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Regional Inspector General for Audit
Cairo, Egypt

Audit of USAID/Egypt's Fiscal Years 1989, 1990 and 1991 Cash Transfers. Grants # 263-K-619, 263-K-622 and 263-K-623

Report No. 6-263-92-02
February 20, 1992

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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

February 20, 1992

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford

FROM : RIG/A/C, Philippe L. Darcy

SUBJECT: Audit of USAID/Egypt's Fiscal Years 1989, 1990 and 1991 Cash Transfers. Grants # 263-K-619, 263-K-622 and 263-K-623.

Enclosed are ten copies of the subject report. There are no recommendations resulting from this audit. We appreciate the cooperation and courtesies extended to our staff during the audit.

Background

Since 1984, the U.S. Government has transferred about $1.4 billion to provide immediate relief for Egypt's urgent foreign exchange needs. AID/W defines cash transfers as the furnishing of rapid-disbursing balance of payments assistance on a cash basis to a recipient in furtherance of United States national security, economic and developmental objectives. Cash Transfers proceeds can be used for purchasing U.S. source and origin commodities, and servicing debts to the U.S. Government.

Fiscal Years 1989, 1990, and 1991 Cash Transfers proceeds were deposited in Citibank/Cairo for the account of the Central Bank of Egypt, by either wire transfers or U.S. Treasury checks, in separate interest-bearing "Special Investment Accounts." As of July 31, 1991, from the $396.5 million available, $277 million were used to repay GOE debts and $23.7 million to purchase corn. A complete breakdown of the three grants is included as Appendix V.

On July 9, 1990, RIG/A/C issued Audit Report No. 6-263-90-07, Audit of USAID/Egypt's Fiscal Year 1988 Cash Transfer Grant No. 263-K-617. The audit reported that (1) the Government of Egypt managed and USAID/Egypt monitored the dollar deposit and disbursement in accordance with the applicable agreement, and (2) the GOE established a separate local currency account and deposited in it the Egyptian pound equivalent in accordance with the applicable agreement.

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Audit Objectives

The audit objectives sought to answer the following:

1. Did USAID/Egypt comply with A.I.D.'s policies and procedures, and the Grant Agreements in the deposit, control, and use of cash transfer proceeds? and,

2. Did USAID/Egypt ensure that the GOE generated, deposited, and reported local currency in compliance with applicable laws, regulations, policies and the terms of the Grant Agreements?

In answering these objectives, we tested whether USAID/Egypt: (1) followed applicable internal control procedures, and (2) complied with certain provisions of laws, regulations, and grant terms. Our tests were sufficient to provide reasonable, but not absolute, assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. Our discussion of the scope and methodology for this audit is at Appendix I, and our reports on in internal controls and compliance are at Appendices III and IV, respectively.

Audit Findings

We were unable to fully answer the objectives because USAID/Egypt has declined to provide us written representation concerning information which we consider to be essential in order to render a complete and professional opinion. For example, USAID/Egypt management would not confirm to the best of its knowledge and belief that:

- it had provided us with all the essential information,
- the information it did provide us was accurate and complete, and
- it had followed A.I.D.'s policies.

(A complete description of the essential information that USAID/Egypt would not provide or confirm is included in the Scope and Methodology section of this report.)

Without these confirmations from USAID/Egypt, we cannot fully determine if USAID/Egypt did what it is required to do. Without such confirmations, we cannot state positively that USAID/Egypt has followed A.I.D. policies and procedures since USAID/Egypt, itself, would not make such a statement. However, based on the

information that USAID/Egypt did provide to us and the tests that we were able to perform, no problem areas came to our attention other than USAID/Egypt's refusal to confirm essential information about its own operations.

Did USAID/Egypt comply with A.I.D.'s policies and procedures, and the Grant Agreements in the deposit, control, and use of cash transfer proceeds?

As discussed above, we cannot fully answer this objective. The Mission records, however, showed that USAID/Egypt handled cash transfer proceeds as follows:

Accounting for the Dollars - According to A.I.D.'s policy and the Grant Agreements, cash transfer dollars from each grant must be deposited in a separate interest bearing bank account into which no other funds from any source whatever, with the exception of interest earned, may be deposited or otherwise co-mingled. Mission records showed that Citibank/Cairo established a separate account for each grant, and any interest earned thereon. Daily reports and monthly statements to Central Bank of Egypt, with copies to USAID/Egypt, showed that the cash transfer dollars were deposited either on the same day of signing the grant Agreement or the day after, and interest was credited to the account on a daily (overnight) basis.

Using the Dollars - The agreements allow the GOE to use cash transfer dollars to purchase equipment or commodities of U.S. source and origin; to repay GOE debt owed to or guaranteed by the United States of America; and/or such other uses as agreed to, in writing, by the Parties. Mission records showed that all debt paid and commodities purchased met the eligibility requirements set forth in the cash transfer agreements, as discussed below:

> Debt payments totalling $277 million as of July 31, 1991 were for two eligible purposes: (1) PL 480 loans, $110.4 million; and (2) commercial banks, $166.6 million. Payments were verified at USAID/Egypt through copies of vouchers or other evidence of payment which described the nature of debt being paid, by loan or project number; title and/or purpose; payee bank and account number; and in some cases a confirmation from the payee's bank that payment has been received.

The GOE used $23.7 million to purchase about 210,869 metric ton of yellow corn. Documents available in USAID/Egypt's Financial Management files indicated that corn purchased was of U.S. source and origin to ensure compliance with the agreement's terms.

Did USAID/Egypt ensure that the GOE generated, deposited, and reported local currency in compliance with applicable laws, regulations, policies and the terms of the Grant Agreements?

As discussed earlier, we cannot fully answer this audit objective. The Mission records showed that while no cash transfer proceeds from Grant No. 263-K-619 and No. 263-K-623 were used to purchase equipment or commodities, as of July 31, 1991, $23.7 million from Grant No. 263-K-622 were used to purchase yellow corn. The records also showed that the GOE established a separate account and deposited about LE67 million which is the local currency equivalent to the value of corn at the highest rate of exchange prevailing at the time the dollars were used. Appendix VI includes full details of the above.

Management Comments and Our Evaluation

In their response to the draft report, USAID/Egypt stated that they agree with the report findings, and do not have any comments. The full text of their response is included as Appendix II.

SCOPE AND METHODOLOGY

Scope

We audited USAID/Egypt's Fiscal Years 1989, 1990, and 1991 cash transfers in accordance with generally accepted government auditing standards.

Government Auditing Standards require that we request cognizant A.I.D. managers to furnish written representation that they have provided the Office of the Inspector General, to the best of their knowledge and belief, with all essential information needed to render an opinion on the adequacy of internal controls and compliance with applicable laws and regulations. We requested USAID/Egypt's management to furnish written representation with regard to this audit assignment. The Director of USAID/Egypt has declined to provide written representation for any audit until (1) resolution of a current unfair labor practice complaint filed by the Association of Foreign Service which apparently arose out of the initiation by the Inspector General of the letter of representation policy, and (2) receipt of final Agency guidelines to the field concerning the letter of representation policy. The information that USAID/Egypt managers would not confirm in writing, to the best of their knowledge and belief, follows:

1. whether they are responsible for the internal control system, compliance with applicable laws and regulations, and the fairness and accuracy of the accounting and management information for the organization;

2. whether they have provided us with all the financial and management information associated with the activity or function under audit;

3. whether they know of any irregularities in the activity;

4. whether they know of any material instances where financial or management information have not been properly or accurately recorded and reported;

5. whether they are aware of any instances of noncompliance with A.I.D. policies and procedures or violations of laws or regulations;

6. whether they have complied with contractual agreements, and

7. whether they know of any events subsequent to the period under audit that could affect the above representations.

The answers to the above types of questions are so fundamental to the basic concepts of auditing that it is not possible to render a positive opinion without them. Thus, if managers will not answer these basic questions and will not confirm their answers in writing through a representation letter, then we cannot risk giving a positive opinion.

We conducted the audit from July 16, 1991 to October 14, 1991 using as our criteria the policies and procedures set forth by A.I.D., and agreed to by the Government of Egypt in the pertinent agreements to handle the $393 million plus the interest earned thereon, from the date of deposit of cash transfers dollars through July 31, 1991. We also reviewed the GOE's deposit of local currency. Our audit was conducted in USAID/Egypt's offices of Program and Financial Management.

Methodology

To conduct our audit, we reviewed pertinent records available at USAID/Egypt and discussed these matters with Financial Management and Program officials. We reviewed Agency guidance, the cash transfers grant agreements, the program assistance approval document, program implementation letters, bank statements and monthly reports to USAID/Egypt, commodity invoices, daily official rate of exchange, and certificates of source and origin.

From the above, we verified whether the different parties had: (1) established separate accounts for the cash transfers dollars, (2) earned interest and credited it to the account, (3) used cash timely, and for eligible purposes only, and (4) deposited local currency in a separate local account at the appropriate rate of exchange.

APPENDIX II

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

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RECEIVED
7 NOV 1991

MEMORANDUM

TO: Philippe Darcy, RIG/A/C

FROM: George A. Wachtenheim, D/DIR

SUBJECT: Audit of USAID/Egypt's Fiscal Years 1989, 1990 and 1991 Cash Transfers Grant Nos. 263-K-619, 263-K-622, and 263-K-623

Mission has reviewed the draft report on the subject audit. We agree with RIG/A/C findings and therefore, have no Mission comments to be incorporated into the final audit report.

REPORT ON INTERNAL CONTROLS

This section of the report provides a summary of our assessment of internal controls for the two audit objectives.

Scope of Our Internal Control

We have audited USAID/Egypt's management of the Fiscal Years 1989, 1990 and 1991 cash transfers during the period July 16, 1991 to October 14, 1991, and have issued our report thereon dated February 20, 1992.

We conducted our audit in accordance with generally accepted government auditing standards, except that management would not provide us with a representation letter confirming, among other things, its responsibility for the internal controls related to the audit objective or confirming whether or not there were any instances of noncompliance with A.I.D. policies and procedures or whether or not it had provided us with all the information related to cash transfers.

Management's refusal to make such representations constitutes a limitation on the scope of the audit and is sufficient to preclude an unqualified conclusion on the reliability of the internal controls related to the audit objective. (A complete description of the representations that USAID/Egypt would not make is provided in the Scope and Methodology section of this report.)

Generally accepted government auditing standards require that we plan and perform the audit to fairly, objectively, and reliably answer the objectives of the audit. Those standards also require that we:

- assess the applicable internal controls when necessary to satisfy the audit objectives, and
- report on internal controls, the scope of our work, and any significant weaknesses found during the audit.

In planning and performing the audit, we considered A.I.D.'s internal control structure to determine our auditing procedures in order to answer each of the two audit objectives, but not provide assurance on the internal control structure.

General Background on Internal Controls

The management of A.I.D., including USAID/Egypt, is responsible for establishing and maintaining an internal control structure. Recognizing the need to reemphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Manager's Financial Integrity Act (FMFIA) in September 1982. This act, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers, as delegated, legally responsible for establishing and maintaining adequate controls. The General Accounting Office (GAO) has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

In response to the FMFIA, the Office of Management and Budget (OMB) has issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government." According to these guidelines, management is required to assess the expected benefits versus related costs of internal control policies and procedures. The objectives of internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable, but not absolute, assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky given that conditions may change or the system itself may not be properly administered. In implementing the FMFIA, the Mission evaluated the internal control structure in place in October 1989 and noted certain weaknesses.

For the purposes of this report, we have classified significant internal control policies and procedures according to each of the audit objectives by categories. For each objective, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risks to detect any reportable condition. Reportable conditions are those relating to significant deficiencies in the design or operation of the internal control structure which, in our judgement, could adversely affect USAID/Egypt's ability to assure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data is obtained, maintained, and fairly disclosed in reports. We did not identify any reportable conditions related to audit objectives.

Conclusions for Audit Objective One

This objective relates to how the cash transfer dollars were deposited, controlled, and used. For this purpose we classified the internal controls into the following categories: how the dollars were deposited in separate bank accounts, how interest was computed and credited to the accounts, the identification and eligibility of loans repaid with A.I.D.'s dollars, and the source and origin of the commodities purchased. We reviewed USAID/Egypt's internal controls relating to this objective. We are not, however, able to conclude on the reliability of these controls, as management would not confirm in a representation letter essential information related to these controls.

Because of this lack of management information, we cannot therefore state positively that the internal controls relative to this audit objective are effective and can be relied on. However, based on the information that USAID/Egypt did provide to us and the tests that we were able to perform, we only can report that no significant internal control weaknesses came to our attention, other than USAID/Egypt's inability to confirm essential information about its own internal controls.

Conclusions for Audit Objective Two

The second objective addressed the local currency generated as a result of sale or importation of commodities or equipment financed with cash transfer dollars. For this purpose we classified the internal controls into the following categories: the establishment of a separate local currency account, and the deposit of local currency into the account in amounts equal to the value of corn purchased. We reviewed USAID/Egypt's internal controls relating to this objective. We are not, however, able to conclude on the

reliability of these controls, as management would not confirm in a representation letter essential information related to these controls.

Because of this lack of management information, we cannot therefore state positively that the internal controls relative to this audit objective are effective and can be relied on. However, based on the information that USAID/Egypt did provide to us and the tests that we were able to perform, we only can report that no significant internal control weaknesses came to our attention, other than USAID/Egypt's inability to confirm essential information about its own internal controls.

A material weakness is a reportable condition in which the design of the specified internal control does not reduce, to a relatively low level, the risk that errors or irregularities in amounts being audited may occur and not be detected within a timely period by employees in the normal course or performing their assigned functions.

Our review of the internal control structure would not necessarily disclose all matters that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are considered to be material weakness as defined above. We did not identify any material internal control deficiencies related to the audit objectives.

REPORT ON COMPLIANCE

This section of the report summarizes our conclusions on compliance with applicable laws and regulations.

Scope of Our Compliance Assessment

We have audited USAID/Egypt's management of the Fiscal Years 1989, 1990 and 1991 cash transfers during the period July 16, 1991 to October 14, 1991, and have issued our report thereon dated February 20, 1992.

We conducted our audit in accordance with generally accepted government auditing standards, except that management would not provide us with a representation letter confirming to the best of their knowledge and belief (1) their responsibility for compliance with applicable laws and regulations, (2) whether or not there were any irregularities involving management or employees, (3) whether or not there were any instances of violations or possible violations of laws and regulations. (A complete description of the representations that USAID/Egypt would not make is provided in the Scope and Methodology section of this report.)

Management's refusal to make such representations constitutes a limitation on the scope of the audit and is sufficient to preclude us from designing our audit to provide reasonable assurance of detecting abuse and illegal acts and from giving an unqualified conclusion on compliance.

Generally accepted government auditing standards require that we plan and perform the audit to fairly, objectively, and reliably answer the objectives of the audit. Those standards also require that we:

- assess compliance with applicable requirements of laws, regulations and pertinent agreements when necessary to satisfy the audit objectives, and

- report all significant instances of noncompliance and abuse, and all indications or instances of illegal acts found during, or in connection with, the audit.

Compliance with laws, regulations, contracts, and grants applicable to the cash transfer is the overall responsibility of USAID/Egypt's management. We performed tests of USAID/Egypt and host-government compliance with certain provisions of Federal laws, regulations, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

General Background on Compliance

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, contracts, grants and binding policies and procedures governing the conduct of the audit entity. Noncompliance constitutes an illegal act when the source of the requirement not followed or prohibition violated is a statue or implementing regulation. Noncompliance with internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is furnishing excessive services to beneficiaries or carrying out what may be considered improper practices, which do not involve compliance with laws and regulations.

Conclusions on Compliance

We reviewed USAID/Egypt's compliance with laws, regulations, contracts, and grants applicable to the cash transfer. However, as management would not confirm in a representation letter essential information related to such compliance, we cannot state positively that USAID/Egypt has complied. However, based on the information that USAID/Egypt did provide to us and the tests that we were able to perform, we can only report that no irregularities or instances of violations of such applicable laws and regulations came to our attention.

APPENDIX V

Audit of USAID/Egypt's Cash Transfers

Financial Status of Fiscal Years 1989, 90 & 91 Cash Transfers to Egypt As of July 31, 1991				
Grant Agreement	(FY)	Amount (US$)	Interest	Disbursements
263-K-619	1989	$115,000,000	$337,748	$115,337,748
263-K-622	1990	$163,000,000	$2,216,792	$165,216,792
263-K-623	1991	$115,000,000	$988,165	$20,181,078
	Total	$393,000,000	$3,542,705	$300,735,618

Explanatory Notes:

1. Grants 263-K-619 and 263-K-622 were fully disbursed by 7/31/90 and 12/10/90 respectively.

Audit of USAID/Egypt's Cash Transfers

Summary of Local Currency Accrued as a Result of Importation of Commodities, and Deposited in a Special Account Under Grant 263-K-622				
L/C[1] Bank	L/C No.	L/C Amount (US$)	Equivalent (LE)	Rate[2]
Misr	ASC0002	5,909,626.99	16,609,065.75	2.81
Cairo	47/4043	5,900,222.03	16,614,835.55	2.82
National	250099	5,967,566.98	16,891,705.58	2.83
National	250098	5,926,244.53	16,834,220.50	2.84
	Total	$23,703,660.53	$66,976,845.47	

1 Letter of Credit.

2 The above "Rates" are quoted in local currency (LE) equal to U.S.$1. Their source is the GOE's "Management Committee for Banks."

APPENDIX VII

REPORT DISTRIBUTION

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