

Regional Inspector General for Audit  
Cairo, Egypt

**Audit of the Foreign Relations Coordination Unit of the  
Supreme Council of Universities Local Expenditures  
Incurred Pursuant to Project Implementation Letter No.12  
under the University Linkages Project No.263-0118**

Report No. 6-263-95-002-N  
October 10, 1994



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**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



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

October 10, 1994

MEMORANDUM FOR D/USAID/Egypt, John R. Westley  
FROM: RIG/A/Cairo, Philippe L. Darcy  
SUBJECT: Audit of the Foreign Relations Coordination Unit (FRCU) of the Supreme Council of Universities Local Expenditures Incurred Pursuant to Project Implementation Letter (PIL) No. 12 under the University Linkages Project No. 263-0118.

The attached report dated February 10, 1994, by Price Waterhouse presents the results of a financial audit of the Foreign Relations Coordination Unit (FRCU) incurred costs under University Linkages Project No. 263-0188 funded by USAID/Egypt. The purpose of the project was to assist Egypt in establishing a grant's commission capability within FRCU and to finance collaboration between United States and Egyptian Universities in problem solving activities. PIL No. 12 was issued to cover foreign exchange and local currency costs necessary for FRCU to implement FRCU authorized linkage activities.

We engaged Price Waterhouse to perform a financial audit of FRCU's incurred expenditures of LE24,269,896 and \$6,587,648 for the period from June 1, 1983 through December 31, 1992 for PIL No. 12. The purpose of the audit was to evaluate the propriety of costs incurred during that period. In performing the audit, Price Waterhouse evaluated FRCU's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Consolidated Fund Accountability Statement. Price Waterhouse disclaimed an opinion on the fund accountability statement because (1) FRCU's accounting records did not provide sufficient evidence supporting cash transactions to permit the application of adequate auditing procedures and (2) material weaknesses in FRCU's internal control structure present the risk that material errors may occur and not be detected within a timely period.

U.S. Mailing Address  
USAID-RIG/A/C Unit 64902  
APO AE 09839-4902

Tel. Country Code (202)  
357-3909  
Fax # (202) 355-4318

#106, Kasr El Aini St.  
Cairo Center Building  
Garden City, Egypt

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Price Waterhouse questioned \$8,549,911 in costs billed to USAID by FRCU (including \$8,433,420 of unsupported costs). These questioned costs included in the Price Waterhouse report were presented in total, rather than by budget line item, because the project's general ledger was maintained in totals only.

Price Waterhouse noted eight material internal control weaknesses related to FRCU's controls over the project's accounting records, recording of USAID's disallowances, appropriate level of review of billings and accounting records, commingling of USAID funds with those of other sources, reconciliation of bank statements, control of cash advances and compliance with FRCU's policies and procedures manual. Additionally, they noted three instances of material noncompliance related to failure to bill USAID on a cost reimbursable basis, maintenance of adequate books and records and remittance of interest earned on project bank accounts to USAID.

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

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

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

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

**Recommendation No. 1:** We recommend that USAID/Egypt resolve questioned costs of \$8,549,911 consisting of ineligible costs of \$116,491 and unsupported costs of \$8,433,420 as detailed on pages 9 through 12 of the audit report.

This recommendation is considered unresolved and can be resolved when we receive the Mission's formal determination as to the

amounts sustained or not sustained. The recommendation can be closed when any amounts determined to be owed to USAID are paid by FRCU.

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

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

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

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

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

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

**PROJECT IMPLEMENTATION LETTER NUMBER 12  
UNDER THE UNIVERSITY LINKAGES PROJECT NO. 263-0118**

**FUND ACCOUNTABILITY STATEMENT  
AND ADDITIONAL INFORMATION**

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

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

**PROJECT IMPLEMENTATION LETTER NUMBER 12  
UNDER THE UNIVERSITY LINKAGES PROJECT NO. 263-0118**

**FUND ACCOUNTABILITY STATEMENT  
AND ADDITIONAL INFORMATION**

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

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## *Price Waterhouse*



July 14, 1994

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

Dear Mr. Darcy:

This report presents the results of our engagement to perform a financial-related cost incurred audit of the accompanying fund accountability statement of the Foreign Relations Coordination Unit ("FRCU") of the Supreme Council of Universities ("SCU") relating to project costs incurred on Project Implementation Letter ("PIL") No. 12 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") University Linkages Project No. 263-0118 ("grant agreement") for the period from June 1, 1983 through December 31, 1992.

### Background

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

PIL No. 12, issued on June 16, 1982, supersedes paragraph three of PIL No. 5, dated August 28, 1981, which established funding for initial "trial round" mini-linkages.

PIL No. 12, last amended on June 29, 1992, provided 24,360,574 Egyptian pounds ("LE") and \$ 6,830,346 to cover foreign exchange and local currency costs necessary for FRCU to implement FRCU authorized linkage activities through June 30, 1992.

### Engagement Objectives and Scope

The objective of this engagement was to perform a financial-related cost-incurred audit of USAID/Egypt funds provided to FRCU of SCU on PIL No. 12 under the USAID/Egypt University Linkages Project No. 263-0118 for the period from June 1, 1983 through December 31, 1992. Specific objectives were to determine whether:

1. the fund accountability statement of FRCU related to PIL No. 12 presents fairly, in all material respects, project revenues received and costs incurred for the period from June 1, 1983 through December 31, 1992 in conformity with the applicable accounting principles;
2. the costs reported as incurred by FRCU under PIL No. 12 and funded by USAID/Egypt are allowable, allocable, and reasonable in accordance with the terms of the grant agreement, PIL, and USAID/Egypt regulations;

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

**Preliminary planning and review procedures began in August, 1993 and consisted of both discussions with the Regional Inspector General for Audit in Cairo personnel and FRCU officials and a review of the grant agreement and PIL No. 12. Fieldwork started in September, 1993 and was completed in February, 1994.**

**The scope of our engagement was all project costs incurred by FRCU on PIL No. 12 under the USAID/Egypt University Linkages Project No. 263-0118. On a judgmental basis, we selected and tested incurred costs of LE 1,985,238 and \$ 6,587,648 out of total incurred costs of LE 24,269,896 and \$ 6,587,648, respectively. All costs tested were incurred during the period from June 1, 1983 through December 31, 1992. Not included within the tested incurred costs are amounts which were questioned and relate to variances between the auditee's books and records and the USAID/Egypt billing, and other applicable income and cash items.**

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

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

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



## **Results of Engagement**

### **Fund accountability statement:**

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

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

Our procedures identified \$ 8,549,911 (\$ 116,491 in ineligible and \$ 8,433,420 in unsupported costs), converted at applicable exchange rates, in questionable costs.

### **Internal Control Structure:**

Our engagement identified eight material internal control structure weaknesses. We recommend that FRCU adopt procedures to: 1) improve controls surrounding the project's accounting records; 2) properly record USAID/Egypt disallowances; 3) ensure that the project director and/or the financial manager review USAID/Egypt billings and project accounting records; 4) ensure that USAID/Egypt PIL No. 12 designated funds are not commingled with funds from other sources; 5) reconcile project financial records with bank statements and USAID/Egypt records; 6) control cash advances issued; 7) reconcile the linkage grant cards and general ledgers on a monthly basis; and 8) ensure compliance with guidelines established in the FRCU policies and procedures manual.

### **Compliance With Agreement Terms And Applicable Laws And Regulations:**

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

Our audit identified three material instances of noncompliance relating to FRCU's failure to: 1) bill USAID/Egypt on a cost reimbursable basis; 2) maintain adequate project books and records; and 3) remit interest earned on project bank accounts to USAID/Egypt.

### **Prior Audit Report Recommendations:**

A report on the financial management capability and internal control system was issued by Ahmed Shawky & Co. in August, 1992 consisting of internal control system recommendations all of which management failed to adequately address. All recommendations included in the prior report, related to PIL No. 12, which are still applicable, have been included in the accompanying Report on Internal Control Structure.



**Management Comments**

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

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

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*Price Waterhouse*



**REPORT OF INDEPENDENT ACCOUNTANTS**

February 10, 1994

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

We were engaged to audit the accompanying fund accountability statement of the Foreign Relations Coordination Unit ("FRCU") of the Supreme Council of Universities ("SCU") relating to costs incurred on Project Implementation Letter ("PIL") No. 12 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") University Linkages Project No. 263-0118 ("Grant Agreement") for the period from June 1, 1983 through December 31, 1992. The fund accountability statement is the responsibility of FRCU's management.

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

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

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

As more fully described in Note 5 to the fund accountability statement, the results of our tests disclosed the following questioned costs as detailed in the fund accountability statement: (1) \$ 116,491 in costs that are explicitly ineligible because they are not program related, unreasonable, or prohibited by the terms of the agreements; and (2) \$ 8,433,420 in costs that are not supported with adequate documentation or did not have the required prior approvals or authorizations.



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

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

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

*PricewaterhouseCoopers*

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

**PROJECT IMPLEMENTATION LETTER NO. 12  
UNDER THE UNIVERSITY LINKAGES PROJECT NO. 263-0118**

**FUND ACCOUNTABILITY STATEMENT**

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

	Budget (Note 2)	Actual (Note 2)	Questioned Costs		Findings Reference (Note 5)
			Ineligible (Note 5)	Unsupported (Note 5)	
Income and cash			\$ 68,932	\$ 608,092	Finding A, Page 9
Expenditures:					
Salaries and wages	\$ 6,187,457	\$ 6,064,997			
Permanent equipment and supplies	8,193,607	7,900,947			
Travel	2,130,151	2,417,748			
Computer and other costs	<u>2,144,652</u>	<u>1,985,459</u>			
Total expenditures			<u>47,559</u>	<u>7,825,328</u>	
Totals	\$ <u>18,655,867</u>	\$ <u>18,369,151</u>	\$ <u>116,491</u>	\$ <u>8,433,420</u>	Finding B, Page 12

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

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

**PROJECT IMPLEMENTATION LETTER NO. 12  
FOR THE UNIVERSITY LINKAGES PROJECT NO. 263-0118**

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT**

**NOTE 1 - SCOPE OF STATEMENT:**

The fund accountability statement of FRCU of SCU includes all costs incurred by FRCU on PIL No. 12 under the USAID/Egypt University Linkages Project No. 263-0118 for the period from June 1, 1983 through December 31, 1992.

**NOTE 2 - SOURCE OF DATA:**

The column, labeled "Budget", includes all USAID/Egypt approved costs for PIL No. 12 through June 30, 1992 and is presented for informational purposes only. The USAID/Egypt approved budget for PIL No. 12 included amounts of 24,360,574 in Egyptian pounds and 6,830,346 in U.S. dollars. The Egyptian pound amount has been converted to U.S. dollars at the average exchange rate of 2.06 Egyptian pounds (see Note 4 below). The column, labeled "Actual" is the responsibility of FRCU's management and represents the cumulative charges billed to and reimbursed by USAID/Egypt for PIL No. 12 for the period from June 1, 1983 through December 31, 1992.

**NOTE 3 - BASIS OF PRESENTATION:**

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

**NOTE 4 - FOREIGN EXCHANGE:**

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

**NOTE 5 - QUESTIONED COSTS:**

Questioned costs are presented in two separate categories - ineligible and unsupported costs - and consist of audit findings proposed on the basis of the terms of PIL No. 12, the grant agreement, and USAID/Egypt regulations. Costs in the column labeled "Ineligible" are supported by vouchers or other documentation but are ineligible for reimbursement because they are not program-related, are unreasonable, or prohibited by the agreement or applicable laws and regulations. Costs in the column labeled "Unsupported" are also included in the classification of "questioned costs" and relate to costs that are not supported with adequate documentation or did not have the required prior approvals or authorizations. Our procedures identified the following costs billed to USAID/Egypt that are ineligible or unsupported which are presented in total, and not by budget line items, because the project's general ledger was maintained in totals only:

**NOTE 5 - QUESTIONED COSTS (CONT.):**

<u>Items description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<b>A. Income and cash</b>		
1. Unexpended advances billed to USAID/Egypt were returned to FRCU but were not deducted from the USAID/Egypt billings.	-	\$ 335,427
2. Interest earned on the project bank account was neither returned to USAID/Egypt nor deducted from the USAID/Egypt billings.	\$ 68,932	-
3. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-
4. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-
5. Expenditures for which the related checks were subsequently voided were not deducted from the USAID/Egypt billings.	-	272,665
<b>Total income and cash</b>	<u>68,932</u>	<u>608,092</u>
<b>B. Expenditures</b>		
1. Bank transfers made to either the linkage grant's U.S.- based counterpart researcher's bank account or the related University's bank account for salaries and wages that were not supported with evidence of receipt and in some instances the counterpart was not identified in either the proposal or the contract and evidence of actual research performed was not available.	-	1,548,484
2. Invoices and other supporting documents for equipment and supplies expenditures were not available.	-	3,400,123
3. Supporting documentation was not available for computer and other costs expenditures.	-	297,566
4. Supporting documentation was not available for airfare, hotel, per diems, and other transportation costs for the U.S.-based counterpart	-	1,341,475

**NOTE 5 - QUESTIONED COSTS (CONT.):**

<u>Item description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<b>B. Expenditures (Cont.)</b>		
5. Advances paid to grantees were billed to USAID/Egypt but were not supported with settlement documents.	-	\$ 830,218
6. Advances paid to grantees exceeded the grantee's budget. The excess is questionable.	-	32,571
7. Salaries and wages were unsupported by payroll sheets, evidence of receipt, and/or approvals.	-	55,886
8. Grantees paid and reported salaries and wages in excess of the maximum rate allowed in the FRCU policy manual. The excess is questionable.	\$ 12,896	-
9. Salaries and wages were paid to employees who were neither identified on the proposal nor supported with documents explaining the type of work performed.	-	13,308
10. Rewards and overtime pay were paid which were neither included in the grantees' proposals nor approved by FRCU.	-	3,441
11. Salaries were paid to hourly employees without time sheets to evidence that payments were based on an hourly rate of pay. Support provided was an internally-generated document with the name of the employee and the amount received.	-	116,041
12. FRCU's policies and procedures manual stated that all equipment purchased should be individually listed by description and estimated cost and adequately justified in the supporting documentation submitted with the grantee's proposal. Permanent equipment should be limited to scientific and technical equipment not otherwise available at the grantee's university and general purpose office equipment requires special justification. Equipment was charged to USAID/Egypt which was not listed by description in the proposal, were not of either a scientific or technical nature, and for which no special justification was made.	15,196	-

**NOTE 5 - QUESTIONED COSTS (CONT.):**

<u>Item description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<b>B. Expenditures (Cont.)</b>		
13. Procurement procedures, required by FRCU policy and procedures manual, were not followed for equipment and supplies purchases.	-	\$ 53,000
14. Purchase invoices were not addressed by the grantees' name as required in FRCU's manual.	-	55,182
15. Equipment purchases in excess of \$ 1,000 were neither listed separately in the grantee's proposal nor was approval obtained from FRCU as required in the FRCU manual.	-	14,067
16. Supporting documentation was not available for computer and other costs expenditures.	-	3,496
17. Computer and other costs were not included in the grantee's proposal or detailed budget.	-	9,868
18. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.		
19. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.		
20. Travel costs were neither included in the grantee's proposal nor was FRCU's approval obtained.	\$ 11,847	-
21. Vehicle repairs, spare parts, petroleum, and other vehicle and non-project related costs were charged to USAID/Egypt which were neither included in grantee's proposal nor were these items eligible as per the FRCU policies and procedures manual.	4,335	-
22. Sales taxes were paid by the grantees.	2,433	-
23. Both travel and equipment and supplies costs were not supported with invoices, receipts, etc.	-	24,266

**NOTE 5 - QUESTIONED COSTS (CONT.):**

<b><u>Item description</u></b>	<b><u>Questioned Costs</u></b>	
	<b><u>Ineligible</u></b>	<b><u>Unsupported</u></b>
<b>B. Expenditures (Cont.)</b>		
24. Costs were completely unsupported with invoices, vouchers, etc. or any documentation identifying the type of expenditure.	-	\$ 7,586
25. Expenditures billed to USAID/Egypt were untraceable to the grantee's bank statements.	-	18,750
26. Costs for a computer screen filter, an advertising poster, and fines and penalties were charged to USAID/Egypt.	\$ <u>852</u>	<u>-</u>
<b>Total expenditures</b>	<u>47,559</u>	<u>7,825,328</u>
<b>TOTAL QUESTIONED COSTS</b>	\$ <u>116,491</u>	\$ <u>8,433,420</u>

4, Road 261,  
New Maadi,  
Cairo, Egypt.

TELEPHONE : 3520 123, 3530 837  
FAX : (02) 3530 915  
TELEX : 20121 PW UN  
23432 PW UN  
TELEGRAPH : PRICEWATER  
CAIRO C.R. 226786

*Price Waterhouse*



**REPORT OF INDEPENDENT ACCOUNTANTS**  
**ON INTERNAL CONTROL STRUCTURE**

February 10, 1994

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

We were engaged to audit the fund accountability statement of the Foreign Relations Coordination Unit ("FRCU") of the Supreme Council of Universities ("SCU") relating to costs incurred on Project Implementation Letter ("PIL") No. 12 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") University Linkages Project No. 263-0118 ("Grant Agreement") for the period from June 1, 1983 through December 31, 1992, and have issued our disclaimer report thereon dated February 10, 1994. Our report indicated that the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the aforementioned fund accountability statement.

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

In planning and performing our engagement, we considered FRCU's internal control structure related to PIL No. 12 to determine our procedures for the purpose of expressing an opinion on the fund accountability statement and not to provide assurance on the internal control structure.

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



For the purpose of this report, we determined the significant internal control structure policies and procedures to be in the categories of cash and fund custody, expenditure disbursements, project accounting, and equipment and supplies procurement and safeguarding. For these internal control structure categories cited, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement. Our engagement disclosed the following conditions we believe constitute reportable conditions:

#### **REPORTABLE CONDITIONS**

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

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

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



### **Recommendation 1**

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

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

\*\*\*\*\*

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

### **Recommendation 2**

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

\*\*\*\*\*

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

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

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



### **Recommendation 3**

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

**\* \* \* \* \***

- 4. The project transferred funds between PILs Nos. 12 and 13. This made it difficult for the project to ensure that only allowable expenditures under the grant agreement and the PILs were made from the respective PILs funds.**

### **Recommendation 4**

**We recommend that the project ensure that USAID/Egypt revenues received for PIL No. 12 are disbursed only for PIL No. 12 expenditures.**

**\* \* \* \* \***

- 5. FRCU did not reconcile financial records with either bank statements or USAID/Egypt records during the entire audit period. We found errors and discrepancies among the different sets of records that were not documented and could not be explained.**

### **Recommendation 5**

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

**\* \* \* \* \***

- 6. Cash advances were made to the linkage grants in excess of the ninety-day cash needs requirement and the expenditures were not reported on a quarterly basis as required by FRCU policy.**

### **Recommendation 6**

**We recommend that the project establish controls over all aspects of cash advances. Specifically, FRCU should make cash advances for ninety days' cash needs only as required by FRCU policy. These advances requests should be reviewed for reasonableness. Additional advances should not be granted until the prior advance has been settled.**

**\* \* \* \* \***



7. **Advances and reported expenditures were posted to the general ledgers as well as the individual linkage grant cards yet no reconciliation was performed. As noted above, the general ledgers were recorded by total amounts only, not by budget line item, therefore the grant cards were the only source of data that could be used to determine the expenditures by budget line item. Additionally, these cards were the only supporting records available for the advances.**

**Recommendation 7**

We recommend that the project reconcile the linkage grant cards and the general ledgers on a monthly basis. Reconciliations would provide a reasonable assurance that accurate entries had been made on both sets of records for cash transactions.

\* \* \* \* \*

8. **Controls surrounding the evaluation, acceptance and reporting requirements of linkage grants were weak. FRCU, with the assistance of a contractor, established a comprehensive grant policies and procedures manual for use by FRCU staff, committees, and Egyptian university linkage grantees. This manual explicitly states the specific information required for all linkage grant proposals, the evaluation and selection process, and the progress and financial reporting requirements. We noted instances in which these policies and procedures were not followed. Specifically, we found instances of the following:**
- **Proposals and contracts did not include sufficient and complete data. The names, positions, and salaries of staff were not identified. The facilities and equipment needed were not complete.**
  - **There was no evidence of proper evaluations by FRCU.**
  - **The selection criteria were not applied.**
  - **Grantees did not submit the required quarterly progress and financial reports.**
  - **Grantees did not submit sufficient support for the reported expenditures.**
  - **Grantees did neither obtain approval nor was documentation available for changes in staffing and budgets.**

**Recommendation 8**

We recommend that FRCU ensure compliance with all guidelines established in the policies and procedures manual.

\* \* \* \* \*



**A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.**

**Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered material weaknesses as defined above. We believe that all the reportable conditions described above are material weaknesses.**

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

*Pricewaterhouse*

4, Road 261,  
New Maadi,  
Cairo, Egypt

TELEPHONE : 3520 123, 3530 837  
FAX : (02) 3530 915  
TELEX : 20121 PW UN  
23432 PW UN  
TELEGRAPH : PRICEWATER  
CAIRO C.R. 226786

*Price Waterhouse*



**REPORT OF INDEPENDENT ACCOUNTANTS  
ON COMPLIANCE WITH LAWS AND REGULATIONS**

February 10, 1994

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

We were engaged to audit the fund accountability statement of the Foreign Relations Coordination Unit ("FRCU") of the Supreme Council of Universities ("SCU") relating to costs incurred on Project Implementation Letter ("PIL") No. 12 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") University Linkages Project No. 263-0118 ("Grant Agreement") for the period from June 1, 1983 through December 31, 1992, and have issued our disclaimer report thereon dated February 10, 1994. Our report indicated that the scope of our engagement was not sufficient to enable us to express, and we do not express, an opinion on the aforementioned fund accountability statement.

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

Compliance with laws, regulations, contracts and grants applicable to the FRCU project is the responsibility of FRCU's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of FRCU's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our engagement of the fund accountability statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in laws, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the following material instances of noncompliance, the effect of which are included as questioned costs in the fund accountability statement of FRCU for the period from June 1, 1983 through December 31, 1992.

1. **The project advance billed USAID/Egypt.** FRCU advanced cash to the linkage grantees and charged the advance to USAID/Egypt. We noted that the grantees did not settle the related expenditures until up to two years from the date of receipt of funds. Furthermore, upon FRCU's receipt of the unliquidated advances, we found no evidence that these amounts were deducted from the USAID/Egypt billings. The unliquidated advance amounts total \$ 335,427.



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

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

#### Recommendation 1

We recommend that FRCU discontinue billing payables.

\* \* \* \* \*

2. The project failed to maintain books and records as required by the grant agreement. The details of the questioned costs relating to \$ 8,433,420 of unsupported costs are identified in Note 5 to the accompanying fund accountability statement. Specifically, we noted that the project failed to maintain a complete record of the following:

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

#### Recommendation 2

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

\* \* \* \* \*

3. Interest earned on project bank accounts of \$ 68,932 was neither deducted from USAID/Egypt billings nor remitted to USAID/Egypt.

#### Recommendation 3

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

\* \* \* \* \*



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

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

*Prue Waterhouse*

FOREIGN RELATIONS COORDINATION UNIT  
OF THE SUPREME COUNCIL OF UNIVERSITIES

PROJECT IMPLEMENTATION LETTER NO. 12  
UNDER THE UNIVERSITY LINKAGES PROJECT NO. 263-0118

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

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

	Budget			Actual			Questioned Costs					
	LE	\$	Total in \$	LE	\$	Total in \$	Ineligible			Unsupported		
							LE	\$	Total in \$	LE	\$	Total in \$
Income and cash												
Expenditures:							LE 142,000	-	\$ 68,932	LE 1,252,668	-	\$ 608,092
Salaries and wages	LE 9,463,514	\$ 1,593,519	\$ 6,187,457	LE 9,304,016	\$ 1,548,484	\$ 6,064,997						
Permanent equipment and supplies	9,162,809	3,745,641	8,193,607	9,271,698	3,400,123	7,900,947						
Travel	2,212,445	1,056,149	2,130,151	2,217,122	1,341,475	2,417,748						
Computer and other costs	<u>3,521,806</u>	<u>435,037</u>	<u>2,144,652</u>	<u>3,477,060</u>	<u>297,566</u>	<u>1,985,459</u>						
Total questionable expenditures							<u>97,971</u>	-	<u>47,559</u>	<u>2,549,624</u>	<u>6,587,648</u>	<u>7,825,328</u>
Totals	LE <u>24,360,574</u>	\$ <u>6,830,346</u>	\$ <u>18,655,867</u>	LE <u>24,269,896</u>	\$ <u>6,587,648</u>	\$ <u>18,369,151</u>	LE <u>239,971</u>	-	\$ <u>116,491</u>	LE <u>3,802,292</u>	\$ <u>6,587,648</u>	\$ <u>8,433,420</u>

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

**PROJECT IMPLEMENTATION LETTER NO. 12  
FOR THE UNIVERSITY LINKAGES PROJECT NO. 263-0118**

**ADDITIONAL INFORMATION  
QUESTIONED COSTS DETAIL OF AMOUNTS AS INCURRED  
IN EGYPTIAN POUNDS AND U.S. DOLLARS**

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

<u>Item description</u>	<u>Questioned Costs Converted to U.S. Dollars</u>		<u>Incurred In LE</u>	<u>Incurred In U.S. dollars</u>
	<u>ineligible</u>	<u>Unsupported</u>		
<b>A. Income and cash</b>				
1. Unexpended advances billed to USAID/Egypt were returned to FRCU but, were not deducted from the USAID/Egypt billings.  Due to the vast amount of information supporting this finding, detail has not been included.	-	\$ 335,427	LE 690,979	-
2. Interest earned on the project bank account was neither returned to USAID/Egypt nor deducted from the USAID/Egypt billings.  12/91 Entry # 160	\$ 68,932	-	142,000	-
3. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-	-	-
4. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-	-	-
5. Expenditures for which the related checks were subsequently voided were not deducted from the USAID/Egypt billings.  Due to the vast amount of information supporting this finding, detail has not been included.	-	272,665	561,689	-
<b>Total income and cash</b>	<u>68,932</u>	<u>608,092</u>	<u>1,394,668</u>	-

23

<u>Item description</u>	<u>Questioned Costs Converted to U.S. Dollars</u>		<u>Incurred</u>	<u>Incurred</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>In LE</u>	<u>In U.S. dollars</u>
<b>B. Expenditures</b>				
1. Bank transfers made to either the linkage grant's U.S.- based counterpart researcher's bank account or the related University's bank account for salaries and wages that were not supported with evidence of receipt and in some instances the counterpart was not identified in either the proposal or contract and evidence of research performed was not available.	-	\$ 1,548,484	-	\$ 1,548,484
2. Invoices and other supporting documents for expenditures for equipment and supplies were not available.	-	3,400,123	-	3,400,123
3. Supporting documentation was not available for expenditures for computer and other costs.	-	297,566	-	297,566
4. Supporting documentation was not available for expenditures for airfare, hotel costs, per diems, and other transportation cost for the U.S.-based counterpart.	-	1,341,475	-	1,341,475
5. Advances paid to grantees were billed to USAID/ Egypt; but, not supported with settlement documents.				
Due to the vast amount of information supporting this finding, detail has not been included.	-	830,218	LE 1,710,250	-
6. Advances paid to grantees exceeded the grantee's budget. The excess is questionable.				
<u>Linkage Grant #</u>				
<u>Amount</u>				
90077	LE	2,400		
90009		1,916		
89019		41,598		
830106		47		
89006		<u>21,136</u>		
Total	LE	67,097		
	-	32,571	67,097	-
7. Salaries and wages were unsupported by payroll sheets, evidence of receipt, and/or approvals.				
Due to the vast amount of information relating to this finding, detail has not been included.	-	55,886	115,125	-

24

<u>Item description</u>	<u>Questioned Costs Converted to U.S. Dollars</u>		<u>Incurred In LE</u>	<u>Incurred In U.S. dollars</u>
	<u>Ineligible</u>	<u>Unsupported</u>		
<b>B. Expenditures (Cont.)</b>				
8. Grantees paid and reported salaries and wages in excess of the maximum rate allowed in the FRCU policy manual. The excess is questionable.  Due to the vast amount of information supporting this finding, detail has not been included.	\$ 12,896	-	LE 26,565	-
9. Salaries and wages were paid to employees who were neither identified on the proposal nor supported with documents explaining the type of work performed.  Due to the vast amount of information supporting this finding, detail has not been included.	-	\$ 13,308	27,415	-
10. Rewards and overtime pay were paid which were neither included in the grantees' proposals nor approved by FRCU.  Due to the vast amount of information supporting this finding, detail has not been included.	-	3,441	7,088	-
11. Salaries were paid to hourly employees without time sheets to evidence that payments were based on an hourly rate of pay. Support provided was an internally-generated document with the name of the employee and the amount received.  Due to the vast amount of information supporting this finding, detail has not been included.	-	116,041	239,045	-

25

**Questioned Costs Converted to U.S. Dollars**  
**Ineligible                      Unsupported**

**Incurring**  
**In LE**

**Incurring**  
**In U.S. dollars**

**Item description**

**B. Expenditures (Cont.)**

12. FRCU's policies and procedures manual stated that all equipment purchased should be individually listed by description and estimated cost and adequately justified in the supporting documentation submitted with the grantee's proposal. Permanent equipment should be limited to scientific and technical equipment not otherwise available at the grantee's university and general purpose office equipment requires special justification.

Equipment was charged to USAID/Egypt which was not listed by description in the proposal, were not of either a scientific or technical nature, and for which no special justification was made.

Due to the vast amount of information relating to this finding, detail has not been included.

\$ 15,196

-

LE 31,304

-

13. Procurement procedures, required by FRCU policy and procedures manual, were not followed for equipment and supplies purchases.

Due to the vast amount of information supporting this finding, detail has not been included.

-

\$ 53,000

109,180

-

14. Purchase invoices were not addressed by the grantees' name as required in FRCU's manual.

Due to the vast amount of information supporting this finding, detail has not been included.

-

55,182

113,674

-

Questioned Costs Converted to U.S. Dollars  
Ineligible                      Unsupported

Incurred  
In LE

Incurred  
In U.S. dollars

Item description

**B. Expenditures (ConL)**

15. Equipment purchases in excess of \$ 1,000 were neither listed separately in the grantee's proposal nor was approval obtained from FRCU as required in the FRCU manual.

Equipment purchases questioned less than \$ 1,000 were not listed in the project proposal.

<u>Settlement #</u>	<u>Amount</u>
53/91	LE 325
53/91	1,659
63/91	722
10/88	1,400
10/88	399
29/91	812
29/91	1,000
29/91	200
29/91	199
48/88	2,260
46/91	588
46/91	922
210/90	4,488
137/92	215
137/92	200
137/92	404
137/92	207
137/92	1,351
137/92	295
137/92	600
137/92	357
137/92	200
201/90	9,535
283/92	346
283/92	130
283/92	165
Total	LE 28,979

\$ 14,067

LE 28,979

27

**Questioned Costs Converted to U.S. Dollars**  
**Ineligible                      Unsupported**

**Incurring**  
**In LE**

**Incurring**  
**In U.S. dollars**

**Item description**

**B. Expenditures (Cont.)**

16. Supporting documentation was not available for expenditures for computer and other costs.

<u>Settlement #</u>	<u>Amount</u>				
60/89	LE 200				
60/89	200				
60/89	200				
60/89	100				
60/92	50				
60/92	100				
60/92	125				
60/92	100				
60/92	125				
60/92	100				
231/92	250				
257/92	320				
125/92	2,000				
122/92	500				
205/92	13				
18/88	28				
107/88	35				
137/92	200				
137/92	250				
137/92	200				
50/92	1,106				
175/92	200				
175/92	200				
102/88	300				
102/88	300				
<b>Total</b>	<b>LE 7,202</b>	<b>-</b>	<b>\$ 3,496</b>	<b>LE 7,202</b>	<b>-</b>

17. Computer and other costs were not included in the grantee's proposal or detailed budget.

<u>Settlement #</u>	<u>Amount</u>				
137/92	LE 250				
137/92	195				
137/92	9,745				
283/92	9,889				
137/92	250				
<b>Total</b>	<b>LE 20,329</b>	<b>-</b>	<b>9,868</b>	<b>20,329</b>	<b>-</b>

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<u>Item description</u>	<u>Questioned Costs Converted to U.S. Dollars</u>		<u>Incurred</u>	<u>Incurred</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>In LE</u>	<u>In U.S. dollars</u>
<b>B. Expenditures (Cont.)</b>				
18. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-	-	-
19. Based on FRCU management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-	-	-
20. Travel costs were neither included in the grantee's proposal nor was FRCU's approval obtained.				
<u>Settlement #</u>	<u>Amount</u>			
67/92	LE 5,594			
68/92	5,594			
205/92	13			
80/92	4,770			
84/92	4,770			
78/92	3,664			
Total	LE 24,405	\$ 11,847	LE 24,405	-
21. Vehicle repairs, spare parts, petroleum, and other vehicle and non-project related costs were charged to USAID/Egypt which were neither included in grantee's proposal nor were these items eligible as per the FRCU policies and procedures manual.				
Due to the vast amount of information relating to this finding, detail has not been included.		4,335	8,931	-
22. Sales taxes were paid by the grantees.				
<u>Settlement #</u>	<u>Amount</u>			
22/85	LE 1			
46/91	11			
46/91	6			
46/91	10			
117/92	9			
208/92	9			
257/92	168			
257/92	30			
203/92	1,182			
203/92	11			
131/92	3,409			
131/92	99			
131/92	66			
Total	LE 5,011	2,433	5,011	-

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<u>Item description</u>	<u>Questioned Costs Converted to U.S. Dollars</u>		<u>Incurred In LE</u>	<u>Incurred In U.S. dollars</u>
	<u>Ineligible</u>	<u>Unsupported</u>		
<b>B. Expenditures (Cont.)</b>				
23. Both travel and equipment and supplies costs were not supported with invoices, receipts, etc.  Due to the vast amount of information supporting this finding, detail has not been included.	-	\$ 24,266	LE 49,988	-
24. Costs were completely unsupported with invoices, vouchers, etc. or any documentation identifying the type of expenditure.  Due to the vast amount of information relating to this finding, detail has not been included.	-	7,586	15,627	-
25. Expenditures billed to USAID/Egypt were untraceable to the grantee's bank statements.  Due to the vast amount of information supporting this finding, detail has not been included.	-	18,750	38,625	-
26. Costs for a computer screen filter, an advertising poster, and fines and penalties were charged to USAID/Egypt.	-	-	-	-
<u>Settlement #</u>	<u>Amount</u>			
10/88	LE 5			
30/88	1,000			
31/88	400			
31/88	<u>350</u>			
Total	LE 1,755	\$ 852	1,755	-
<b>Total expenditures</b>		<u>47,559</u>	<u>2,647,595</u>	<u>6,587,648</u>
<b>TOTAL QUESTIONED</b>		\$ <u>116,491</u>	LE <u>4,042,263</u>	\$ <u>6,587,648</u>

FOREIGN RELATIONS COORDINATION UNIT  
OF THE SUPREME COUNCIL OF UNIVERSITIES

Appendix C  
Page 1 of 20

PROJECT IMPLEMENTATION LETTER NO. 12  
UNDER THE UNIVERSITY LINKAGES PROJECT NO. 263-0118

MANAGEMENT COMMENTS

PROJECT IMPLEMENTATION LETTER NO. 12  
FOR THE UNIVERSITY LINKAGE PROJECT NO. 263-0118

FUND ACCOUNTABILITY STATEMENT  
FRCU RESPONSES

A- USAID/EGYPT REVENUES RECEIVED

A/1

A/1 (LE) & A/5 (LE) TOGETHER

Refunded amounts according to PW were for a total of LE 699,881. Canceled checks according to PW report were for a total of LE 561,689. Thus the total amounts that should have been deducted from billings to USAID are LE 1,261,670 ( LE 699,881 + LE 561,689 ).

FRCU wishes to demonstrate that this amounts were deducted from AID billings although this was not done on a regular monthly basis but at a few critical points in the life of the Project.

a) In October 1990 AID moved from a system in which it made three month revolving advances to the NIB system (Protocol for Cash Advances). At that time the October project expenditures were for a total of LE 871,952. The voucher to AID was for only LE 388,783. The difference deducted of LE 483,169 accounts for refunds and canceled checks (See attached copy of the General Ledger for October 1990).

b) A similar deduction for refunds and canceled checks was applied in June 1991 where the total expenditures were LE 108,778. The reported amount to AID was LE 91,078 only with a deduction of LE 17,700 for such refunds and cancelled checks.

c) The June 1992 project expenditures were for a total of LE 2,272,730.6 (see the attached copy of the June 1992 page of the G/L showing total expenditures of LE 2,272,730.6). This has to be reduced by LE 171,776 (relating to PIL 13 and entered in G/L of PIL 12 by mistake but properly billed to USAID). Thus the total June 1992 expenditures under PIL 12 = LE 2,272,730.6 - LE 171,776 = LE 2,100,956

The June 1992 expenditures reported to AID were for LE 1,583,988.18 reported in two vouchers for June 1992: the first one for LE 767,430.15 and the second for LE 816,558.03. The difference between the

(1)

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expended amount and the amount billed to AID is LE 516,967.82 and represents the deductions for refunded settlements returned to FRCU.

- d) The total amount of refunds calculated by PW (LE 699,881) incorrectly included three amounts that should have not been included as refunds as explained below :
- i) LE 115 : Tax withholding as explained in the response to finding A/1 in PIL 13. This is an amount that is withheld by the FRCU and grantees as buyers from suppliers on behalf of the GOE. The amounts are deposited in the bank account until enough withholding are collected and paid to the GOE.
  - ii) LE 5753 : These are canceled checks that were replaced by substitute checks and they are included in the USAID billings only once. The amount should not be considered as income to the FRCU since another check in the same amount or greater will be issued by the FRCU and not included in the future.
  - iii) An amount of LE 989 appearing in the G. L was misread by the PW staff as LE 9890. The difference should be corrected for. It is equal to  $LE\ 9890 - LE\ 989 = LE\ 8902$ .

The sum of these corrections :

- i) LE 115
  - ii) LE 5,753
  - iii) LE 8,902
- LE 14,770

Therefore refunds and canceled checks to be accounted for	- LE 1,261,670
Minus Correction	- LE 14,770
This is the amount that has to be justified	- LE 1,246,900
Minus deduction in Oct. 1990 voucher (a)	- <u>LE 483,169</u>
	763,731
Minus deduction in June 91 voucher (b)	- <u>17,700</u>
	746,03
Minus deduction in June 92 voucher (c)	516,967.82
	229,06318

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Minus \$ 176,910 in cancelled settlements (see attachments) -S 176,910

S 52,153

This explains LE 1,209,516 out of the LE 1,261,670 under this finding. The questioned amount should therefore be reduced to LE 52,153.

A check is being issued to USAID for this amount. This resolves this finding.

A/1 (S) & A/5

Similar to the LE portion of the PIL we respond to A/1 (S) and A/1 (LE) together i.e. the S 1,137,267 of A/1 plus the S 151,712 giving S 1,288,974 and explain it below.

As for the amount totalling S 1,137,267 which was mentioned by PW report as advanced amounts under the column titled "research settlements" in their working papers titled "FRCU Income". FRCU disagrees completely with this finding, as in fact these amounts are not amounts related to grant advances at all.

There are no advances under the S part of the PIL and therefore settlements. The S 1,137,267 should therefore not be placed under the "research settlements" column.

Part of this amount (S 381,451) related to letters of credit that have been opened for the importation of research equipment during the last few months of the project. The FRCU was advised by Dr. Gohar, the USAID Project Officer, that these expenditures would not be allowed by USAID if the equipment arrived in Cairo after the Project Activity Completion Date (PACD) which was June 30, 1992. So FRCU had to proceed to cancel these procurements and therefore closed out the letters of credit for these procurements. It is important for FRCU to mention here that this closeout process took several months and is being reported in a final voucher that is coming to USAID for S 189,322 out of which S 636,645 are additional expenses and S 447,323 are settlements refunds and cancelled checks (see attached voucher). Of the S 447,323 refunded amount, there is S 381,451 under permanent equipment and supplies line item because of cancelling the letters of credit as mentioned above. In the following we explain the S 1,288,974.

As for the details of the S 1,288,974, FRCU gives these responses :

	Amount in US\$	Entry No.	Date	Responses
a)	34,113	73	August/84	
b)	6,446	74	August/84	

These two amounts were

(3)

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- mistakenly deducted by the bank (see entry No. ) and were later returned to the bank account. So both amounts have nothing to do with the project or grant account, or the total amount in the report.
- c) 200000 96 October/84 This amount is a USAID payment to FRCU. It is not a settled advance as recorded in PW report. ( attached is a copy of the check and its deposit slip of the bank). This is an error in recording the order (see copy of the relevant page of the G/L)
- d) 201918 117 November/84 This amount is not related to the entry No. 117. The amount under entry # 117 is \$ 1675 The \$ 201,918 is the total of the bank account debit side in that page of the G/L that has the entry No. 117. The PW member mistakenly read this as entry # 117.
- e) 122162 331 December/86 This amount is not a regular research advance settlement as mentioned in the PW working papers and should therefore not be included in the total amount of grant settlements. The explanation of this amount is as follows : Prior to 1990 the LE portion of the PIL received three-month revolving advances. Frequently there were significant delays in the issuance of these advance-checks. As a cash management procedure, the FRCU used to utilize the cash

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already advanced under different PILs (or different accounts under the same PIL) to respond to other immediate project needs (which are properly authorized under the different PILs or under different accounts of the same PIL) and then later return those amounts to the proper accounts originally debited as soon as the advance is received. Settlement number 331 records the return of such an amount to the PIL 12 account from which it was taken. It is therefore not a revenue to the FRCU but merely the return of an amount that was taken out at an earlier date as entry 275. Because the entry is entered twice one of them is cancelled.

Total \$ 564,639

A/1 (S) - A/5 (S)

Amount addressed in the finding	\$ 1,238,974
Minus Correction in (a) + (b) + (c) + (d) + (e)	- \$ 564,634
	<u>\$ 674,340</u>
This is the amount that has to be justified	\$ 724,335
Minus returned amount in last voucher (attached)	<u>\$ 447,323</u>
	\$ 277,011

FRCU has already refunded USAID \$ 359,360 (see attached which covers this return plus other adjustments + \$ 82,289, of which \$ 35,023 are under B/3).

Thus the FRCU considers this finding resolved.

(5)

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**A/2**

The interest payments on the dollar account was converted to LE and was transferred to N.I. B. to be taken in consideration by deduction from the last billing to USAID. The cumulative was LE 108,016. (A check to USAID is being issued for LE 108,016).

**A/3**

FRCU disagrees as the total amount of the USAID fund which is recorded in the PW working papers with the amount of LE 19,219,743 is wrong due to an error calculation. The right total is LE 27,355,743. So this finding for LE 5,050,153 should be canceled.

This error resulted from an addition error in the FRCU income statement prepared by PW on the page starting with a total of received checks of S 6,819,619 (from the previous page) brought from (Aug. & Sep. 88). When added to the two other received checks by the FRCU from USAID on this page for LE 150,000 and LE 718,600 should give a total for this page of LE 7,688,219. Instead, PW staff miscalculated this sum to be LE 1,550,519, probably by misreading the previous page total of LE 6,819,617 as LE 681,961.

We would be grateful if PW correct this error and removes this finding.

Another error for S 2.8 Million was introduced when this amount was included in the sum total in Feb. 1990 and considered a payment from USAID to the FRCU. This is not a payment but a line of credit for the FRCU at the NIB. The correct total is therefore LE 27,355,743 - LE 2,800,000 = LE 24,555,743. Note that this amount was taken by USAID in 1993.

**A/3 (S)**

As for the US dollar revenues totalling S 293,609, FRCU disagrees that this amounts could not be accounted for in the general ledger because of :

- a) Entry No. 96 dated October/84 with the amount of S 200,000 was mentioned mistakenly in PW working papers as research settlement while it is a US dollar revenue from USAID to FRCU. (See response to A/1 (S)).
- b) Entry No. 89 dated October/84 with the amount of S 162,074 is not mentioned in PW working papers. This amount is a US dollar revenue from USAID to FRCU.

So the total General Ledger revenues received from USAID (as calculated by PW) should be increased by S 362,074 from the S 6,294,039 (stated in the

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last page of the PW detailed working papers on FRCU \$ income under PIL 12) to \$ 6,656,113.

Thus there is no amount unaccounted for and this finding also should be canceled.

Please note that some of the FT/800 non-project accounts were mistakenly recorded by PW as PIL 12/LE funds.

A/4

FRCU disagrees as all the USAID/Egypt revenues are available. Bank statements are attached :

Date	Entry #	Amount	Date at the Bank Statement
09/84	16	LE 25,058	
12/84	129	568,855	6 - 14 - 1984
08/86	34	300,000	1 - ... - 1984
10/90	87	202,843	9 - 1 - 1984
10/90	88	. 27,107	2 - 11 - 1991
06/92	298	<u>816,558</u>	5 - 19 - 1991
			3 - .. - 1993
Total		LE 1,940,421	
12/83	6	S 155,838	4 - 12 - 1983
12/83	68	35,667	9 - 30 - 1983
12/83	70	218	11-15 - 1983
07/84	77	23,924	8 - 5 - 1984
11/85	66	<u>82,857</u>	4 - 10 - 1985
Total		S 301,504	

A/5

With A/1

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B- EXPENDITURES

B/1

FRCU disagrees because of the following :

- a) This finding notes that the transfers of funds were made to either the individual's or the related university's bank account. But this is indeed the case since some of the linkage grants were individual linkages and others were broader institutional linkages between the universities. Depending on the nature of the linkage grant, and the preference of the US university, the payments were either made directly to the individual or to his mother university, This is consistent with the nature of university research and the wide range of grant sizes from the very small Micros to the very large Maxis.
- b) Also this finding claims that there is no evidence of receipt. FRCU disagrees completely with this opinion as bank transfers which are made to the accounts of the individual researchers or university accounts became available to the researchers upon the transfer. The bank debited the FRCU account as a result of the transfer which is in fact a solid evidence indicating the completion of the transfer. If any error occurs affecting the transfer to the receiving researcher, this researcher will note the delay in payment and communicate the problem to the Egyptian PI and FRCU. Such an error has not occurred in the 12 years of the project because FRCU asks the bank not to carry out the transfer except when it receives from the US counterpart a written statement of the bank address and the account No. to which the transfer should be made.
- c) As for the PW statement that in some instances the US counterpart was not identified on the proposal and/or contract, FRCU would like to explain that the project conditions allow for the award of grants without the existence of the US counterpart from the beginning of the grant and also allow the expenditures of up to 10% of the budget of the grant before acquiring the US counterpart. Correspondence from USAID at the beginning of the project clearly indicated that this is allowed. FRCU also would like to explain that not all phase I grants had US counterparts.
- d) In the PW statement that evidence of research performed by US counterparts was not available FRCU disagrees as the following performance control measures were taken to ensure that the US counterpart has performed his role in the research grant implementation before getting paid.

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To start the transfer of funds to the US counterpart, the Egyptian PI submits a request to the FRCU asking for the transfer of the fund. In his request he certifies that the required progress reports were submitted to the priority committee and were reviewed and found acceptable. This certification indicates that progress on the work plan of the research had taken place. Also in most instances, he mentions in his request that the US counterpart has satisfactorily performed his part. In all cases the Egyptian PI attaches to his request a copy of the follow up and evaluation report written by the priority committee on the grant based on their review of his progress report. This evaluation report addresses the different aspects of the implementation of the research grant and includes a section on the performance of the US counterpart. This evaluation report is signed by the priority committee and the follow up member of the committee.

In addition, the request by the Egyptian PI is cleared by the Executive Director of the FRCU. The mentioned above affords and independent control check points on the adequacy of the payment being requested. Also the Financial manager does not request transfer from the bank except after these performance requirements are satisfied and of course after checking conformity of the proposed payment with the financial plan and financial status of this particular grant.

(Attached are some examples for the above mentioned response)

B/2

This finding states that the FRCU claimed that the supporting documentation for US dollar expenditures charged under equipment and supplies line item were available at the customs authority and that PW was denied access to these documents at the customs authority.

FRCU would like to explain that the original invoices are in fact at the customs authority and that this is not just a claim. FRCU takes this opportunity to explain the official procedures followed by the government of Egypt in clearing imported items through the customs authority. This procedure is not the responsibility of FRCU. All importers whether public or private have to follow this procedure which consists of depositing the original invoice at the custom authority in order to obtain a custom release for the imported item. In the most general case the equipment arrives with one original invoice, in some special cases more than one original is received. The additional one is left at the bank (making the payment under the letter of credit) and if there is a third one it would be left with the researcher to make the store steps at the university, however we will focus the discussion on the most general case where there is one original.

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PW makes the statement that they were denied access to the vouchers at the customs authority. Regulations of the custom authority do not allow outside inspection by non-government auditors. Accordingly the customs authority was ready to issue an official certificate stating that the original invoices for a particular piece of equipment is available at the customs authority. This certificate is quite official and is specific enough to the items being questioned. So it has the same legal status as the original invoice itself and considered sufficient documentation for the purpose of this audit.

Attached is a comprehensive attachment on the procurement process and the legal position of the customs authority certifying possession of original invoice plus several examples of specific certifications by custom authority for particular process of equipment.

B/3

During the audit PW noticed that the G/L is not divided by line item. The FRCU proposed to divide the total expenses by line item for such process. This process should have been done consistently with the already reported line items (billed to USAID). Because of time limiting, errors were introduced during this disaggregation process. These are not related to actual billings at expenses in any-way but were merely introduced during the disaggregation process. The \$ 297,566 is one such error. The FRCU stands by the figures in the line items appearing in the billings (vouchers) to USAID. These are the most reliable figures and not the newly established division done during the audit.

Since the finding has questioned the whole computer costs and other costs line item. FRCU will explain the whole expenditures under this line item. Until the end of the PW audit total expenditure so on this line item were \$ 274,272. Attached are the documents and bank transfers adding up to \$ 231,243 ( attachment (a)). A final voucher being sent to USAID expenses increases the line item by \$ 86,263 to a total of \$ 360,340. Out of this total the explained amount is \$ 317,500 ( 231,243 + 86,263) Canceled settlements improperly recorded by PW under this finding equal \$ 7,817.

Settlement #	Amount (\$)
207	1134
211	3009
212	2408
214	1266
	\$ 7,817

Raising the explained amount to \$325,317. The difference of 35,023 (\$ 360,340 - \$ 325,317) are for old procurements for which the partial supporting documents are available. The questioned costs should be reduced to 0 or at most this amount.

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**B/4**

FRCU disagrees as this portion of the travel budget line item was not expended for the travel costs of the US counterpart. It was used for the hotel costs and per diems for the Egyptian principal investigators travel. As for airline tickets for both Egyptian principal investigators and US counterparts, they were expended from the LE account. The hotel costs and per diems for the US counterparts were also expended from the LE account. Only one or two special cases for US counterpart airline tickets were paid from the S account after being approved from the Executive Director of the FRCU.

All the amounts that had been given from the US dollar account to the Egyptian PIs before travelling as loans for hotel costs and per diems were settled.

Some examples are given as follows :

Amount (\$)	Loan Entry	Check #	Grant #	Settlement Entry #
1530	56	227328	82021	
1533	57	227329	830609	148/84
1533	58	227330	830609	165/84
1650	59	227331	81016	166/84
1650	60	227332	81016	29/85
1275	74	696549	82009	29/85
1275	75	696550	82009	200/84
1050	81	696556	830701	200/84
1050	82	696557	830701	197/84
1575	31	696505	82009	204/84
1125	32	696506	831002	102/85
470	33	696507	81014	29/84
1575	44	696519	82009	34/84
615	45	520	82009	102/85
612	46	521	81011	45/85
1875	64	656559	81011	46/86
550	65	540	81020	189/84
63	138	62460	81020	
124	139	62461	830001	123/84
186	140	62	830603	124/84
144	141	63	830603	125/84
1270	97	19	830201	126/84
1547	100	21	830211	10/84
920	106	28	82008	194/84
918	107	29	831101	168/84
781	108	30	842084	162/84
900	34	227306	840201	169/84
2100	35	7	81013	120/84
			830510	191/84

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1449	61	227333	831004	116/84
888	62	227334	841001	164/84
1050	67	339	830202	128/84
1050	68	340	830202	129/84
2244	69	341	81011	20/84
2244	70	342	81011	21/84

B/5

FRCU would like to state that the current total amount of advances outstanding for the linkage grants that PW tested is

List No.	Linkage Grant #	Outstanding Amount (LE)		Sub Total	Grant Total
		Per PW	Per FRCU		
1	871004	8300	4300		
	871011	8574	0		
	842016	67412	64412		
	90069	21	21		
	830204	31039	1997		
	90044	437	0		
	90076	35,099			
	83007	31	31		
	830201	54,034	6943		
2	90071	6174	6174		
	830504	52464	22416		
	90009	11972	0		
	8402	77292			
	881009	10000	0		
	830508	44581	35581		
	830511	30302	3396		
	830506	83345	53192		
	90007	57214	57214		
	90077	34391	7372		
	830604	62827	62827		
	83020	10000	10000		
3	90008	46451	46548		
	842021	15324	4526		
	90015	41910	41910		
	89019	123870			
	840503	87389	73308		
	89017	5813	5813		
	861001	29157	24690		
	881007	9980	0		
	830106	8918	1736		

No. of project not clear

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	861008	10000	188
	830103	30982	28841
	830102	3675	3227
			64495
4	89006	103280	51190
	830510	97656	59480
	830609	24676	24676
	90016	42319	42319
	830607	21659	21659
			199324
5	840801	15753	3512
	90017	5731	5731
	851014	10625	3353
	830603	50478	3546
	90014	8476	7821
			17963
6	841002	231	12
	830605	34807	27283
	90029	86194	62204
	90078	13660	6732
	830509	35504	21324
		1650027	1164227

In response to this finding B/5 FRCU states that :

- a) The outstanding advances for grant No. 871011, 881009 and 88100 are already settled as those advances were paid out of government of Egypt resources and not USAID funds. Their documents are with the documentation for other government of Egypt funded activities and not with the documentation of the USAID funded PIL 12 expenses. These advances should therefore not be disallowed in a PIL 12 audit. Even if PW were auditing the part of the grant funded from GOE sources, they should not have made this disallowance, since the documentation of the settlement of these advances is actually available but in a separate place away from the PIL 12 documentation.
- b) Regarding the remaining outstanding advances, FRCU would like to state that the issue of liquidating outstanding advances has been a major concern of FRCU management throughout the project. The effort of FRCU have included writing to the principal investigators, the presidents of their universities and also involving the Minister of Higher Education in bringing pressure on the principal investigators to settle these outstanding advances. These

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efforts have been met with success which is evidenced by the reduction of outstanding amount over the short period since the start of the audit.

An other reason for slow resolution of the outstanding advances issue which has been the absence of the needed financial management, accounting, and follow up staff during the later years of phase I (1986 and onward). This is due to fact that USAID stopped funding the unit since 1986. Government of Egypt funding did come but with considerable delay and was restricted and limited to spending in the same Egyptian fiscal year. Such additional follow up staff resources were needed to visit PIs and follow up on the liquidation of outstanding advances.

The FRCU imposed a new restriction under phase II or not allowing PIs who have unsettled phase I advances to apply under phase II.

The efforts to settle remaining advances will be intensified during the coming period. PIs not responding will be issued an order to refund these amounts to the project through government channels.

At any rate the questioned amount should be reduced by LE 485,805 due to the difference between the PW and FRCU figures. Please review your figures.

B/6

FRCU disagrees according to this explanation.

Linkage Grant	= Amount (LE)	Response
90077	13789	There is a written approval from FRCU signed by the Executive Director to raise the total budget of the project with an amount of LE 11380. The project did not use all of this amount but only LE 6748 had been used. (Attached is the FRCU approval).
90009	1919	
89019	41598	
89006	21136	

The expenditures mentioned here were expended for the US counterpart and from the portion of the budget belongs to them. So the expenses were

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not from the local budget of the linkage grant. In fact these three grants expended less than their budget.

830106

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The total budget for this linkage grant is LE 74700 and the total expenditure is LE 71121. So there is no excess accordingly.

In general there were grants with HBCL's (1989 - 1990 + ..... ) for LE 75,000 + \$ 50,000. The PW observation is incorrect. Please cancel this finding as it is not based on an accurate field work.

B/7

In response to this finding FRCU would like to explain the process for paying research team under PIL 12:

At the proposal stage only the main actors on the grant are identified. This is usually the principal investigator and sometimes the senior collaborator. It is not practical to require a more detailed team composition. Such research team change in composition during the life of the grant depending on the work requirements of research program.

Through the grant advance mechanism the principal investigator obtains the authorized amount for staff salary payments and is responsible or distributing these amounts. Receipts and payroll sheers do indeed exist as evidenced from an examination of the PW detailed working papers supporting finding B/7 where these papers indicate that payroll sheets exist but some signatures are missing. There are many different reasons for the absence of some signatures which are for example, some payment are made to agricultural manual workers who are illiterate and are employed temporarily. Also other payments are made by a check in cases there are no signatures.

Some example are attached.

B/8

FRCU disagrees as the maximum rate for salaries and wages allowed in the FRCU policy manual was raised in October 1988 and approved by the FRCU Executive Board in full agreement with the presidential decree for setting a limitation of 200% of basic salary (300% for more than one project).

This change was called for because of the increase of University's staff

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salaries in the period from the start of the project. A copy of the approval from the FRCU Executive Board is attached having the changes as follows :

Researchers	Salaries Rate (Before 1988)	Salaries Rate (After 1988)
Professor	28,50	40
Associate Professor	23,50	33
Lecturer	19,00	27
Assistant Lecturer	14,60	20
Demonstrator	11,00	16

Note : All the details mentioned in the PW working papers related to this finding are after October 1988.

B/9

The FRCU policy Manual requires only the names of the research team to be identified on the proposal. As for the temporary employees that are needed for different work through out different times of the project life. It is not possible to identify their names on the proposal. University Linkage Project has different kinds of applied researches. Some are in agriculture field or medical field and others are in engineering and so on. So depending on the nature of the work done these persons differ from place to another and from time to time. Again specification at the proposal stage is impractical and the condition is reviewed by the FRCU approval. Other responses have addressed the issue of specification or proposal stage.

B/10

FRCU would like to state that for this project. There is no distinction between incentive, overtime, bonus, research reward, etc. These are only different names for allowable staff payments. The large number of accountants in each of the approximately 500 grants call the same payment different names. What is called a research payment by one accountant is called an overtime payment by another. In the late 1980s when USAID issued new regulations for salary supplement payments, USAID examined FRCU payments and found them acceptable.

Based on this the funding PILs were allowed to continue funding the salaries line item.

All payments under the project are in the nature of honorary research payments that are allowed under the salary supplement guidance of USAID. All such work for which payments are made is not related to the full-time work of these employees and is therefore not a salary supplement.

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B/11

The response to this finding is related to the response to finding B/2 under PIL 13. The system of payments under the project is not based on an hourly rate. The hourly rate is only given so that the researchers working under the project would have an established rate that they could use in other consulting work. For researchers the rate is calculated based on 9 hour per month and corresponds to the maximum of 200 % of basic salary allowed by the presidential decree. Obviously the system assumes that the researchers work for much more than the 9 hour/month but because of the presidential decree could get paid for only the 9 hour. A person is on the research team in a certain month or is not. If he is, he gets paid the amount (200 % basic) and if he does not, he gets no payment at all. It does not make any sense to pay someone for working 2 out of 9 hours for since researchers are already working for much more. It is the responsibility of the PI to certify whether somebody worked or not and therefore whether he gets paid or not. One should not expect to find time sheets under these grants. The basic salaries have changed several times during the project and the hourly rate and monthly payments have thus changed. Attached are many of payments from PW finding with explanations leading to the conclusion that researchers frequently require less than the maximum allowable by the presidential decree.

B/12

At project start the FRCU required the specification of equipment at the proposal level. This condition was self-imposed by the FRCU on itself and was not a project requirement. The condition proved to be not a practical one because the specific equipment get determined within the implementation of the research work plan and not before it. For some research proposals the details specification of equipment was given at the proposal stage. For others, FRCU management approval of the grants without the full determination of the equipment at the proposal stage. This FRCU approval is in effect a perfectly legitimate authorization from project management to the grant receipts to determine their equipment during grant execution. Prior to purchase FRCU approval is obtained for all purchases above LE 200. The adequacy of the choice and determination by the PIs are reviewed within the regular monitoring and review process of grants by the FRCU. All such procurements within the life of the grant should be considered properly authorized. The finding also states that equipment procurements were to be limited to scientific and technical equipment not otherwise available. The finding then claims that equipment purchases were found which (a) not listed in the proposal ; (b) were not of a scientific or technical nature; and (c) for which no special justification has been made. Item (a) has been responded to . Regarding item (b) FRCU reserves to itself and its and respectable committee structure, which houses an enormous combination

PROJECT IMPLEMENTATION LETTER NO. 12  
UNDER THE UNIVERSITY LINKAGES PROJECT NO. 263-0118

MANAGEMENT COMMENTS

of valuable scientific and technical expertise; the right to make judgements as to whether the equipment is of a scientific or technical nature. The right to make these judgements and other related technical judgements, is given to the FRCU by the project, and is one of the conditions of the project. It is not to be the subject of this audit. The choices made by PIs during grant implementation are reviewed by the FRCU and its committees who know about the scientific nature of the grant and are in a position to make judgements regarding their necessity for grant progress. An air conditioner for example might be a regular housing or luxury item for one grant but a needed temperature control unit for another grant. FRCU and its committees structure approve these procurements and review the adequacy of the choices made by the PIs. Item (b) is thus responded to. On item (c), the FRCU states that the justifications are evident to the FRCU and committees from the research work plan. The FRCU is also in the best position to judge. Proposed equipment relative to their availability in the Egyptian university system.

B/13

In response to this finding the FRCU would like to point to the fact that some of the limits on procurement have increased since the date of issuing the manual. Available at the FRCU is a file which outlines adherence to procedures and regulations in most cases. Wherever exceptions occur they are related to an urgent procurement a procurement by a direct order to a public sector supplier to exceptional cases based on waivers obtained from USAID. The FRCU collected all relevant original to for this finding and invites PW to further discussion about specific cases.

B/14

Under this project the grantee means either the PI or his university or the FRCU. Therefore the issuance of the invoice in the name of the PI or his university are perfectly acceptable within the framework of the project. The main point required by the conditions of the project is that the equipment goes to the mother university of the PI after the end of the project, except for equipment going to the FRCU where the equipment goes to the FRCU directly.

B/15

The response to this item is closely related to the response to B/13. The condition of being listed separately in the proposal was discussed under B/13. Deviation from this condition is properly authorized by the FRCU by approving the grant without a specific list in the proposal and is within the technical project management prerogative of the FRCU. This amount should not be questioned.

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B/16

Most of these payments are from grant settlements of advances to the grant PI. These payments are advances ( temporary procurement loans or petty advances) made by the PI to the procurement employee. These amounts are advances and are not included in the grant expense report as an acceptable expenditure. When the purchase for which the advance is made is executed, it is included in the expense report from the grant PI to the FRCU for. It is included with the actual amount of the procurement, which could be less than or more than the advance. If the purchase is for a higher amount than the advance, the PI pays the employee the difference. If it is less, the difference is returned to the PI. In all cases, the grant is charged the exact amount of the procurement and not the advanced amount. The supporting documents are for the purchase amount and not the advance amounts. The reason why PW did not find supporting documentation is that they were looking at advances and not actual procurement amounts. Such advances are marked in the attachments list.

Settlement	Amount(LE)	
60/89	200	Procurement advances
60/89	200	Procurement advances
60/89	200	Procurement advances
60/89	100	Procurement advances
60/89	50	Procurement advances
60/89	100	Procurement advances
60/89	125	Procurement advances
60/89	100	Procurement advances
60/09	125	Procurement advances
60/92	100	Procurement advances
125/92	2,000	Procurement advances
122/92	500	(supported with documents)
205/92	13	Procurement advances
137/92	200	Bank charges
137/92	250	Procurement advances
137/92	200	Procurement advances
175/92	200	Procurement advances
175/92	200	Procurement advances
102/88	300	Procurement advances
102/88	300	Procurement advances

B/17

The response to this is the same as the response to B/12. Please refer to that response. Adequate approval from FRCU obtained at the time the expense is incurred. These should not be questioned costs

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B/20

This is in-country travel. All grants have this as an allowed expenditure even when not present in proposal since the need becomes clear during grant execution. Standard government of Egypt documentation for internal travel are available (see E/1 under PIL 13) for similar items.

B/21

No vehicles are allowed under the project. Researchers are allowed to rent cars or if they so wish use their vehicles and charge the project for its utilization. It was found that car rentals cost much more and would consume the budget of linkages. Most researchers preferred to use their own vehicles and keep the money for other research uses. The FRCU authorized this in order to make the best of project funds. This was allowed only when project site was far from researchers.

B/22

Amount questioned will be paid back. FRCU obtains the needed custom exception through applications to the Importation Rationalization committee. FRCU will apply to extend its custom exception to include sales taxes as well.

B/23

Supporting documents for most of these items are referred to in an attachment ( unfortunately in Arabic due to time limitation). Many of the questioned costs are procurement advances and should not be a questioned cost as explained in the response to B/16. Please refer to the response to B/16 and the attached notes.

B/24

Similar to B/23 and B/16. Please refer to attached notes and the response to B/16. Documents are available at FRCU ( copies attached)

B/25

We disagree with PW (see attached reasons). In many cases the confusion is due to PW recording total amount, rather than net amounts and invite PW for further discussion and explanation.

B/26

These include payments for crops for experimentation (not charges), computer work, pest control, rented project land sound like acceptable costs. We do not see PW rationale in disallowing it. For items disallowed because of lack of AID markings are discussed in the attachments.

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

**Appendix D  
Page 1 of 7**

**PROJECT IMPLEMENTATION LETTER NO. 12  
UNDER THE UNIVERSITY LINKAGE PROJECT NO. 263-0118**

**AUDITOR RESPONSE**

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

**A. Income and cash**

**A.1 & A.5 (LE):**

FRCU billed advances issued to Principal Investigators ("PIs") to USAID/Egypt. Upon settlement, the residual was returned to the project bank account; but was not credited to the USAID/Egypt billing. FRCU contends that the amount questioned in our draft report relating to unliquidated advances issued to the PIs and voided checks were refunded to USAID/Egypt through a series of under billings. We reviewed FRCU's comments and noted the following:

- a. FRCU provided both a general ledger page copy and the billing submitted to USAID/Egypt dated October, 1990 demonstrating that 483,169 Egyptian pounds ("LE") were credited to USAID/Egypt. While we recognize that, at least, LE 74,549 was deducted from the USAID/Egypt billing, FRCU did not provide documents to explain or support the amount's breakdown. We cannot conclude whether or not this amount relates to the unliquidated advances and voided checks; therefore, our position is unchanged.
- b. FRCU provided a general ledger page copy dated June, 1991 both displaying a different amount than was previously recorded during our audit field work and representing what FRCU declares is an under billing as the general ledger total is LE 17,700 less than the concurrent billing to USAID/Egypt. Further, the total presented in the general ledger does not sum to the total stated. According to our records, the general ledger amount agrees to the amount billed to USAID/Egypt; therefore, our position is unchanged.
- c. As in b. above, FRCU provided a general ledger page copy presenting a total other than the one previously noted during our audit field work and represents what FRCU affirms is an under billing as the general ledger total is LE 516,967 less than the concurrent billing to USAID/Egypt. FRCU noted an error made by the FRCU accountants already taken into consideration in our calculations. According to our records, the general ledger total was LE 1,659,537 while the amount billed to USAID/Egypt was LE 1,583,988. The difference under billed is LE 75,549. While we recognize that LE 516,967 was deducted from the USAID/Egypt billings, FRCU did neither provide documents explaining the general ledger total breakdown nor explain the discrepancy between the two amounts; therefore, our position is unchanged.
- d. FRCU commented about three items listed below:
  - i) FRCU claims that LE 115 represents vendor tax withholding payable to the Government of Egypt ("GOE"). Given that FRCU is correct, the net purchases should have been billed to USAID/Egypt upon settlement of the advance and subsequently, when the tax authority was paid the total amount due, FRCU should have billed the vendor taxes to USAID/Egypt. The system employed by

FRCU might cause the vendor tax withholdings to be billed twice to USAID/Egypt. FRCU did not provide documents to support their comment.

- ii) FRCU asserts that LE 5,753 represents canceled checks that were reissued; but, billed only once to USAID/Egypt. FRCU did not provide documents to support their comment.
- iii) We reviewed the supporting documents FRCU provided and reduced the questioned costs by LE 8,902.

Based on FRCU's comments discussed above, our position is unchanged except for point iii) above.

Note: FRCU pledged to refund LE 52,153 to USAID/Egypt; however, no evidence was provided to prove that a refund was made.

**A.1 & A.5 (\$):**

Income dollar amounts were not questioned.

**A.2 (LE):**

FRCU asserts that interest earnings of LE 33,984 were deducted from the June, 1992 USAID/Egypt billing; however, FRCU considered this amount in their comments in exception A.1 above. Given that FRCU's comment in A.1 is valid, the deduction in the June, 1992 billing cannot represent interest earnings; therefore, our position is unchanged.

Note: FRCU pledged to refund LE 108,016 to USAID/Egypt; however, no evidence was provided to prove that a refund was made.

**A.3 (LE):**

Although FRCU's comments under this caption neither address nor clear the questioned item, other documents received subsequent to issuance of the draft report clear the exception. Accordingly, this questioned cost is not included in the final report. We agree to remove the item from the final report.

**A.3 (\$):**

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

**A.4 (LE):**

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

**A.4 (\$):**

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

**A.5 (\$ and LE):**

Refer to auditor's response in A.1 (LE) above.

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**B. EXPENDITURES (\$)**

**B.1 SALARIES AND WAGES (\$)**

FRCU management provided a copy of the Project Director's requests of the bank instructing them to debit the FRCU project bank account and transfer the related funds to both the foreign counterparts and university bank accounts to support questioned bank transfers. FRCU did not provide third party reliable evidence such as either bank debit notes, bank statements, or transfer slips to support their comments; therefore, our position is unchanged.

**B.2 EQUIPMENT AND SUPPLIES (\$)**

FRCU agrees that equipment and supplies supporting documents are stored at the Egyptian customs authority where, because of GOE regulations, independent auditors are not allowed access to them. FRCU provided a copy of the FRCU procurement procedure policy and the legal position issued by the customs authority certifying possession of original invoices; however, we cannot accept third party certifications in lieu of auditing original supporting documents. Our position is unchanged.

**B.3 COMPUTER AND OTHER COSTS (\$)**

The supporting documents FRCU provided neither match nor tie to the questioned cost. FRCU provided a billing voucher in which the accumulated total produced by FRCU did not match PW's accumulated totals; therefore, our position is unchanged.

**B.4 TRAVEL (\$)**

FRCU did not provide documents to support this questioned cost; therefore, our position is unchanged.

**B. EXPENDITURES (LE):**

As FRCU did not classify PIL No. 12 LE expenditures into budget line items, exceptions are not grouped into the applicable budget line items.

**B.5 (LE):**

FRCU provided a list of outstanding advances different from the list provided to us during our audit field work. No explanation was offered in support of this change and, further, no supporting documents were provided to prove that outstanding advances were settled; therefore, our position is unchanged.

**B.6 (LE):**

We reviewed the supporting documents provided for advances paid to PIs exceeding the approved budget according to the PI's contract. We noted the following:

- a. Refer to linkage grant no. 90077, FRCU provided an approval allowing a budget overage of LE 11,380, while we noted a budget overage of LE 13,780. We accept this approval and agree to reduce the questioned item by LE 11,380.
- b. Refer to linkage grants no. 90009, 89019 and 89006, FRCU maintains that the advances paid to PIs exceeding the PI's budget relate to the US counterpart portion of the budget. We compared each PI's total approved budget with the total advances issued by FRCU; therefore, the portion of the budget relating to advances is irrelevant; therefore, our position is unchanged.

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- c. Refer to linkage grant no. 830106, FRCU asserts that the total budget exceeds the total expenditures; however, no documentation was provided to support their position. Our position is unchanged.

**B.7 (LE):**

We reviewed the supporting documents provided to support employees' salaries. We agree to reduce the questioned cost by LE 62,461. The remaining LE 115,125 remains unsupported with approved payroll sheets and receipt slips evidencing the payroll transaction.

**B.8 (LE):**

FRCU states that the maximum salary and wage rate allowed according to the FRCU policy manual was increased in October, 1988 and approved by the FRCU Executive Board. FRCU provided a list of new rates effective October, 1988 bearing the project director's approval.

FRCU did not provide evidence that the new rates were approved by USAID/Egypt as required by the grant agreement under the university linkages, page 7; therefore, our position is unchanged.

**B.9 (LE):**

Salaries and wages were paid to employees not identified on the project proposal. FRCU did not provide supporting documents explaining the type of work performed. While we recognize that to include all employee names on the project proposal is not practical, FRCU, at a minimum, should maintain documents specifying the type of work completed. According to the grant agreement under the university linkages, page 7, employees' salaries should be paid for identifiable work performed on behalf of the project; therefore, our position is unchanged.

**B.10 (LE):**

FRCU states that the terms "incentives," "bonuses," and "rewards," are used interchangeably to mean "salaries" and not "salary supplements;" however, FRCU paid "incentives," "bonuses," and "rewards" in addition to recurring, normal salary and salary supplement payments. Salary supplements are paid to GOE employees working on USAID/Egypt-financed projects as a reward for efforts exceeding the work load normally expected from GOE employees. Payments made in addition to salary supplements should be made only in extreme hardship cases and with USAID/Egypt approval. Our position is unchanged.

**B.11 (LE):**

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

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

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

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

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

**B.12 (LE):**

We noted equipment purchases charged to USAID/Egypt neither listed and described in the project proposal nor of either a scientific or technical nature and lacked the justification as required of the project's policies and procedures manual, page 12, approved by USAID/Egypt. FRCU's comments addressed each of the three conditions as follows:

- a. Refer to items purchased not listed in the project proposal, FRCU declares that although the limitation to only purchase items listed in the project proposal was imposed by FRCU itself as documented in their manuals, it proved to be impractical as equipment needs were determined as the research work plan was implemented.
- b. Refer to equipment of either a scientific or a technical nature, FRCU believes that they reserve the right to judge whether equipment is of either a scientific or technical nature.
- c. Refer to equipment requiring a special justification before purchasing, FRCU now approves retroactively all such purchases.

FRCU should follow established policy and procedural manuals and improve controls over the PIs. The PI's expenditures should be properly documented and FRCU's written approvals should be available for inspection by both USAID/Egypt officials and their representatives at any time. FRCU did not comply with the standards established for approvals and justifications, accordingly, our position is unchanged.

**B.13 (LE):**

We reviewed invoices, price offers, and bids included in FRCU's comments. LE 88,663 remains unsupported as the documents provided are not sufficient. No support at all was provided for LE 20,517. We agree that LE 33,797 is now supported will be reduced from the questioned cost.

**B.14 (LE):**

Equipment invoices provided for USAID/Egypt-financed assets were addressed to parties other than either the FRCU or the related PI. FRCU explained that, as all equipment will revert to the PI's home university at the project's completion date, it is unnecessary for invoices to bear either the project's or the PI's name. The invoices for equipment purchases are dated from June 1, 1983 to June 30, 1992 which is on or before the project completion date of June 30, 1992; therefore, the project assets' custody is both FRCU's and the related PI's responsibility. Accordingly, the responsibility for accountability for USAID/Egypt-financed assets to USAID/Egypt remains with the two parties until the project is completed; therefore, our position is unchanged.

**B.15 (LE):**

Refer to auditor's response in B.12 above.

**B.16 (LE):**

FRCU did not provide documents to support USAID/Egypt-financed computer and other cost advances. FRCU claims that most of these payments were advances the PIs paid to their home university purchase department employees. Audited amounts were obtained from the recipient's advance records and traced to their related settlement files including all supporting documents sent by the PI to FRCU. The only supporting documents provided in the audit field work were payment vouchers, but not purchase receipts, invoices, etc. Our position is unchanged.

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**B.17 (LE):**

Refer to the auditor's response in B.12 above. FRCU states computer purchases made by the PI, but not included in the PI's proposal, had FRCU's approval. FRCU did not provide documents as evidence that an approval was given; therefore, our position is unchanged.

**B.18 (LE) and B.19 (LE):**

FRCU did not comment on this exception. However, based upon review of other supporting documentation, these findings have been removed from the final report.

**B.20 (LE):**

FRCU asserts that the questioned travel costs relate to in-country travel which required neither emphasis in the project's proposal nor FRCU's approval.

According to our records, the questioned amount related to international travel requiring both a written FRCU and USAID/Egypt approval and supporting documents such as airline tickets, hotel receipts, etc. with the exception of LE 13 relating to in-country transportation for unallowable items. The standard provisions to the grant agreement for the university linkage project "Travel and Transportation" stipulate that "the (project) executive director must approve international travel to be reimbursed under this Grant." The Office of Management and Budget ("OMB") Circular No. A-122, which FRCU is subject to, states that all international travel requires the awarding agency's prior approval. Given the above guidelines, our position is unchanged.

**B.21 (LE):**

Allocability is one of the necessary criteria that must be met in order for a cost to be eligible for USAID/Egypt reimbursement. Personal use of vehicles is a vulnerable area where allocability is difficult to prove, if not impossible, and is subject to abuse if not carefully controlled. We refer to the USAID/Egypt Contractor Notice 27-89, dated August 31, 1989, as a guideline demonstrating USAID/Egypt's position relating to vehicle usage, which states that the project management is obligated to maintain records clearly identifying project versus personal use of vehicles. Given that transportation costs such as these are approved by USAID/Egypt, at a minimum, FRCU must maintain adequate records. FRCU declares that PIs are allowed to rent cars for their project-related transportation, but choose to use their own vehicles and charge related expenses to the project. FRCU did not provide a reference to support their claim that such use of USAID/Egypt funds is allowable and both properly documented and supported. Our position is unchanged.

**B.22 (LE):**

FRCU pledged to refund LE 5,011 to USAID/Egypt; however, no evidence was provided to prove that a refund was made; therefore, our position is unchanged.

**B.23 (LE):**

FRCU did not provide additional supporting documents for this questioned item although their comments refer to an attachment; therefore, our position is unchanged.

**B.24 (LE):**

Refer to the auditor's response in B.23 above.

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**B.25 (LE):**

We questioned amounts untraceable to the FRCU bank statements. FRCU did not provide additional evidence to prove the questioned item cleared through the project bank account; therefore, our position is unchanged.

**B.26 (LE):**

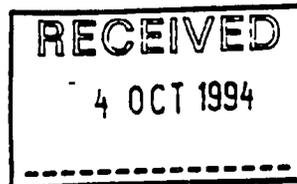
We reviewed the documents FRCU provided. LE 48 is now supported; however, the remaining billed costs relate to penalties, fines and advertising which are unallowable for USAID/Egypt reimbursement according to the OMB Circular A-122, both Article 14 stating that costs of "fines and penalties...are unallowable" for USAID/Egypt reimbursements and Article 1 stating that the type of advertising expenditures allowed for reimbursement are limited to those specifically referred to in the OMB. The questioned advertising expenditure was not of the type referred to in the Article 1 listed exception; therefore, our position is unchanged with the exception of LE 48 which we agree to reduce from the questioned item.

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## UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO EGYPT

M E M O R A N D U M

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

FROM: John Westley, DIR

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

04 OCT 1994

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

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

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

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

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

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

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

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

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

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

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

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

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

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