

Regional Inspector General for Audit  
Cairo, Egypt

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**Audit of the National Investment Bank  
Expenditures Incurred under the Basic Education  
Project No. 263-0139 - Project Implementation  
Letter No. 10 for the Period January 1, 1989 to  
March 31, 1993**

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**Report No. 6-263-94-010-N  
March 7, 1994**



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

March 7, 1994

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford  
FROM : RIG/A/Cairo, *Philippe E. Darcy*  
SUBJECT : Audit of the National Investment Bank (NIB)  
Expenditures Incurred under Project Implementation  
Letter (PIL) No. 10 Related to the Basic Education  
Project No. 263-0139

The attached report dated October 19, 1993, by Allied Accountants presents the results of a financial audit of the National Investment Bank incurred costs under the Basic Education Project No. 263-0139 funded by USAID/Egypt. The project directive is to assist the Government of Egypt provide technical assistance for planning and implementing educational change, purchase of instructional materials and equipment, and construction of new classrooms as part of an integrated effort to increase access to basic educational opportunities and improve the quality of instruction provided.

We engaged Allied Accountants to perform a financial audit of NIB locally incurred expenditures of LE817,631 (equivalent to \$276,227) for the period January 1, 1989 to March 31, 1993. The purpose of the audit was to evaluate the propriety of costs incurred during that period. Allied Accountants evaluated NIB's internal controls and compliance with applicable laws, regulations and grant terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Allied Accountants questioned \$79,218 in ineligible costs billed to USAID by NIB. The questioned costs included salaries, per diem, travel and transportation and soil testing. Allied Accountants noted weaknesses in NIB's internal controls relating to cash management. Additionally, they noted two instances of noncompliance relating to per diem rates and travel and transportation.

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Allied Accountants has reviewed NIB's response to the findings. The response provided by NIB has not changed the auditors understanding of the facts underlying the questioned costs of the Fund Accountability Statement or the reportable conditions in the Reports on Internal Controls and Compliance.

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

**Recommendation No. 1:** We recommend that USAID/Egypt resolve questioned costs of \$79,218 as detailed on pages 9 through 13 of the audit report.

This recommendation is considered unresolved and can be resolved when RIG/A/C receives the Mission's formal determination as to the amounts sustained or not sustained. The recommendation can be closed when any amounts determined to be owed to USAID are paid by the NIB.

**Recommendation No. 2:** We recommend that USAID/Egypt require NIB to address the inadequate internal control procedures as detailed on pages 16 and 17 of the audit report.

This recommendation is considered unresolved and can be resolved when the Mission provides our office with a copy of its request that NIB address its internal control weaknesses. The recommendation can be closed when RIG/A/C has assessed NIB's response and USAID/Egypt's follow-up for adequacy.

**Recommendation No. 3:** We recommend that USAID/Egypt require NIB to address the non-compliance issues detailed on page 20 of the audit report.

This recommendation is considered unresolved and may be resolved when the Mission provides our office with copies of its request that NIB address its noncompliance issues. This recommendation can be closed when RIG/A/C has assessed NIB's responses and USAID/Egypt's follow-up for adequacy.

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

**National Investment Bank  
Audit of Local Expenditures Under  
Basic Education Project No. 263-0139  
Project Implementation Letter No. 10  
Fund Accountability Statement  
For the Period January 1, 1989 to March 31, 1993**

## **National Investment Bank**

### **Audit of Local Expenditures Under Basic Education Project No. 263-0139**

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October 24, 1993

Mr. Philip Darcy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development  
Cairo, Egypt

Dear Mr. Darcy:

This report presents the results of our financial cost incurred audit of Project Implementation Letter (PIL) No. 10 under the Basic Education Project No. 263-0139 funded by the United States Agency for International Development Mission in Egypt. Funding provided under PIL No. 10 covering the period January 1, 1989 to March 31, 1993 is being audited.

### **Background**

The project will assist the Government of Egypt provide technical assistance for planning and implementing educational change, purchase of instructional materials and equipment, and construction of new classrooms as part of an integrated effort to increase access to basic educational opportunities and improve the quality of instruction provided.

The funds provided under Project Implementation Letter No. 10 are to pay costs associated with the oversight of school construction to assure the quality of each facility is up to standards. The National Investment Bank of Egypt is responsible for providing the necessary oversight.

### **Audit Objectives, Scope and Methodology**

The objective of this engagement is to conduct a financial audit of AID resources managed by the National Investment Bank pursuant to PIL No. 10. The specific objectives of this audit are to:

1. Express an opinion on whether the fund accountability statement for the AID financed project of the National Investment Bank presents fairly, in all material respects, project revenues received and costs incurred for the period under audit in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including the cash receipts and disbursements basis and modifications of the cash basis;
2. Determine if the costs reported as incurred under the PIL are in fact allowable, allocable, and reasonable in accordance with the terms of the PIL;
3. Evaluate and obtain a sufficient understanding of the internal control structure of NIB, assess control risk, and identify reportable conditions, including material internal control weaknesses; and

4. Perform tests to determine whether NIB complied, in all material respects, with PIL terms and applicable laws and regulations.

The scope of our financial audit was all expenditures incurred under the Basic Education Project Agreement No. 263-0139, PIL No. 10 for the period January 1, 1989 to March 31, 1993.

The methodology of our audit consists of an internal control evaluation, testing of expenditures incurred under the financing agreement and testing compliance by the National Investment Bank with specific agreement provisions/requirements and regulations/laws.

Our testing included sampling costs incurred for each budget line item in the PIL. We tested LE 355,988 in expenditures from total incurred cost of LE 817,631.

Our testing program included, but was not limited to the following major steps:

1. General ledgers and journals were reconciled to billings submitted to USAID/Egypt.
2. Direct project costs billed to and reimbursed by USAID/Egypt were reviewed.
3. Reviewed engineer contract costs to assure documentation, approval and allowability.
4. Reviewed procurement procedures to determine that sound commercial practices including competition were used.
5. Determined whether advances of funds were justified with documentation including reconciling funds advanced, disbursed and available.

We reviewed and evaluated the organization's internal control structure to obtain an understanding of the design of relevant control policies and procedures, and whether these policies and procedures have been placed in operation. We obtained a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing and extent of tests to be performed.

The agreement terms and pertinent laws and regulations applicable to the project were reviewed and audit procedures were designed to test for material noncompliance.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

#### Results of Audit

##### Fund Accountability Statement

Our audit identified \$ 79,218 in questioned costs. The details of costs questioned are presented in the Fund Accountability Statement - Audit Findings section of this report.

##### Internal Control

The bank's controls related to cash management are weak. The bank transfers funds between AID financed project bank accounts, does not prepare a proper bank reconciliation and does not reconcile amounts transferred between the PIL 10 bank account and the bank's operating account. The details of these weaknesses is presented in the Internal Control Structure - Audit Findings section of this report.

##### Compliance with Agreement Terms and Applicable Laws and Regulations

The National Investment Bank did not comply with the provisions of PIL 10 in that per diems were paid in excess of the approved rate and transportation cost limits were applied as allowances rather than caps. The details of non-compliance are detailed in the Compliance - Audit Findings section of this report.

##### Management Comments

The National Investment Bank's management response to audit findings are included in Appendix B.

October 19, 1993



Mr. Phillippe Darcy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development  
Cairo, Egypt

Independent Auditor's Report

We have audited the fund accountability statement of the National Investment Bank related to project funds received and costs incurred under the Basic Education Project No. 263-0139, PIL No. 10 financed by the US Agency for International Development for the period January 1, 1989 to March 31, 1993. This fund accountability statement is the responsibility of the National Investment Bank management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement. Our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. Our audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

As described in Note 1, the accompanying fund accountability statement has been prepared on the cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Included in the fund accountability statement are questioned costs of \$ 79,218 relating to the Basic Education Project No. 263-0139, PIL 10. The bases for questioning costs are set forth in the "Fund Accountability Statement - Findings Sections" of this report.

In our opinion, except for questioned costs of \$ 79,218, the fund accountability statement referred to above presents fairly, in all material respects, the National Investment Bank's project funds received and costs incurred for the Basic Education Project No. 263-0139, PIL No. 10 for the period January 1, 1989 to March 31, 1993 in conformity with the cash basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statement included in the first paragraph. The supplemental information included in Appendix A is presented for purposes of additional analysis and is not required as a part of the basic financial statement. Such information has been subject to the auditing procedures applied in the audit of the basic financial statement and, in our opinion, is fairly stated in all material respects in relation to the basic financial statement taken as a whole.

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

ARTHUR ANDERSON

October 19, 1993

National Investment Bank  
Fund Accountability Statement (Note 1)  
Basic Education Project No. 263-0139  
Project Implementation Letter No. 10  
For the Period January 1, 1989 to March 31, 1993

<u>Budget element</u>	<u>Actual</u>	<u>Questioned Cost</u>		<u>Finding</u>
	\$	\$	\$	
Receipts:				
PIL 10	261,221			
Expenditures:				
Salaries/site visits	121,447	832		1,2,3
Per diem	30,853	30,853		4,
Travel/transportation	39,214	39,214		5
Governorate representatives	14,183			
Soil testing	8,277	8,277		6
Miscellaneous	11,891	42		7
Equipment purchases	19,510			
A/E construction supervision	19,178			
A/E maintenance monitoring	11,674			
	-----	-----	-----	
	276,227	79,218		
	-----	=====	=====	
Net balance	\$ (15,006)			
	=====			

See accompanying notes to the fund accountability statement.

## **National Investment Bank**

### **Notes to the Fund Accountability Statement**

#### Note 1 : Basis of Presentation

The fund accountability statement has been prepared on the basis of cash receipts and disbursements. Consequently, receipts and expenditures are recognized when received or paid rather than when earned or incurred.

#### Note 2 : Project Activities

The USAID/Egypt Mission financed certain basic education activities to include the construction of schools/classrooms. The funds provided under PIL 10 were for the purpose of financing engineering oversight, soil testing and other related expenditures.

#### Note 3 : Net Balance

The net balance of (\$ 15,006) on the fund accountability statement represents the balance of cash in the bank at March 31, 1993 excluding PIL 9 funds in the amount of \$ 43,919.

#### Note 4 : Source Of Data

The data included under "actual" was taken from the books of the Basic Education Project, PIL 10, as implemented by the National Investment Bank.

#### Note 5 : Exchange Rate

Expenditures incurred in local currency (LE) have been converted to US Dollars at an average exchange rate of LE 2.96 /\$.

#### Note 6 : Questioned Cost

Incurred questioned costs are presented in two categories: ineligible and unsupported costs. Questioned costs are those expenditures we have determined to not be in accordance with the project agreement, the Project Implementation Letter or other applicable USAID/Egypt regulations or because they are not supported with adequate documentation. "Ineligible" costs are deemed to be unallowable because they are prohibited by the project agreement, PILs or USAID/Egypt regulations/policies. These costs are supported by adequate documentation. "Unsupported" costs are expenditures which are not supported by adequate documentation or were not authorized/approved by the proper officials.

The basis for questioning specific costs are set forth in the "Finding Sections" of this report.

**National Investment Bank**

**Questioned Cost Summary**

<u>Budget Element</u>	<u>Questioned Costs</u>
	<u>Ineligible</u>
Salaries/site visits	\$
Finding 1	123
Finding 2	290
Finding 3	419
	<u>832</u>
Per diem	
Finding 4	30,853
	<u>30,853</u>
Travel and transportation	
Finding 5	39,214
	<u>39,214</u>
Soil testing	
Finding 6	8,277
	<u>8,277</u>
Miscellaneous	
Finding 7	42
	<u>42</u>
Totals	<u>79,218</u> =====

**National Investment Bank**

**Audit Findings**

**Finding 1 - Salaries/Site visits**

**Condition:**

An engineer employed by the Ministry of Housing was brought to the bank to work on the AID project. He was paid a percentage of his salary from PIL 10 funds. The arrangement was not approved by AID according to the bank's management. Later this person was hired under an AID approved contract to perform work on the PIL 10 project. Details of questioned costs noted during our audit testing are as follows:

<u>Date</u>	<u>Voucher</u>	<u>Amount</u>	<u>Date</u>	<u>Voucher</u>	<u>Amount</u>
03-31-90	3026	LE 50	03-31-91	3301	LE 54
06-07-90	4052	50	04-30-91	3636	54
12-31-90	2112	43	02-28-90	2646	50
02-28-91	2929	64			
					365
					=====
					\$ 123
					=====

**Criteria:**

PIL 10 states "There are working agreements between the government of Egypt and AID which prohibit salaries of government employees being paid from AID funds".

**Cause:**

NIB paid the engineer a percentage of his salary for his efforts

**Effect:**

We interpret the PIL as not permitting this type of expenditure unless it was approved specifically by USAID/Egypt. USAID/Egypt was billed LE 365 (\$123) of unallowable cost.

**Finding 2 - Salaries/Site visits**

**Condition:**

The NIB administrative staff were paid bonuses in February and April 1991. According to the bank's management these were given to the employees for doing good work. The details are:

<u>Date</u>	<u>Voucher</u>	<u>Amount</u>
02-18-91	2770	LE 500
02-18-91	2771	83
04-09-91	3400	190
04-11-91	3420	86
		<u>859</u>
		====
		\$ 290
		====

Criteria:

PIL 10 does not permit the payment of bonuses.

Cause:

The management of NIB approved the bonuses. They indicate that the AID project officer gave them verbal approval to do so.

Effect:

AID was billed for LE 859 (\$ 290) in cost we consider not allowable under the terms of the PIL.

Finding 3 - Salaries/Site Visits

Condition:

The NIB management approved payment of a bonus to the members of the bank staff and outside engineers. These individuals served on a technical committee to define the specifications related to the purchase of computers. The following vouchers detail the two transactions.

<u>Date</u>	<u>Voucher</u>	<u>Amount</u>
01-28-92	2871	LE 600
01-28-92	2872	640
		<u>1,240</u>
		====
		\$ 419
		====

Criteria:

PIL 10 does not provide funds to be expended for bonuses to the bank's staff or outside engineers.

Cause:

The bonus was approved by the bank management.

Effect:

USAID/Egypt was billed LE 1,240 (\$ 419) for bonuses we assess as not being allowable.

Finding 4 - Per Diem

Condition:

When per diem vouchers are submitted for payment, the individual is reimbursed for the hotel bill and 75% of the bank's per diem rate. If a hotel bill is not submitted the person receives LE 20 which is the daily rate according to bank regulations. The bank has been applying this rate throughout the project duration.

Since 100% of the per diem expenditure are being questioned, the lack of written reports for bank staff site visits will not be added as a separate finding.

Criteria:

AID regulations pertaining to per diem are stated in the original PIL. It states "the current per diem level is LE 23.50. Please note, the maximum which can be paid for lodging is one half of the established per diem rate".

Cause:

The payment method used to date is the NIB regulation rate.

Effect:

AID has been overbilled for per diem since project inception. We question the total amount paid for per diem as unallowable. Total questioned cost is LE 91,325 (\$ 30,853).

Finding 5 - Travel and Transportation

Condition:

PIL 10 permits engineers making site visits to be reimbursed for taxi fares up to LE 25 without receipts if he makes 2 visits. NIB has interpreted this to mean that the LE 25 is an allowance to be paid regardless of actual cost and that it is not a maximum. The rate was later amended to be LE 35 therefore, the payment per site visit was increased to LE 17.50. This method of reimbursing taxi fares was used throughout the audit period.

**Criteria:**

In PIL 10, amendment No. 2, AID described how NIB should maintain records for travel and transportation. The following relates to receipt requirements for taxi fares. "Because of the difficulty mentioned in your letter regarding obtaining receipts from taxi drivers, we agree that engineers can submit requests up to LE 25 without receipts if the engineers at least cover 2 site visits".

**Cause:**

NIB has interpreted PIL 10, amendment 2 regarding taxi receipts to be an allowance to be charged as travel for each site visit. LE 25/2 visits equals 12.50 each school visit. It is being used as an allowance and not a cap for actual expenditures.

**Effect:**

Throughout the audit period, engineers have been reimbursed 12.50 per site visit for taxi fares. There is no way to calculate the actual expenditures made for this type of travel during the site visits. However, in our judgment, this appears excessive in many circumstances, especially when 3 or 4 schools are visited in one day. We question the total transportation costs of LE 116,074 (\$ 39,214) as being unallowable.

**Finding 6 - Soil Testing**

**Condition:**

NIB solicited bids from engineering firms to conduct soil testing. Bids were received from the firms and the low bidder was selected. However, the bank did not enter into a contract with the engineer to perform the required soil testing.

**Criteria:**

PIL 10 does not specifically mention prior AID approval of the firm selected to perform the soil testing. However, PIL 10 states in the original document, "Our (AID) procedures also require that we review the contracts the bank negotiates with outside engineers for follow-up services related to this grant (Grant Agreement 263-0139, Basic Education Project)." Prudent business practices require a contract to ensure all parties are in agreement with the scope of the work to be provided and the compensation for this work.

**Cause:**

Although a price list was used to calculate payments based on work performed a contract was not signed and there is no documentation available showing AID's approval.

**Effect:**

Payments were made without a contract or AID approval. We question as unallowable total expenditures of LE 24,500 (\$ 8,277) for soil testing.

Finding 7 - Miscellaneous

Condition:

The National Investment Bank paid LE 123.50 for food. Details of the transaction are as follows:

<u>Date</u>	<u>Voucher</u>	<u>Amount</u>
01-28-92	58	LE 123 === \$ 42 ===

Criteria:

Per PIL 10 and AID regulations food is not an allowable cost.

Cause:

Improper approval was given to pay for this cost. The person approving the voucher was not familiar with AID regulations.

Effect:

USAID/Egypt was billed LE 123 (\$ 42) for food costs not permitted by the agreement and AID regulations.



Mr. Phillippe Darcy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development  
Cairo, Egypt

Report on Internal Control Structure  
Independent Auditor's Report

We have audited the fund accountability statement of the National Investment Bank related to the Basic Education Project No. 263-0139, PIL 10, financed by the US Agency for International Development, for the period January 1, 1989 to March 31, 1993 and we have issued our report thereon dated October 19, 1993.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

In planning and performing our audit of the National Investment Bank we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of the National Investment Bank is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures as being: cash receipts, cash disbursements, financial reporting and procurement. For the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit disclosed the following matters which we believe are material weaknesses as defined above.

The National Investment Bank commingles funds between several AID financed projects, does not prepare proper bank reconciliations, and does not reconcile fund transfers between the PIL 10 bank account and the bank's operating account.

This report is intended for the information of the management and others within the National Investment Bank organization and the US Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

ANTHONY ANDRESEN

October 19, 1993

## **National Investment Bank**

### **Audit Findings**

#### **Finding 1 - Cash Management**

The NIB has established a separate bank account for PIL 10 funds, however, each year a new number is assigned to the account.

The funds reimbursed for PIL 10 expenditures and funds from PILs 9 and 49 are deposited in the same bank account. As of the audit date, PIL 49 funds had been expended and booked in the ledger for that PIL. However, LE 130,000 of funds for PIL 9 had been deposited in and are still in the account.

Bank statements are received whenever a transaction is recorded in the bank account. The statements contain numerous errors which are not reversed immediately, but may be reversed months later.

Errors made by bank personnel in preparing the bank statement for PIL 10 amounted to over LE 4,000,000. These errors were not corrected timely as some errors remained uncorrected for several weeks.

The USAID/Egypt Mission ceased making advances to the Government of Egypt implementing agencies. Consequently, the bank was required to request reimbursement for incurred costs periodically. The bank paid a portion of project costs from AID provided funds and the balance from the bank operating account. Upon receipt of the AID reimbursement, the funds are transferred from the PIL 10 bank account to replenish the bank's operating account. The bank was unable to provide us a reconciliation of the expenditures/transfers from the two bank accounts. We attempted to prepare a proof of cash but were unable to do so because the bank's cash management for PIL 10 was extremely weak.

#### **Recommendation**

We recommend that the National Investment Bank transfer the PIL 9 funds from the PIL 10 bank account to the proper bank account. Also, we recommend that the National Investment Bank strengthen its cash management procedures.

**Finding 2 - Account Classification**

During our audit, we noted two misclassifications which are as follows:

- 1) Transportation costs of LE 22 have been recorded as governorate representative costs.
- 2) Transportation costs of LE 127 have been recorded as miscellaneous cost.

**Recommendation**

We recommend that NIB reclassify these costs on their books. We have done so for fund accountability statement purposes.

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

Report on Compliance With Agreement Terms  
and Applicable Laws and Regulations  
Independent Auditor's Report

We have audited the fund accountability statement of the National Investment Bank related to the Basic Education Project No. 263-0139, PIL 10, financed by the US Agency for International Development, for the period January 1, 1989 to March 31, 1993, and we have issued our report thereon dated October 19, 1993.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

Compliance with laws, regulations, contracts, grants, and binding policies and procedures applicable to the National Investment Bank is the responsibility of the National Investment Bank management. As part of our audit, we performed tests of the National Investment Bank's compliance with certain provisions of laws, regulations, contracts, grants, and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Our testing of transactions, and records selected disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found and the matters to which they relate, are identified in the accompanying schedule of findings.

The result of our tests indicate that with respect to the items tested the National Investment Bank complied, in all material respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the National Investment Bank had not complied, in all material respects, with those provisions.

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

ARTHUR ANDERSON

October 19, 1993

## **National Investment Bank**

### **Audit Findings**

#### **Finding 1 - Per diem**

The National Investment Bank did not comply with the per diem limits set in PIL 10 which sets the maximum per diem rate at LE 23.50 and stipulates that not more than one half of the per diem rate can be paid for lodging.

The bank paid the hotel plus 75% of the bank's per diem rate (LE 20.00) to cover food and other costs. Consequently, the travelers were paid per diems which exceeded the LE 23.50 maximum set by USAID/Egypt.

#### **Recommendation**

We recommend that the National Investment Bank comply with the provisions of PIL 10.

#### **Finding 2 - Travel & Transportation**

Amendment 2 to PIL 10 states "Because of the difficulty mentioned in your letter regarding obtaining receipts from taxi drivers, we agree that engineers can submit requests up to LE 25 without receipts if the engineers at least cover 2 site visits". The LE 25 was later raised to LE 35.

The bank interpreted this to be an allowance rather than a cap. Engineers were paid LE 12.50 or later LE 17.50 for each school visited. Consequently, engineers were paid amounts which exceeded the amount permitted by PIL 10.

#### **Recommendation**

We recommend that the National Investment Bank comply with the provisions of PIL 10, amendment 2.

**Appendix A**

National Investment Bank  
Fund Accountability Statement  
Basic Education Project No. 263-0139  
Project Implementation Letter No. 10  
For the Period January 1, 1989 to March 31, 1993

Supplemental Information  
Fund Accountability Statement Expressed  
in Egyptian Pounds and US Dollars

<u>Budget Element</u>	<u>Actual in LE</u>	<u>LE converted to US\$</u>
Receipts	773,213	261,221
Expenditures:		
Salaries/site visits	359,484	121,447
Per diem	91,325	30,853
Travel/transportation	116,074	39,214
Governorate representatives	41,980	14,183
Soil testing	24,500	8,277
Miscellaneous	35,197	11,891
Equipment purchases	57,750	19,510
A/E construction supervision	56,766	19,178
A/E maintenance monitoring	34,555	11,674
	<u>817,631</u>	<u>276,227</u>
Net balance	<u>LE (44,418)</u> =====	<u>\$ (15,006)</u> =====

## Appendix B

A COMMENT ON  
THE NATIONAL INVESTMENT BANK  
ON  
THE REMARKS OF THE CONSOLIDATED LAWYERS ON THE RESULTS  
OF THE AUDITING CALCULATIONS THE BASIC EDUCATION  
PROJECT FINANCED BY THE AMERICAN AGENCY FOR  
INTERNATIONAL DEVELOPMENT (THE EXECUTORY PROJECT LETTER  
NO.10)

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To start with the National Investment Bank draws attention to the following:

1. Executory letter No.6 dated 19 January 1982 stipulates that the Bank has agreed - according to the grant agreement to provide particular services relating to implementing the the project in favor of the donor including providing the qualified persons capable of implementing the project in a style - with respect to time and efficiency - matching the sound technical financial and administrative practices.

2. The executory project letter No.6 stipulates the following in the fourth paragraph:

"The responsibility of the Bank in implementing this project harmonizes with the role it plays and the procedures it applies in implementing the investment programs for the government of the Arab Republic of Egypt."

This text requires that the International Development Agency register its understanding of the role performed by the National Investment Bank in implementing the Basic Education Project and that the Bank applies the laws regulations and decisions issued with respect to implementing the investments and following them up regarding implementing the Basic Education Project regarding the financial documentary and accounting aspects and applying

the Bank law its financial regulations and the regulations governing its employees. Consequently, we clarify herebelow the Bank's commentary with respect to the auditor's observations:

Observation No. 1:

In light of the previous approval the Bank delegated engineer Ismail El Sayed Aly Bushnak director general of planning and follow-up at the Ministry of Reclamation due to his wide experience in the sphere of building materials specifications estimating costs and following-up work implementation to make use of him in implementing the technical tasks entrusted to the bank in implementation of the agreement. He was delegated off working hours as he continued to work in his job at the official working hours from 8:00 a.m. up till 2:00 p.m. in return for the monthly salary he receives he would start after these hours to work on the Basic Education Project at the Bank. He received in return for this a ratio of his original basic salary in implementation of the regulations governing Bank employees he thus received an additional pay in return for working on the project the technical supervisor of the project produced documents on his carrying out the duties entrusted to him.

We believe that the ban imposed in the auditing report for not paying salaries to the government employees is due to avoiding the repeated payment of the salaries that is this ban applied to the Bank employees who receive their salaries from the same authority that supervises the implementation of the Project which does not apply to the case we are dealing with.

We wish to indicate that setting a return for delegation as a ratio according to the text of Article 73 paragraph 4 of the regulations governing Bank employees which stipulates that "the employee who is delegated to the authority (the Bank) part of the time shall receive an amount not exceeding 100% of his basic salary according to the decision of the deputy to the chairman of the board of the authority (the Bank) in every case."

Observation No.2 The Salaries/Visiting Sites:

The auditor's report indicates that the National Investment Bank issued bonuses to the Bank's administrative employees during the months of February and April 1991. We wish to indicate that these employees were appointed to work in the Basic Education Project and the Bank secured the approval of the Agency to appoint them and the salaries paid to them (enclosed please find copy of the approval).

As the applied bank regulations stipulate to issue bonuses to the employees every three months to increase their salaries and what is issued to them is to face the high prices due to the small specified salaries for grades and financial classes, these sums were issued to them along the same lines of what is issued Bank employees in return for additional work they do related to the Basic Education Project thus the sums issued to them were charged to the project funds.

This took place according to Article 25 of the Bank employee regulations regarding the entitlement of Bank employees of pay in return of additional work.

Observation No.3 The Salaries/Visiting Sites:

The Bank issued bonuses to members of a technical committee consisting of some Bank employees and specialists from outside the Bank amounting to 1240 pounds to determine the specifications of the personal computer the International Development Agency approved of buying to perform the Basic Education Project operations the committee was not to buy more than one computer as was mentioned in the auditing report.

As the Bank applies the governmental regulations and procedures in organizing its activities including paying sums to committee members in return for carrying out work in these committees which mostly take place off official working hours the sums issued to the committee members were charged to salaries. These committees were not related to activities linked to the original bank work.

On the other hand the applied instructions stipulate to add such expenses to the cost of buying the equipment relating to them they were issued according to Article 25 of the Bank employee regulations " committee members should be given allowances for attending the committees."

Observation No.4 Travel Allowance:

The National Investment Bank applies the regulations system of the Bank employees which stipulates paying travel allowance at different rates the maximum of which amounts to 16 pounds per night in all governorates other than the governorates of Cairo Alexandria the Canal governorates the desert governorates and the governorates of Qena and Asswan whose travel allowance increases at the ratio of 25% that is 20 pounds the regulations also stipulate that the Bank assume the value of staying in hotels and issuing 75% of the value of the travel allowance.

The auditor objected to the travel allowance issued to the employees on the basis that deducting the hotel expenses added to it the 75% ratio is in excess of the sum specified for the travel allowance as the executory project letter No.10 stipulates that the travel allowance approved by the International Development Agency is 23.5 pounds and that it is paid for overnight expenses. We wish to inform you that the executory project letter referred to stipulates that the Bank should not exceed the levels drawn through the instructions of the International Development Agency for the travel allowance which amounts to 23.5 pounds in 1983, this level is amended periodically. Average travel allowance according to the estimate of the economics department of the International Development Agency has currently amounted to 110 pounds which is five times its level at the beginning of the project. As the scope of the auditing covers the period from January 1989 to 31 March 1993, it would have been advisable for the auditor to follow the changes that have taken place in the levels of the travel allowance specified by the Agency and to have compared between them and the travel allowance levels issued employees working in the project and before - he untruthfully - objects to this item of expenses, as for what relates to submitting reports on visiting the site we wish to indicate that copies of these reports were successively sent by the Agency. (Reference Article 26 of the Bank Employee regulations). It should be noted that applying the Bank regulations save many sums if the travel allowances were issued at the levels determined by the Agency.

Observation No.5 Travel/Transportations:

Executory letter No.10 amendment No.2 paragraph 3B stipulates that "the Agency agrees that the engineers submit requests valuing up till 25 pounds without submitting receipts if the engineers at least cover

This text shows that engineers are exempted of submitting receipts if they visited at least two sites that is at an average of 12.5 pounds per site this minimum was later on increased to 35 pounds at a minimum of 17.5 pounds per each site.

There was no indication that the sum allotted for two sites is the maximum as was mentioned in the auditor's remark No.5 as this is considered an expansion of the interpretation for which there is no room in this case.

Observation No.6 Soil Tests:

The auditor refers to the absence of written agreements or a contract with the engineers to perform the soil tests, he thus eliminated the sums spent on this service.

The bank draws attention to the fact that Law 9 of 1983 and its executive regulations relating to the bids and tenders regulations of which Article 5 paragraph 4 stipulates that contracting be by means of practice in the following cases:

- Consultative or technical activities by whose nature require that they be performed by technicians or specialists or appointed experts.
- Article 5 of the regulations also stipulates that it is permissible to enter into a contracting agreement directly in what does not exceed 2000 pounds (two thousand pounds) with respect to ordinary purchases services and transport contracting ...."
- Article 35 of the executive regulations the first paragraph also stipulates to suffice with taking a written statement for all guarantees whose value is less than 2000 pounds (two thousand pounds).

We wish to indicate that on these texts - the Bank has conducted a negotiation requesting offers from four engineering offices to

*Angèle Farag*

conduct soil probing of the sites proposed for building schools on them provided two probes are to be carried out and a chart is to be made to implement the foundations for every site and the cost of conducting this, the bank has received the following offers:

1. The office of Dr. Amin Housny in the value of 650 pounds six hundred and fifty pounds.
2. The engineering office at Al Mansourah University in the value of 902 pounds (nine hundred and two pounds).
3. The engineering and technology office at El Menoufia University in the value of 1400 pounds (one thousand and four hundred pounds).
4. The office of engineer Abdou Fam in the value of 500 pounds (five hundred pounds). While undertaking to implement as soon as he is notified of the site.

The lowest prices were chosen according to Law No.9 and its executory regulations and the office of engineer Abdou Fam was entrusted to perform this service consequently, thus the agreement was positive and accepted between the bank and the said office.

Observation No.7 Miscellaneous:

The auditor indicates that according to the executory letter No.10 and the instructions of the International Development Agency food is considered an unlicensed cost.

This sum was spent according to the memorandum of engineer/Ahmed Moustafa Al Behairy the technical supervisor of the project and the approval of Mr. Salah Abdel Fattah the general supervisor of the project to meet the expenses of offering food materials to the members of the technical committee to evaluate the offers of the consultative offices to follow-up the implementation of the schools of the basic educational project in view of the continued meeting

*Angèle Farag*

of the committee until after the official working hours.

The foregoing shows the absence of any violations of the laws, regulations and rules employed by the National Investment Bank with respect to expenses, costs and accounts of the basic education project and the project's executory letter Nos. 6, 7, 10.

Answering the Observations of the Auditor Regarding Internal Control:

- The Bank's Financial Affairs Department has disbursed on the basis of the memoranda approved by the technical supervisor and general supervisor of the project within the limits of the regulations and instructions organizing disbursement.
- The auditing report conducted by the office of the consolidated auditors Arthur Andersen and Co. of the American Aid accounts indicated that there is no external auditing of the Aid activities and we wish to explain that the accounts of American Aid at the Bank are audited by the control machinery which audit the bank activities which is the Central Accounting Organization and the controllers of the Central Bank accounts .. etc.
- The report also indicated that there are no regular settlements of the bank accounts and that there is a delayed settlement of these accounts and we wish to explain that this matter is beyond the will of the financial affairs in the general secretariat as the lists of accounts issued by the financial affairs sector are not issued day after day as is prevalent in the banks but the sector of financial operations provides us with the accounts lists at the end of each month and consequently bank accounts are settled in the last week of every month.

We wish to indicate that the American Aid account No.3/29627/086/5

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from which disbursement is made at the expense of American Aid the general secretariat matches the book accounts of the bank account and consequently the 130 thousand pounds mentioned in the report were fully settled in phases with the financial operations sector and they do not have any accounting effect in the general secretariat accounts.

The auditor referred to the insufficiency of the internal control of the works the formation of the financial committee of the expenses of American Aid was viewed as a realization of internal control in full within the limits of the available capabilities and no financial or administrative violation occurred since the beginning of working according to the project to-date.

The executory letter No.6 stipulates that the responsibility of the bank in implementing the project matches the role it performs and the procedures it uses to implement the ordinary investment programs of the Egyptian government in general. The responsibilities of the National Investment Bank are earmarked in implementing the basic education project and branches out to three responsibilities:

- a) Managing the financial financing and control over the expenses following them-up and financing operations.
- b) The reasonableness of costs and estimating costs for every school building contract.
- c) The following-up in kind and ensuring that the buildings match standardized specifications.

The cost of technical supervision and technical follow-up are usually determined as a ratio of the costs of implementing the project. This ratio ranges between 3% and 5% and on the other hand the costs of

*Amr El Farag*

money management is estimated at the ratio of 2% to 3% and if the project expenses have amounted to 301 million pounds up till 30/11/1993 and with applying the minimum limits of the ratios of technical supervision and the follow-up in kind and the financial management we find that the costs of services performed by the National Investment Bank for the basic educational project may reach more than 15 million pounds. This is according to the implementation of the supervision operations and following-up implementation in projects in general and in the projects of the International Development Agency including the contract of Kimonex Company which followed-up the implementation of the local development project No.2 financed by the International Development Agency.

This takes place at the time when the costs expended on the project up till 25/12/1993 did not exceed the sum of 1.2 million pounds at a ratio not exceeding 0.4% (four per thousand) of the value of the project cost with its expenses up till 30/11/1993 amounting to 301.15 million pounds. This has led to contributing in reducing the cost of the project which has helped implement 1950 schools with the same allocations which were ear-marked to implement 1300 schools at the beginning of implementing the agreement.

This does not mean that the bank asks for an excuse for the auditor's discovery unexpectedly of financial and administrative violations but to show that the bank cares to follow the laws regulations and rules applied to the investment projects financed by the state on the basic education project in addition to the texts of the executive project letters which came from the International Development Agency at the least possible cost.

*Angele Farag*

انجيل فاراج  
ANGELE FARAG  
TRANSLATOR

## Appendix C

## **National Investment Bank**

### **Auditors' Response to Management Comments**

Our responses below address the National Investment Bank management comments for the audit of Project Implementation Letter No. 10. Our response follows the sequence used by the NIB in Appendix B.

#### Finding 1 (Observation No. 1)

We do not believe a valid reason for paying questioned salaries was provided. The response did not address USAID's regulations or why the bank did not adhere to the requirements. The finding remains unchanged.

#### Finding 2 (Observation No. 2)

Our finding remains unchanged as a valid reason for paying bonuses was not presented.

#### Finding 3 (Observation No. 3)

We did not understand the response. Our finding remains as presented.

#### Finding 4 (Observation No. 4)

According to the provisions of the PIL, we did not note where USAID/Cairo permitted an increase in per diem amounts as the response seems to indicate. The finding remains as presented.

#### Finding 5 (Observation No. 5)

We did not understand the response, therefore the finding remains unchanged.

#### Finding 6 (Observation No. 6)

We interpret Law 9 as requiring a written contract and PIL 10 required the bank to obtain approvals for contracts with engineers for follow-up services. Our finding remains as presented.

#### Finding 7 (Observation No. 7)

USAID regulations do not permit funds to be expended for food. The finding remains unchanged.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO EGYPT

March 2, 1994

MEMORANDUM

**TO:** Philippe L. Darcy, RIG/A/C

**FROM:** Amanda Levenson, OD/FM/FA *A. Levenson*

**SUBJECT:** Audit of the National Investment Bank (NIB) Local Expenditures Under Project Implementation Letter (PIL) No. 10 Related to the Basic Education Project No. 263-0139 - Draft Report

Mission is working with the implementing agency to resolve and close the three recommendations under the subject draft audit report. Please issue the final report.

## APPENDIX E

REPORT DISTRIBUTION

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