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**Audit of**
**Cost-Sharing by American Private**
**Voluntary Organizations Receiving**
**Assistance from USAID/Egypt**

**Audit Report No. 6-263-90-04**
**May 24, 1990**

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

May 24, 1990

**MEMORANDUM FOR D/USAID/Egypt, Marshall D. Brown**

**FROM : RIG/A/C, F. A. Kalhammer** Kalhammer

**SUBJECT: Audit of Cost-Sharing by American Private Voluntary Organizations Receiving Assistance from USAID/Egypt**

This report presents the results of audit of private voluntary organizations' (PVO) performance in compliance with A.I.D. policy and Mission Order 1-5 requirement that grants to private voluntary organizations fund not more than 75 percent of grant-activity budgets. The report was provided to you in draft and your comments are included as Appendix 1, which also includes our evaluation of certain comments. The report contains three recommendations of which Nos. 1 and 3(b) are considered resolved pending issuance of an amended Mission Order, and Nos. 2 and 3(a) are considered closed upon report issuance. Please advise us within 30 days of any additional information relating to actions planned or taken to implement the report. I appreciate the cooperation and courtesy extended to my staff during the audit.

## Background

In May 1989 USAID/Egypt was administering 14 active grants to seven U.S.-registered PVOs. The USAID had contributed Egyptian pounds (LE) under eight grant-funded activities and dollars, or a combination of LE and dollars, under six others. In total, USAID obligated LE7,002,037 1/ and $2,086,371 under the 14 grants.

1/ Approximately $2,786,170 at the rate of exchange in effect in May 1989.

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The Office of the Regional Inspector General for Audit/Cairo made an audit of USAID/Egypt's May 1989 portfolio 2/ of grants to seven U.S.-registered PVOs: American-Mideast Educational and Training Services, Inc. (AMIDEAST), Catholic Relief Services (CRS), Cooperative for American Relief Everywhere (CARE), Coptic Evangelical Organization for Social Services (CEOSS), Project HOPE, International Executive Service Corps (IESC), and Save the Children Federation (SAVE). The audit objectives were to determine whether:

- o USAID/Egypt limits its grant funding of PVOs to no more than 75 percent of the A.I.D.-supported activity budget;

- o PVO financial reporting indicated that USAID/Egypt and the PVOs were both contributing to the activity budget as agreed, their A.I.D.-funded activities were progressing as planned, and reported expenditures were supported by PVO accounting records; and

- o Any other pertinent matters required management attention.

The audit included a review of grant documents, the progress of grantee projects, costs reportedly incurred, and the PVOs' financial reports. PVO projects and offices in Cairo, Alexandria, South Sinai, and Minya were visited. Audit work was performed during the period May to December 1989.

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2/ Grants to Agricultural Cooperative Development International (ACDI) were not included in this review as ACDI had been audited in 1988 (Audit Report 6-263-88-11-N). That audit found that ACDI's contribution was insufficient to meet the minimum 25 percent required by Mission Order 1-5.

Tests of internal controls were limited to the procedures set forth in USAID/Egypt Mission Order No. 1-5. Nothing came to our attention, except as noted in this report regarding AMIDEAST and CEOSS, to indicate that the costs claimed by the PVOs we reviewed were not accurate. The audit was made in accordance with generally accepted government auditing standards.

## Results of Audit

Our audit found that two of the seven PVOs were not required to contribute 25 percent of their grant activity costs and that certain dollar costs of two PVOs were unsupported. For example, IESC and AMIDEAST, which had received two of the Mission's 14 active grants, had not reported contributions of 25 percent toward their two activity budgets. IESC had no cost-matching requirement. AMIDEAST had no matching requirement under its original grant, but 19 and 16 percent cost-sharing was required under additional grants provided in two subsequent years. Our review of reported AMIDEAST and IESC costs confirmed that they were not meeting the 25 percent of reported costs standard.

Additionally, our tests of costs reported by the seven PVOs for at least one grant each disclosed that:

- USAID should have the Coptic Evangelical Organization for Social Services (CEOSS): (1) furnish documentation as to how indirect salary costs were being computed, (2) document contingency costs reported, and (3) account for expended and unexpended grant revenues;

- certain costs reported by AMIDEAST could be allocated among other donors and not solely to USAID/Egypt.

USAID Mission Order 1-5 requires that A.I.D. grants to PVOs not fund more than 75 percent of the activity budget. OMB Circular A-110 requires that: (1) costs claimed by PVOs as meeting their share of the activity budget be verifiable to accounting records, and (2) revenues from the grant activities be used for grant purposes or deducted from the net costs on which the federal share is based. While OMB Circular A-110 does not technically apply to A.I.D. grants in Egypt, it does provide USG-accepted criteria applicable to grant costs. We therefore referred to it in evaluating costs claimed by grantees.

Exactly why USAID/Egypt had not required IESC and AMIDEAST to contribute at least 25 percent of their activity budgets could not be determined. The Mission had agreed to fund 100 and 87 percent of the respective grant dollars ($717,050) and Egyptian pounds (LE498,681) provided to IESC and AMIDEAST. However, it appeared that the Mission had simply failed to follow-up on the IESC grant clause stating that the PVO's share would be agreed to at a later date. In the case of AMIDEAST, neither the Mission PVO officer, the grant officer, nor the project officer had raised the issue of compliance with the cost-sharing requirements. Therefore, those responsible for implementing pertinent management controls were either unaware of their responsibilities under Mission Order No. 1-5, or simply failed to carry them out. The result is that the Mission would exceed its 75 percent funding limit, if the grants were to remain unamended.

CEOSS was unable to readily demonstrate exactly how it had arrived at its claimed indirect salary costs or to identify all grant revenues received, retained, and spent. However, CEOSS agreed to provide USAID with an accounting for such items. It had claimed overhead and contingency costs per rates established in the grant agreement without reference to actual overhead or contingency costs. The 10 percent overhead rate appeared to be reasonable, but CEOSS' 5 percent "contingency" costs could not be supported during the audit. AMIDEAST's charging of certain general operating expenses solely to USAID appeared to be unjustifiable.

Problems and delays were encountered by Catholic Relief Services (CRS) and SAVE because of unforeseen difficulties in obtaining Government of Egypt approvals and action under their grants. As a result, LE300,000 in CRS grant funds for an aquaculture project remained idle for more than 2 years and it was unclear whether the GOE would provide additional funds needed to complete the project. SAVE experienced difficulty implementing its grant activities as planned because the GOE's Central Agency for Public Mobilization and Statistics delayed giving SAVE approval to collect needed activity data.

(See Appendix 1, page 4, for the Mission's summary response to the audit report.)

## Discussion

**1. Two PVOs were not required to make 25 percent contributions.**

AMIDEAST - On January 29, 1987 USAID/Egypt granted AMIDEAST $29,050 and LE112,090 to cover its FY1987 operations. The grant was increased effective August 9, 1987 and September 29, 1988 by LE150,000 and LE169,481, respectively, to meet FY1988 and FY1989 expenditures.

Our review of AMIDEAST's reported grant costs showed that as of June 30, 1989 the grantee had contributed nothing in FY87, LE29,584 (19%) in FY88 and LE19,200 (16%) in FY89, as required by each grant. AMIDEAST's Country Director noted that USAID/Egypt had never required AMIDEAST to contribute 25 percent of project costs. The project and grant officers confirmed that no cost-sharing waiver had been obtained.

The project officer advised us that the grant officer was responsible for ensuring compliance with the Mission Order; the grant officer stated that it was the PVO officer's responsibility. The PVO officer stated that he had not seen the original grant prior to its execution but agreed that a waiver should have been obtained, if justified.

In conclusion, the internal control structure represented by the pertinent Mission Order was circumvented due to poor coordination between the different offices. Responsibility for ensuring compliance with the 25 percent cost-sharing requirement needs to be assigned to a specific official, and we recommend that individual be the Mission's PVO officer.

We tested costs AMIDEAST reported having funded itself, as well as those charged to the USAID grant. We found that the expenditures were supported but certain charges to the USAID grant should have been allocated among AMIDEAST's donors rather than to USAID only. These allocable charges included maintenance fees for a photocopier (LE898), general computer repairs (LE100), five office book shelves (LE2,330), and the printing of general office forms (LE2,910). 3/

IESC - USAID/Egypt provided a $373,909 grant to IESC in October 1988 and increased the grant to $688,000 in February 1989. The grant did not specify the grantee's share of program expenditures but did state that:

> "The amount of sharing will be determined by the Grant Officer and the Grantee representative prior to definitization." (sic)

And Optional Standard Provisions attached to the grant stated that: "the grantee agrees to expend from non-federal funds an amount at least equal to the percentage of the total expenditures under this grant specified in the schedule of the grant." The "schedule," however, did not specify any percentages, but mentioned USAID's share only.

We reviewed IESC's records and found that IESC did not report sharing any costs under its grant activities. We assume that this lack of reporting occurred because the grant was never "definitized" to require a specific cost-sharing percentage.

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3/ Because of the nominal amounts involved, we are not making a formal recommendation regarding this issue of cost allocability.

At the time of our audit neither the project officer nor the grant officer had taken any action to implement the incomplete cost-sharing provision. Consequently, we were unable to reach any conclusions about the grantee's compliance with cost-sharing provisions or whether, in fact, IESC was under any cost-sharing obligation. The grant officer planned to incorporate cost-sharing requirements in a subsequent grant planned for IESC.

> **Recommendation No. 1**
>
> We recommend that USAID/Egypt require its PVO officer's approval of all proposed PVO grants and that s/he be formally designated to ensure that the cost-sharing requirements set forth in USAID/Egypt Mission Order 1-5 be included in the provisions of each grant.

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**2. USAID needs to obtain further information from CEOSS on its claimed costs and use of grant-generated revenues.**

CEOSS was the recipient of three USAID/Egypt grants totaling LE674,689. CEOSS was to contribute LE305,443 or 31% of total costs. Exhibit 1 provides further details on these three grants. In summary, we found that CEOSS' reporting on its expenditure of grant funds was accurate and supported by accounting records. However, costs reported by CEOSS as its contribution were not traceable to accounting records. CEOSS was simply applying the rates estimated in the grant budget for overhead (10 percent) and contingency costs (5 percent). CEOSS was also allocating certain indirect salary costs to the project, but exactly what costs had been allocated or how they had been identified, was not documented.

We believe that, based on records reviewed at CEOSS, a 10 percent overhead rate is reasonable and CEOSS' indirect salary costs approximate those claimed. Nevertheless, CEOSS needs to document how it arrived at claimed indirect salary costs. Additionally, CEOSS was unable to show that it had incurred "contingency" costs or that any such costs were not already included in its overhead pool.

In addition to cost-sharing accounting problems, we also observed that CEOSS had been generating substantial revenues from the sale of USAID-financed commodities and animals but had never been required to report on, or account for, such revenues. CEOSS officials advised us that they would try to construct an accounting for USAID.

**Recommendation No. 2**

We recommend that USAID/Egypt:

(a) formally notify CEOSS that claimed contingency costs must be actual costs;

(b) request CEOSS to document actual contingency and indirect salary costs allocated to the grant; and

(c) obtain regular reports from CEOSS on grant revenues received and expended.

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**3. CRS and SAVE both encountered problems in obtaining Government of Egypt approvals and action on grant activities.**

The problems are summarized below and further details on the CRS situation are provided in Exhibit 2.

CRS - received a grant in August 1981 to develop an aquaculture project in conjunction with the Government of Egypt (GOE) near Alexandria, Egypt. Various problems and delays occurred, however, until in November 1987, USAID committed another LE300,000 to the project in order to finally complete construction by May 1989. At the completion of our field work in December 1989, no contract to initiate construction had been awarded and the LE300,000 remained unexpended.

CRS was unable to proceed or complete this project because responsibility for the management and award of a construction contract actually rested with the Government of Egypt (GOE). USAID had continued to allow the funds earmarked for this project to remain available because the GOE promised that it would initiate work to complete the project. The sustainability of the project now needs to be reassessed and, based on past GOE performance, additional commitments of USAID funds to it should probably be avoided. USAID needs to set a firm deadline for GOE action, or decommit the LE300,000 if the deadline is not met.

SAVE - USAID provided the Save the Children Federation (SAVE) a grant of LE497,168 in June 1988 to develop and train outreach workers (murshadat) who would collect data on general health problems. SAVE was appropriately accounting for the USAID grant funds and sharing in more than 25 percent of project costs but was unable to gather information or utilize outreach workers in a timely and effective manner. SAVE paid the workers a small fee for each resident visited, but retention of the developed workforce was contingent on residents' willingness to continue to support the workers by paying this fee.

SAVE had to defer and limit the data-gathering activities and divert workers' efforts to secondary activities such as the numbering of houses because the GOE's Central Agency for Public Mobilization and Statistics did not approve its proposed data gathering activities. As a result, at the time of our visit in July 1989, SAVE had not collected the data originally planned nor had it automated the data for evaluation. Furthermore, valuable time had been lost in demonstrating that the health workers offered a service that villagers would be willing to pay for.

SAVE had, in September 1988, requested approval of the data collection and specific forms for use in the campaign. At the time of our review, in July 1989, permission to proceed with the information gathering had not yet been received. Neither had SAVE automated the data it had collected. We have been advised that permission was finally received in October 1989.

In conclusion, lack of Government of Egypt approval delayed the achievement of the project objectives. Furthermore, the work force developed was unable to function as intended and prospects for its sustainability after grant funding ended were reduced. In projects of this type, USAID should require GOE approval prior to committing USAID funds.

**Recommendation No. 3**

We recommend that USAID/Egypt:

(a) advise CRS that unless the Government of Egypt awards a contract to build the aquaculture project improvements by April 30, 1990 LE300,000 in AID grant funding will be withdrawn; and

(b) incorporate in Mission Order 1-5 a requirement that PVO grantees proposing data gathering activities will have obtained the necessary approval of the Central Agency for Public Mobilization and Statistics before USAID funding is committed.

## Mission Comments

The Mission accepted the report recommendations except for parts of the first recommendation which has been modified to reflect the Mission's comments. The Mission also felt the revised Mission Order will require 25 percent funding and that, if AMIDEAST's total activity costs were computed, they would approach 25 percent.

The Mission agreed that it did not comply with the Mission Order limit of 75 percent funding with regard to IESC and AMIDEAST. However, the Mission noted that the value of certain IESC and AMIDEAST costs had not been properly computed in estimating total grant costs. The Mission concluded that since such costs were not properly computed, the actual percentage of cost funded by USAID could not be determined. The Mission further noted that the report was unclear as to whether the auditors had done sufficient work to determine if AMIDEAST had incurred grant costs and if all costs allocated to the grant had been identified by AMIDEAST. The Mission therefore suggested that, unless such work was done, the report not include conclusions regarding AMIDEAST's cost-sharing.

With respect to CEOSS's claiming contingency costs based on a flat rate, the Mission advised us in May 1990 that CEOSS' contingency costs actually exceeded the 5% rate claimed, and that the costs claimed can be supported with appropriate documentation, although this had not been verified.

The Mission argued that the LE300,000 for the CRS fish breeding project did not "remain idle" as they were merely reserved and not transferred to CRS.

The full text of USAID/Egypt's comments is at Appendix 1.

## RIG/A/C's Response

Recommendation No. 1 was modified based on the Mission's comments that the 25 percent funding level would apply to future AMIDEAST grants unless waived. We disagree with the Mission's contention that the auditors were responsible for identifying costs which neither the grantee nor USAID had identified as grant-related. Our audit did review all AMIDEAST vouchers and expense records for the period October 1986 through January 1989 (Vouchers 1 to 20). Based on these grantee-identified costs, USAID and AMIDEAST shares were: USAID $25,972 and LE333,305 and AMIDEAST LE48,784. USAID funded 100 percent of the dollar costs and 87 percent of the LE costs. Therefore USAID was funding more than 75 percent of the grant costs. While we acknowledge it is possible that a grantee might not identify all its grant costs, it is not the function of audit staff to reconstruct grantee records.

We were unable to verify whether or not CEOSS can now support claimed contingency costs which it was unable to support during our three visits to its offices.

Although the Mission had not actually transferred LE300,000 to the CRS fish project, the funds nevertheless remained idle and unavailable for other uses.

# AUDIT OF
# COST-SHARING BY AMERICAN PRIVATE VOLUNTARY ORGANIZATIONS RECEIVING ASSISTANCE FROM USAID/EGYPT

## EXHIBITS AND APPENDICES

## CEOSS' Accounting for Its Share of Costs and Its Use of Grant Revenues Is Needed

In October 1988 USAID approved three grants to CEOSS totaling LE674,689 for agriculture extension, rabbit-raising and a cattle-breeding projects. The three activities were to operate for a three-year period starting January 1, 1988. The budgets for the projects provided for CEOSS to fund approximately 31 percent of the activities' total costs. CEOSS was to fund staff salaries, consultants, evaluations, overhead and contingencies. The respective budgeted costs for USAID and CEOSS are shown below:

Three-Year Approved CEOSS Grant Budgets (LE)

| Grant Description | USAID | CEOSS | Total |
|---|---|---|---|
| Agriculture Extension | LE309,016 | LE4,090 | LE473,106 |
| Cattle Breeding | 230,182 | 80,602 | 310,784 |
| Rabbit Raising | 135,491 | 60,751 | 196,242 |
| Total | LE674,689 | LE305,443 | LE980,132 |
| % of Total | 69% | 31% | 100% |

We obtained the financial reports submitted by CEOSS for the period January 1988 through December 1988 to determine if CEOSS was sharing in costs as agreed. We found that CEOSS claimed LE91,920 in costs for USAID grant funding and reported LE44,145 in salaries, overhead, and contingency costs as CEOSS-funded.

We reviewed CEOSS' accounting records and tested various reported costs to supporting receipts. We found that the LE91,911 CEOSS had reported as USAID-funded costs were supported with appropriate records and documentation. LE44,145 which CEOSS reported as having funded itself --- salary (26,400), overhead (11,830), and contingency costs (5,915) --- were not, however, traceable to specific records.

We found that for CY1988 CEOSS had reported overhead and contingency costs as 10 percent and 5 percent of the actual cost claimed for USAID reimbursement plus the CEOSS funded salary costs. For example, the USAID costs (LE91,920) and CEOSS funded salary costs (LE26,400) for CY 1988 amounted to LE118,320. CEOSS therefore reported overhead and contingency costs funded by itself as LE11,832 (10%) and LE5,915 (5%) respectively.

On May 23, 1989 CEOSS advised the USAID PVO Officer that contingency costs reported for CY1988 had included costs for items such as premature chick or rabbit deaths and the rising cost of cattle, feed, and medicines. We were unable to obtain any documentation on these costs, however, and were advised that the reported costs represented the application of the rates noted earlier.

CEOSS did show us various operating accounts that contained overhead costs that could be allocated to grants. Based on these accounts we concluded that the 10 percent overhead rate is reasonable. CEOSS did not have an established procedure for distributing overhead to the grant-funded program. The CEOSS Deputy General Director for Development Programs could not readily show us how indirect salary costs were allocated to the grant. However, he agreed to provide USAID with an explanation of the process. Based on actual salary records and the accountants' identification of individuals who work on the CEOSS projects, we concluded that the claimed costs for salaries were reasonable estimates. Nevertheless, the methodology used by CEOSS to actually allocate salaries to the USAID projects should be documented as suggested in OMB Circular A-110.

In conclusion, while CEOSS' reported expenditures of USAID funds are supportable, CEOSS' reported contingency costs could not be traceable to verifiable records and CEOSS' computation of indirect salary was not documented.

The three USAID grants to the Coptic Evangelical Organization for Social Services (CEOSS) generated revenues that, if used for grant activities, would have greatly increased the sustainability of the grant activities and the benefits produced. OMB Circular A-110 states that revenues generated from grant agreements should be used for grant purposes or deducted from the net cost on which the federal share is based. Additionally, one of the primary concerns in designing a grant should be leaving in place a functioning capacity to manage, fund, maintain and operate the grant-supported activity in the future. One of the grant agreements suggested that revenues from the grant be used to establish a revolving fund but no reporting revenues was required. As a result, USAID is uncertain that grant revenues were used for grant purposes, as required by OMB Circular A-110.

CEOSS received three AID grants for: an agriculture extension program, a cattle-breeding activity, and a rabbit-raising activity. The cattle-breeding and the rabbit-raising activities involved the sale of animals, medicines and feed that were initially financed by USAID.

The cattle-raising project involved USAID's funding of cattle (bulls), water buffalo and goats which CEOSS sold to farmers. In 1988, CEOSS purchased 12 bulls, 7 goats, and a water buffalo for LE20,900. Seven of the bulls were purchased from CEOSS's Princeat farm in Minya. CEOSS purchased the animals with grant monies and sold them to farmers for approximately half the same amount. In effect, CEOSS generated net sales proceeds of LE10,450. Similar sales proceeds will accrue to CEOSS in 1989 and 1990. The agreement does not stipulate that the proceeds be used for any particular purpose nor does it requires any accounting on the use.

The rabbit-raising project was similar to the cattle-breeding project except that instead of cattle, CEOSS was to sell rabbit cages and rabbits to farmers. CEOSS would manufacture a cage designed to house a buck rabbit and three females. CEOSS would purchase the rabbits and cages from its subsidiary Princeat Farm, bill USAID for the cost, and then sell the cages and rabbits to farmers.

During 1988 CEOSS spent LE4,020 on 56 rabbits and 18 cages. These were sold to 18 farmers on credit terms at approximately cost. However, when mortality rates hit an unexpected 60 percent in 1989, the project was terminated and amounts due from 10 of 18 farmers forgiven. Eight loans to farmers, at the end of 1988, were still carried on CEOSS' books as accounts receivable. CEOSS therefore recovered all of its costs on the rabbits and cages, and made some gain from sales to farmers.

In 1989, the rabbit-raising project was revised in concept to one furnishing chicks to families. In this case, CEOSS would solicit orders for chicks from people in target communities, draw up a contract for the chicks, obtain prepayment from the customer, purchase the chicks from a GOE or private source, and arrange for delivery and distribution of the chicks. CEOSS charged the farmers slightly less than cost. In addition, CEOSS purchased feed in bulk from 2 sources and sold it to the chick purchasers. The feed was sold at approximately 50% of cost.

The cost of the chicks and feed were billed to the USAID grant. The net sales proceeds to CEOSS amounted to sales prices to the farmers. In the case of chicks, the profit amounted to about 85 percent of the chick costs, and in the case of feed, to fifty percent of cost. During the period January to June, 1989, CEOSS reported chick and feed costs of LE35,825 and LE15,675, respectively.

Both the cattle and the rabbit/chick-raising projects also involved the sale of medicines. The medicines were billed to the USAID grant at cost and then resold to farmers at 50 percent of cost. From January 1988 to June 1989 CEOSS reported medicine costs of LE8,275.

In conclusion, the two grant activities were generating substantial revenues from the sale of USAID-financed animals, medicines, and feed. USAID did not know if or how CEOSS used these revenues because USAID did not monitor the use of these funds and required no reporting on their use. We were subsequently advised by CEOSS staff that they have in fact been using the revenues for project purposes. However, CEOSS needed to review its accounting records and identify exactly what revenues were generated, how much was spent on project purposes, and what amounts remain unexpended. The CEOSS staff agreed to develop such reporting for USAID.

## Questionable Continuation of AID Support for a Long-Delayed CRS-Sponsored Aquaculture Project

USAID funds for a Catholic Relief Services (CRS) aquaculture project went unused for two years. USAID increased a grant to CRS by LE300,000 in November 1987 to complete construction of a fish breeding project by May 1989. The source of A.I.D. funding was the Mission's FT-800 (program trust funds) account. USAID funds went unused because CRS' co-sponsor, the Government of Egypt (GOE), failed to award a contract to build project improvements. As a result, more than LE1 million previously spent by USAID on the fish ponds did not result in the realization of intended fish production goals, the concept of intensive fish-breeding was not demonstrated to be effective, LE300,000 in USAID funds remained idle, and CRS spent numerous man-hours trying to implement a project which it lacked the authority to control.

USAID/Egypt became involved with the CRS fish-breeding project in August, 1981, when it agreed to provide LE302,000 to CRS to upgrade an existing GOE fish farm at Lake Mariut near Alexandria. USAID was to provide 40 percent of the project cost and the GOE LE453,000, or 60 percent. CRS would perform inspections of the project, evaluate progress, and submit reports on progress to USAID.

After work was initiated the original site of the fish farm was abandoned the project was moved to another area. This resulting in increased costs to prepare a new site, construct new fish ponds, etc. By October, 1983 USAID had committed LE1,058,000 to the project and agreed to fund 50 percent of project cost. The increased budget eventually proved inadequate to complete the project and, in December 1987, USAID agreed to provide another LE300,000. The project completion date was extended to May 30, 1989.

At the end of 1989 none of the LE300,000 committed by USAID in December 1987 had been used because the GOE had not awarded a contract for project improvements. The GOE had solicited bids for the contract and supposedly was still attempting to negotiate a lower bid price. If the GOE cannot obtain a lower bid price, it will need to commit an additional LE500,000 to the project to award the contract.

In our opinion, the cost-benefits of this project need to be reviewed in detail before any additional USAID funding is considered. At present, we have been advised that annual production is only about 1/3 ton per feddan* versus the project goal of 1 ton per feddan. The fish are sold below market prices to the Government's Food Security Authority (Alexandria), which in turn sells the fish at discount prices. Consequently, the project supports subsidized public sector food production and resale operations.

In conclusion, the project has thus far failed to accomplish its objectives, is years behind schedule, and the GOE's ability or willingness to proceed with the project and invest another LE500,000 into it seems to be in doubt. Additionally, USAID's objectives of encouraging private enterprise and reducing subsidized public sector production seem to be in conflict with the very nature of this project. USAID needs to set a firm date by which to withdraw from the project if the GOE fails to award a contract for improvements.

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* An area equal to slightly more than an acre.

RECEIVED
07 MAY 1990

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

MAY 6 1990



M E M O R A N D U M

TO: Frederick A. Kalhammer, RIG/A

FROM: Marshall D. Brown, Mission Director

SUBJECT: Draft Audit Report - Cost Sharing Required of U.S. Private Voluntary Organizations (PVOs)

Attached is our response to subject draft audit report. Annex 1, contains our comments that should be placed in the executive summary. Annex 2 contains our specific comments on wording of the draft. 1/

Recommendation No. 1:

USAID accepts this recommendation. USAID will take the following action to implement Recommendation No. 1(a). No clarification is required for 1(b) or 1 (c). 2/

a. USAID will issue a Staff Notice reminding all concerned of the following:

   (1) the cost-sharing requirement set forth in M.O. 1-5;

   (2) the PVO Officer should be on the project committee for all PVO activities. The Grant Officer will not issue a grant in the absence of the clearance of the PVO Officer; and

   (3) list all the AID-registered PVOs working in Egypt and doing business with USAID/Egypt.

Recommendation No. 2: 3/

a. USAID/Egypt has accepted this recommendation. This audit finding has been discussed with CEOSS. Through its letter dated November 10, 1989 (see copy attached), CEOSS informed RIG/A/C that it had discontinued applying the contingency rates estimated in the grant budget which were not traceable to accounting records beginning in calendar year 1989.

Accordingly, since 1989, the contingency line item has only been used to fund expenses that were incurred and appropriately chargeable to the contingency line item. USAID's PVO Officer shall formally notify CEOSS of this fact;

b. CEOSS has been requested to document actual contingency and indirect salary costs allocated to the grant and has agreed to do so. Again, they will be formally notified; and

c. USAID has requested CEOSS to prepare and submit annual reports on grant revenues received and expended. CEOSS is currently preparing the first such report. USAID has formally requested CEOSS to prepare and submit the first such report before May 20, 1990. (See letter of April 30, 1990, attached)

Recommendation No. 3:

USAID/Egypt accepts this recommendation. The following is the disposition of recommended actions, the first two of which have already been met and should therefore be closed upon issuance of the final audit report:

a. CRS has already been notified (by USAID letter dated March 18, 1990; copy attached) that USAID plans to make available to CRS the unexpended balance of funds committed under Grant No. 263-FT-G-00-1053-00 subject to the performance of the following actions before April 30, 1990:

   (1) The Governorate of Alexandria (GOA) has deposited in the activity account the balance (LE 592,116.24) of the value of the contract for additional construction work (LE 892,116.24):

   (2) GOA has awarded the contract; and

   (3) The additional construction work has in fact started.

b. CRS was informed in the same letter that USAID will neither commit additional funds to this activity nor further extend its completion date beyond March 31, 1991. (copy attached.)

c. Pending revision of M.O. 1-5, a Staff Notice (the same one discussed in USAID's response to Recommendation # 1.a. above) will inform USAID staff of the new requirement that PVO grantees proposing data gathering activities obtain necessary approval of the Central Agency for Public Mobilization and Statistics before USAID funding is committed.

Att: a/s above

We appreciate the opportunity to respond to this draft audit report. We believe that the recommendations are reasonable and will help the Mission in its efforts to better manage PVO activities.

While the grant agreements for AMIDEAST and IESC were deficient in that they did not appropriately address the 25 percent non USG contribution, we do believe that the actual contributions were substantial. For instance, IESC a PVO, implementing USAID's important private sector agenda, provides private sector companies in Egypt valuable technical assistance through its volunteers. The companies are required to share in the cost of each activity undertaken by IESC based on their ability to pay. This contribution together with the fair market value of the volunteer's time, we believe, would have by far exceeded 25 percent of the total grant cost. AMIDEAST, on the other hand provides an extremely valuable counselling service to Egyptian students desirous of studying in the U.S., in addition to administering the Test of English as a Foreign Language exam. While AMIDEAST's basic functions, which are extremely important to USAID in implementing its development training agenda, may have qualified them for a waiver from the 25 percent requirement, it must be noted that had the total costs of the AMIDEAST activity been computed, AMIDEAST's contribution would have approached 25 percent.

The problems faced by CRS and SAVE, not usually covered under a compliance audit, needs some clarification. The USAID funded SAVE activity called for conducting a survey. Statistical data gathering is restricted by Egyptian law (not uniformly enforced at the time of the grant) to CAPMAS. SAVE was unable to obtain the required waiver as anticipated resulting in unforeseen implementation delays. USAID will require appropriate waivers prior to providing grants for similar activities in the future. CRS encountered delays in obtaining adequate funds from the governorate, which impeded timely implementation of grant activities. These kinds of problems are occasionally encountered in implementing developmental projects in cash strapped third world economies, and CRS, a donor with significant experience in this arena, chose to persevere. It may be noted that this perseverance has bourne fruit, the money has now been made available.

SPECIFIC COMMENTS

Page 3, Last para: "The audit was made in accordance with generally accepted government audit standards." This report, in our opinion, is based on an exception reporting standard. Accordingly, it does not meet the second supplemental reporting standard for government financial audits. Therefore, we believe that this statement should be modified so as not to mislead a user. 4/

Page 4, Para 1: "had not contributed at least 25 percent of their two activity budgets." If audit work has been performed to substantiate this statement we believe the report should state what was done and provide an attachment showing the computation. If the work was not done to support this statement, then the report should say for instance that the grants did not require a contribution. 5/

Page 4, last Para: "OMB Circular A-110 ..... federal share is based." The audit objectives do not purport to review compliance with OMB Circular A-110. Furthermore, we do not believe that OMB Circular A-110 applies in this case. Accordingly, we believe that reference to it tends to mislead a reader, and therefore, that it should be eliminated. 6/

Page 5, Para 2: "The result was that the Mission exceeded its 75 percent funding limit."

We do not believe that there is adequate evidential matter to assert that the Mission exceeded its 75 percent funding limit in the case of IESC or AMIDEAST. The Mission was deficient in that it did not comply with the Mission Order, and furthermore, may not have computed appropriately the total activity costs. For instance, the fair market value of IESC volunteer's time or the contribution made to IESC activities by the companies was not reflected as a part of the total grant cost. In the case of the AMIDEAST grant, costs such as the Resident Director's salary and support costs, rent on office space etc. were not included in the total grant cost.

Page 5, Para 2: "It funded 100 and 87 percent ..... AMIDEAST."

USAID actually agreed to fund 100 and 87 percent of the estimated project costs. USAID funded 100 percent of the grant dollars and Egyptian pounds. What USAID actually funded as a percentage of the total grant cannot be readily determined given the information available.

Page 6, para 2: "As a result, LE 300,000 in CRS grant funds remained idle for more ..... activities as planned." This statement again, misleads a reader. The LE 300,000 was not transferred to CRS. In fact, the initial advance was recovered by USAID, when it was determined that the counterpart contributions were not forthcoming as planned. The LE 300,000 was in reality a reservation of funds. As such, the funds did not "remain idle." 7/

Page 8, Para 2: "Our review of AMIDEAST's ...... by the grant." As no contribution was required under the 1987 grant, no reports were submitted by AMIDEAST either. It appears that the auditors did not do any field work to determine if the grantee had in fact incurred any costs with respect to performing the grant function or to determine if all costs allocable to the grant had been appropriately identified. Absent this field work, we believe the audit conclusions should be restricted to the findings which emanate from the stated objective of compliance with the Mission Order.

## RIG/A/C's Evaluation of Selected Mission Comments

1/ Amended USAID/Egypt Mission Order 19-8 entitled "Federal Audit Program," reissued on May 7, 1990, at Section VII H. (Federal Audit Report) clearly distinguishes between "Standard" and "Memorandum" type audit reports. The draft report provided to the Mission was in Memorandum format, which does not include an Executive Summary. Thus, the Mission's proposed addendum to the non-existent summary has been retained as part of its overall response to the report in this Appendix and referred to at the end of the "Results of Audit" section (page 5).

2/ The recommendation has been amended to reflect the Mission's comments.

3/ Information on CEOSS' contingency costs provided by the cognizant project officer after receipt of the Mission's formal comments has been included in the report, although it had not been verified on the date of report issuance.

4/ It is true that this audit was begun several months ago under an exception reporting approach that the A.I.D. Inspector General will not dispense with until 1 October 1990. Nevertheless, revised GAO standards provide a wide degree of flexibility and judgment to be exercised in approaching an audit. In this case, for example, what appears to be a financial related subject can also be viewed as a performance audit, as both the report's title, much of the subject matter in the text, and Exhibits 1 and 2 would indicate. Thus, the Mission's view that it has received a "government financial audit" and that applicable auditing standards were not complied with is not shared by RIG/A/Cairo.

5/ The Mission's comment would imply that if a cost was not booked or reported by a grantee, it is incumbent upon audit staff to identify any potentially unrecorded costs. Just as it is a standard provision of all Federal grants that the grantee maintain adequate books and records, so too is it standard IG audit policy not to reconstruct the records of A.I.D. recipients. (applies to other comments also)

6/ The text of the final report has been amended to note that OMB Circular A-110 does not necessarily apply to the Agency's activities overseas.

7/ It would be our view that funds 'reserved' for the period of time discussed in this case are indeed funds idled, regardless of the custody of those funds.

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT



April 30, 1990

Dr. Nabil Samuel
Director
Comprehensive Development Program
CEOSS, Minia

Dear Mr. Samuel:

As you know, the office of the Regional Inspector General for Audit/Cairo has recently audited USAID/Egypt's compliance with the requirment that PVO grantees secure 25% or more of the total cost of an activity from non-U.S. Government sources. The draft report has now been issued, and in implementing the recommendation pertaining to CEOSS, discussed with you earlier, we are formally notifying CEOSS of practices which should be abided by in the future. These are:

1. Contingency costs claimed by CEOSS have to be actual costs;

2. Contingency costs and indirect salary costs allocated to USAID grants should be documented; and

3. CEOSS should provide USAID with regular reports on grant revenues received and expended. Reports on grant revenues for the three ongoing USAID grants to CEOSS should be prepared and submitted as soon as possible, but not later than May 20, 1990.

Please do not hesitate to contact me if you have any questions on the issues raised above.

Sincerely,

Karim Gohar
PVO Officer
Program Development & Support Directorate

March 18, 1990

Ms. Andrea Collins
Acting Program Director
CRS
13 Ibrahim Naguib Street
Garden City
Cairo, Egypt

**Subject:** Grant # 263-FT-G-00-1053-00 "Lake Maryut Intensive Fish Culture Activity"

**Ref.:** CRS's ltr. dtd. March 14, 1990

Dear Ms. Collins:

Modification # 09 to the subject grant extended the completion date of the grant to May 31, 1990 with the stipulation that if the additional construction work required under the grant was not started and verified in writing by October 5, 1989, the grant would be terminated.

This is to formally notify you that instead of terminating the grant, USAID plans to (1) extend the completion date of the grant to March 31, 1991, and (2) make available to CRS the unexpended balance of funds committed under the grant in the amount of LE 326,757.87 to be used for the purposes designated in Modification # 08. This, however, is subject to performing, and verifying in writing the performance of, the following actions before April 30, 1990:

1. The Governorate of Alexandria has deposited in the activity account LE 592,116.24 representing the balance of the full value (LE 892,116.24) of the contract for additional construction work;

2. The Governorate of Alexandria has awarded a contract to perform the additional construction work described in Modification # 08 to this grant; and

3. The additional construction work has in fact started in the project site.

21

Please note and inform the Governorate that USAID (1) will not commit any additional funds to this activity, and (2) will not extend the completion date of this grant beyond March 31, 1991.

We wish you the best in bringing this activity to its successful completion.

Sincerely,

Karim Gohar
PVO Officer
Program Development &
Support Directorate

il Samuel
ector, Comprehensive Development Programs

نبيل صموئيل
مدير قطاع برامج التنمية الشاملة

01085



Minia, November 10, 1989

Kom

PDS RIG/A

12/7

11/30/89

ir. Francis K. Buige
udit Manager
ffice of the Inspector General
.S.A.I.D.
airo Center Building
airo

ear Mr. Buige,

n reference to our recent meeting and the points for which you equested clarification, please note the following:

1. Reported expenses for "contingency": In the 1988 financial report, contingency was automatically reported at five percent, based on the terms of the funding proposal. However, since the beginning of 1989, we have been reporting only the actual costs expended on unexpected project complications, e.g. April - June, £.E. 46 to repair a milk separator. The remaining budgeted funds for "contingency" will be applied to unexpected costs in other areas of the total agriculture program.

2. Reported expenses for "overhead": Refer to corrected financial reports for April - June which were enclosed with the third quarter financial reports, showing "overhead" expenses at ten percent.

3. Reported expenses for salaries: Extension staff who work solely in the three funded programs receive their full salaries from the program budgets. Other staff who work only parttime in these programs receive a percentage of their salaries from the program budgets, as determined by the CEOSS administration.

4. Budget items in U.S. dollars: These items are being funded by a grant from the Near East Foundation, which is rendered in dollars.

hank you for your work on these projects, and please let me know if can be of any further assistance.

ith best regards,

Sincerely,

Nabil

Nabil Samuel
Deputy to the
General Director

c: Reverend Dr. Samuel Habib
Mr. Karim Gohar, PVO Officer
Program Development & Support
Mrs. Laila Antone

Rec'd cll 11/26/89

APPENDIX 2

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