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AUDIT REPORT
ON
FAMILY PLANNING ACTIVITIES
IN EGYPT

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Area Auditor General / EGYPT
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AUDIT REPORT
ON
FAMILY PLANNING ACTIVITIES
IN EGYPT

INTRODUCTION

The Population

The population of Egypt more than doubled in the twenty-nine year period ending in 1976. Egypt's population was about 19 million in 1947. The 1976 census showed that Egypt's population had increased to 38.2 million. The current population growth rate in Egypt is about 2.5 percent. At this rate of increase, the USAID/Egypt estimates that the Egyptian population will again double in 29 years.

An estimated 96 percent of the Egyptian population is concentrated into 4 percent of the country's land area which reasonably will sustain habitation. The density of population in this habitable area, in 1976, was 1,030 people per square kilometer or about 5 people per acre--one of the most densely populated areas in the world. Even China's population density is only 3.5 per acre.

The social and economic consequences of Egypt's rapid population growth are readily apparent. Some of the most prominent effects of this population growth, as pointed out by USAID/Egypt, are briefly discussed below:

Limited Cultivable Land--Egypt's cultivable land area is very limited and essentially fixed--all marginal land area has been brought into use. Land has been reclaimed from the desert. However, additional reclaimed land can be brought into production only over time and at great cost.

It is empirically evident that the available cultivable land area is decreasing as the population continues to increase. This situation accentuates one of Egypt's major production problem areas. Egyptians' main staple is bread (wheat). But, currently they import approximately 70 percent of their annual requirements of wheat. As the pressure from population growth reduces available cultivable land and increases the requirements for food, the imports of wheat and other foodstuff will substantially increase. Since most basic food items are heavily subsidized, any decrease in production or increase in consumption is a double blow to the GOE; that is, the GOE must use additional hard currency to import the items and they must apply additional amounts of the domestic budget to subsidize the foodstuff for local consumption.

Urbanization--Currently about 44 percent of Egypt's population lives in the urban areas whereas in 1960 only 37 percent of the then smaller population base lived in urban areas. This increase resulted primarily from migration of the rural poor and landless farm laborers to the cities. Much of this demographic change took place during the war years when almost no additional resources were available for urban development. The urban infrastructure and social services in most areas have long since passed the breaking point. For example, Cairo infrastructure and social services - housing, roads, water, sanitation, power systems, and communications - were designed for 1 to 3 million people; but, Cairo currently has a population in excess of 8 million people. This kind of pressure placed on already overtaxed facilities creates numerous health hazards. Attendant conditions--overcrowding and resultant pent-up social pressures--represent a potential threat to political and economic stability.

Social, Economic Development--In many areas, population increase has offset the positive effects of social and economic development. USAID/Egypt points out, for example, that the population of primary school age children is increasing faster than new school space. Population growth has necessitated increased Government expenditures in all of the socialized sectors (e.g., subsidies on food, transportation, housing) to the point where the GOE has little left to maintain existing infrastructure, let alone provide for future investment and growth.

Labor Force--Unemployment in Egypt is low but underemployment is pervasive. The GOE has for years "created" jobs for large segments of the population accepting the necessary resultant falling productivity. The labor force continues to grow at an increasing rate requiring the GOE to artificially create more and more nonproductive jobs. At some point, probably in the near future, considering the population growth rate, this creation of additional jobs will reach the saturation point and actual unemployment will begin to increase rapidly.

The Problem

Although the GOE has recognized the population problems and has developed a policy on Family Planning, there has been a general lack of commitment to fertility reduction. Apparently, for religious, social and cultural reasons, GOE implementation of "family planning" activities has been governed by the philosophy that development should precede family planning; i.e., a decrease in fertility is expected to occur primarily through social and economic changes rather than through programs focused on family planning. Accordingly, family planning has taken a back seat to development activities.

Program progress is also affected by the lack of reliable data on demographic factors, budgets, family planning acceptors and contraceptive uses. While a one percent error is acceptable in many statistical areas, in population growth rates a one percent swing is significant--it can be the difference between program success and failure. The data on the family planning activities is such that the USAID is frequently left in the position of being forced to make "educated guesses" about the program.

In short, the USAID/Egypt Population Office faces a major problem of developing viable fertility reduction projects that the GOE will accept and properly implement. The Mission is now in the process of trying to accomplish this very difficult objective.

The Project

USAID/Egypt is currently implementing a multi-faceted family planning project (Grant 029). This Project Agreement (No.263-0029) was signed on September 30, 1977 and, as amended, provides \$10 million of grant funds. The financial status of the activities under this project at April 1, 1979, follow:

Total Obligated \$10,000,000
 =====

Sub-projects (Grants)	<u>Sub-obligated</u> (000)	<u>Disbursed</u> (000)
Contraceptives	1,468	720
American University in Cairo (AUC)	637	111
Menoufia Governorate	461	111
Ministry of Education	12	12
Alexandria University	394	0
Vehicles	152	0
Medical Kits	200	0
Other	<u>103</u>	<u>53</u>
Total	3,427 =====	1,007 =====

Based on the levels of disbursements, our review focused on the procurements and use of contraceptives and the AUC/Menoufia sub-projects.

SUMMARY

The accomplishment of GOE population and family planning goals cannot be evaluated completely and effectively, primarily because of the lack of reliable demographic data on Egypt. Based on such data as can be found, however, current trends indicate that population goals under the GOE ten-year plan ending in 1982 will not be achieved (page 6).

USAID/Egypt efforts have contributed to recent positive changes in the GOE attitude toward control of population growth and approach to family planning activities. It seems to be a propitious time for the USAID to step-up efforts to develop and implement family planning activities. We are recommending that the situation be reviewed to assure sufficient staff and project design capabilities needed for a large scale program (page 8).

The GOE system for receipt, distribution and reporting of contraceptives is complicated, inefficient and inaccurate. We are recommending corrective actions to: improve control systems; improve reporting procedures; and, recover the value of missing commodities (page 10).

AUC charged several types of questionable and/or improper expenses to Sub-Grant No.263-78-G-008 (page 15).

- AUC has regularly charged AID for entertainment expenses through this family planning research project. We are recommending recovery of all payments made to AUC for entertainment costs (page 15).

- AUC has improperly charged AID with costs for television sets and a radio. We are recommending recovery for the value of these items (page 16).

- The Grant Agreement contains inconsistent clauses concerning approval for International Travel. These inconsistencies in the Agreement have resulted in AID payments for travel that was not properly approved. We are recommending the Grant Agreement be amended to conform with requirements of Federal Management Circular 73-8 (page 16).

- International Travel and related expenses are not appropriately supported in accordance with Federal Travel Regulations (FTRs). We are recommending that USAID/Egypt require AUC to support requests for reimbursements of International Travel and related expenses as required by the FTRs and to recover the amounts of the payments made to AUC that have not been properly supported (page 17).

- Since January 1, 1979, the AUC, in certain situations, has overcharged the AID Grant through use of an improper currency exchange rate in calculating expenses. We are recommending recovery of all related overpayments by AID (page 19).

- AUC has charged AID for other improper amounts resulting from incorrect currency conversions and from duplicate charges for the same expenses. We are recommending recovery of all improper payments by AID (page 21).

- The Director of the Social Research Center (SRC) is also the Principal Investigator for the USAID/Egypt Family Planning Research Project. At the same time, the SRC Director also has worked: as the Principal Investigator for projects under three other non-AID grants; under another contract with AID; and, has served as consultant to other agencies. Accordingly, we do not believe the SRC Director can fulfill the requirements of the AID Research Project which requires the Principal Investigator on that project to work fulltime 12 months a year. We are recommending that USAID/Egypt require AUC to establish an adequate cost accounting system to support charges to the Grant and to recover all payments made for past overcharges by AUC (page 21).

- USAID/Egypt arranged for the GOE to provide the Director of the SRC a personal contract paid for with AID family planning funds. This was written as a fixed-price contract and contains a clause that specifically prohibits auditing contract costs. We believe these contract costs duplicate costs already paid by AID for fulltime services of the same individual under the AID Family Planning Research Grant. But, AID has no audit rights over contract costs (page 23).

Furthermore, the USAID/Egypt did not require that the mandatory audit rights of the Comptroller General of the United States (GAO) be included in the basic Family Planning Grant (029) or in this contract with the Director. We are recommending USAID/Egypt fulfill the statutory requirements to include audit rights of the Comptroller General of the United States in all Grant Agreements and all implementing agreements under them. We are also forwarding a separate request to AID/W for a decision on the audit rights of the A.I.D. Auditor General in relation to the audit restrictions contained in Handbook 11 (page 25 and Appendix A).

- AUC has not provided documentation on overhead rates as required by the Grant. We are recommending that USAID/Egypt ensure that overhead rates for the Family Planning Research Grant are established and necessary adjustments are made (page 27).

RESULTS OF AUDIT

PROGRAM GOALS

Overview

The accomplishment of stated GOE population and family planning goals cannot be effectively evaluated or measured. USAID/Egypt family planning activities are designed to assist the GOE in strengthening the country's family planning delivery systems, in order to deliver services effectively to increasing numbers of Egyptians. Within these general terms, the USAID/Egypt program is directed toward assisting the GOE to accomplish its goals. While GOE population goals are stated more specifically, they cannot be effectively evaluated or measured because reliable data is not available. It follows that the degree of success of the USAID/Egypt program cannot be effectively evaluated or measured. Based on such data as can be found, however, current trends indicate that population goals under the GOE ten-year plan ending in 1982 will not be achieved.

The family planning activities cannot be properly evaluated because there are almost not reliable demographic data on Egypt. There is no reliable data on births, deaths, growth rate, contraceptive availability, contraceptive use or fertility rates. There is no firm consensus on the accuracy of data for any of these areas. Available data vary considerably, dependent upon the sources; e.g., various sources within the GOE, the United Nations, outside consultants, universities, etc. The use of data provided by one source for evaluation purposes would produce a set of conclusions significantly different from those reached based on data from other sources. However, an analysis of the 1976 Egyptian census and results of the 1979 World Fertility Survey should be available by the end of CY 1979. These data should provide reasonably acceptable base line information for planning and evaluation purposes.

Population Goals and Trends

The GOE ten-year plan on population was formulated in 1972. The population growth goals established in that plan follow:

- To reduce the rate of population growth from 20.6 per thousand population in 1973 to 10.6 per thousand population in 1982;
- To reduce the birth rate per thousand population per year - from 33.7 per thousand in 1973 to 23.6 per thousand by 1982;
- To reduce the fertility rate from 236 per thousand in 1972 to 160 per thousand by 1982; and
- To prevent the death rate from exceeding 13 per thousand.

Although there are little reliable data available, the Mission using all available information, has developed some base numbers for working purposes. These data show, in some measure, the trends that are currently taking place in the Egyptian population. The data used show that the population growth rate has increased from about 2.06 percent in 1972 to about 2.50 percent in 1979. The birth rate has increased from about 33.7 per thousand in 1972 to about 37 per thousand in 1979. The death rate has decreased to 12 per thousand population. The Mission has not found it necessary to establish a working number for the fertility rate. Based on these trends, it is apparent that the GOE goals for 1982 are not going to be accomplished.

MAJOR OBSTACLES TO FAMILY PLANNING IN EGYPT

GOE Policy

The major obstacle to an effective family planning program in Egypt has been the GOE philosophy on the activity. As stated above, the GOE has formulated an official policy with ambitious goals on control of population growth. However, little emphasis has been placed on actual family planning methods as a means to achieve the policy goals. This lack of emphasis is highlighted in the GOE ten-year plan which established nine activities to be promoted in order to reduce fertility and population growth rates. The activities to be promoted follow:

- (1) Social Economic Level of the Family;
- (2) Education;
- (3) Women's employment;
- (4) Mechanization of Agriculture;
- (5) Industrialization;
- (6) Reduction of Infant Mortality;
- (7) Social Security;
- (8) Communication on Population and Family Planning; and
- (9) Provision of Family Planning Services.

This schedule of targets indicates a low GOE priority for the provision of Family Planning Services. This conclusion is reinforced by the fact that the GOE has provided only token budgetary support specifically for family planning. Family Planning Services receive a low priority rating because the GOE believes that successful socio-economic development will bring about a decrease in fertility more effectively than through Family Planning.

The Mission is acutely aware of the problem inherent in the GOE policy. In a 1978 report, USAID/Egypt stated that "In the past, the Government has perhaps placed too much emphasis on economic development as a factor in fertility reduction. While generally there is a positive correlation between economic growth and fertility reduction, the effect usually is realized only after significant economic growth has taken place. Hence, the dilemma -- economic growth can positively affect fertility reduction, yet economic progress itself will not have a significant impact unless fertility is reduced."

The Mission has and is continuing to use "gentle pressure" on GOE officials, through open and frank discussions on the subject, to convince them to place more emphasis on Family Planning Services. The Mission is also preparing tailored presentations to be used in discussions with officials throughout the GOE that graphically present dimensions of the population problem.

It appears that the Mission's approach, coupled with the magnitude of the population problem is slowly convincing the GOE that they must exert necessary leadership and take direct positive action to deal with the population growth rate.

Some examples of the apparent change taking place in the official government approach to family planning follow:

- The Supreme Council on Population and Family Planning has been reorganized and placed under the directorship of the Minister of Health (MOH). The MOH is responsible for providing most of the country's family planning services.
- The National Democratic Party has recently created a standing committee on population.
- The GOE has authorized and begun providing oral contraceptives to pharmacies throughout the country at subsidized prices.
- In a June, 1979 speech before the newly elected parliament, the President stated that they should aim at providing a better organized and more effective family planning program.
- The President, during an August 1979 speech, identified four "immediate tasks" that Egypt must undertake. One of these four tasks is dealing with the population explosion.

Based on these recent events, it appears that a very positive change in attitude and approach to population growth reduction is taking place in the top leadership of Egypt. Accordingly, we believe now is the time for USAID/Egypt to step-up its efforts to develop and implement family planning programs.

USAID/Egypt Staffing

The USAID/Egypt Health and Population Division does not have sufficient staff to properly fulfill its operational responsibility and concurrently develop additional new project activities on fertility reduction.

A recent AID internal review on Mission staffing showed that the Health and Population Division has sufficient personnel for current activities. However, we believe that the level of Mission family planning activities should be substantially increased. To effectively expand these activities, additional staff resources will be required.

AID development assistance places high priority on population programs and activities, including population growth rate. Considering recent indications that the GOE leadership is placing more emphasis on reduction of population growth, we believe now is the time for USAID/Egypt to intensify its efforts to assist the Government in this endeavour.

Due in part to GOE policies, the Mission has been able, to date, to develop only limited programs to use the resources available for family planning programs. To some extent, even the limited support provided has been only to targets of convenience. In a 1978 report USAID/Egypt stated: "Because of the lack of clearly defined Egyptian priorities, staff limitations and the press of time, project design did not undergo as vigorous analysis as might otherwise be desirable. What emerged was consciously designed as a target of opportunity approach which would permit flexibility as Egyptian priorities developed more fully, as activities were evaluated, and as our experience grew. The targets, however, were not set at random but were established to respond to the most obvious needs for assistance in those areas where we had identified both Egyptian interest and institutional capability to implement programs. The approach was, therefore, targeted."

This USAID/Egypt approach seems to have been successful in several important areas. Many of the short-term objectives of the family planning project have been accomplished; e.g., the family planning commodity pipeline is being established; the reorganization of the Ministry of Health has been completed; some training activities have been completed and others are in process; the research in Menoufia Governorate is taking place. More importantly, a positive change in the attitude of the Egyptian Government toward fertility reduction is taking place.

USAID/Egypt has assisted in clearing the necessary path for implementation of a large scale family planning activity. USAID/Egypt officials believe that AID would fund almost any amount of viable family planning activities in Egypt if they were properly developed and acceptable to the GOE. However, until recently, the GOE policy was not acceptable to an aggressive large scale program. It appears that the current GOE attitude and actions toward Family Planning is an appropriate basis for an increased USAID/Egypt program. We believe the Mission should take advantage of the new GOE posture and increase their activities in the family planning program with a well-designed, comprehensive large scale program.

A major constraint to this increased family planning program appears to be a lack of available project design capabilities in the Health and Population Division. We believe USAID/Egypt should review the Health and Population Division to determine what additional staff is required for project design and implementation of future family planning activities. Such additional staff should be obtained.

Recommendation No.1

USAID/Egypt review the staffing of the Health and Population Division and ensure that the Division has sufficient staff and project design capabilities to develop and implement a large scale family planning program.

Prior to issuance of this final report, the USAID/Egypt initiated actions which will, when completed, implement this recommendation.

CONTROLS OVER PROJECT CONTRACEPTIVES

General

The USAID/Egypt family planning project provides authority to finance several kinds of contraceptives. The plans in the project are to provide: IUDs and oral pills; raw materials required for the local manufacture of IUDs and oral pills; mini-laparotomy surgical sets (minilap sets); and, condoms. To date, some minilap sets have been purchased but project funding for contraceptives has been concentrated on condoms. Accordingly, our efforts in this area were primarily directed toward a review of condoms.

Condoms - Overview

The GOE system for receipt and distribution of condoms is complicated, inefficient and inaccurate. Communications are not effective between the various organizations handling the condoms. Records maintained on the condoms are inaccurate and incomplete to the extent that we could not properly determine the actual disposition of the AID-financed condoms. Therefore, meaningful analysis of the effect of AID-financed condoms on Family Planning in Egypt was not possible. Corrective actions are needed to improve control systems, reporting procedures and recover missing inventories.

Condoms - Controls and Problems

Project planning documentation sets forth that increased contraceptive usage in a developing country like Egypt requires a readily available supply; and that a steady, available supply of contraceptives can be assured only if (a) one year's supply is in place at service points; (b) one year's supply is in place in central warehouses or on the high seas; and, (c) one year's supply is on order. To assist Egypt in reaching this supply availability status for condoms, AID, in October 1977, authorized procurement of 200,000 gross (28.8 million units) of condoms to be delivered in Egypt during the first four months of CY 1978. In December 1978, AID authorized procurement of 150,000 gross (26.1 million units) of condoms for Egypt to be delivered in CY 1979.

The condoms purchased for CY 1978 were shipped and arrived in-country basically as scheduled. We reviewed the related records on arrival, storage, and distribution.

- Port Arrivals: The condoms provided for CY 1978 arrived in four different shipments. The Egyptian Population and Family Planning Board (Board) cleared the shipments through Customs. For each shipment cleared, they recorded a shortage. The total recorded shortage for the four shipments was 418,300 units.

The Board employees could not tell us whether the shortages occurred in shipment or in Customs, but expressed the belief that the losses took place in Customs. The Board has not taken any recovery action for the shortages. Furthermore, the USAID was not notified about these losses. We believe the USAID should recover the value of these missing commodities from the GOE and institute a reporting system where the Board reports the actual receipts of commodities.

Recommendation No.2

USAID/Egypt institute action to recover the value of the 418,300 missing condoms.

Recommendation No.3

USAID/Egypt establish reporting requirements for the Board on actual receipt of AID-financed contraceptives.

- Central Warehouse: The Board clears the paperwork through Customs but the Egyptian Trading and Pharmaceutical Company (Trading Company) takes physical receipt of the condoms. The condoms are stored in the Trading Company Central Warehouse in Cairo. When the AID-financed condoms enter the Central Warehouse, they are commingled with all other condoms and are not identifiable in the record system. At this point, identification and control of AID-financed condoms is lost.

Nevertheless, in an attempt to evaluate the distribution system for condoms, we requested and received approval from the Trading Company to trace their shipments of condoms from all sources to selected governorates.

In tracing these shipments, we found significant amounts of the AID-financed condoms in the governorate warehouses. We also found various amounts of AID-financed condoms in pharmacies and family planning units in the four governorates visited. But, the recordkeeping on the condoms is poor. In two of the four governorates visited, the differences between the Central Warehouse records on shipments and the Governorate Warehouse records on receipts were unreconcilable. In fact, after spending several months attempting to reconcile the amounts, the Governorates' records were sent to the Central Warehouse Office in Cairo. Central Warehouse Office employees were attempting to verify the differences at the time of our review. In the other two governorates, the records evidenced similar problems but of a lesser degree.

The major inventory problem we found and the one most frequently involved in record-inventory differences involves the unit of measurement. AID-financed condoms are sometimes incorrectly recorded and/or identified as gross (144 unit) quantities although they are packaged in boxes of 100 units each. On the other hand, the same type of condoms, financed by U.N. and private organizations, are oft-times provided in boxes of a gross (144 units) but incorrectly recorded as 100 units. Other types of condoms are packaged in boxes of either 100 or 144 units, variously.

Under the system in use, the condoms are allocated for either commercial use (pharmacies, etc.) or for family planning units. Each regional warehouse maintains separate sets of records for commercial allocations and family planning allocations.

The various warehouses of the Trading Company do not all record condoms by the same units. Some record the condoms by boxes without differentiating between the 100 units and the 144 units boxes. Some record the condoms only by units. Some record receipts by boxes and distributions by units. Some maintain separate sets of records for different size boxes - one set for boxes of 100 and one set for boxes of 144. Recording errors appeared to be made frequently. When these errors are made in this confusing system, it compounds the difficulties encountered in attempting to reconcile the records.

We did manage to reconcile the records of one regional warehouse with the Central Office. However, it required three trips to the governorate and the Central Office to complete this reconciliation. When we had the records in balance, we attempted to verify the amounts with the monthly and yearly reports on contraceptives prepared by the Board. We could find no correlation between the actual amounts (receipts, issues, on-hand balances) and transaction dates in the Governorate and the numbers reported by the Board.

Due to the inadequate recordkeeping and reporting, we could not measure the impact the AID-financed contraceptives may have had on family planning efforts in Egypt. However, we did verify that the condoms do move through the system, are delivered to the governorates and from there are distributed to commercial outlets and family planning units.

Approximately 85 percent of all condoms are distributed through commercial outlets. The condoms allocated for commercial use normally turnover within three to six months. The remaining 15 percent of the condoms, allocated for family planning units, appear to be excessive to needs. All of the governorates visited had supplies of condoms allocated for family planning units that would last from three to five years, based on current usage. However, we found that only a small percentage of condoms were actually distributed to family planning units. We did not receive a satisfactory answer as to why most family planning units do not receive the condoms. The most frequent reason given for the low use rate was that most family planning units are in rural areas and the men in the rural areas will not use the condoms.

We believe that without a more effective reporting system on contraceptives uses, it is impossible to effectively plan, purchase and distribute the commodities. Accordingly, if AID continues to provide contraceptives to Egypt, we believe USAID/Egypt should assist the GOE in establishing an effective reporting system on contraceptives. This assistance should include in-country training for GOE personnel involved in receiving, inventoring and distributing contraceptives.

Recommendation No.4

USAID/Egypt (a) inform the GOE of the problems existing in controls over program contraceptives and (b) offer to provide GOE personnel with such assistance as deemed necessary to establish and maintain an effective control and reporting system on contraceptives.

INTEGRATED SOCIAL SERVICES DELIVERY SYSTEM

The USAID/Egypt family planning project funds an action-research activity in the Menoufia Governorate. This activity is called The Integrated Social Services Delivery System. The project has evolved from earlier AID-sponsored efforts (AID Grant No.NESA-547 and AID Grant No.PHA-G-1139) through the Social Research Center of the American University in Cairo (AUC). These prior projects were intended to test, among other research efforts, an innovative family planning delivery system; i.e., the household distribution of contraceptives. The current project expands the household distribution activities and adds three types of services for the Menoufia rural population: family planning, health and social welfare.

The project is a joint effort of the Menoufia Governorate and the Social Research Center (SRC). The Menoufia Governorate is responsible for the "action" part of the project while the SRC implements the "research" portion.

The Menoufia Governorate

The Menoufia Governorate part of this project (Sub-Grant 263-78-G-009) is designed to integrate and promote the delivery and use of family planning, health and social welfare services in the rural communities of the Governorate. The target rural population totals about 1.4 million. The action plan is to help overcome problems that may be hindering the efficient operation of the delivery systems, performance of service personnel, or use of services by community members.

This action project emphasizes: (a) coordination of activities through a High Committee, an Executive Committee and Country Committees; (b) development of Village Councils which determine and implement their own activities funded through the project; and (c) training of service personnel at all levels from physicians working in family planning units to local village leaders. All of these activities are directed toward the increased acceptance and use of family planning services.

During this first year of operation, the project has been reasonably successful. Training at all levels has been completed or is in process. The High, Executive and Country Committees are functioning and appear to be effective for coordination purposes. Most of the Village Councils have been established and are actively involved in determining and implementing their own activities related to the project.

Despite the progress noted, it is not known whether the activities are accomplishing the primary goal of increasing acceptance and use of family planning services. The degree of success in this area is to be determined through the research activities of the SRC. This specific research, on the first year activities, is now in process and should be completed and analyzed by mid-1980.

The Social Research Center

The Social Research Center is implementing and analyzing the effects of the "household distribution of contraceptives" system in the Menoufia Governorate (Sub-Grant 263-78-G-008). Briefly, this activity entails (a) canvassing a village and identifying each household; (b) personal contact with the head of household and each married woman; (c) collection of socio-economic information on each household; (d) discussions on family planning; (e) distribution of free contraceptives to each eligible woman who agrees to use them; (f) providing information on health units and availability of contraceptives; and (g) follow-up about one year later on contraceptive use. All of this information collected is analyzed for the research activity.

A report issued in November 1978, covered the analysis of the results of the household distribution effort in 38 villages during 1977. Among other things, the research showed that, prior to the household distribution system, 19.1 percent of married, fecund women of 15 through 44 years of age used contraceptives. Eight months later, the follow-up activity showed that 27.7 percent of those women were using contraceptives. This change represents an 8.6 percent absolute increase or a 45.1 percent relative increase in contraceptives use among the women in the research group.

The Mission considers this increase in contraceptives use to be significant and accordingly a successful operation to date. In fact, the Mission is attempting to develop additional projects of this type for up to five more governorates. The project as planned was expanded to 102 villages in 1978-79. The analysis of the expanded effort is now being made and the results should be available this fall.

Certain areas concerning the costs associated with this activity are discussed in the following section of this report.

QUESTIONABLE COSTS CHARGED TO SUB-GRANT NO.263-78-G-008

Our review of the financial records on Sub-Grant No.263-78-G-008 showed that several types of questionable and improper expenses were charged to the Grant. (Some of these costs are U.S. Dollars while others are Egyptian Pounds (L.E.). For perspective, questioned L.E. costs are generally equivalent to U.S. Dollars at the rate of L.E.0.70 to U.S.\$1; e.g., L.E.70 = U.S.\$100. Presentations will specifically discuss those cases where other rates of conversion have been used.) Discussions of questioned costs are presented in the following sections.

(1) Entertainment - The Social Research Center of AUC has been regularly charging entertainment expenses to the Grant. During the period from December 1, 1977 through May 31, 1979 at least LE 4,475 of entertainment expenses were charged to AID through the Grant. These expenses were for items such as cigarettes, tips, tea, coffee, and dinners. These expenses are not allowable under the Grant. USAID/Egypt should recover these funds plus 20 percent for the related overhead payments (LE 895). Since these types of costs are regularly charged to AID grants by the Social Research Center, USAID/Egypt should (a) notify AUC in writing that these type payments should not be charged to any AID Grant and (b) in coordination with AID/W determine and recover the amount of entertainment expenses previously charged to AID through the prior centrally-funded grants to the Social Research Center (Grant No.NESA-547 and Grant No.PHA-G-1139).

Recommendation No.5

USAID/Egypt (a) recover LE 5,370 from the American University in Cairo for improper payments of entertainment expenses and related overhead made through Grant No.263-78-G-008 and (b) notify the Grantee that no entertainment expenses are to be charged to any AID-financed grant.

Recommendation No.6

USAID/Egypt in coordination with AID/Washington determine and recover the amount of AID funds used to reimburse the American University in Cairo for entertainment expenses under Grant No.NESA-547 and Grant No.PHA-G-1139.

(2) Household Items - The Grant authorizes payment for certain expenses related to the Social Research Center field offices in Menoufia Governorate. One of these authorized expenses is for "household items". The Social Research Center purchased at least two television sets and one radio and charged these purchases to the Grant as "household items". These items are not directly related to any work on the project. Accordingly, they are not allowable for reimbursement under the Grant. USAID/Egypt should recover the amount reimbursed to AUC for the unallowable items; i.e., LE 350 plus 20 percent overhead or a total of LE 420.

Recommendation No.7

USAID/Egypt (a) recover LE 420 in payments made under the Grant to the American University in Cairo for two television sets and a radio and
(b) notify the Grantee of the proscription against charging non-project related household items to any AID-financed grant.

(3) Approval for International Travel - The Grant contains an inconsistency concerning approval for International Travel.

The cover letter to the Grant contains a clause stating "Prior to incurrence of each international travel cost hereunder the Grantee shall notify A.I.D. and the Project Director in writing. The notification to include the name of the traveler(s) and the departure and return dates." The "cover letter" is a three-page document signed by all parties to the Grant and is an integral part of the Grant Agreement by specific statement.

The body of the Grant Agreement contains a statement that "The Grant Officer hereby approves international travel hereunder provided that the Grantee shall notify the Project Officer in AID prior to sending any individual outside the Arab Republic of Egypt to perform work under the Grant."

In another section of the Grant Agreement, the Federal Management Circular, 73-8 (Cost Principles for Educational Institutions) is incorporated as part of the Agreement. That circular requires that "Foreign travel costs are allowable only when the travel has received specific prior approval. Each separate foreign trip must be specifically approved."

The Grant specifies that the President or Business Manager of the American University in Cairo are authorized to submit documentation under this Grant. Yet, when members of the Social Research Center travel internationally, the Director of the Center sends a letter to the USAID regarding who is traveling, with only vague reference to times and destinations. Therefore, no acceptable prior notification for international travel has been provided to the Mission.

To comply with Federal Regulations and to provide prudent internal management controls, USAID/Egypt should amend the Grant Agreement to conform with the requirements of Federal Management Circular 73-8 concerning approval for international travel.

Recommendation No.8

USAID/Egypt amend the Grant Agreement, concerning approvals for international travel, to conform with requirements of Federal Management Circular 73-8.

(4) Support for Travel and Related Expenses - Travel and related expenses are not appropriately supported in accordance with Federal Travel Regulations.

The procedures of the American University in Cairo do not require employees of the Social Research Center to provide supporting documentation for foreign travel in accordance with Federal Travel Regulations; e.g., documentation is not available to show when the travel was performed; what areas were visited; what airlines were used; what expenses were incurred; whether any personal leave was taken; or, whether any travel was actually performed.

We were able to locate only one instance where records showed any support at all for travel expenses: In support of his trip to the U.S. during the summer of 1978, the Director of the Social Research Center did provide a listing of taxi expenses, although no dates were furnished for these taxi expenses. However, even the propriety of these travel charges to the AID grant is questionable; i.e., all of the Director's travel expenses (except for taxis) were arbitrarily divided, before any travel was initiated, about equally between three grants--one of which is this AID grant--with no basis at all to support such allocation; all of the taxi expenses were charged to AID, with no apparent basis. We have no idea of his actual itinerary, how much time was actually spent working on the AID grant, or the basis for the charges to the AID grant--the University does have a "listing" of taxi expenses that may have been incurred; but dates, locations, and applicable grants properly chargeable are unknown.

The Grant contains inconsistent clauses on travel regulations. The cover letter to the Grant Agreement (an integral part of the Grant) states that "All per diems to be paid under this Grant shall be computed and paid in accordance with the standard rules and regulations of AUC."

The Grant Agreement contains a clause requiring that "Travel allowances shall be reimbursed in accordance with the Federal Travel Regulations (FTRs); however, if the Grantee's domestic and international travel policies and procedures have been reviewed and approved by AID or another Federal department or agency, pursuant to the applicable Federal cost principles, the Grantee may use its travel allowance system in lieu of the FTRs after it has furnished the Grant Officer with a copy of such approval."

The Grant Officer could not provide us with an approval for AUC to use its travel allowance system. Accordingly, AUC must support payments for travel in accordance with the Federal Travel Regulations.

USAID/Egypt should not reimburse international travel expenses of employees of the Social Research Center unless the expenses are properly supported in accordance with Federal Travel Regulations.

Recommendation No.9

USAID/Egypt notify the American University in Cairo, in writing, that no expenses for international travel will be reimbursed under the Grant unless the travel is appropriately supported in accordance with Federal Travel Regulations.

(5) International Travel and Related Expenses - The Grant authorizes certain work-related international travel for this project. The Director of the Social Research Center (SRC) was paid travel, related expenses and summer salary from the Grant, for a trip to the United States in the summer of 1978. During this trip, according to the Director, he worked on three different projects. About one third of the expenses for this trip were charged to each grant. However, the University does not have any documentation to support the allocation of charges. Furthermore, the Director of the SRC did not submit a travel voucher or equivalent document to support the payments for the travel, per diem and related expenses as required by the Grant, nor any documentation to show worktime charged to each grant. We have questioned these payments because the American University in Cairo does not have documentation to support these costs as valid charges to this AID grant. Amounts paid from the Grant for these travel and related expenses must be recovered. Costs claimed and reimbursed from the Grant funds for this 1978 trip follow:

	<u>Unsupported Payments for Summer of 1978</u>	
	<u>U.S. Dollars</u>	<u>LE</u>
<u>2/</u> Summer Salary	\$1,500	-
Overhead (20%)	-	210
Per Diem	\$1,250	-
Overhead (20%)	-	175
Related Expenses	\$ 140	-
Overhead (20%)	-	20
Transportation	-	210
Overhead (20%)	-	42
Total Unsupported Payments	<u>\$2,890</u> =====	<u>LE 657</u> <u>1/</u> =====

1/All overhead payments were in Egyptian Pounds.

2/Salary of the SRC Director is discussed in a later section of this report.

Recommendation No.10

USAID/Egypt recover from the American University in Cairo these payments (\$2,890 and LE 657) for unsupported expenses funded from this Grant.

(6) Conversion Rates - Prior to January 1, 1979, the GOE official rate of exchange for transactions between Governments was LE 1 = US\$ 2.56 (or US\$ 1 = LE 0.39). For all other transactions, the official "parallel" rate was LE 1 = US\$ 1.43 (or US\$ 1 = LE 0.70). Effective January 1, 1979, the official rate for Government transactions was changed to US\$ 1 = LE 0.70; e.g., the same as the parallel rate. Yet, the American University in Cairo, in certain situations, continues to use the previous (US\$ 1 = LE 0.39) rate of exchange. (When adjusted to include transaction costs, the actual rate used by the University is \$ 1 = LE 0.43.) This practice results in added cost to the AID Grant for two types of recurring expenses; i.e., (a) the University pays an eight percent of base salary bonus in dollars to certain faculty for "educational and cultural travel"; and, (b) faculty members' salaries are paid in dollars, under certain conditions, when they are out of country. The following example illustrates how this practice adds unnecessary costs to the AID Grant:

<u>An Example</u>			
<u>Salary Paid in Dollars to Faculty Members While in the U.S.</u>			
<u>LE Salary</u>	<u>Converted to \$ @ .43 = \$ 1 by AUC</u>	<u>Converted to \$ @ Parallel Rate LE 0.70 = \$ 1</u>	<u>Added Cost to AID</u>
LE 5,000 *****	\$ 11,628 *****	\$ 7,143 *****	\$ 4,485 *****

It seems less than prudent business practice, especially in an excess currency country, to pay U.S. dollars for LE costs such as these at a higher exchange rate than the official parallel rate available at the Mission's own cashier. USAID/Egypt authorized this AUC conversion practice in the Grant by agreeing to allow salary payments in accordance with normal University practices. This authorization was given despite the recommendation of the USAID Controller, who advised the USAID to use the parallel rate US\$ 1 = LE 0.70.

In our opinion, this conversion practice added unnecessary costs to the family planning project prior to January 1, 1979. Since that date, however, reimbursements under the AID Grant for these added costs were improper and must be recovered.

Recommendation No.11

USAID/Egypt determine and recover the amount of improper costs reimbursed to the American University in Cairo under Grant No.263-78-G-008 since January 1, 1979, as a result of incorrect conversion of Egyptian Pounds.

The University has paid advanced salaries for the summer of 1979 to employees of the Social Research Center which, on the books, are charged to the Grant. These dollar payments of salaries were arrived at by converting Egyptian Pounds at LE 0.43 = US\$ 1. These expenses have not yet been vouchered for reimbursement from USAID/Egypt. In order to prevent additional improper payments, the USAID should notify the American University in Cairo in writing that these expenses will not be considered for payment until they are adjusted in accordance with the correct exchange rate of US\$ 1 = LE 0.70.

Recommendation No.12

USAID/Egypt (a) notify the American University in Cairo that requests for reimbursement in dollars, which amounts were arrived at by converting Egyptian pounds, will not be processed unless they are correctly converted at the rate of US\$ 1 = LE 0.70; and (b) establish procedures to implement dollar reimbursements at this rate.

(7) Improper Conversion - Under this Grant, the American University in Cairo claimed and USAID/Egypt paid an improper amount of LE 1,052.160 instead of the actual cost of LE 646.320. This amount was related to educational and cultural travel payments for employees of the Social Research Center.

In arriving at the LE 1,052.160 amount claimed, the University applied the following unusual accounting procedures:

- (a) The factor for education and cultural travel, calculated and paid at eight percent of applicable base salaries (LE 646.320), represents the actual cost to the University.
- (b) This LE cost amount was converted to dollars at the rate of \$ 1 = LE 0.43 which equaled \$ 1,503.09. Under normal practices, this dollar amount would have been charged to the Grant.
- (c) However, for some yet undetermined reason, the University prepared schedules of computations to reconvert this dollar amount (\$ 1,503.09) back to Egyptian pounds at the rate of \$ 1 = LE 0.70. This amounted to LE 1,052.160 and was charged to the Grant and paid by AID.
- (d) Through this double conversion accounting procedure, the University increased the actual expense of LE 646 to a calculated expense of LE 1,052.160. As a result, the University realized an improper gain over actual costs of 63 percent or LE 406 (plus 20 percent overhead charges) for a total overpayment of LE 487.

Recommendation No.13

USAID/Egypt recover the overpayment of LE 487 from the American University in Cairo which resulted from improper conversion activity.

(8) Improper Conversions and Duplicate Payment - In processing a later voucher, the University not only used the same improper conversion practice discussed above in (7), but also billed and was paid for the charges twice --once in U.S. dollars and again in Egyptian pounds. The University converted LE 2,930 at the US\$ 1 = LE 0.43 rate to arrive at the dollar charge of \$6,813 for reimbursement for educational and cultural travel expenses. Then they converted the \$ 6,813 back to Egyptian pounds at US\$ 1 = LE 0.70 which amounted to LE 4,769. The Grant was charged this latter amount which resulted in an overpayment of LE 1,839. Further, the University also charged the AID Grant with the originally computed dollar amount of \$ 6,813 for this same expense.

USAID/Egypt should recover the improper overpayments of LE 1,839 and \$ 6,813 from the American University in Cairo plus 20 percent overhead payments for totals of LE 2,206 and \$ 8,176:

Recommendation No.14

USAID/Egypt recover from the American University in Cairo improper charges to the Grant of LE 2,206 and \$ 8,176.

(9) The Function of the Director of the Social Research Center - The Mission arranged for the Director of the AUC Social Research Center (SRC) to be the Principal Investigator on the USAID project. The Grant requires that the Principal Investigator work on the project on a full-time basis and provides for 100 percent funding of his base salary and fringe benefits. Comparison of grant requirements with actual project conditions raises issues and related cost questions regarding this situation which need resolution. These issues are presented in succeeding paragraphs.

a - This Grant has funded 100 percent of the SRC Director's base salary and fringe benefits as Principal Investigator from December 1, 1977 (with the exception of the summer of 1978) to date. Yet, at December 1, 1977, he was also the Principal Investigator on a HEW Grant, an UNESCO Grant and on an UNFPA Grant. During the time since then, these grants have been completed or transferred to other Principal Investigators. Of course, since the Principal Investigator on the USAID/Egypt project is the Director of the SRC, he provides administrative support for all grants and other activities of the SRC. Also, during this period he served as a consultant for UNESCO, worked five months on another AID contract and is a consultant on yet another AID activity. Since the Director works on many other activities and also necessarily devotes some of his time to assisting the staff working on other grants, we do not believe it is possible for him to work "full-time" on any of these activities. Accordingly, USAID/Egypt should not bear the costs of 100 percent of his salary and fringe benefits under this AID Grant. Costs must be properly allocable to this AID Grant. We believe an adequate and acceptable cost accounting system must be developed to properly allocate charges for salary and fringe benefits fairly and consistently among all parties receiving services. USAID/Egypt should ensure that a proper allocation procedure for salary costs is established and implemented by AUC before any additional salary payments are made under the AID research grant.

Recommendation No.15

USAID/Egypt (a) require that AUC develop and establish an adequate cost accounting system and related procedures to (i) allocate salary costs equitably to all parties provided services and (ii) support all payments to AUC under this AID research grant; and, (b) make appropriate adjustments for past overcharges to this AID grant for services applicable to other activities.

USAID/Egypt Comments

"USAID does not concur that we terminate payments to AUC for the AUC/Menoufia research activity until the University installs an adequate cost accounting system. As we understand, the untimely death of the previous controller has disrupted the University's accounting system. We further understand a new controller is in place and working to update and streamline the AUC system. To suspend USAID payments for the Research Grant to AUC would seriously disrupt the AUC/Menoufia activity."

"At the same time, we are confident AUC will have in place an adequate cost accounting system that will allow for allocation of personnel involved in the AUC/Menoufia Research Grant."

Response to USAID/Egypt Comments

Perspective is needed here. Under terms of the current and prior grants, AUC has been required to install an adequate cost accounting system since 1971. AUC has not as of August 1979, fulfilled this grant requirement. After about eight years, it does not seem unreasonable to require that the AUC comply with grant terms and that this AID grant be charged with only its fair share of costs; an adequate cost accounting system and proper allocations of these costs are necessary. Implementation of this recommendation will correct the situation which has developed and continued over the past eight years.

b - USAID/Egypt through the family planning project established an Advisory Committee for the Family Planning Media Program Unit under the Mass Communication activity. This committee furnishes advice concerning implementation of the family planning communication project and analyzes and approves all media-specific message content. The Director of the Social Research Center has been appointed to this committee and is authorized consultant fee payments from the USAID Grant for his services. However, no fees have yet been paid to the Director of the Social Research Center.

Since the Director of the Center already receives pay for fulltime services to the family planning project under the research grant, we do not believe it is appropriate to pay him consultant fees from another sub-activity of the same project. This must necessarily be duplicate payments for "full-time" services.

Recommendation No.16

USAID/Egypt ensure that the Director of the Social Research Center is not paid from AID funds for any "consultative services" provided for the USAID Family Planning Project while he continues in his current function as Principal Investigator for the research grant.

USAID/Egypt Comments

"USAID does not concur with this recommendation. The Director of the Social Research Center works fulltime at the University as follows: 9 months a year, 5 days a week. His daily hours are 8:30 a.m. to 3:00 p.m. The AUC allows the Director to consult outside of the above hours, on his off days, and during the summer recess."

"USAID believes it would be a mistake to state unequivocally the Director cannot receive additional AID funds for "consultative services" while he continues his current position as Principal Investigator on the Research Grant for the AUC/Menoufia Project."

"In the near future, for example, the Health and Population Division expects to expand USAID assistance to other governorates (Assiut, Beni-Suef) in order to initiate a Menoufia-type project. USAID may need to call upon the services of the Director to assist with this expansion. It is not in USAID's interest to preclude use of the Director's "consultative services" as long as he performs these services outside of the period covered by the USAID AUC/Menoufia Research Grant."

Response to USAID/Egypt Comments

USAID comments indicate that the Director's "consultative services" are performed outside of the period covered by this AID research grant; the Director's daily workschedule at the SRC for a 9-month fulltime period are set forth by the USAID. But, he is also working and paid fulltime as Principal Investigator under this AID grant.

These USAID comments do not agree with the terms of the grant, however. The Grant Agreement requires that the Principal Investigator work fulltime for twelve (not nine) months a year on this AID research project. Under a 12 month, fulltime schedule on the research grant, and a concurrent 9-month full schedule at the SRC, it does appear that consultant fees for other work during the same period would result in duplicate payments for fulltime services. The recommendation is intended to preclude such duplicate payments and implementation seems necessary in view of USAID comments.

c - USAID/Egypt arranged for the State Information Service to provide the AUC Director of the SRC with a direct personal contract to prepare an orientation course on population and family planning. This contract covered the period from February 15, 1979 to May 31, 1979. The USAID/Egypt family planning project provided the funding for this contract. The five individuals provided this orientation were members of the State Information Service who work on the family planning project mass media activity.

During the period of this contract, the AUC Director of the SRC was paid fulltime (100 percent) salary and fringe benefits by the USAID/Egypt research grant. Accordingly, the Director necessarily was performing these services concurrently. Yet, a clause in the contract states that "It is understood that payment received to perform this contract does not cover any cost element to be reimbursed under an SRC/AUC activity which is AID financed."

Pertinent here, the final report on this contract shows six individuals who were "The organizers and trainers of the training program." Five of these six individuals were paid fulltime salary and fringe benefits through the research grant. However, Section 8 of the contract specifically states that "... the costs of the contract shall not be subject to audit."

Since at least part of these costs are duplicative of services and payments and the contract states that we cannot audit the costs, we have no alternative except to recommend a recovery of the total amount paid to the contractor.

Recommendation No.17

USAID/Egypt in coordination with the State Information Service collect the duplicate payments for services of LE 7,500 from the contractor for the "Orientation Course".

USAID/Egypt Comments

"USAID does not concur with this recommendation. We believe the Director performed the referenced services outside of the time period he devoted to the AUC/Menoufia Research Project. USAID understands that the Director arranged the training course during his consultation time. His efforts included organizing a team to conduct the population/demographic orientation for the State Information Service. The Director did not personally conduct the training and orientation, but was responsible for organization and management."

Response to USAID/Egypt Comments

USAID comments seem at variance with the Director's report. For example, the USAID sets forth that the Director did not personally conduct the training and orientation; on the other hand, the Director, in his own final report, states that he not only helped organize and manage the program but that he also personally conducted about 50 percent of the training courses. There seems no certain knowledge of the Director's actual services, nor the timeframe of his performance; i.e., as discussed in preceding sections, he was paid fulltime as Director of the SRC; he was paid fulltime concurrently as Principal Investigator under the research grant; and he provided services under a separate personal contract during the same time periods. Since costs are not subject to audit, as set forth in his personal contract, we believe implementation of this recommendation is in the Agency's best interests and warranted.

2 - Our draft audit report submitted for USAID comments discussed the fact that audit rights of AID as well as the Comptroller General of the United States (GAO) were restricted in a contract funded under one of the AID Grants for family planning projects. That contract was neither formally nor informally advertised; and was awarded to the Director of the SRC as a fixed-price contract, on a sole-source basis. Current and previous work of this contractor is related to this procurement and the contract stipulates that "... the costs of the contract shall not be subject to audit."

Our draft report presented pertinent sections of AID Handbook 11, Chapter 1, used as a "guideline" by the USAID in drafting contract terms. We also cited audit provisions of Chapter 4 of AID Handbook 11 and pointed out that the restrictive contract clause on audit rights is contradictory to Agency policy as set forth in AID Handbook 1, Supplement B, Section 24B which states, in part:

" ... it is AID policy that all agreements, bilateral and AID direct, and all implementing agreements under them (contracts, grants, etc.) financed in whole or in part by AID shall contain appropriate provisions requiring the maintenance and retention of records and shall provide for audit rights for AID and the Comptroller General of the United States. These agreements shall also specify that subagreements should provide for AID or Comptroller General access rights to records of the recipients of funds under the subagreement. *****. The requirement for provisions on records, retention of records, and audit rights are generally not waived. However, if the Assistant Administrator who has program responsibility, acting in consultation with AG and GC, decides there is compelling reason, the requirements may be waived or modified."

Our draft report also noted that there is no Agency policy or handbook provisions to waive the audit rights of the GAO. However, this contract does not contain the mandatory clause covering audit rights of the Comptroller General of the United States (GAO).

The draft report noted also that this contractor is already being paid 100 percent of his salary and fringe benefits from grant funds for fulltime services; but, simultaneously, he is also being paid for professional services from grant funds through this fixed price contract directly with him. Yet, contract costs are not subject to audit.

We initially recommended that the USAID establish procedures to assure that the rights of audit and inspection of AID and the Comptroller General of the United States are not restricted in any contracts funded in whole or in part by AID.

USAID/Egypt comments disagreed with this recommendation. In brief, the USAID position sets forth that they have been consistent with Handbook policies and that the contract is consistent with AID host country contracting policy in this regard. Since USAID comments on this subject are rather lengthy, they are included in their entirety as Appendix A of this report to assure they have not been presented out of context.

We believe the issue of audit rights is significant and of high import to the Agency. We are, therefore, presenting below our comments on the USAID position.

- The USAID (Appendix A) takes the position that, once costs have been negotiated, the right to audit costs is inconsistent with the concept of fixed price contracts. We do not agree with this position--AID Procurement Regulations (AIDPR) and the Federal Procurement Regulations (FPR) both provide for full and unrestricted audit rights in fixed-price negotiated contracts. The FPR (1-7.103-3) has a mandatory requirement for an "Examination of Records by Comptroller General" clause in fixed-price negotiated contracts (over \$10,000); this clause specifically refers to "... costs and expenses of this contract as to which exception has been taken by the Comptroller General ...". The AIDPR (7-7.54) specifically requires the same clause as the FPR (1-7.103-3) be included in all fixed-price type contracts for technical services.

- The USAID (Appendix A) interpretation of the cost principles provisions of Chapter 4, Handbook 11, places heavy emphasis on the term "negotiating" with respect to fixed-price contracts although the same term is used with respect to cost-reimbursement contracts in the same Handbook section quoted by the USAID. We believe the USAID interpretation of Chapter 4 of Handbook 11 is open to question.

- The USAID (Appendix A) states that GAO audit rights in this contract have been restricted with regard to costs but the contract does not contain any clause providing for GAO audit rights. Also pertinent, the basic AID Grant (No.029) for this project contains no audit rights at all for the GAO; on the other hand, AID Sub-Grants (Nos.008 and 009) contain different audit and inspection clauses than the basic Grant (No.029) and this contract. The matter of audit and inspection rights relative to this USAID project is somewhat confusing because of the inconsistencies between the various project implementing documents.

In conclusion, we believe that the matter of AID audit and inspection rights are highly important and should be clearly stated in all contracts and grants involved in the USAID/Egypt Family Planning Programs and projects. In view of the USAID comments (Appendix A), we believe the matter warrants further review at AID/W management levels. We intend to submit the matter to the AG/PPP in a separate memorandum for such action as deemed necessary to resolve AID audit rights.

We further believe that the audit rights of the Comptroller General of the United States (GAO) are not subject to restriction in any manner by the USAID/Egypt, nor can the USAID interpret Agency Handbooks as supporting restrictions on GAO audit rights. We believe that part of our initial recommendation addressing GAO audit rights needs to be retained.

Recommendation No.18

USAID/Egypt (a) establish procedures to assure that statutory audit rights of the Comptroller General of the United States are included, unrestricted, in all agreements, bilateral and AID direct, and all implementing agreements under them, such as grants and contracts; and (b) take necessary action to amend Grant No.263-0029 and the contract with the Director of the AUC Social Research Center to provide for unrestricted audit rights by the Comptroller General of the United States.

(10) Overhead - This Grant Agreement authorizes the American University in Cairo a 20 percent overhead rate on all direct charges to the Grant.

We could not find a cost proposal or memorandum of negotiation to support the establishment of the overhead rate. Officials of the American University in Cairo told us they do not have data to support the overhead rate. However, they said data was being prepared and would be provided to AID/W contract management for review in the near future.

Since there is no basis for establishing the overhead rate and neither USAID/Egypt nor the American University in Cairo have provided supporting data for a basis, the Mission is in the position of certifying the propriety of unsupported payments. It appears that AID has been in this position ever since the original Family Planning Research Grant was made to the American University in Cairo in 1971.

The Mission should insist that a proper overhead rate(s) is established for the research grant(s) to the American University in Cairo. When this rate(s) is established, AID should make appropriate adjustment to all overhead payments made to the University under this Grant and the prior Grants Nos.NESA-547 and PHA-G-1139.

Recommendation No.19

USAID/Egypt in coordination with AID/W SER/CM ensure that (a) a properly established overhead rate(s) is determined for the AID-financed Grants to the American University in Cairo and (b) necessary adjustment to overhead payments are made for AID Grants NESA-547, PHA-G-1139 and 263-70-G-008.

AUDIT SCOPE

The Office of the AAG/Egypt reviewed USAID/Egypt Family Planning Project No.263-0029. This review was made intermittently during the period from April through August 1979. The audit covered the financial activities of the project from September 30, 1977 to April 1, 1979.

The purpose of this examination was to (a) evaluate USAID/Egypt management of the project; (b) verify the propriety of the disposition of project funds and commodities; and (c) evaluate progress toward project objectives.

In making this audit, we reviewed the project related activities of the American University in Cairo, the Menoufia Governorate and the Egyptian Population and Family Planning Board. We made field visits to selected locations to verify receipt and disposition of project commodities and to review the field research activities.

We also applied other auditing techniques considered necessary during the examination.

USAID/Egypt Comments Regarding Agency and GAO Audit Rights

Handbook 11, Chapter 1, is the basic guideline for AID host country contracts and provides in Section 1.0 that it may be used in entering into host country contracts which are not denominated in dollars. Given the use of a host country contract mechanism and AID's policy decision to utilize direct contracts only in exceptional situations (see policy determination No.68) resort to the policy guidance of AID Handbook 11 is appropriate and more applicable to the host country contracting concept than another regulatory system for contracting.

Although AID Handbook rules are not mandatory for local currency denominated contracts, USAID construes Handbook 11 as encouraging resort to its concepts and procedures. While AID can impose Handbook 11, in toto, for all host country procurement by means of implementation letter, it did not do so in this instance, instead adopting the Handbook 11 procedures as a guideline.

As noted in the draft audit report, Section 4.3.18 of the AID Handbook states that fixed price (lump sum or unit price) contracts, such as the one employed here, are not subject to audit of costs. This section carves out only cost audit from the books and records requirement retaining all other pertinent language of the Handbook format clause. The clause in the host country contract does the same, retaining the basic right of AID and GAO to audit everything but the costs. Accordingly, basic auditing rights have been preserved, only the "costs" element having been deleted, consistent with AID Handbook 11. A fixed price contract is predicated upon a close analysis prior to execution of the contract of probable expenditures necessary to perform a contract. Once this analysis occurs, a contractor, upon completion of performance in satisfactory manner, is entitled to payment of the fixed price. A cost audit under such conditions is inconsistent with the concept of fixed price contracts.

We do not find the audit and records provision of the contract to be inconsistent with Chapter 4 of Handbook 11 entitled "Cost Principles for Borrower Grantee Contracts". Section 4A, "Introduction" states:

"This chapter sets forth cost principles which the Agency for International Development (AID) recommends be applied in the preparation and evaluation of cost-estimates on cost-reimbursement contracts negotiated by the borrower with firms engaged in the performance of cost-reimbursement contracts for professional and technical services as well as the cost-reimbursement portion of construction services and equipment and materials contracts. These cost principles are prepared to assist in negotiating cost-reimbursement-type (cost-plus-fixed-fee) contracts, for review and approval, and for audit. The steps to be taken in negotiating contract costs for fixed price and time-rate contracts are essentially the same as for the cost-reimbursement contract." (emphasis supplied)

The quoted paragraph distinguishes the application of cost principles with regard to fixed price contracts as pertinent only to the negotiating stage which is consistent with the "fixed" aspect of the fixed price contract once the contract has been executed. Section 4B 3 of Handbook 11, cited in the draft audit report, does not change the practice with regard to fixed price contracts. The fact that the cost principles of Handbook 11, Chapter 4 are applicable to the negotiating phase of a fixed price contract does not carry with it the corollary that the costs of the contract are subject to post audit. Indeed, to take this position is tantamount to interpreting Handbook 11 to require cost audit of executed fixed price contracts regardless of whether the contract is local currency or dollar denominated. In short, AID Handbook 11, Chapter 4 and the provisions of the contract are consistent with the provisions of Handbook 11, Chapter 1, Section 4.3.18.

In summary, USAID for this fixed-price contract has applied the audit and records concept embodied in AID Handbook 11, Chapter 1. The contract is consistent with AID host country contracting policy in this regard. If USAID/Egypt were to do as the draft audit report recommends, USAID/Egypt would be instituting a procedure quite out of the ordinary, one inconsistent with the basic nature of the host country fixed-price contract. USAID, of course will continue to observe the concepts for fixed-price contracts of Handbook 11, Chapter 1 and scrutinize closely at the negotiation stage all cost submission and data in order to arrive at a reasonable price. We feel we are consistent with the Handbook policies in taking this position and feel, therefore, the recommendation is unwarranted.

LIST OF RECOMMENDATIONS

Appendix B
Page 1 of 4

Page No.

Recommendation No.1

USAID/Egypt review the staffing of the Health and Population Division and ensure that the Division has sufficient staff and project design capabilities to develop and implement a large scale family planning program.

8

Recommendation No.2

USAID/Egypt institute action to recover the value of the 418,300 missing condoms.

9

Recommendation No.3

USAID/Egypt establish reporting requirements for the Board on actual receipt of AID-financed contraceptives.

9

Recommendation No.4

USAID/Egypt (a) inform the GOE of the problems existing in controls over program contraceptives and (b) offer to provide GOE personnel with such assistance as deemed necessary to establish and maintain an effective control and reporting system on contraceptives.

11

Recommendation No.5

USAID/Egypt (a) recover LE 5,370 from the American University in Cairo for improper payments of entertainment expenses and related overhead made through Grant No.263-78-G-008 and (b) notify the Grantee that no entertainment expenses are to be charged to any AID-financed grant.

13

Recommendation No.6

USAID/Egypt in coordination with AID/Washington determine and recover the amount of AID funds used to reimburse the American University in Cairo for entertainment expenses under Grant No.NESA-547 and Grant No.PHA-G-1139.

13

Recommendation No.7

USAID/Egypt (a) recover LE 420 in payments made under the Grant to the American University in Cairo for two television sets and a radio and (b) notify the Grantee of the proscription against charging non-project related household items to any AID-financed grant.

14

Recommendation No.8

USAID/Egypt amend the Grant Agreement, concerning approvals for international travel, to conform with requirements of Federal Management Circular 73-8.

15

Recommendation No.9

USAID/Egypt notify the American University in Cairo, in writing, that no expenses for international travel will be reimbursed under the Grant unless the travel is appropriately supported in accordance with Federal Travel Regulations.

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Recommendation No.10

USAID/Egypt recover from the American University in Cairo these payments (\$ 2,890 and LE 657) for unsupported expenses funded from this Grant.

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Recommendation No.11

USAID/Egypt determine and recover the amount of improper costs reimbursed to the American University in Cairo under Grant No.263-78-G-008 since January 1, 1979, as a result of incorrect conversion of Egyptian Pounds.

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Recommendation No.12

USAID/Egypt (a) notify the American University in Cairo that requests for reimbursement in dollars, which amounts were arrived at by converting Egyptian Pounds, will not be processed unless they are correctly converted at the rate of US\$ 1 = LE 0.70; and (b) establish procedures to implement dollar reimbursements at this rate.

18

Page No.

Recommendation No.13

USAID/Egypt recover the overpayment of LE 487 from the American University in Cairo which resulted from improper conversion activity.

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Recommendation No.14

USAID/Egypt recover from the American University in Cairo improper charges to the Grant of LE 2,206 and \$ 8,176.

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Recommendation No.15

USAID/Egypt (a) require the AUC develop and establish an adequate cost accounting system and related procedures to (i) allocate salary costs equitably to all parties provided services and (ii) support all payments to AUC under this AID research grant; and, (b) make appropriate adjustments for past overcharges to this AID grant for services applicable to other activities.

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Recommendation No.16

USAID/Egypt ensure that the Director of the Social Research Center is not paid from AID funds for any "consultative services" provided for the USAID Family Planning Project while he continues in his current function as Principal Investigator for the research grant.

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Recommendation No.17

USAID/Egypt in coordination with the State Information Service collect the duplicate payments for services of LE 7,500 from the contractor for the "Orientation Course".

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Recommendation No.18

USAID/Egypt (a) establish procedures to assure that statutory audit rights of the Comptroller General of the United States are included, unrestricted, in all agreements, bilateral and AID direct, and all implementing agreements under them, such as grants and contracts; and (b) take necessary action to amend Grant No.263-0029 and the contract with the Director of the AUC Social Research Center to provide for unrestricted audit rights by the Comptroller General of the United States

25

Page No.

Recommendation No.19

USAID/Egypt in coordination with AID/W SER/CM ensure that (a) a properly established overhead rate(s) is determined for the AID-financed Grants to the American University in Cairo and (b) necessary adjustment to overhead payments are made for AID Grants NES-547, PHA-G-1139 and 263-78-G-008.

25

REPORT RECIPIENTS

USAID/Egypt

Director	5
Inspections and Investigations Staff (IIS)	1

AID/Washington

Deputy Administrator (A/AID)	1
Assistant Administrator/Near East (AA/NE)	1
Office of Middle East Affairs (NE/ME) (Egypt Desk)	1
Bureau for Near East (NE)	1
Office of Legislative Affairs (AA)	1
Office of the General Counsel (GC)	1
Office of Financial Management (Controller)	1
Office of Development Support (DS/DIU)	4
Office of Development Support (DS/POP)	1
Office of Development Support (DS/HEA)	1
Bureau for Program and Management Services (AA/SER/CM)	1
Bureau of Oceans and International Environmental and Scientific Affairs	1
Auditor General	1
Auditor General (AG/EMS)	12
Auditor General (AG/PPP)	1
AAG/Washington	1
AAG/East Africa	1
AAG/East Asia	1
AAG/Near East	1
AAG/Latin America	1