

Regional Inspector General for Audit
Cairo, Egypt

**Audit of the Foreign Relations Coordination Unit of the
Supreme Council of Universities Local Expenditures
Incurred Pursuant to Project Implementation Letter No.13
under the University Linkages Project No.263-0118**

Report No. 6-263-95-003-N
October 10, 1994



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

October 10, 1994

MEMORANDUM FOR D/USAID/Egypt, John R. Westley
FROM: RIG/A/Cairo, *Murray* Philippe L. Darcy
SUBJECT: Audit of the Foreign Relations Coordination Unit (FRCU) of the Supreme Council of Universities Local Expenditures Incurred Pursuant to Project Implementation Letter (PIL) No. 13 under the University Linkages Project No. 263-0118.

The attached report dated February 10, 1994, by Price Waterhouse presents the results of a financial audit of the Foreign Relations Coordination Unit (FRCU) incurred costs under University Linkages Project No. 263-0188 funded by USAID/Egypt. The purpose of the project was to assist Egypt in establishing a grant's commission capability within FRCU and to finance collaboration between United States and Egyptian Universities in problem solving activities. PIL No. 13 was issued to cover foreign exchange and local currency costs program expenditures for FRCU to manage the University Linkages Project.

We engaged Price Waterhouse to perform a financial audit of FRCU's incurred expenditures of LE1,192,213 and \$562,844 for the period from June 1, 1983 through December 31, 1992 for PIL No. 13. The purpose of the audit was to evaluate the propriety of costs incurred during that period. In performing the audit, Price Waterhouse evaluated FRCU's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Consolidated Fund Accountability Statement. Price Waterhouse disclaimed an opinion on the fund accountability statement because (1) FRCU's accounting records did not provide sufficient evidence supporting cash transactions to permit the application of adequate auditing procedures and (2) material weaknesses in FRCU's internal control structure present the risk that material errors may occur and not be detected within a timely period.

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Price Waterhouse questioned \$417,956 in costs billed to USAID by FRCU (including \$385,785 of unsupported costs). These questioned costs included Direct Compensation, Equipment & Supplies, Administrative Support, Travel and Computer Room Preparation.

Price Waterhouse noted six material internal control weaknesses related to FRCU's controls over the project's accounting records, recording of USAID's disallowances, appropriate level of review of billings and accounting records, maintenance of appropriate support for employee compensation, commingling of USAID funds with those of other sources and reconciliation of bank statements. Additionally, they noted three instances of material noncompliance related to failure to bill USAID on a cost reimbursable basis, maintenance of adequate books and records and separation of funds from various funding sources.

At the urging of RIG/A/C, the Mission suspended funding FRCU on March 2, 1994, for activities under University Linkages Project II. The funding remains suspended until the Mission is satisfied that adequate controls are in place to protect U.S. Government funds.

In its response to this audit report (see Appendix E), the Mission has indicated it would shift responsibility for the financial management of the project to a U.S. contractor. The Mission's objective is to ensure that the material weaknesses in internal controls and compliance disclosed by the audit are corrected, and to ensure the financial integrity of the project. The Mission also intends to work with FRCU and RIG/A/C to agree on an acceptable methodology for assessing the validity of the costs questioned by the audit. In our opinion the actions contemplated by the Mission fully meet the intent of the audit report recommendations.

Price Waterhouse has reviewed FRCU's response to the findings. Where applicable they made adjustments in their reports or provided further clarification of their position. Overall, the response provided by FRCU has not changed Price Waterhouse's understanding of the facts underlying the questioned costs of the Consolidated Fund Accountability Statement or the reportable conditions in the Reports on Internal Controls and Compliance.

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

Recommendation No. 1: We recommend that USAID/Egypt resolve questioned costs of \$417,956 consisting of ineligible costs of \$32,171 and unsupported costs of \$385,785 as detailed on pages 9 through 12 of the audit report.

This recommendation is considered unresolved and can be resolved when we receive the Mission's formal determination as to the amounts sustained or not sustained. The recommendation can be

closed when any amounts determined to be owed to USAID are paid by FRCU.

Recommendation No. 2: We recommend that USAID/Egypt require FRCU to address the material internal control weaknesses detailed on pages 14 through 17 of the audit report.

Based on the Mission response, this recommendation is considered resolved. The recommendation can be closed when the Mission provides evidence to RIG/A/C that these weaknesses have been satisfactorily corrected.

Recommendation No. 3: We recommend that USAID/Egypt require FRCU to address the material noncompliance issues detailed on pages 19 through 20 of the audit report.

Based on the Mission response, this recommendation is considered resolved. The recommendation can be closed when the Mission provides evidence to RIG/A/C that these weaknesses have been satisfactorily corrected.

Please advise this office within 30 days of any actions planned or taken to close the recommendations. We appreciate the courtesies extended to the staff of Price Waterhouse and to our office.

**FOREIGN RELATIONS COORDINATION UNIT
OF THE SUPREME COUNCIL OF UNIVERSITIES**

**PROJECT IMPLEMENTATION LETTER NUMBER 13
UNDER THE UNIVERSITY LINKAGES PROJECT
NO. 263-0118**

**FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION**

**FOR THE PERIOD FROM
JUNE 1, 1983 THROUGH DECEMBER 31, 1992**

**FOREIGN RELATIONS COORDINATION UNIT
OF THE SUPREME COUNCIL OF UNIVERSITIES**

**PROJECT IMPLEMENTATION LETTER NUMBER 13
UNDER THE UNIVERSITY LINKAGES PROJECT NO. 263-0118**

**FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION**

**FOR THE PERIOD FROM
JUNE 1, 1983 THROUGH DECEMBER 31, 1992**

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July 14, 1994

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

Dear Mr. Darcy:

This report presents the results of our engagement to perform a financial related cost-incurred audit of the accompanying fund accountability statement of the Foreign Relations Coordination Unit ("FRCU") of the Supreme Council of Universities ("SCU") relating to project costs incurred on Project Implementation Letter ("PIL") No. 13 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") University Linkages Project No. 263-0118 ("grant agreement") for the period from June 1, 1983 through December 31, 1992.

Background

The University Linkages Project was established by USAID/Egypt under University Linkages Project No. 263-0118, dated September 28, 1980. The purpose of the project was to assist Egypt in establishing a grants commission capability within FRCU and to finance collaboration between United States and Egyptian Universities in problem solving activities.

PIL No. 13, issued on June 16, 1982, supersedes PIL No. 4, dated February 25, 1981 and PIL No. 6, dated December 8, 1981, to cover foreign exchange and local currency project costs necessary for FRCU to manage the University Linkages Project.

PIL No. 13, last amended on July 12, 1992, provided 1,669,752 Egyptian pounds ("LE") and \$ 609,415 to cover foreign exchange and local currency program expenditures necessary for FRCU to manage the University Linkages Project through June 30, 1992.

Engagement Objectives and Scope

The objective of this engagement was to perform a financial-related cost-incurred audit of USAID/Egypt funds provided to FRCU of SCU on PIL No. 13 under the USAID/Egypt University Linkages Project No. 263-0118 for the period from June 1, 1983 through December 31, 1992. Specific objectives were to determine whether:

1. the fund accountability statement of FRCU related to PIL No. 13 presents fairly, in all material respects, project revenues received and costs incurred for the period from June 1, 1983 through December 31, 1992 in conformity with the applicable accounting principles;
2. the costs reported as incurred by FRCU under PIL No. 13 and funded by USAID/Egypt are allowable, allocable, and reasonable in accordance with the terms of the grant agreement, PIL, and USAID/Egypt regulations;



3. the internal controls, accounting systems, and management practices of FRCU are adequate for USAID/Egypt agreements; and
4. FRCU is in compliance, in all material respects, with the grant agreement, PIL terms, and applicable laws and regulations.

Preliminary planning and review procedures began in August, 1993 and consisted of both discussions with Regional Inspector General for Audit/Cairo personnel and FRCU officials and a review of the grant agreement and PIL No. 13. Fieldwork commenced in September, 1993 and was completed in February, 1994.

The scope of our engagement was all project costs incurred by FRCU on PIL No. 13 under the USAID/Egypt University Linkages Project No. 263-0118. On a judgmental basis, we selected and tested incurred costs of LE 712,849 and \$ 293,659 out of total incurred costs of LE 1,192,213 and \$ 562,844, respectively. All costs tested were incurred during the period from June 1, 1983 through December 31, 1992.

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

1. reviewing direct expenditures billed to and reimbursed by USAID/Egypt, identifying and quantifying any questionable expenditures;
2. reviewing FRCU's accounting records to determine whether both project income and reimbursements and incurred costs were properly recorded;
3. reconciling FRCU's project accounting records to invoices issued to USAID/Egypt;
4. reviewing procedures used to control project funds;
5. determining that salary rates were reasonable, in accordance with those approved by USAID/Egypt, and supported by appropriate payroll records;
6. determining that travel and transportation charges were adequately supported and approved; and
7. determining that sound commercial practices were used, reasonable prices were obtained, and adequate controls on qualities and quantities received in the procurement of goods and services were in place.

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



Results of Engagement

Fund accountability statement:

The scope of our work was not sufficient to enable us to express an opinion on the accompanying fund accountability statement because: (1) FRCU's accounting records do not provide sufficient evidence supporting cash transactions to permit the application of adequate auditing procedures; (2) we identified material weaknesses in FRCU's internal control structure concerning its financial system which present the risk that errors, in amounts that could be material in relation to the fund accountability statement, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions; and (3) we were unable to obtain a management representation letter.

As a result of matters noted above, we are unable to, and do not express an opinion on the fund accountability statement.

Our procedures identified \$ 417,956 (\$ 32,171 in ineligible and \$ 385,785 in unsupported costs), converted at applicable exchange rates, in questionable costs.

Internal control structure:

Our engagement identified six material internal control structure weaknesses. We recommend that FRCU adopt procedures to: 1) improve controls surrounding the project's accounting records; 2) properly record USAID/Egypt disallowances; 3) ensure that the project director and/or the financial manager review USAID/Egypt billings and related accounting records; 4) maintain sufficient records and support for employee compensation; 5) ensure that USAID/Egypt PIL No. 13 designated funds are not commingled with funds from other sources; and 6) reconcile project financial records with bank statements and USAID/Egypt records.

Compliance with agreement terms and applicable laws and regulations:

Since the scope of our testing was limited, as explained above, we are unable to determine, and thus give no assurance about the degree to which FRCU complied with laws and regulations which might have a material effect on the fund accountability statement.

Our audit identified three material instances of noncompliance relating to FRCU's failure to: 1) bill USAID/Egypt on a cost-reimbursable basis; 2) adhere to the USAID/Egypt requirement to establish a separation of funds from various funding sources in the project bank account and accounting records; and 3) maintain adequate project books and records as required by the grant agreement.

Prior Audit Recommendations:

A report on the financial management capability and internal control system was issued by Ahmed Shawky & Co. in August, 1992 consisting of internal control system recommendations all of which management failed to adequately address. All recommendations included in the prior report, related to PIL No. 13, which are still applicable, have been included in the Report on Internal Control Structure.



Management Comments

FRCU management comments have been obtained and are included in Appendix C of this report. We have either provided further clarification of our position, where necessary, in Appendix D of this report or have adjusted the final report.

This report is intended for the information of FRCU's management and others within the organization and the United States Agency for International Development. The restriction is not intended to limit the distribution of this report which is a matter of public record.

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REPORT OF INDEPENDENT ACCOUNTANTS

February 10, 1994

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We were engaged to audit the accompanying fund accountability statement of the Foreign Relations Coordination Unit ("FRCU") of the Supreme Council of Universities ("SCU") relating to costs incurred on Project Implementation Letter ("PIL") No. 13 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") University Linkages Project No. 263-0118 ("grant agreement") for the period from June 1, 1983 through December 31, 1992. The fund accountability statement is the responsibility of FRCU's management.

The scope of our work was not sufficient to enable us to express an opinion on the accompanying fund accountability statement because: (1) FRCU's accounting records do not provide sufficient evidence supporting cash transactions to permit the application of adequate auditing procedures; (2) we identified material weaknesses in FRCU's internal control structure concerning its financial system which present the risk that errors, in amounts that could be material in relation to the fund accountability statement, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. These weaknesses are discussed further in our Report of Independent Accountants on Internal Control Structure dated February 10, 1994; and (3) we were unable to obtain a management representation letter.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 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 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.

As described in Note 3, the accompanying fund accountability statement has been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying fund accountability statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.

As more fully described in Note 5 to the fund accountability statement, the results of our tests disclosed the following questioned costs as detailed in the fund accountability statement: (1) \$ 32,171 in costs that are explicitly ineligible because they are not program related, unreasonable, or prohibited by the terms of the agreements; and (2) \$ 385,785 in costs that are not supported with adequate documentation or did not have the required prior approvals or authorizations.



As a result of the matters referred to in the second paragraph of this report, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the fund accountability statement referred to above.

Our work was conducted for the purpose of forming an opinion on the fund accountability statement described in the first paragraph of this report. The supplemental information included in Appendices A and B is presented for purposes of additional analysis and not as a required part of the basic fund accountability statement. This information has been subjected to the procedures applied to the information contained in the basic fund accountability statement for which we disclaimed an opinion as noted above. Accordingly, we express no opinion on the supplemental information.

This report is intended for the information of FRCU's management and others within the organization and the United States Agency for International Development. The restriction is not intended to limit the distribution of this report which is a matter of public record.

PricewaterhouseCoopers

**FOREIGN RELATIONS COORDINATION UNIT
OF THE SUPREME COUNCIL OF UNIVERSITIES**

**PROJECT IMPLEMENTATION LETTER NO. 13
UNDER THE UNIVERSITY LINKAGES PROJECT NO. 263-0118**

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD FROM JUNE 1, 1983 THROUGH DECEMBER 31, 1992

	Budget (NOTE 2)	Actual (NOTE 2)	Questioned Costs		Finding Reference (NOTE 5)
			Ineligible (NOTE 5)	Unsupported (NOTE 5)	
Income and cash			\$ 6,404	\$ 34,618	Finding A, Page 9
Expenditures:					
Direct compensation	\$ 432,325	\$ 332,391	801	125,967	Finding B, Page 10
Administrative support	596,300	559,577	-	109,309	Finding C, Page 10
Equipment and supplies	209,626	158,679	4,510	83,726	Finding D, Page 10
Travel	13,653	8,378	413	2,858	Finding E, Page 11
Training	1,598	874	-	-	
Contractor	106,152	29,846	140	26,690	Finding F, Page 11
Computer room preparation	53,704	51,763	19,903	2,617	Finding G, Page 12
Contingencies	<u>6,615</u>	<u>81</u>	-	-	
TOTALS	\$ <u>1,419,973</u>	\$ <u>1,141,589</u>	\$ <u>32,171</u>	\$ <u>417,956</u>	

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

**FOREIGN RELATIONS COORDINATION UNIT
OF THE SUPREME COUNCIL OF UNIVERSITIES**

**PROJECT IMPLEMENTATION LETTER NUMBER 13
UNDER THE UNIVERSITY LINKAGES PROJECT NO. 263-0118**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF STATEMENT:

The fund accountability statement of FRCU of SCU includes all project costs incurred by FRCU on PIL No. 13 under the USAID/Egypt University Linkages Project No. 263-0118 for the period from June 1, 1983 through December 31, 1992.

NOTE 2 - SOURCE OF DATA:

The column labeled "Budget" includes USAID/Egypt approved costs for PIL No. 13 through June 30, 1992 and is presented for informational purposes only. The USAID/Egypt approved budget for PIL 13 include amounts of 1,669,752 in Egyptian pounds and 609,415 in U.S. dollars. The Egyptian pound amount has been converted to U.S. dollars at the average exchange rate of 2.06 Egyptian pounds to one U.S. dollar (See Note 4 below).

The column labeled "Actual" is the responsibility of FRCU management and represents cumulative charges billed to and reimbursed by USAID/Egypt for the period from June 1, 1983 through December 31, 1992.

NOTE 3 - BASIS OF PRESENTATION:

The fund accountability statement has been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred.

NOTE 4 - FOREIGN EXCHANGE:

Costs incurred in Egyptian pounds ("LE") have been converted to U.S. dollars at the average exchange rate of 2.06 Egyptian pounds to one U.S. dollar for all costs incurred for the period from June 1, 1983 through December 31, 1992.

NOTE 5 - QUESTIONED COSTS:

Questioned costs are presented in two separate categories - ineligible and unsupported costs - and consist of audit findings proposed on the basis of the terms of PIL No. 13, the grant agreement, and USAID/Egypt regulations. Costs in the column labeled "Ineligible" are supported by vouchers or other documentation but are ineligible for reimbursement because they are not program-related, are unreasonable, or prohibited by the agreement or applicable laws and regulations. Costs in the column labeled "Unsupported" are also included in the classification of "questioned costs" and relate to costs that are not supported with adequate documentation or did not have the required prior approvals or authorizations. Our procedures identified the following costs billed to USAID/Egypt that are ineligible or unsupported:

NOTE 5 - QUESTIONED COSTS (CONT.):

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
A. Income and cash		
1. Unexpended advances billed to USAID/Egypt were returned to FRCU but, were not deducted from the USAID/Egypt billings.	-	\$ 12,031
2. Interest earned on the project bank account was neither returned to USAID/Egypt nor deducted from the USAID/Egypt billings.	\$ 6,404	-
3. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-
4. Unpaid salaries, insurance, claim settlements and other deposits to the project bank accounts were initially billed to USAID/Egypt as advances paid; but, were not credited to the billing when the advance was settled and residual was returned to the project bank account.	-	8,811
5. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-
6. Expenditures for which the related check was subsequently voided were not deducted from the USAID/Egypt billings.	-	<u>11,050</u>
Total income and cash	<u>6,404</u>	<u>34,618</u>
8. Direct compensation		
1. Committee meeting fees were not supported by evidence of receipt and the executive director's approval.	-	2,809
2. Incentives paid to hourly employees were not supported by time sheets or attendance records.	-	121,108
3. Salaries paid to seconded employees were not supported by evidence of receipt and/or vouchers.	-	2,050

NOTE 5 - QUESTIONED COSTS (CONT.):

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
B. Direct compensation (Cont.)		
4. The employer's share of social insurance in 1985 and 1986 was billed to USAID/Egypt in noncompliance with the grant agreement.	\$ 801	-
5. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-
6. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-
Total direct compensation	<u>801</u>	<u>\$ 125.967</u>
C. Administrative support		
1. Amounts were billed to USAID/Egypt in excess of the total expenditures recorded in the general ledger which could not be explained by FRCU management.	-	109.309
2. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-
Total administrative support	<u>-</u>	<u>109.309</u>
D. Equipment and supplies		
1. Items such as carpets, curtains, furniture, and electricity bills were charged to USAID/Egypt; but, not included in the project paper.	4,510	-
2. Expenditures were charged to USAID/Egypt; but, were unsupported by vouchers, invoices, and/or receipts.	-	18.329
3. Amounts were billed to USAID/Egypt exceeding the total expenditures recorded in the general ledger. FRCU was unable to provide any explanation or support for these amounts.	-	65,397
4. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-
Total equipment and supplies	<u>4.510</u>	<u>83.726</u>

NOTE 5 - QUESTIONED COSTS (CONT.):

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
E. Travel		
1. Travel expenditures for a researcher whose budget was exceeded under PIL No. 12 were charged under PIL No. 13 in January, 1984.	\$ 316	-
2. Per diems were paid exceeding the allowable USAID/Egypt per diem rates in July, 1985. The excess of these amounts are questionable.	39	-
3. Excess baggage costs incurred by the executive director and the project organizer in February, 1984 were charged to USAID/Egypt in September, 1985.	58	-
4. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-
5. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-
6. Airfare was charged to USAID/Egypt in September, 1985; but, was not supported by airline tickets.	-	\$ 1,136
7. Per diems were charged to USAID/Egypt in June, 1985; but, not supported by airline tickets to verify travel, length of stay, etc.	-	<u>1,722</u>
Total travel	<u>413</u>	<u>2,858</u>
F. Contractor		
1. Contractor payments were not supported by invoices, vouchers, receipts, etc.	-	14,331
2. Excess baggage charges for a member of the contracting firm was paid in November, 1984.	140	-
3. Airfares were unsupported by the airline tickets.	-	<u>12,359</u>
Total contractor	<u>140</u>	<u>26,690</u>

NOTE 5 - QUESTIONED COSTS (CONT.):

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
G. Computer room preparation		
1. An amount was charged under the equipment and supplies budget line item in January, 1984 and again under the computer room preparation budget line item in March, 1986. There were no expenditures recorded in the general ledger under the computer room preparation budget line item for this period. The cost was related to and charged under the equipment and supplies budget line item in the general ledger.	-	\$ 2,617
2. An amount was charged to USAID/Egypt in June, 1992; but, there were no expenditures recorded in the general ledger.	\$ 19,903	-
Total computer room preparation	<u>19,903</u>	<u>2,617</u>
TOTAL QUESTIONED COSTS	\$ <u>32,171</u>	\$ <u>385,785</u>

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Price Waterhouse



REPORT OF INDEPENDENT ACCOUNTANTS
ON INTERNAL CONTROL STRUCTURE

February 10, 1994

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We were engaged to audit the fund accountability statement of the Foreign Relations Coordination Unit ("FRCU") of the Supreme Council of Universities ("SCU") relating to costs incurred on Project Implementation Letter ("PIL") No. 13 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") University Linkages Project No. 263-0118 ("grant agreement") for the period from June 1, 1983 through December 31, 1992, and have issued our disclaimer report thereon dated February 10, 1994. Our report indicated that the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the aforementioned fund accountability statement.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review programs is offered by professional organization 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 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.

In planning and performing our engagement, we considered FRCU's internal control structure related to PIL No. 13 to determine our procedures for the purpose of expressing an opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of FRCU 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 in accordance with the terms of the agreements, and recorded properly to permit the preparation of reliable fund accountability statements and to maintain accountability over the entity's assets. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projections of any evaluation of the structure to future periods are 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.



For the purpose of this report, we determined the significant internal control structure policies and procedures to be in the categories of cash and fund custody, expenditure disbursements, project accounting, and equipment and supplies procurement and safeguarding. For these internal control structure categories cited, 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.

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 consistent with the assertions of management in the fund accountability statement. Our engagement disclosed the following conditions we believe constitute reportable conditions:

REPORTABLE CONDITIONS

1. **Controls surrounding the recording of expenditures in the project's accounting records were weak.** FRCU's accounting records consisted of a set of general ledgers which were manually posted. As billings to USAID/Egypt were prepared from these ledgers, their accuracy and reliability should not be compromised. We found the preparation of the billings to be careless and poorly documented. As a result, we were unable to trace the billing amounts to the general ledgers and discrepancies between the billings and the general ledgers could not be explained.

Specifically, we noted the following weaknesses in the project's accounting records:

- General ledger entries and totals were recorded in pencil.
- General ledgers were maintained by total amount of expenditures only and not by budget line item.
- General ledger entries, specifically debits, were not identified, described or supported. FRCU could not explain or account for the source of these entries.
- Voided checks were posted as expenditures to the ledgers and yet there was no evidence or record to determine if these amounts were deducted from the billings.
- Adjustments were made to the general ledger amounts without approval or explanation. Because of this, we were often unable to locate the supporting documents or determine the reason for adjustments.
- The project did not maintain a check register or cash log. Without this documentation, the project could not verify the cash balance or review and reconcile the project bank accounts.
- FRCU did not maintain a complete set of USAID/Egypt billings nor were the billings serially numbered.
- Billings were prepared and submitted with hand written corrections and often without the executive director's approval.
- Vouchers, general ledger totals, and billings were not reviewed for mathematical accuracy. We noted that the total expenditures recorded in the general ledgers were incorrect and mathematical errors were discovered on the billings by USAID/Egypt.
- Financial and accounting duties were not properly segregated. The financial manager was responsible for preparing the vouchers, receiving revenues, posting to the general ledgers, preparing and distributing checks, and preparing the USAID/Egypt billings.



Recommendation 1

We recommend that the project improve the system of controls surrounding the accounting records. Specifically, the project should:

- Record all entry descriptions, entry amounts, and totals in the general ledgers in ink.
- Record all expenditures by the budget line items.
- Fully document all entries to the general ledgers with cross references to complete vouchers.
- Record, document, and obtain approval for all adjustments to the general ledgers.
- Maintain a check register or cash log and review monthly for outstanding checks.
- Record all voided checks from the check register and ensure that these amounts are not included in the USAID/Egypt billings.
- Serially number the USAID/Egypt billings and maintain a complete file of the billings.
- Ensure that billings are accurate, typed and approved by the executive director prior to being submitted to USAID/Egypt.
- Review all vouchers, general ledger totals, and billings for mathematical accuracy and evidence the review on all documents and vouchers.
- Properly segregate incompatible duties to provide for a sound system of checks and balances.

* * * * *

2. **The project did not record disallowances of expenditures made by USAID/Egypt against billings submitted by the project.** Because of this, amounts disallowed by USAID/Egypt may be rebilled by the project or may not be properly refunded to USAID/Egypt from funds provided by the Government of Egypt ("GOE").

Recommendation 2

The project should establish procedures to properly record all disallowed costs in the project ledgers. In addition, the project should ensure that any disallowed amounts are deducted from the submitted financial reports and that USAID/Egypt funds have been properly credited back to the project funds.

* * * * *

3. **No management review by the executive director was performed of the following project documentation:**

- Billings submitted to USAID/Egypt,
- Accounting records and project ledgers, and
- Vouchers.

A good system of internal controls should include the involvement of project management to ensure that entries into the accounting system are valid, supported and advance the objectives of the project. As the management of the project establishes the control environment, their direct involvement will help ensure that proper controls are followed by all project personnel.



Recommendation 3

We recommend that the project director and the financial manager review all billings to USAID/Egypt, project accounting records, vouchers and ledgers. This review should be performed on at least a monthly basis with exceptions and discrepancies noted for proper follow-up.

* * * * *

4. **There were weaknesses surrounding the direct compensation control systems.** Specifically, we noted the following conditions for the three different types of compensation:

For project staff receiving hourly wages, we found that the project did not maintain time sheets, attendance records, sick and annual leave records, evidence of receipt and either employee contracts or letter of agreement with the employees.

For employees whose wages were based on their basic salary, FRCU did not have records or documentation regarding their basic salaries which made it impossible to determine if their salaries were allowable.

Contracted employees did not have contracts, attendance records, or employee files. Additionally, the project did not have letters of agreement with either the employees or SCU for GOE seconded employees.

Committee meeting members are neither required to sign for receipt of committee meeting fees nor is the executive director required to approve these payments. We also noted that although FRCU has a list of committee members, payments were made to persons not included on this list.

Recommendation 4

We recommend that the project implement the following:

- **Maintain employee files for all types of employees.** These files should include the following:
 - Contracts or written letter of agreement;
 - Agreed-upon salary rates and position;
 - Job descriptions;
 - For SCU employees, the basic salary paid by SCU;
 - Time sheets for hourly employees; and
 - Attendance, sick, and annual leave records for all employees.
- **Maintain a current list of committee members that is approved by type of committee approved by the executive director and ensure that this list is reviewed upon payment of committee meeting fees.**
- **Ensure evidence of receipt for all types of compensation is obtained.**

* * * * *



5. **USAID/Egypt funds were commingled with other funds.** This made it difficult for the project to ensure that only expenditures that were allowable under the grant agreement were made from USAID/Egypt funds.

Recommendation 5

We recommend that the project ensure that USAID/Egypt revenues received are deposited in a bank account and only PIL No. 13 deposits and expenditures are received and expended from this account.

* * * * *

6. **FRCU did not reconcile financial records with either bank statements or USAID/Egypt records during the entire audit period.** During our testing we found errors and discrepancies between the different sets of records which were not documented and could not be explained.

Recommendation 6

We recommend that FRCU perform bank reconciliations on a monthly basis and document any discrepancies. Additionally, the project should reconcile their accounting records with USAID/Egypt records on a quarterly basis.

* * * * *

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 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 material weaknesses as defined above. We believe that all the reportable conditions described above are material weaknesses.

This report is intended for the information of FRCU's management and others within the organization and the United States Agency for International Development. The restriction is not intended to limit the distribution of this report which is a matter of public record.

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Price Waterhouse



REPORT OF INDEPENDENT ACCOUNTANTS
ON COMPLIANCE WITH LAWS AND REGULATIONS

February 10, 1994

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We were engaged to audit the fund accountability statement of the Foreign Relations Coordination Unit ("FRCU") of the Supreme Council of Universities ("SCU") relating to costs incurred on Project Implementation Letter ("PIL") No. 13 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") University Linkages Project No. 263-0118 ("grant agreement") for the period from June 1, 1983 through December 31, 1992, and have issued our disclaimer report thereon dated February 10, 1994. Our report indicated that the scope of our engagement was not sufficient to enable us to express, and we do not express, an opinion on the aforementioned fund accountability statement.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 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 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.

Compliance with laws, regulations, contracts and grants applicable to the FRCU project is the responsibility of FRCU's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of FRCU's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our engagement 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.

Material instances of noncompliance 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. The results of our tests of compliance disclosed the following material instances of noncompliance, the effect of which are included as questioned costs in the fund accountability statement of FRCU for the period from June 1, 1983 through December 31, 1992:



1. **The project advance billed USAID/Egypt.** FRCU advanced cash for project activities and charged the advance to USAID/Egypt. We noted that advances were not settled for the related expenditures until up to two years from the date of receipt of funds. Furthermore, upon FRCU's receipt of the unliquidated advances, we found no evidence that these amounts were deducted from the USAID/Egypt billings. The unliquidated advance amounts total \$ 12,031.

The agreement between USAID/Egypt and the FRCU project is a cost-reimbursable agreement. Advance billings are not permissible. The definition for a cost-reimbursable contract as stated in the Federal Acquisition Regulations are those which "... provide for payment of allowable incurred costs.." and is most suitable for situations when the "accounting system is adequate for determining the costs applicable to the contract." Cost estimates are most suitably used when the contract is fixed-price.

Billings submitted to USAID/Egypt for reimbursement for payables are not only a contract principles violation, but might lead to a situation whereby USAID/Egypt is billed for amounts that were neither incurred nor paid for by the project.

Recommendation 1

We recommend that FRCU discontinue billing payables.

* * * * *

2. **The project failed to maintain books and records as required by the grant agreement.** The details of the questioned costs relating to \$ 385,785 of unsupported costs are identified in Note 5 to the accompanying fund accountability statement. Specifically, we noted that the project failed to maintain a complete record of the following:

- USAID/Egypt disallowances;
- Bank statements;
- Bank deposit slips;
- Support for revenues received;
- USAID/Egypt billings; and
- Vouchers.

Recommendation 2

We recommend that the project maintain books and records in accordance with generally accepted accounting principles and practices. The project should also maintain documentation to verify the receipt and use of goods and services acquired under the grant.

* * * * *

3. **Interest earned on project bank accounts of \$ 6,404 was neither deducted from USAID/Egypt billings nor remitted to USAID/Egypt.**



Recommendation 3

Interest earned on funds advanced to the project by USAID/Egypt should be remitted to USAID/Egypt or alternatively deducted from the billings on a quarterly basis.

* * * * *

As discussed in our report on the fund accountability statement dated February 10, 1994, the scope of our work was not sufficient to enable us to express an opinion on the fund accountability statement because: 1) FRCU's accounting records do not provide sufficient evidence supporting cash transactions to permit the application of adequate auditing procedures; 2) we identified material weaknesses in FRCU's internal control structure concerning its financial system which present the risk that errors, in amounts that could be material in relation to the fund accountability statement, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions; and 3) we were unable to obtain a management representation letter. Since the scope of our testing was limited, we are unable to determine, and thus give no assurance about the degree to which FRCU complied with laws and regulations which might have a material effect on the fund accountability statement.

This report is intended for the information of FRCU's management and others within the organization and the United States Agency for International Development. The restriction is not intended to limit the distribution of this report which is a matter of public record.

Pricewaterhouse

FOREIGN RELATIONS COORDINATION UNIT
PROJECT IMPLEMENTATION LETTER NO. 13
UNDER THE UNIVERSITY LINKAGES PROJECT NO. 263-0118

ADDITIONAL INFORMATION
FUND ACCOUNTABILITY STATEMENT DETAIL OF AMOUNTS AS INCURRED
IN EGYPTIAN POUNDS AND U.S. DOLLARS

FOR THE PERIOD FROM JUNE 1, 1983 THROUGH DECEMBER 31, 1992

	Budget			Actual			Questioned Costs					
	LE	\$	Total in \$	LE	\$	Total in \$	Ineligible			Unsupported		
							LE	\$	Total in \$	LE	\$	Total in \$
Income and cash							499	6,162	6,404	63,878	3,609	34,618
Expenditures:												
Direct compensation	890,590	N/A	432,325	684,725	N/A	332,391	1,651	-	801	259,492	-	125,967
Administrative support	N/A	596,300	596,300	N/A	559,577	559,577	-	-	-	-	109,309	109,309
Equipment and supplies	431,829	N/A	209,626	326,879	N/A	158,679	9,291	-	4,510	172,475	-	83,726
Travel	14,736	6,500	13,653	10,696	3,186	8,378	770	39	413	2,340	1,722	2
Training	3,292		1,598	1,800		874						
Contractor	218,674	N/A	106,152	61,482	N/A	29,846	289		140	51,980		26,690
Computer room preparation	110,631	N/A	53,704	106,631	N/A	51,763	41,000		19,903	5,392		2,617
Contingencies		6,615	6,615		81	81						
TOTALS	<u>1,669,752</u>	<u>609,415</u>	<u>1,419,973</u>	<u>1,192,213</u>	<u>562,844</u>	<u>1,141,589</u>	<u>53,500</u>	<u>6,201</u>	<u>32,171</u>	<u>558,557</u>	<u>114,640</u>	<u>385,785</u>

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**FOREIGN RELATIONS COORDINATION UNIT
OF THE SUPREME COUNCIL OF UNIVERSITIES**

**PROJECT IMPLEMENTATION LETTER NO. 13
UNDER THE UNIVERSITY LINKAGES PROJECT NO. 263-0118**

ADDITIONAL INFORMATION

**QUESTIONED EXPENDITURES DETAIL OF AMOUNTS AS INCURRED
IN EGYPTIAN POUNDS AND U.S. DOLLARS**

All questioned costs we identified as either ineligible or unsupported are detailed below as incurred and converted to U.S. dollars at the applicable exchange rate:

<u>Item description</u>	<u>Questioned Costs Converted to U.S. Dollars</u>		<u>Incurred In LE</u>	<u>Incurred In U.S. dollars</u>
	<u>Ineligible</u>	<u>Unsupported</u>		
A. Income and cash				
1. Unexpended advances billed to USAID/Egypt were returned to FRCU but, were not deducted from the USAID/Egypt billings.				
Due to the vast amount of information supporting this finding, detail has not been included.	-	\$ 12,031	LE 22,964	\$ 883
2. Interest earned on the project bank account was neither returned to USAID/Egypt nor deducted from the USAID/Egypt billings.				
	<u>Mo/Yr</u>	<u>Voucher#</u>	<u>Amount</u>	
	12/85	62	LE 5	
	12/85	62	107	
	12/85	62	387	
	Total		LE 499	
12/85	3	\$ 6,162		
		\$ 6,404	499	6,162
3. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.				
4. Unpaid salaries, insurance claim settlements and other deposits to the project bank accounts were initially billed to USAID/Egypt as advances paid; but, were not credited to the billing when the advance was settled and residual was returned to the project bank account.				
Due to the vast amount of information supporting this finding, detail has not been included.	-	11,537	18,150	2,726
5. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.				

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<u>Item description</u>	<u>Questioned Costs Converted to U.S. Dollars</u>		<u>Incurred In LE</u>	<u>Incurred In U.S. dollars</u>
	<u>Ineligible</u>	<u>Unsupported</u>		
A. Income and cash (Cont.)				
6. Expenditures for which the related check was subsequently voided were not deducted from the USAID/Egypt billings.	-	\$ 11,050	LE 22,764	-
Total income and cash	\$ 6,404	34,618	64,377	\$ 9,771
B. Direct compensation				
1. Committee meeting fees were not supported by evidence of receipt and the executive director's approval.	-	-	-	-
Due to the vast amount of information supporting this finding, detail has not been included.	-	2,809	5,787	-
2. Incentives paid to hourly employees were not supported by time sheets or attendance records. LE 15,015 were unsupported by evidence of receipt or vouchers. \$ 4,694 could not be traced to bank statements to assure payment, and \$ 3,282 were ineligible employee rewards.	-	-	-	-
<u>Mo/Yr</u>		<u>Amount</u>		
12/83	LE	18,582		
04/84		16,665		
07/84		15,708		
10/84		21,996		
12/84		17,298		
06/85		17,546		
07/85		18,059		
08/85		19,209		
09/85		21,970		
12/85		31,974		
03/86		32,830		
10/86		17,645		
Total	LE	249,482	249,482	-
3. Salaries paid to seconded employees were not supported by evidence of receipt and/or vouchers.	-	-	-	-
Due to the vast amount of information supporting this finding, detail has not been included.	-	2,050	4,223	-

<u>Questioned Costs Converted to U.S. Dollars</u>	<u>Incurred</u>	<u>Incurred</u>
<u>Ineligible</u>	<u>In LE</u>	<u>In U.S. dollars</u>

Item description

B. Direct compensation (Cont.)

4. The employer's share of social insurance in 1985 and 1986 was billed to USAID/Egypt in noncompliance with the grant agreement.

<u>Mo/Yr</u>	<u>Voucher #</u>	<u>Amount</u>
06/85	490	LE 63
07/85	496	1,053
12/85	1383	104
07/85	646	104
03/86	293	106
03/86	390	106
10/86	727	115
Total		LE 1,651

\$ 801	-	LE 1,651	-
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5. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.

-	-	-	-
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6. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.

-	-	-	-
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Total direct compensation

<u>801</u>	<u>\$ 125,967</u>	<u>261,143</u>	-
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C. Administrative support

1. Amounts were billed to USAID/Egypt in excess of the total expenditures recorded in the general ledger which could not be explained by FRCU management.

<u>Mo/Yr</u>	<u>Amount</u>
12/83	\$ 3,098
07/85	2,860
08/86	60,863
02/88	<u>42,488</u>
Total	\$ 109,309

-	109,309	-	\$ 109,309
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2. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.

-	-	-	-
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Total administrative support

-	<u>109,309</u>	-	<u>109,309</u>
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<u>Item description</u>	<u>Questioned Costs Converted to U.S. Dollars</u>		<u>Incurred</u>	<u>Incurred</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>In LE</u>	<u>In U.S. dollars</u>
D. Equipment and supplies				
1. Items such as carpets, curtains, furniture, and electricity bills were charged to USAID/Egypt; but, not included in the project paper.				
	<u>Mo/Yr</u>	<u>Voucher #</u>	<u>Amount</u>	
	04/84	95	LE 105	
	12/84	742	325	
	06/85	476	764	
	06/85	477	2,545	
	06/85	478	464	
	06/85	479	3	
	06/85	483	799	
	06/85	484	2,367	
	06/85	485	1,098	
	06/85	486	510	
	06/85	759	229	
	12/86	767	50	
	12/86	792	32	
	Total		LE 9,291	
		\$ 4,510	-	LE 9,291
2. Expenditures were charged to USAID/Egypt; but, were unsupported by vouchers, invoices, and/or receipts.				
Due to the vast amount of information supporting this finding, detail has not been included.				
		\$ 18,329	37,757	-
3. Amounts were billed to USAID/Egypt exceeding the total expenditures recorded in the general ledger. FRCU was unable to provide any explanation or support for these amounts.				
	<u>Mo/Yr</u>	<u>Amount</u>		
	04/84	LE 213		
	03/84	628		
	10/85	2,595		
	06/92	131,282		
	Total	LE 134,718		
		-	65,397	134,718
4. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.				
		-	-	-
Total equipment and supplies		4,510	83,726	181,766

	<u>Questioned Costs Converted to U.S. Dollars</u>		<u>Incurred</u>	<u>Incurred</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>In LE</u>	<u>In U.S. dollars</u>

Item description

E. Travel

- Travel expenditures for a researcher whose budget was exceeded under PIL No. 12 were charged under PIL No. 13 in January, 1984.

01/84	Voucher #2	\$ 316	-	LE 650	-
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- Per diems were paid exceeding the allowable USAID/Egypt per diem rates in July 1985. The excess of these amounts are questionable.

07/84	Voucher #8	39	-	-	\$ 39
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- Excess baggage costs incurred by the executive director and the project organizer in February, 1984 were charged to USAID/Egypt in September, 1985.

02/84	Voucher #670	58	-	120	-
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- Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.

-	-	-	-	-	-
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- Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.

-	-	-	-	-	-
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- Airfare was charged to USAID/Egypt in September, 1985; but, was not supported by airline tickets.

-	\$ 1,136	2,340	-	-	-
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- Per diems were charged to USAID/Egypt in June, 1985; but not supported by airline tickets to verify travel, length of stay, etc.

06/85	Voucher #8	-	<u>1,722</u>	-	<u>1,722</u>
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Total travel		<u>413</u>	<u>2,858</u>	<u>3,110</u>	<u>1,761</u>
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F. Contractor

- Contractor payments were not supported by invoices, vouchers, receipts, etc.

<u>Mo:Yr</u>	<u>Voucher #</u>	<u>Amount</u>			
11/83	317	LE 17,097			
01/84	4	<u>12,424</u>			
Total		LE 29,521	-	14,331	29,521

Questioned Costs Converted to U.S. Dollars
Ineligible Unsupported

Incurring
In LE In U.S. dollars

Item description

F. Contractor (Cont.)

2. Excess baggage charged for a member of the contracting firm was paid in November, 1984.

11/84	Voucher #603	LE	289	\$ 140	-	LE 289	-
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3. Airfares were unsupported by the airline tickets.

<u>Mo/Yr</u>	<u>Voucher #</u>	<u>Amount</u>					
11/84	603	LE 1,880					
12/84	732	2,450					
12/84	737	5,793					
06/83	166	2,452					
06/83	167	3,677					
10/83	307	7,690					
10/88	308	1,517					
Total		LE 25,459	-	\$ 12,359	-	25,459	-

Total contractor	140	26,690	55,269	-
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G. Computer room preparation

1. An amount was charged under the equipment and supplies budget line item in January, 1984 and again under the computer room preparation budget line item in March, 1986. There were no expenditures recorded in the general ledger under the computer room preparation budget line item for this period. The cost was related to and charged under the equipment and supplies budget line item in the general ledger.

	2,617	5,392	-
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2. An amount was charged to USAID/Egypt in June, 1992; but, there were no expenditures recorded in the general ledger.

	19,903	41,000	-
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Total computer room preparation	19,903	2,617	46,392	-
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TOTAL QUESTIONED COSTS	\$ 32,171	\$ 385,785	LE 612,057	\$ 120,841
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PROJECT IMPLEMENTATION LETTER NO. 13
UNDER THE UNIVERSITY LINKAGES PROJECT NO. 263-0118

MANAGEMENT COMMENTS

PROJECT IMPLEMENTATION LETTER NO. 13
FOR THE UNIVERSITY LINKAGE PROJECT NO. 263-0118

FUND ACCOUNTABILITY STATEMENT
FRCU RESPONSES

A- USAID/EGYPT REVENUES RECEIVED

A/1 (LE)

FRCU disagrees as the total amount which should have been disallowed is only LE 985 and is not LE 22964. Because of this big difference, FRCU gives this explanation :

- 1) A total LE 452 of the whole amount represents tax withholdings that the FRCU deducts on behalf of the government and later pays to the tax department. These are taxes that should be paid by the suppliers (sellers) for purchases made by FRCU staff on behalf of FRCU in very small procurements. The FRCU gives the employees small petty cash advances to buy small amounts as stationary and office supplies. When the purchases are made, the employee reduces the payment to the seller by the tax amount and returns that tax back to the FRCU bank account. While these amounts appear as returns or revenues to the FRCU, they are actually only temporary withholdings and are returned to the tax department together with other returns to this department. Please find attached a list of these tax withholdings, giving the total amount of petty cash on which the withholding was made, the date and entry, and amount. Please note that all entries after Dec. 1986 are not from USAID funds and should not be addressed under this audit which is on PIL 13 only. They are however included in the aattachement. Below is one example. The rest is given in the attachment.

<u>Total amount (LE)</u>	<u>Date</u>	<u>Entry #</u>	<u>Tax amount (LE)</u>
60	Dec. 84	82	7

- 2) A total of LE 19,463 relates to amounts received by the FRCU is related to procurement activities for insurance amounts needed to prove the seriousness of suppliers and are later returned to the suppliers after the bidding processes are completed. These amounts are not included in the total reported to AID. Please find attached the information relevant to the receipt of these amounts by the

(1)

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PROJECT IMPLEMENTATION LETTER NO. 13
UNDER THE UNIVERSITY LINKAGES PROJECT NO. 263-0118

MANAGEMENT COMMENTS

FRCU. The FRCU notes that most of these amounts relate to CIP requirements. None of them was included in PIL 13 fiscal reports.

- 3) Attached are voucher showing example for deduction from USAID billings.
- 4) A total of LE 985 are actual refunds or returns and should have been reduced the amount reported to USAID as expenditures. FRCU therefore accepts the disallowance of this LE 985. (payment will be included in check to USAID).

	<u>Total amount (LE)</u>	<u>Date</u>	<u>Entry #</u>
	10	Dec. 83	71
	1	Dec. 83	74
	167	Dec. 84	72
	53	Dec. 84	82
	431	Dec. 84	92
	24	Dec. 84	100
	119	Dec. 84	117
	<u>180</u>	Dec. 84	119
Total	985		

A/2

A/2 (S)

FRCU disagrees as the total interest earned was already returned to USAID in September 1986 in check # 043280 with the amount of \$ 82,520,11. Out of this an amount \$ 28,537 was for interest earned of the dollar account as explained in the attached letter from the FRCU General Director to Dr. Adel Gohar, Project Officer of ULP dated September 24, 1986 (and its attachments). This amount covers the interest mentioned in PW report.

A/2 (LE)

Regarding the LE 499 the FRCU would like to explain that these were bank charges and are allowed under PIL 13 as will be clear from an examination of this PIL and its amendments. The current budget for bank charges (amendment 13) is LE 236.325. However during the past period it was higher and got reduced. Amendment 5 which applied until November 1985 (when amendment 6 was signed) allocated LE 313 for bank charges. So at least this amount of the LE 499 should be allowed and unquestioned. The FRCU is not responsible for decreases in this line item after the use of this amount. The FRCU could not have predicted the size of these bank charges before the bank calculates it.

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Appendix C
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PROJECT IMPLEMENTATION LETTER NO. 13
UNDER THE UNIVERSITY LINKAGES PROJECT NO. 263-0118

MANAGEMENT COMMENTS

A/3

A/3 (LE)

The difference between General Ledger's LE receipt of LE 837,056 and the total amounts billed and received from USAID of LE 1,192,213 is LE 355,157. This difference is due to the fact that the amount quoted in the finding used in the report (LE 837,056) did not include 7 checks received by the unit prior to December 1983. These 7 payments (detailed below) are recorded in the General Ledger before 1983 but were not recorded by PW in the LE 837,056 because their audit period starts in 1983. However, actually receipts should be increased by those 7 payments that amount to LE 429,453,800.

The LE 429,453,800 thus covers the LE 355,157 shortage mentioned in the LE part of this finding.

If PW wants to cover the period starting in 1983 only they should have started with the balance available at the beginning of this period and not completely neglect previous receipts.

Total amount (LE)	Date	Entry #	Check #
12500	Mar. 81	3	58
103700	Apr. 81	4	68
38000	Feb. 82	2	
146606,712	Sep. 82	10	
34605,980	Oct. 82	11	304602
72098,128	Nov. 82	38	
<u>21942,980</u>	Apr. 84	17	
Total			
429,453,800			

A/3 (S)

As for the difference between the General Ledger's \$ receipts of \$ 405,540 and the total amounts billed and received from USAID of \$ 562,844 which is \$ 157,304, as mentioned above in the response to the difference in LE, PW did the same thing. The difference received before June 1, 1983 was not taken in consideration as PW started to calculate the receipts the FRCU received from USAID starting from December 1984 and neglected that FRCU had received a fund from USAID before that date which was an amount of \$ 429,000 in February 1982. (Actually the amount received was \$ 420,000 & \$ 560,000. However the \$ 560,000 was deposited by mistake in PIL 13/\$ although it belonged to PIL 12/\$. It was later transferred to its correct PIL).

Attached is a copy of the bank statement for the mentioned above checks and the needed deposit slip. Note that there is bank charges of that check with an amount of \$ 1978. Note also that the total cash receipts calculated by PW in the detailed working papers is in error by \$ 7430,93.

(3)

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This amount is included by PW as a USAID fund receipt although it is actually a refund check from the FRCU to USAID as a remaining amount at the end of PIL 13/\$ This amount should not have been included in the total fund receipt. (Please find attached copies of the check).

A/4

A/4 (LE)

An amount totaling LE 18,150 was not deducted from the billings to USAID. The response for this finding is as follows :

- a) An amount totaling LE 6111 (as detailed bellow) was deposited in the bank account as it belongs to some creditors that anyone of them has the right for asking to receive it at any time. It should not be deducted from the billing to AID as it is a real expense which could and should not be canceled. Note that out of this is LE 1791 which is after December 1986 and should not be addressed here it not funded by USAID.

Total amount (LE)	Date	Entry #
1,453	Oct. 83	19
157	Oct. 83	20
1,986	Oct. 83	21
351	Oct. 83	22
19	Dec. 85	79
454	Dec. 86	55
383	Jan. 87	1
468	Apr. 87	15
434	May 87	23
38	Oct. 87	26
151	Oct. 87	27
<u>317</u>	Mar. 89	11
Total	6,111	

- b) These amounts are related to CIP. A separate column was kept for CIP and never mixed up or added to PIL 13 totals and therefore should not be deducted from the AID billings. The different details for this amount is as follows :

Total amount (LE)	Date	Entry #
62	Dec. 84	108
842	Dec. 84	109
3922	Dec. 84	109
35	Dec. 84	110
<u>599</u>	Dec. 84	107
Total	5460	

(4)

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MANAGEMENT COMMENTS

- c) An amount totaling LE 2,929 was not an AID fund. The explanation for the details is as follows :

Amount (LE)	Entry #	Date	Responses
1790	73	Dec. 84	This two amounts are insurance deposits as explained under A/1 (2) response.
540	38	Dec. 87	
599	85	Dec. 84	This was a payment by a foreign contractor to an FRCU employee who refused to accept it. The amount was considered FRCU revenue and is unrelated to PIL 13.
2,929			

- d) All amounts detailed below accounted after USAID stopped funding the FRCU in Dec. 1986. They are not related to PIL 12 & 13. They are not the subject of this audit and should be canceled from the questioned sum. Their documentation exists but is present together with the documentation of GOE fund. This documentation was inspected by PW.

Total amount (LE)	Date	Entry #
189	Jan. 87	3
171	Apr. 87	14
634	Dec. 87	39
2,538	Aug. 88	1
63	Oct. 88	22
37	Oct. 88	22
10	Jan. 87	4
8	Apr. 87	10
Total	3,650	

So the total amount for this finding which is LE 18,150 (LE 6111 + LE 5460 + LE 2929 + LE 3650) should be taken out from the total unsupported questioned costs.

(1) Total questioned LE under A/4	LE 18,150
(2) Total explained in (a)	LE 6,111

(5)

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PROJECT IMPLEMENTATION LETTER NO. 13
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MANAGEMENT COMMENTS

(3) Total explained in (b)	LE 5,460
(4) Total explained in (c)	LE 2,929
(5) Total explained in (d)	LE 3,650
(6) Total explained in A/4 = (2)+(3)+(4)+(5)	LE 18,150
Total questioned under A/4 = (1) - (6) =	0

Thus the questioned amount should be canceled.

(Attached are the documents related to these payments)

A/4 (\$)

The amount of \$ 2,726 is not in fact from USAID. It is related to a CIP procurement activity that was paid by the supplier as an insurance amount to prove his seriousness of implementation the activity. An amount like this was never put or included in the monthly billing to USAID, so there is no need for it to be deducted from the billing.

(Attached is a copy of the bank deposit and attachments)

A/5

FRCU disagrees as the copies of the bank statements are attached to verify receipt of USAID revenues received as detailed below :

Amount (\$)	Responses
228,138	This amount was added to the bank account in two amounts : first amount is \$ 66,550 in October 3, 1984 and the second amount \$ 161,588 in October 7, 1984 in the same page of the attached bank statement.
51,919	This amount was added to the bank account in May 4, 1987 as it appears in the attached bank statement.
7,431	This is not a revenue from USAID to FRCU (as

(6)

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MANAGEMENT COMMENTS

mentioned before in response to A/3 finding). On the contrary, it is a refund to USAID from FRCU in a check No. 413288 dated September 1988. It was deducted from FRCU bank account at November 15, 1988 (see the attached copy of the bank statement) Note that the amount was written by PW as \$ 7431 without using decimal point and it is in fact \$ 7,430.93.

Total 287,488

A/6

A/6 (LE)

- a) The amounts shown below represent checks that have been issued but never cashed. The checks are canceled but their amounts have to be retained on hold in the bank account until the beneficiary asks for it. These amounts are kept, are not revenue to FRCU and should remain until being used for the purpose for which it had been originally issued. So it should not be deducted from USAID billings.

The detailed amounts are as follows :

Amount (LE)	Date	Entry #
119	Feb. 84	4
24	Dec. 84	83
1	Dec. 84	115
24	Oct. 85	26
1	Oct. 85	27
166	Oct. 85	39
24	Dec. 85	88
24	Feb. 86	
84	Jan. 86	31
184	Oct. 86	36
84	Oct. 86	42
47	May 87	22
47	May 87	22
17	Sep. 88	17
<u>162</u>	Jun. 90	159
Total		
1015		

(7)

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MANAGEMENT COMMENTS

- b) An amount totaling LE 17500 (LE 5000 + LE 12500) is petty cash given to FRCU procurement employees to buy equipment and supplies for the FRCU. This is like an advance which the employee takes to make these purchases. This amount are not included in the total billed by FRCU to USAID because they do not represent an actual expenditure. Only when an actual purchase is made and its documents are received by the FRCU is the amount of the purchase (and not the full advance) included in the billing to USAID. The advance is then replenished by the FRCU to substitute the amount used in the purchase. At the end of the purpose for which the petty cash is given, the full amount of the advance is returned to the FRCU bank account. This return payment is not revenue to the FRCU and therefore should not be deducted from the billing to USAID since it was not originally included in the original bills to USAID.

With the LE 18,515 explained in (a) & (b) only LE 4,240 should be questioned. This will be paid back to USAID.

B- DIRECT COMPENSATION

B/1

This finding states that amounts paid as committee meeting fees were not supported by evidence of receipt. FRCU disagrees with this finding as it has a special record which includes all the signatures for receiving the checks by the beneficiaries themselves or by the employee responsible for mail in the case of mailed checks (see attached copies for this record which includes the following information : Check No., date, amount, the beneficiary name and the signature of receipt). Most of the checks that are included in PW working papers are highlighted in the attachments. This record is available at FRCU to be reviewed by PW at any time. Attached also are the bank statements for withdrawal from bank. These are personal checks and in the Egyptian banking system could not be cashed by any person except the person in whose name it was found. The cashing of the check and the debit amount for the FRCU account are therefore strong proof of receipt.

This finding also states that there is no evidence of Executive Director's approval of the documents. So FRCU attaches here a copy from a memorandum from Executive Director to the General Director of FRCU requesting his approval for delegating the authority for approving committee attendance payment to the Financial Manager of the FRCU. This was approved by the General Director on November 5, 1989.

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MANAGEMENT COMMENTS

B/2

- a) The Financial and Administrative Bylaws under the project restricts the number of hours worked at the FRCU to be nine hours per week. Employees work a larger number of hours than the nine payable hours but are paid only for the nine hours in order to comply with the presidential decree regulating such payments. Thus there is no need for a time sheet indicating the fraction of time worked by the employee. An FRCU employee could either work on the project during a certain month or not work. If he works he gets the whole amount for the month. If he does not work the whole numbers of hours he is not paid at all. The working load of the FRCU is not constant and therefore there is no fixed list of SCU employees that work on the unit. FRCU management requires the services of the needed employees when they are needed. They are paid the full amount during the months in which they work and are not paid during the month in which their services are not needed. So the maximum numbers of hours was put only to size the maximum amount of salary that could be paid although it was known from the first beginning that all employees work more and more hours.
- b) PW can use the attachments for B/1 response to review the LE 15,015 for the evidence of receipt. Also PW can review the original record for the signatures of receipt (by beneficiary or mail check) that is available at FRCU. As noted before in the case of checks that are mailed, the debit to the bank account is proof of receipt by the beneficiary since no body else can cash the personal check in the Egyptian bank system.
- c) FRCU attaches the bank statements for tracing the amount of LE 9669.
- d) As for the amount of LE 6761 refer to response to B/10 under PIL 12 finding.

B/3

The response for this finding is the same response for B/1 in PIL 13. PW can use the same attachments to B/1. Note that the original record for signatures of receipt is available for PW at any time. The FRCU would like to apologize to PW that the record of signatures was not presented to them during the audit.

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MANAGEMENT COMMENTS

B/4

The Financial and Administrative Bylaws of the project did not forbid the payment by FRCU of such social insurance amounts as done by any other Egyptian employer and as required by Egyptian law. The FRCU therefore, had no basis for breaking this law if this payment is not allowed by USAID. FRCU will be ready to repay this amount (LE 1651).

B/5

Committee lists were dynamic and changed several times during the 12 years of the project. Attached PW will find updated committee lists and appointment letters to committee members.

B/6

Attached are the copies of the needed bank statements. PW can trace the amount as follows :

Mo/yr	Voucher #	Amount (LE) Per PW	Correct Amount (LE) Per FRCU	Check #	Date of the Bank St.
12/83	465	150	141,80	835744	Feb. 84
12/83	413	410	394,90	835092	Jan. 84
12/83	415	882	835,125	835094	Jan. 84

C- ADMINISTRATIVE SUPPORT

C/1

a)	Mo/Yr	Amount (\$)
	12/83	3098

The claim by PW that the amounts billed to USAID/Egypt in excess of the total expenditures recorded in the G/L is not correct. We explain the G/L figures as follows :

Fiscal report 2 (1/1/ 83 - 10/31/83) includes two payments for \$ 3097,83 and \$ 261000 adding up to a total of \$ 26409783.

These are the first two payments by FRCU in this page of the G/L (see attached). After sending this fiscal report, two other payments for \$ 9829,27 and \$ 18987,47 were made by the FRCU in the period from October 1, 1983 to December 31, 1983 and were included in report No. 3 for a total of 28816,74. (see attached). The sum of

(10)

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MANAGEMENT COMMENTS

reports No. 2 & 3 is \$ 292914.57 and agrees with the total G/L for this page (1983) after adding \$ 3 for bank charges which the FRCU has not billed the USAID for. The \$ 3098 noted in this finding is already included in report No. 2.

b)	Mo/Yr	Amount (\$)
	07/85	2860

FRCU disagrees as there is no sub amount of \$ 2860 in the month of July, 1985. In fact there is no deference at all between the amount recorded in the G/L and the amount reported to USAID for the same month. Attached are a copy of the G/L and a copy of the report with one similar amount for July expense that is \$ 1761. The amount is under the travel line item check No. 413279 dated July 18, 1985, entry No. 8. The \$ 2,860 did not appear in the billing to USAID nor in the G/L.

c) The amount of \$ 60863 consists of LE 52,176.13 and LE 8687. The second amount is an error. FRCU is ready to resolve it by repayment to USAID. The first amount is for a payment related to equipments for the FRCU which was entered by mistake in the G/L for PIL 12 in a special column which is not included in the billing to the USAID. The entry in the G/L of PIL 13 where the \$ 52175.73 is recorded represents the adjustment of the PIL 13 account to include this sum. No related adjustment is needed under PIL 12 since this amount was not included in the PIL 12 billing to USAID. Thus the error was corrected in the August 1986 PIL 13 voucher and adjusted in the G/L of PIL 13 in October 1987.

d) The \$ 42,488 is actually \$ 42,460 (see G/L) audit for a payment to Guiza system.

C/2

PW states that the amount of \$ 2000 is charged to USAID/Egypt in February 1987 but there were no expenditures recorded in the G/L. FRCU states that this amount was recorded in the G/L in the month of October, 1986 under entry No. 3 and it reported once to USAID in the billing of February 1987. It was paid to Dr. Kamal E. Husien by transferring the amount through the bank. Attached are the relevant documents for this amount. Note that the amount was deducted from the bank statement plus \$ 10 for bank charges.

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MANAGEMENT COMMENTS

D- EQUIPMENT AND SUPPLIES

D/1

The FRCU disagrees with the judgment made in this finding that these items (furniture, carpets and curtains) were not included in the project paper and that these expenses are ineligible.

Table V on page 21 of the project paper of the project paper allows such expenditures. An illustrative list of such items is given in Annex. VIII of the project paper.

D/2

The LE 38051 identified under this finding is the sum of advances made to FRCU employees to purchase goods and supplies. As known according accounting principals the specific documentation is obtained only when the actual purchase is made. Therefore the supporting documents are attached to the settlement of the advance when the purchase is actually made. For example, entry No. 303 was recorded in October 1983 as an advance under check No. 292483 and settled under entry No. 42 in December 1983 for LE 175. The documents are attached with settlement No. 42 and not with entry 303. Attached is a list of the advances and the settlements numbers for these advances and copies of the purchase documents.

D/3

FRCU gives the following explanation for the differences between the billings to USAID and the expenditures in the G/L for the equipment and supplies line item :

a)

Mo/Yr	Amount (\$)
03/84	628

The difference of LE 628 is not correct as the correct difference is only LE 172.40 in the total amount for the line item equipment & supplies. The total in the billing for the month of March 1984 is LE 4365.88 and the total of the same line item in the G/L is LE 4538.28 of the same month. This gives a difference of LE 172.40 only. The amount of LE 172.40 is the total of amounts for entries No. 5, 6 and 11.

This difference was taken in consideration by being added to the total for equipment and supplies line item in the billing to USAID in the month of April 1984. Attached is a copy of the March 1984 billing and G/L page for the same month.

(12)

PROJECT IMPLEMENTATION LETTER NO. 13
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MANAGEMENT COMMENTS

b)

Mo/Yr	Amount (\$)
04/84	213

The difference of LE 213 is not correct as the correct difference is only LE 172.40 mentioned in the response to D/3 (a) the caculated difference between the billing to USAID and the G/L in the equipment & supplies line item for the month of March 1984 was LE 172.40. So this difference was taken in consideration by being added to the billing to USAID for the month of April 1984 for the same line item (see attachments of the April 1984 billing and the G/L page for the same month).

c)

Mo/Yr	Amount (\$)
10/85	2595

The difference of LE 2595 is not correct as the correct difference should only be LE 963.60. This difference is due to the amount of LE 963.60 that is related to entry No. 673 dated September 1985. The mentioned amount for this entry was recorded in the G/L in September 1985 and was not included in the billing to USAID in the same month. So it was taken in consideration by being added to the billing to USAID for the month of October 1985. Attached are a copy of the G/L page for September 1985 and other relevant documents.

d) In relation to the amount LE 31282 under this finding, please note that this is a typographical error in the PW finding. The correct amount is LE 131,282. This would be explained together with the LE 41000 under finding G/2 where PW notes that there is no expenditure recorded in the PIL 13 G/L for this period. These two amounts totaling LE 172,282 are actually the June 1992 billing (voucher) to USAID under PIL 13. Because USAID established a combined account in NIB for PIL 12 and PIL 13 together. The FRCU mistakenly posted the expenses adding to the LE 172,282 in the PIL 12 G/L especially that there had been no USAID related LE expenditures of the PIL 13 G/L since 1986. The LE 131,281 is the fee of the office supplies (LE 107,781) and computer (LE 23,491). The LE 41,000 under G/2 finding

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PROJECT IMPLEMENTATION LETTER NO. 13
UNDER THE UNIVERSITY LINKAGES PROJECT NO. 263-0118

MANAGEMENT COMMENTS

F- CONTRACTOR

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PROJECT IMPLEMENTATION LETTER NO. 13
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MANAGEMENT COMMENTS

E- TRAVEL

E/1

In this finding PW criticizes the FRCU's decision to use the travel line item for complementing the travel budget of a researcher. The decision to allow this is based on the FRCU's judgement that the nature of his travel is beneficial to the overall research goals of the project. The increase of the travel budget of the researcher is properly authorized by the General (and Executive) Director. It should not be disallowed or questioned.

E/3

FRCU is not aware of a prohibition against paying for excess luggage.

E/4

This is not a bank charge but in-country travel. The needed documentation is available (copy attached). It is the Egyptian government travel voucher (from # AHSI) filled for the travel of Dr. Soliman Hozein to attend meeting on June 3, 1986.

E/5

FRCU disagrees as the attached copy of the bank statement shows the deduction of the amount of LE 47,120 for the check 69596 that mentioned by PW in this finding.

E/6

The details for the total amount of LE 4011 for airline tickets are as follows :

Document #	Amount (LE)	Date	Position
670	1670.20	September /85	Project Director
670	1796.20	September /85	Project's coordinator
670	544.70	September /85	Project Director

Attached is the copy for one of the airline tickets with amount of LE 1,670.20 for the Project Director and the original is available and is attached to the entry.

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MANAGEMENT COMMENTS

F- CONTRACTOR

F/1

The FRCU would like to respond to all points under item F in one response as follows :

All contractor vouchers were directly given to USAID and paid by USAID to the contractor Arthur D. Little. Regarding the LE expenses, the PIL 13 account was as a funding channel for giving cash to DAL the contractor (DAL). However, the LE voucher and receipts were still submitted to USAID directly by ADL. Thus ADL accounted and submitted S and LE bills and receipts to USAID and obtained cash from the FRCU. Please check with USAID on the receipts and needed documentation.

G- COMPUTER ROOM PREPARATION

G/1

FRCU agrees that there is a mistake in recording the amount of LE 5,392. The correct amount was recorded and charged under the equipment and supplies budget line item in January 1984. The second recording was wrong.

G/2 & D/3 (d)

The LE 41,000 was a part of the PIL 13 voucher for June 1992 which was discussed under D/3 (d).

The total amount under the voucher was for six payments adding up to LE 171,775 see attached G/L. The difference that should be questioned is only LE 507. This responds to G/2 and D/3 (d).

**FOREIGN RELATION COORDINATION UNIT
OF THE SUPREME COUNCIL OF UNIVERSITIES**

**PROJECT IMPLEMENTATION LETTER NO. 13
UNDER THE UNIVERSITY LINKAGE PROJECT NO. 263-0118**

AUDITOR'S RESPONSE

Management of the Foreign Relations Coordination Unit ("FRCU") provided comments relating to the Price Waterhouse draft audit report presented at the exit conference held on April 17, 1994. FRCU's comments are included, unedited, in Appendix C to this report. In response to their comments, we reviewed additional supporting documents provided by them. Where applicable, we either adjusted the final report or further clarified our position relating to items discussed in FRCU's comments. Please note that our response sequence below parallels FRCU's comments.

A. INCOME AND CASH

A.1 (\$):

FRCU did not comment on this exception.

A.1 (LE):

FRCU billed employee advances to USAID/Egypt. Upon settlement, the residual was returned to the project bank account; but was not credited to the USAID/Egypt billing. We reviewed FRCU's comments and noted the following:

1. FRCU claims that 452 Egyptian pounds ("LE") represents vendor tax withholding payable to the Government of Egypt. Given that FRCU is correct, the net purchases should have been billed to USAID/Egypt upon settlement of the advance and subsequently, when the tax authority is paid the total amount due, USAID/Egypt should be billed for the vendor taxes. The system employed by FRCU might cause the vendor tax withholdings to be billed twice to USAID/Egypt. FRCU did not provide documents to support their comment.
2. FRCU collects bid assurances from contractors which are later returned to the contractors when the bidding process is complete. These funds should be credited to USAID/Egypt upon receipt and subsequently billed when returned to the contractor. The system employed by FRCU might cause the bid assurances to be billed to USAID/Egypt when paid to contractors; although, not credited to the billing initially.
3. We reviewed the billing vouchers FRCU provided. We noted deductions were made on two vouchers, one for LE 12 on the September, 1986 voucher and LE 25 on the December, 1986 voucher. FRCU did not provide documents to prove that these two amounts relate to the questioned item.
4. FRCU pledged to refund LE 985 to USAID/Egypt; however, documentation was not provided to evidence a refund.

Based on FRCU's comments discussed above, our position is unchanged.

A.2 (\$):

FRCU claims that interest earned was returned to USAID/Egypt in September, 1986, check no. 43280, for \$ 82,520; however, FRCU did not provide evidence to prove that this credit relates to the interest earned. Our position is unchanged.

A.2 (LE):

FRCU claims that the amount questioned represents bank charges and not interest earned. According to our work papers developed in the audit field work, this amount relates to interest income. FRCU did not provide documents to support their claim; therefore, our position is unchanged.

A.3 (LE):

Although the FRCU comments under this caption do neither address nor clear the questioned item, other documents received subsequent to our report clear the exception. We agree to remove the questioned item from our report.

A.3 (\$):

Refer to auditor's response in A.3 (LE) above.

A.4 (LE):

Income received in the Project Implementation Letter ("PIL") No. 13 designated project bank account; but not credited to the USAID/Egypt billing was questioned.

FRCU claims that amounts questioned relate to either payables for expenditures dating back to 1983 or do not relate to the PIL No. 13 USAID/Egypt project fund.

FRCU's standard practice was to bill USAID/Egypt for advances paid rather than settlements. Billed amounts were withdrawn from the project bank account; but, not paid and were later refunded to the project bank account. These amounts were not credited to the USAID/Egypt billing. It is not permissible to bill payables to USAID/Egypt even if a legal obligation exists to pay the sum. USAID/Egypt reimburses on a cost reimbursement cash basis-not accrual; therefore, our position relating to this portion of the questioned item is unchanged.

Amounts audited were obtained from both the PIL No. 13 general ledgers and PIL No. 13 bank records; therefore, all amounts questioned, relate to PIL No. 13. Our position relating to this remaining portion of the income is unchanged.

A.4 (\$):

Refer to auditor's response in A.4 (LE) above.

A.5 (\$):

We reviewed supporting documents and bank statements FRCU provided and we agree to remove this exception from our report.

A.6 (LE):

- a. FRCU billed expenditures paid with checks that never cleared the project bank account. FRCU claims that these amounts represent amounts due to individuals who might cash the checks at any time. Refer to the auditor's response at a.4, paragraph 3, regarding advances. Typically, checks dated one year or greater prior to presentment for cashing will be denied by the banks. The claimant might request FRCU to issue a duplicate check which unless properly controlled might lead to a situation whereby expenditures might be billed twice to USAID/Egypt. Our position is unchanged.

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- b. We have reviewed the supporting documents provided by management and agree to reduce the questioned cost by LE 17,500.
- c. FRCU pledged to refund LE 4,240 to USAID/Egypt; but, did not provide evidence that a refund was made. Our position is unchanged.

B. DIRECT COMPENSATION

B.1 (LE):

We have reviewed the supporting documents provided by FRCU and have reduced the amount questioned by LE 30,207.

B.2 (LE):

FRCU states that the project payroll is not calculated based on an hourly rate per hours worked, but on an estimated monthly amount assuming nine hours expected work per month. FRCU claims that payroll amounts are paid in compliance with the maximum 200% of basic salary allowed by a presidential decree. Further, FRCU asserts that time sheets are not a necessary salary payment supporting document as employees are not paid hourly.

According to the FRCU policies and procedures manual, page 11, approved by USAID/Egypt, academic researchers should be paid an hourly rate.

FRCU did not provide supporting documents to prove that the presidential decree was complied with in estimating the monthly rates for researchers.

We recommend that FRCU establish and apply a policy whereby all PIs prepare time records evidencing monthly work hours containing a documented approval from FRCU management which will provide reasonable assurance that PIs worked for the time they are paid and assist FRCU in complying with USAID/Egypt's requirement to verify that expenditures were made to further project objectives.

Given that FRCU did not provide additional supporting documents evidencing that employee payments were properly made, our position is unchanged.

B.3 (LE):

FRCU refers to B.1 above in their comments. The total support provided for B.1 totalled LE 30,207 and cleared the same amount in exception B.1. Consequently, the same support cannot be considered for this exception. Our position is unchanged.

B.4 (LE):

FRCU pledged to refund LE 1,651 to USAID/Egypt; but, did not include supporting documents to evidence a refund. Our position is unchanged.

B.5 (LE):

We reviewed the updated committee lists FRCU provided, accordingly, we removed this exception from our report.

B.6 (LE):

We reviewed the bank statements FRCU provided and removed this exception from our report.

C. ADMINISTRATIVE SUPPORT

C.1 (\$):

Refer to the over billing of \$ 109,309, FRCU provided the following comments:

- a. FRCU provided a general ledger page copy, dated in 1983, including the \$ 3,098 questioned, charged under the budget line item "contractor". The monthly total according to the general ledger page copy was \$ 3,098. According to our work papers developed during the audit field work, there was no general ledger monthly total for \$ 3,098; therefore, our position is unchanged.
- b. FRCU provided a billing copy different than the one provided by the USAID/Egypt's FRCU project officer; therefore, our position is unchanged.
- c. FRCU proposes that the \$ 60,863 over billing for August, 1986 relates to \$ 52,176 and \$ 8,687, the former representing an erroneous recording, and the later an amount that should be refunded to USAID/Egypt.

Refer to \$ 52,176 over billing: FRCU provided a general ledger page copy for January, 1987 claiming that an erroneous over billing occurred in August, 1986 and was deducted from the billing in October, 1987. The support provided did not match or address the exception. According to our work papers there was no downward adjustment to the billing in either October, 1987 or January, 1987; therefore, our position is unchanged.

Refer to \$ 8,687 over billing: FRCU pledged to refund the full amount to USAID/Egypt but, did not provide documents to evidence a refund. Our position is unchanged.

- d. Refer to \$ 42,460 over billing for February, 1988: FRCU provided a general ledger page copy for January, 1987 which does not match or address the exception. Our position is unchanged.

C.2 (\$):

We reviewed the supporting documents FRCU provided and have removed the questioned cost from the report.

D. EQUIPMENT AND SUPPLIES

D.1 (LE):

FRCU claims that the items were questioned because they were not approved by USAID/Egypt via the approved project paper. However, FRCU did not include relevant documents to prove their claim. Our position is unchanged.

D.2 (LE):

We reviewed the supporting documents FRCU provided and agree to reduce the questioned cost by LE 294. With the exception of documents supporting LE 294, FRCU provided only internally prepared documents, therefore, our position is unchanged.

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D.3 (LE):

- a. We reviewed the billing voucher FRCU provided and confirmed the billed amount for equipment and supplies to be LE 5,166 agreeing with the figure in our work papers; therefore, our position is unchanged.
- b. Refer to auditor's response in D.3 a. above. Based upon this, our position is unchanged.
- c. FRCU provided a general ledger page copy different from the one provided during our audit field work, therefore, our position is unchanged.
- d. FRCU claims that the amount of LE 172,282 (LE 131,282 and LE 41,000-see exception G.2 was related to PIL No. 13 expenditures, and was billed under PIL No. 13 and recorded in the general ledger of PIL No. 12. FRCU did not provide supporting documents to support this expenditure and that it was recorded in the PIL No. 12 general ledger and, accordingly, our position is unchanged.

D.4 (LE):

FRCU did not comment on this exception; however, we reviewed other documents submitted to us after the draft report issuance and agree to remove this questioned cost from our final report.

E. TRAVEL

E.1 (LE):

FRCU commingled funds designated for two separate PIL agreements demonstrating non-compliance with USAID/Egypt intentions to separate the funding. FRCU did not provide documents to prove that they were authorized to make transfers at their own discretion, therefore, our position is unchanged.

E.2 (\$):

FRCU did not comment on this exception.

E.3 (LE):

According to the grant agreement, Standard Provisions, Article 7, "International Travel" means transportation of persons and their personal effects between a place in the United States and a place outside." The Office of Management and Budget ("OMB") Circular A-122 discusses that expenditures to move persons should be "necessary and reasonable." Air freight publications, dated September, 1994, for the major U.S. flag air carrier servicing Egypt, allows 140 pounds of personal baggage. FRCU did not establish that freight in excess of 140 pounds was either necessary or reasonable. therefore, our position is unchanged.

E.4 (LE):

FRCU did not include supporting documents in their comments; however, we reviewed other documents submitted to us after the draft report issuance and agree to remove this questioned cost from our final report.

E.5 (LE):

We reviewed the bank statements FRCU provided and removed this exception from our report.

E.6 (LE):

We reviewed the supporting documents FRCU provided and have adjusted the questioned cost from LE 4,011 to LE 2,341.

E.7 (\$):

FRCU did not comment on this exception.

F. CONTRACTOR

F.1 (LE):

FRCU submits monthly billings to USAID/Egypt on a form called the "certified fiscal report," signed by the project's General Director, which states that "the undersigned hereby certifies that payment of the sum claimed under the grant is proper..and supported by accounting records, invoices and receipts..." FRCU is held accountable by USAID/Egypt for expenditures reported on this form. Accordingly, FRCU is liable to provide supporting documents and justification for all expenditures billed. FRCU did not provide supporting documents to sustain their comments, therefore, our position is unchanged.

F.2 (LE):

FRCU did not comment on this exception.

F.3 (LE):

FRCU did not comment on this exception.

G. COMPUTER ROOM PREPARATION

G.1 (LE):

FRCU pledged to refund LE 5,392 to USAID/Egypt, but did not include supporting documents to evidence a refund. Our position is unchanged.

G.2 (LE):

Refer to auditor's response in D.3 d. above.



CAIRO EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

RECEIVED

4 OCT 1994

M E M O R A N D U M

TO: Philippe L. Darcy, RIG/A/Cairo

FROM: John Westley, DIR

SUBJECT: Audit of the Foreign Relations Coordination Unit (FRCU) of the Supreme Council of Universities Local Expenditures Incurred Pursuant to Project Implementation Letters (PILs) No. 12 & 13 under the University Linkages Project No. 263-0118

04 OCT 1994

The University Linkages Project (ULP) activities were completed June 30, 1992. At the time of the audit, funds were being provided to FRCU for similar activities under a follow-on project University Linkages II (263-0211). In response to the concerns raised by the Price Waterhouse (PW) financial audit of the FRCU, the Mission suspended funding of new activities under the University Linkages II Project (ULP/II). The suspension letter specified terms and conditions for resumption of project activities. The letter discussed the Mission's intention to shift financial management of grant activities to an organization other than FRCU. Following the suspension, the project team met extensively and proposed a redesign of the project which would transfer financial management responsibilities to a U.S. contractor, but leave technical evaluation and review of grant activities with FRCU. The decision to leave FRCU with a substantial technical role was based on the 1991 external Project Paper design team's positive assessment of FRCU's technical management capabilities, the results of a project evaluation completed in 1989, and the absence of any specific evidence that FRCU's management was inadequate from a technical perspective.

In association with the proposed redesign the project team drafted a detailed Statement of Work (SOW) for a financial management contractor. The SOW also describes the functions and roles to be retained by the FRCU. The SOW was reviewed and accepted by top Mission management. After Mission approvals, the document was discussed with our GOE counterparts at the FRCU and with the Minister of Education. FRCU has agreed, in principal, to shifting financial management responsibilities to a US Contractor. They do, however, have some concerns regarding the SOW. I am very hopeful that these will be satisfactorily resolved. I can assure you no change will be made that alters the main substance and purpose of the contract, and that the suspension of activities under ULP/II will not be lifted until the contract is in place.

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Recommendation No. 1 - FRCU has expressed a strong desire to work with the Mission to resolve questioned costs. A very high percentage of the questioned cost (\$6.6 million of the total \$8.5 million questioned in PIL 12) stemmed from FRCU operational systems which did not require, or retain in a readily retrievable form, documentation acceptable to PW. As a result PW questioned entire dollar line items. The Mission will work with RIG/A/C to agree on an acceptable methodology for assessing the validity of those costs.

Recommendation No. 2 - As stated previously, resumption of activities under ULP II will be predicated on having a contractor in place who will be responsible for financial management of project funds provided by PIL to FRCU. As FRCU had accepted this shift of responsibilities, they did not feel further comment on the internal control issues was important in their response. A detailed draft SOW more clearly describes the specific roles of the various parties. Although the SOW is still in draft stage we do not anticipate any major changes. Based on this plan for resolution of the internal control weaknesses we request you resolve this recommendation on issuance of the report. We will request closure when the contract is in place.

Recommendation No. 3 - Mission believes that the planned contract for financial management services will close the compliance findings regarding billings, and books and records. The FRCU has already refunded the interest earned on project accounts (see attached copies). Therefore we request you resolve this recommendation on issuance of the report. We will request closure when the financial management contract is in place.

The Mission appreciates the serious nature of an audit report which disclaims an overall opinion, and questions costs at this level. We are taking significant steps to assure proper accountability for future funding of University Linkages activities. We have also reviewed our monitoring of this recipient's activities. Given the staffing and structure of the Agency, Mission management and project officers often must place reliance on contracted technical experts. I would like to detail the various assessments that have been performed with regard to this grantee.

Three years after ULP project inception, an assessment of the FRCU's project financial management system was carried out by Mission FM Personnel and an independent PSC. The result of this assessment was acceptable to USAID and provided the basis for our acceptance of the accounting system at the FRCU. Several years later, during the design of the second phase of the project, FM

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staff performed a limited review of the financial system at the FRCU. This exercise raised some concerns, and suggested a more comprehensive review be performed prior to disbursement of funds under the new project. Also, in association with the new project development an external design team examined the FRCU management structure and its adequacy for implementing a follow-on project. The team proposed some modifications to FRCU systems, and the grant award and review process, but concluded that FRCU was capable of implementing the second phase.

In 1992, an assessment of financial and administrative capabilities of the FRCU was performed by the Shawki & Co. At the time Shawki, a member firm of Arthur Anderson, was a RIG approved NFA firm. The assessment resulted in several recommendations, but concluded that FRCU's procedures were adequate for USAID/Egypt's purposes, and that FRCU had the managerial, technical, administrative and financial capabilities to carry out the new project. FRCU took action on the recommendations made in the Shawki report. These actions were prospective and did not affect the condition of books and records for the ULP I. Therefore Mission also planned a financial audit of ULP I expenses. Based on the actions taken the Mission approved expenditure of funds under the new project.

In addition to these assessments ULP I was the subject of an evaluation in 1989. The focus of the evaluation was on project impact, and return on investment. It concluded that there were enough successful projects (grants) to consider the ULP justified as a whole. Although not the primary focus, the evaluation also examined the FRCU structure and procedures and found them basically sound.

Most of the reviews detailed above identified problems, but considered those problems solvable within the basic structure of FRCU and the Projects. The Mission is concerned that the various assessments and evaluations performed did not identify a serious problem. In hindsight, it may be that, by nature, these reviews focused on solutions, and so did not fully disclose the extent of the problems. Perhaps other actions might have been taken that would have prevented the problems, or identified them earlier. We cannot change history. We can and are taking steps to assure there aren't other problems of this nature lurking in the Mission's portfolio. These steps can be divided into two areas. The first is audit. The Mission, in coordination with your office, is moving as quickly as possible to audit all local entities. We are well along in this process, and by the end of FY 95 we expect that the majority of our audit universe will have been audited at least once. As you are well aware,

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both your office and the Mission are always striving to improve the quality of the work performed by the NFA firms. Mission funded training is just one example of the Mission's support for NFA firms. The second area we are working in is Mission review. We have asked all project officers to identify recipients of AID funds who may be at high risk for accountability problems. The Financial Analysis Support Team (FAST) is proceeding with reviews of recipient vouchers, as a sort of internal audit function, looking for serious problems. The FAST is also working with Project Officers and recipients to review grantee's accounting systems early in the funding period rather than waiting until most of the money has been spent. The Mission believes these efforts have dramatically reduced the possibility of recipients developing major accountability problems.

With regard to the FRCU audits, we are confident that our staff can work with your office to reach agreement on a strategy to address your recommendations. Thank you in advance for your cooperation.

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