period July 1, 1995 through June 30, 1996 for PIL No. 5B. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Coopers & Lybrand also evaluated the Service'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 \$7,130 (equivalent to LE24,316) in costs billed to USAID/Egypt by the Service. The questioned costs related primarily to a delay penalty charge the Service should have charged a contractor, unallowable entertainment costs, and costs that were budgeted under the Government of Egypt's contribution to the Project. The auditors did not note any material weaknesses in the Service's internal control structure nor any material instances of noncompliance with applicable laws, regulations and agreement terms.

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

Tel. Country Code (202)
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Cairo Center Building,
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A

In response to the draft report, Service officials provided additional explanations and documentation. Coopers & Lybrand reviewed the Service's response and documentation, provided further clarification of their position, and did not make any adjustments to the findings in their draft report (see Appendices A and B).

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

Recommendation No. 1: We recommend that USAID/Egypt make a management decision on the questioned costs of \$7,130 (ineligible costs of \$7,042 and unsupported costs of \$88) detailed on pages 9 through 11 of the Coopers & Lybrand audit report, and recover from the State Information Service the amounts determined to be unallowable.

In its written response to the recommendation, USAID/Egypt indicated that it had determined that questioned costs of \$3,165 (\$3,077 ineligible and \$88 unsupported) were unallowable. Accordingly, USAID/Egypt issued a bill of collection and recovered that amount from the recipient. Further, USAID/Egypt determined that the remaining questioned costs of \$3,965 were allowable (see Appendix C). Based on this management decision and final action, we consider the recommendation to be 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

B

THE STATE INFORMATION SERVICE

FINANCIAL-RELATED AUDIT OF USAID/EGYPT
REIMBURSEMENTS OF PROJECT COSTS INCURRED
THROUGH PROJECT IMPLEMENTATION LETTER NUMBER 5B
UNDER GRANT AGREEMENT NO. 263-0227

FOR THE PERIOD FROM JULY 1, 1995 TO JUNE 30, 1996

"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."

THE STATE INFORMATION SERVICE

FINANCIAL-RELATED AUDIT OF USAID/EGYPT
REIMBURSEMENTS OF PROJECT COSTS INCURRED
THROUGH PROJECT IMPLEMENTATION LETTER NUMBER 5B
UNDER GRANT AGREEMENT NO. 263-0227
FOR THE PERIOD FROM JULY 1, 1995 TO JUNE 30, 1996

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December 31, 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 fund accountability statement of project costs incurred by the State Information Service (SIS) and reimbursed by the United States Agency for International Development in Egypt (USAID/Egypt) through Project Implementation Letter (PIL) Number 5B under Grant Agreement No. 263-0227 for the period from July 1, 1995 through June 30, 1996.

Background

The SIS is a lead government agency responsible for family planning communication in Egypt. Since its establishment in 1979 with the technical and financial assistance of USAID/Egypt, the SIS has carried out its public education activities at the national level through the mass media and at the governorate level through interpersonal communication activities conducted by Local Information Centers.

SIS's goal is to assist the Government of Egypt to achieve fertility reduction, specifically to decrease the fertility rate from 3.9 in 1992 to 3.5 in 1997. The purpose of the project is to contribute to an increase in the level and effectiveness of contraceptive use in Egypt by generating demand for and increasing the correct use of contraceptives through mass media and local outreach.

PIL No. 5B, dated May 10, 1994, as amended, approved the SIS Implementation Plan for the period from April 1, 1994 through June 30, 1997 with a local cost budget of 13,431,350 Egyptian Pounds and a U.S. dollar budget of \$797,550. The U.S. dollar budget represents direct procurements made by USAID/Egypt. Funds were disbursed based on three conditions precedent being met for each of the fiscal years ending June 30, 1993-1997. Amendment three to the PIL No. 5B certified that the conditions precedent were met through June 30, 1996. PIL No. 5B also stipulated that the host country contribute 56,365 Egyptian Pounds throughout the life of the project.

Audit objectives and scope

The objective and scope of this engagement was to perform a financial-related audit of USAID/Egypt funds provided through PIL Number 5B to the SIS under Grant Agreement No. 263-0227 for the period from July 1, 1995 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 costs incurred related to PIL No. 5B 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. 5B are allowable, allocable, and reasonable in accordance with PIL terms;

3. evaluate and obtain a sufficient understanding of SIS's internal control structure related to PIL No. 5B, assess control risk and identify reportable conditions, including material internal control weaknesses;
4. determine whether the SIS complied, in all material respects, with the terms of PIL No. 5B and applicable laws and regulations; and
5. determine if the SIS has taken corrective action on prior audit report recommendations.

Preliminary planning and review procedures began in August, 1997 and consisted of discussions with personnel from the Office of the Regional Inspector General for Audit in Cairo ("RIG/A/C") and the SIS's personnel, and a review of the grant agreement and PIL Number 5B. Audit fieldwork commenced in September and was completed in November, 1997.

The audit population was \$1,124,718 (equivalent to LE 3,835,290) in project cost incurred under PIL Number 5B during the audit period. We selected, on a judgmental basis, and tested from the audit population, project costs incurred of \$168,837 (equivalent to LE 575,735) which resulted in testing 15% of the audit population. Project costs incurred were converted to U.S. dollars at the exchange rate of 1 U.S. dollar = LE 3.41. Our tests of project costs incurred by the SIS included, but were not limited to, the following:

1. reconciling project accounting records to billings issued by the SIS to USAID/Egypt to ensure that project costs were supported with appropriate books and records;
2. comparing project costs billed to USAID/Egypt to the approved budget according to the PIL No. 5B;
3. testing of project costs incurred by the SIS and funded by USAID/Egypt for allowability, allocability, reasonableness and appropriate support; and
4. 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.

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

Audit results

Fund accountability statement:

Our audit procedures identified \$7,130 in questioned project costs.

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 SIS management in a separate letter dated November 2, 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 5B does not provide for indirect costs.

Status of prior-audit findings

There was a prior audit conducted of SIS's PIL No. 6 and PIL No. 5B for the periods April 1, 1993 through March 31, 1994 and April 1, 1994 through June 30, 1995, respectively. The audit report, no. 6-263-97-013-N, dated February 24, 1997, contained the following internal control weaknesses and instances of noncompliance with agreement terms and applicable laws and regulations:

Internal Control:

1. SIS's controls surrounding fixed assets are not adequate.

Current Status:

We consider the weaknesses related to SIS's internal control over fixed assets to be of a non-reportable nature. We have included our recommendations in a separate letter addressed to SIS management dated November 2, 1997.

2. SIS does not have an appropriate mechanism in place for ensuring that invoices are paid only once.

Current Status:

We consider the weaknesses related to SIS's failure to cancel paid invoices to be of a non-reportable nature. We have included our recommendations in a separate letter addressed to SIS management dated November 2, 1997.

3. SIS management failed to properly segregate the duties of the petty cash custodian.

Current Status:

We consider the weaknesses related to SIS's failure to properly segregate incompatible job duties to be of a non-reportable nature. We have included our recommendations in a separate letter addressed to SIS management dated November 2, 1997.

Compliance:

1. SIS management did not consistently apply proper procurement procedures in the procurement of technical and professional services.

Current Status:

The instances in which SIS's misapplied proper procurement procedures do not have a material effect on the fund accountability statement. Therefore, we have included our recommendations related to those instances in a separate letter addressed to SIS management dated November 2, 1997.

2. SIS billed USAID/Egypt for advances provided to the Local Information Centers.

Current Status:

We noted no instances in which SIS billed USAID/Egypt for advances provided to the Local Information Centers that were not corrected by SIS within the audit period.

3. SIS billed USAID/Egypt for costs which should have been paid for by the GOE.

Current Status:

We have noted certain instances in which SIS billed USAID/Egypt for costs which should have been paid for by the GOE and have questioned those costs in our report on the fund accountability statement. The questioned costs do not have a material effect on the fund accountability statement, therefore we have included our recommendations related to those instances in a separate letter addressed to SIS management dated November 2, 1997.

4. SIS management did not establish individual bank accounts for the funds of PIL No. 5B.

Current Status:

SIS has one bank account for PIL No. 5B funds.

Management comments

SIS's management comments have been obtained and are included in Appendix A of this report.

Independent accountants response

In response to management's comments, we have provided further clarification of our position in Appendix B of this report.

Mission response

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

This report is intended for the information of the SIS'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.

Coopers & Lybrand

November 2, 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 State Information Service (SIS) and reimbursed by the United States Agency for International Development in Egypt (USAID/Egypt) through Project Implementation Letter (PIL) Number 5B under Grant Agreement No. 263-0227 for the period from July 1, 1995 through June 30, 1996. The fund accountability statement is the responsibility of the SIS'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 \$7,130 of questioned project costs. This amount is comprised of \$7,042 in ineligible project costs and \$88 in 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 SIS related to PIL No. 5B 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 November 2, 1997, on our consideration of the SIS's internal control structure and a report dated November 2, 1997, on its compliance with agreement terms and applicable laws and regulations.

This report is intended for the information of the SIS'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.

Coopers & Lybrand

THE STATE INFORMATION SERVICE
FINANCIAL-RELATED AUDIT OF USAID/EGYPT
REIMBURSEMENTS OF PROJECT COSTS INCURRED
THROUGH PROJECT IMPLEMENTATION LETTER NUMBER 5B
UNDER GRANT AGREEMENT NO. 263-0227

FOR THE PERIOD FROM JULY 1, 1995 TO JUNE 30, 1996

FUND ACCOUNTABILITY STATEMENT

<u>Item Description</u>	<u>Actual</u>
SIS/IEC Center Expenditures:	
Mass Media	\$ 306,862
Support Information Production	173,752
Inter-agency Collaboration, IPC and Local Activities	191,955
Training	69,930
Research	44,498
Commodities, Supplies and Equipment	35,895
Monitoring and Evaluation	11,431
Management, Office Support, and Services	<u>38,392</u>
Total SIS/IEC Expenditures:	<u>872,715</u>
SIS/SDP Expenditures:	
Marketing Campaign Materials	130,053
Client Provider IEC Materials	71,701
Additional Activities	2,866
Research and Evaluation	20,366
Management	<u>27,017</u>
Total SIS/SDP Expenditures:	<u>252,003</u>
Total Expenditures	<u>\$1,124,718</u>
Total Questioned Project Costs	<u>\$7,130</u>

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

THE STATE INFORMATION SERVICE
FINANCIAL-RELATED AUDIT OF USAID/EGYPT
REIMBURSEMENTS OF PROJECT COSTS INCURRED
THROUGH PROJECT IMPLEMENTATION LETTER NUMBER 5B
UNDER GRANT AGREEMENT NO. 263-0227

FOR THE PERIOD FROM JULY 1, 1995 TO JUNE 30, 1996

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF AUDIT:

The fund accountability statement's "Actual" column includes all project costs incurred by the SIS and reimbursed by the USAID/Egypt through PIL Number 5B under Grant Agreement No. 263-0227 for the period from July 1, 1995 through June 30, 1996.

NOTE 2 - BASIS OF PRESENTATION:

The fund accountability statement has been prepared on the cash disbursements method of accounting. Consequently, 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 3.41 LE to 1 U.S. dollar. The exchange rate used is the average monthly free market exchange rate for the period from July 1, 1995 through June 30, 1996 as quoted by the Cairo Barclays Bank.

NOTE 4 - QUESTIONED PROJECT COSTS:

Total questioned project costs are presented below 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:

Item Description

Questioned Project Cost

Ineligible Project Costs:

1. A late delivery penalty should have been deducted from a payment made to a television

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED):

Item Description

Questioned Project Cost

Ineligible Project Costs (Continued):

advertisement contractor, but the full amount was billed to USAID/Egypt.

The contract between SIS and the contractor stated that a delay penalty of 4% would be deducted from the final payment of the contract for the first month or any part thereof that the product was late. Accordingly, the late penalty should have been charged to the contractor, not USAID/Egypt.

\$ 1,877

2. SIS billed certain costs to USAID/Egypt which are entertainment in nature, "meals and beverages."

PIL No. 5A, General Policies and Procedures (covering funds expended under PIL 5B) section 2(c) states that "personnel expenses such as coffee, tea, and meals for staff and guests" are explicitly unallowable.

\$ 2,088

3. SIS paid per diems for trainees from Cairo to attend a course conducted in Cairo.

The purpose for per diem is to compensate persons on travel status, therefore per diem should not have been paid to trainees who did not travel.

\$ 573

4. SIS charged certain costs to USAID/Egypt which should have been paid for by the Government of Egypt.

The GOE contribution budget for project year 2 for the period from July, 1995 to June, 1996 specifically lists, "incentives for SIS staff" and "fuel and vehicle maintenance."

\$ 2,504

Total Ineligible Project Costs

\$ 7,042

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED):

Item Description

Questioned Project Costs

Unsupported Project Costs:

1. Two training courses were not supported with any documentation.

According to the Grant Agreement No. 263-0227, Annex II, Article B, Section B.5, b, "the grantee shall maintain accounting books, records, documents, and other evidence relating to the project and to this agreement, adequate to show, without limitation, all costs incurred under the grant..."

\$ 88

Total Unsupported Project Costs

\$ 88

Summary:

Total Ineligible Project Costs

\$ 7,042

Total Unsupported Project Costs

88

TOTAL QUESTIONED PROJECT COSTS

\$ 7,130

November 2, 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 State Information Service (SIS) and reimbursed by the United States Agency for International Development in Egypt (USAID/Egypt) through Project Implementation Letter (PIL) Number 5B under Grant Agreement No. 263-0227 for the period from July 1, 1995 through June 30, 1996 and have issued our report thereon dated November 2, 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.

The management of the SIS 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 SIS'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 SIS in a separate letter dated November 2, 1997.

This report is intended for the information of the SIS'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.

Coopers & Lybrand

November 2, 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 State Information Service (SIS) and reimbursed by the United States Agency for International Development in Egypt (USAID/Egypt) through Project Implementation Letter (PIL) Number 5B under Grant Agreement No. 263-0227 for the period from July 1, 1995 through June 30, 1996 and have issued our report thereon dated November 2, 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 terms and applicable laws and regulations applicable to the SIS is the responsibility of the SIS's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of the SIS's compliance with certain provisions of agreement 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 SIS'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.

Coopers & Lybrand

THE STATE INFORMATION SERVICE
FINANCIAL-RELATED AUDIT OF USAID/EGYPT
REIMBURSEMENTS OF PROJECT COSTS INCURRED
THROUGH PROJECT IMPLEMENTATION LETTER NUMBER 5B
UNDER GRANT AGREEMENT NO. 263-0227

MANAGEMENT COMMENTS

State Information Service
IEC Center
3 Tahrir Square, Cairo Egypt
Tel: 3550865/ 3545586
Fax: 3556722



الهيئة العامة للإستعلامات
مركز المعلومات والتعليم والاتصال
3 ميدان التحرير - القاهرة
٣٥٥٠٨٦٥ - ٣٥٤٥٥٨٦

Mr. Jeffrey Hentges
Coopers & Lybrand, Egypt
Tiba 2000 Center
Rabaa El-Adaweya
Nasr City-Cairo-11371

December 17, 1997

Dear Mr. Hentges,

Thank you very much for your effort with our staff during financial-related audit of USAID/Egypt reimbursements of project costs incurred through Project Implementation Letter Number 5B (PIL 5B) under Grant Agreement No. 263-0227, for the period from July 1, 1995 to June 30, 1996. I was told by our Financial Director that this Audit was different from the previous ones i.e. the auditors were understanding and flexible.

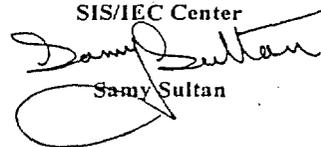
Audit Report questioned some fund accountability expressed as incurred in Egyptian pounds. Complying with audit procedures that we mutually agreed upon, we revised and examined points raised by the auditors. Please find enclosed the SIS/IEC Center's response.

If you have any questions regarding this response, please do not hesitate to contact us.

Thank you very much for your cooperation.

Sincerely,

Executive Director
SIS/IEC Center


Samy Sultan

cc: Mr. Mohammed Torhan Noury

State Information Service
IEC Center
3 Tahrir Square .Cairo Egypt
Tel: 3550865/ 3545586
Fax: 3556722



المدينة العامة للإستعلامات
مركز الإعلام والتعليم والاتصال
٣ ميدان التحرير - القاهرة
٣٥٥٠٨٦٥ - ٣٥٤٥٥٨٦

	LE	Item Description	A	D	SIS response
1)	6,400	A late delivery penalty should have been deducted from a payment made to a television adv. Contractor.		6,400	The delay in delivery was according to the delay in reviewing, evaluation and approval the deliverable by SIS/IEC Center and according to some changes in the ads. Requested by SIS/IEC management.
2)	7,121	SIS billed certain costs to USAID/Egypt which are entertainment in nature, "meals and beverages".		7,121	First of all, this cost is not for ENTERTAINMENT (personal expenses such as coffee, tea and meals for staff and guests, as mentioned in Audit Report). which These expenses were paid to a hotel as part of total costs of implementing an approved activity (included in the hotel bills as a total cost of the training course held there, which covered bed, breakfast and lunch, tea break, training hall rent and other expenses). Also, according to USAID Financial Regulation, that tea break can be offered if the training course is more than half a day. Thus, total amount of LE 7,121 should be considered as allowable cost under the Grant Agreement, costs related to an approval activity.
3)	1,955	SIS paid perdiem for trainees from Cairo	1,119	836	These amounts were paid as incidental Expenses for the approval activity (Training Courses) (20% of Cairo perdiem rate) for trainees from Cairo. This is according to a USAID formula for computing perdiem and incidental expenses. Thus, total amount of LE 836 should be considered as allowable cost under the Grant Agreement, costs related to an approved activity.
4)		SIS charged certain costs to USAID Egypt which should have been paid by the GOE:			

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REIMBURSEMENTS OF PROJECT COSTS INCURRED
THROUGH PROJECT IMPLEMENTATION LETTER NUMBER 5B
UNDER GRANT AGREEMENT NO. 263-0227
MANAGEMENT COMMENTS

State Information Service
IEC Center
3 Tahrir Square, Cairo Egypt
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Fax: 3556722



الهيئة العامة للإستعلامات
مركز الإعلام والتعليم والاتصال
٣ ميدان التحرير - القاهرة
٣٥٥٠٨٦٥ - ٣٥٤٥٥٨٦

LE	Item Description	A	D	SIS response
6,700	Monthly bonus paid to the SIS staff	6,700		
1,000	Vehicle air conditioner repairs	1,000		
3,060	Bonus paid to SIS employes for supervising training courses		3,060	As mentioned in the Audit Report, this amount was paid as Technical, financial and administration supervision considered a necessary activity to facilitate and monitor an approved activity. Thus, total amount of LE 3,060 should be considered as allowable cost under the Grant Agreement, costs paid for approved activity.
70	Vehicle fuel			
840	Bonus paid to SIS staff for implementing a radio contest		840	Technical, financial and administration supervision from SIS central staff were conducted to facilitate and monitor an approved activity during the month of Ramadan. Thus, total amount of LE 840 should be considered as allowable cost under the Grant Agreement, costs paid for approved activity.
27,146	And not LE 24,016 as calculated in the Audit Report.	8,889	18,257	Total of Ineligible Cost
B) Unsupported Costs				
5)	300	According to the Grant Agreement # 263-0227 .. "the grantee shall maintain accounting books .."	300	Supporting documents are available for review.

- * A= Agree with auditors
- * D= Disagree with auditor

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INDEPENDENT ACCOUNTANTS' RESPONSE

The State Information Service ("SIS") management provided comments relating to the draft report presented at the exit conference held on December 27, 1997. SIS's comments are included, unedited, in Appendix A to this report. In response to their comments, we reviewed additional supporting documents provided by SIS management. Please note that the finding references used below correspond to those used in our draft and final reports.

We will respond only to those questioned items that SIS management disagreed with (see table prepared by SIS management at Appendix A, page 2).

- 1) Documentation available at SIS during our field work showed that a delay penalty was to be charged to the subcontractor. That delay penalty should have been collected from the subcontractor and subsequently been deducted from the billings to USAID/Egypt. USAID/Egypt does not reimburse for bad debts. Consequently, our position is unchanged.
- 2) SIS did not cite a USAID reference that allows this type of expense. Consequently, our position is unchanged.
- 3) SIS did not cite a reference explaining why 20% of per diem should be allowed to trainees from Cairo. Consequently, our position is unchanged.
- 4) There was no amount for LE 3,060 questioned. LE 840 remains questioned for the reasons stated in our report.
- 5) SIS was not able to provide support for this item. Our position is unchanged.

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MISSION RESPONSE



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

MEMORANDUM

DATE : February 9, 1998

TO : Lou Mundy, RIG/A/C

FROM : Shirley A. Hunter, Division Chief, FM/FA *SHH*

SUBJECT : Financial Audit of the State Information Services (SIS) Local Expenditures Incurred under Project Implementation Letter (PIL) 5B under the USAID/Egypt Project No. 263-0227 - Draft Report dated January 7, 1998

Following is the Mission response to Recommendation No. 1 under the subject audit.

Recommendation No. 1:

We recommend that USAID/Egypt make a final management decision on the questioned costs of \$7,130 (ineligible costs of \$7,042 and unsupported costs of \$88) detailed on pages 9 through 11 of the audit report, and recover from the State Information Service the amounts determined to be unallowable.

Mission Response:

Mission has reviewed the questioned costs, held meetings with the counterpart; the Project Officers, and the Technical Assistance consultants to discuss the findings. Based on that review, of the \$7,130 (LE 24,316) questioned under the audit, \$3,965 (LE 13,521) is determined to be allowable, and \$3,165 (LE 10,795) is sustained. Accordingly, Mission issued Bill of Collection (BOC) No. CO-263-81746 dated February 2, 1998 in the amount of \$3,165 (LE 10,795) (Attachment No. 1). The sustained amount of LE 10,795 was deducted from the SIS December 1997 Voucher No. 8-2009 (Attachment No. 2). Based on that action, Mission requests closure of the recommendation upon issuance of the final report.

Following are the details of the amounts allowed and amounts sustained.

Ineligible Project Costs:**1. The ineligible amount of \$1,877 (LE 6,400) - page 11**

- * This amount represents delay penalty that should have been deducted from payment to the contractor.
- * SIS submitted documents including a copy of the contract dated June 17, 1995; a memo evidencing receipt of the initial copy of the television spots on August 16, 1995 (the due date for receipt of the draft), and a receiving report of the final product (Attachment No. 3). Mission review of the contract and supporting documents has revealed that receipt of the final product was contingent upon completion of the technical review and modifications requested by SIS.

A review of the auditors working papers has indicated that they questioned this amount based on the "minutes of the committee meeting", which stated that the draft was delivered on September 24, 1995, and that a penalty of LE 6,400 will be assessed against the contractor. As per SIS's letter received February 9, 1998 (Attachment no. 4), SIS reviewed their records and could not identify or locate the minutes of the meeting referred to in the auditors working papers. Therefore, Mission cannot sustain LE 6,400 based on a working paper without an evidence.

In addition, in his letter dated February 1, 1998 (Attachment No. 5), the SIS Executive Director has confirmed that the delay in receipt of the final product was not caused by the contractor, and that there was no need to assess penalties against the contractor.

Based on the above, \$1,877 (LE 6,400) is determined to be allowable.

2. The ineligible amount of \$2,088 (LE 7,121) - page 11

- * This amount represents billed costs which are entertainment in nature.
- * SIS has provided documents proving that this amount represents cost of meals in conjunction with three approved training activities. The documents included the hotel receipts as well as the lists including the names of participants (Attachment No. 6). Based on the review of the documents, Mission has determined the reasonableness of this amount in relation to the number of training participants.

In accordance with OMB Circular A-122, Attachment B, Section 25.c, "cost of attendance at meetings and conferences sponsored by others when the primary purpose is the dissemination of technical information, are allowable. This includes costs of meals, transportation and other items incidental to such attendance".

Based on the above, Mission believes that the cost of meals for approved training activities are considered allowable.

Accordingly, \$2,088 (LE 7,121) is considered allowable.

3. The ineligible amount of \$573 (LE 1,955) - page 11

- * This amount represents per diem paid to trainees from Cairo.
- * Cairo residents are not eligible to receive per diem for training in Cairo.

Therefore, \$573 (LE 1,955) is sustained and is included in the Bill of Collection.

4. The ineligible amount of \$2,504 (LE 7,700) - page 11

- * This amount represents costs which should have been paid by the GOE.
- * SIS has agreed to refund this amount.

Therefore, \$2,504 (LE 7,700) is sustained and is included in the Bill of Collection.

5. The unsupported amount of \$88 (LE 300) - page 12

- * This amount represents miscellaneous costs in conjunction with training courses, which were not supported by documents.
- * SIS has agreed to refund this amount.

Therefore, \$88 (LE 300) is sustained and is included in the Bill of Collection.

Based on the above, Mission requests closure of the recommendation upon issuance of the final report.

Att: a/s

7.2