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Regional Inspector General for Audit
Cairo, Egypt

**Audit of the Ministry of Public Works and Water
Resources, Main Systems Management Component
Local Expenditures Incurred Pursuant to Project
Implementation Letter No. 72 under the Irrigation
Management Systems Project No. 263-0132**

Report No. 6-263-95-012-N
February 16, 1995



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OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE
ANY INFORMATION IS RELEASED TO THE PUBLIC.**





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

February 16, 1995

MEMORANDUM FOR D/USAID/Egypt, John R. Westley
FROM : RIG/A/Cairo, *Philippe L. Darcy*
SUBJECT : Audit of the Ministry of Public Works and Water Resources, Main Systems Management Component (MSM) Local Expenditures Incurred Pursuant to Project Implementation Letter (PIL) No. 72 under the Irrigation Management Systems Project No. 263-0132

The attached report transmitted by Price Waterhouse on September 27, 1994 presents the results of a financial audit of Main Systems Management Component (MSM) Local Expenditures Incurred Pursuant to Project Implementation Letter (PIL) No. 72 under the Irrigation Management Systems Project No. 263-0132. The project's primary objective is to enhance the capability of MPWWR to effectively manage the release and distribution of water for irrigation. In addition, MSM was to establish an automated water measuring, data collection and communications network to provide MPWWR with the information required on a timely basis.

We engaged Price Waterhouse to perform a financial audit of MSM's incurred expenditures of \$801,681 (equivalent to LE2,028,252) for the period as of June 30, 1993. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Price Waterhouse also evaluated MSM's internal controls and compliance with applicable laws, regulations and grant terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Price Waterhouse questioned \$217,412 in incurred costs billed to USAID by MSM (including \$149,007 in unsupported costs). The questioned costs included support personnel, professional consultants, office equipment and supplies, travel and per diem, workshop and vehicle maintenance and other. Price Waterhouse noted four material weaknesses in MSM's internal controls relating to improper segregation of incompatible duties, structure weaknesses in billings, accounting and filing system, inadequate control of USAID/Egypt-financed assets and misclassification of project costs and maintenance of adequate books of accounts.

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

Additionally, they noted six instances of material noncompliance related to MSM's failure to bill only those costs that are included in the PIL, report project-generated income, adhere to budget limitations, bill USAID/Egypt on a cost-reimbursable basis, maintain adequate books and records and maintain proper employee files.

In response to the draft report, MSM provided documentation and/or gave more explanation to the questioned costs, and agreed with most of the internal control and compliance findings. Price Waterhouse reviewed MSM's response to the findings. Where applicable, they made adjustments to the report or provided further clarification of their position.

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

Recommendation No. 1: We recommend that USAID/Egypt resolve questioned costs of \$217,412 (including \$149,007 in unsupported costs) as detailed on pages 9 through 17 of the audit report.

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

Recommendation No. 2: We recommend that USAID/Egypt require MSM to address the material internal control weaknesses as detailed on pages 19 through 24 of the audit report.

This recommendation is considered unresolved and can be resolved when the Mission provides our office with a copy of its request that MSM address its material internal control weaknesses. The recommendation can be closed when RIG/A/C has assessed MSM's response and USAID/Egypt's follow-up for adequacy. With regard to the non-material internal control weaknesses, they can be handled directly between the Mission and the grantee.

Recommendation No. 3: We recommend that USAID/Egypt require MSM to address the material noncompliance issues detailed on pages 26 through 33 of the audit report.

This recommendation is considered unresolved and may be resolved when the Mission provides our office with copies of its request that MSM address its material noncompliance issues. The recommendation can be closed when RIG/A/C has assessed MSM's

response and USAID/Egypt's follow-up for adequacy.

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

**THE MINISTRY OF PUBLIC WORKS AND WATER
RESOURCES**

MAIN SYSTEMS MANAGEMENT COMPONENT

PROJECT IMPLEMENTATION LETTER NUMBER 72

**UNDER THE USAID/EGYPT
IRRIGATION MANAGEMENT SYSTEMS PROJECT
NO. 263-0132**

**FUND ACCOUNTABILITY
STATEMENT AND ADDITIONAL INFORMATION**

**FOR THE PERIOD FROM MARCH 10, 1986
THROUGH JUNE 30, 1993**

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THE MINISTRY OF PUBLIC WORKS AND WATER RESOURCES

MAIN SYSTEMS MANAGEMENT COMPONENT

**PROJECT IMPLEMENTATION LETTER
NUMBER 72**

**UNDER THE USAID/EGYPT
IRRIGATION MANAGEMENT SYSTEMS
PROJECT NO. 263-0132**

**FUND ACCOUNTABILITY
STATEMENT AND ADDITIONAL INFORMATION**

**FOR THE PERIOD FROM
MARCH 10, 1986 THROUGH JUNE 30, 1993**

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Price Waterhouse

September 27, 1994

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

Dear Mr. Darcy:

This report presents the results of our financial-related cost-incurred audit of project costs incurred by the Ministry of Public Works and Water Resources ("MPWWR") Main Systems Management ("MSM") component related to Project Implementation Letter ("PIL") No. 72 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Irrigation Management Systems ("IMS") Project No. 263-0132 ("grant agreement") funded by USAID/Egypt. The audit population included all project costs incurred, excluding payments to two significant subcontractors as explained below, by the MSM component related to PIL No. 72 under the USAID/Egypt IMS Project No. 263-0132 funded by USAID/Egypt for the period from March 10, 1986 through June 30, 1993.

Background

The grant from USAID/Egypt to the Government of Egypt ("GOE") provided funding for IMS and was originated on September 22, 1981. Supporting the MPWWR was the grant agreement's primary objective. Such support consists of technical and capital assistance for the planning, design, rehabilitation and management of Egypt's irrigation system. Increasing production and productivity in the agricultural sector and improving the system-wide water use efficiency for irrigation were the goals by which the grant agreement's primary objective would be met. Assistance was provided to include: technical advisory services, commodities, training and evaluation. The grant agreement has been amended nine times through September 27, 1993 and has a project completion date of September 21, 1995 with financing of three hundred and thirty-six million U.S. dollars.

The grant agreement's goals were to be accomplished through activities implemented by ten components that are administered by existing units of the MPWWR of which the MSM component, PIL No. 72, is one. The MSM component is responsible for project activities related to PIL No. 72 which was intended to accomplish the enhancement of the capability of MPWWR to manage effectively the release and distribution of water for irrigation and other purposes. The MSM component was to establish an automated water measuring, data collection and communications network to provide MPWWR with the information required on a timely basis. Support was also provided to develop the capability to manage competently, operate, and maintain the information network. The MSM component also implemented an automated canal operations system in one irrigation command and assessed the feasibility of replication in other commands. PIL No. 72 has been amended seventeen times through August 4, 1993 with approved project costs of 2,063,389 Egyptian pounds ("LE"). PIL No. 72 amendments almost exclusively addressed increased budget and spending authorizations and time extensions to the project implementation.

Audit Objectives and Scope

The objective of this engagement was to perform a financial-related cost-incurred audit of project costs incurred, excluding subcontractor payments, by the MSM component related to PIL No. 72 under the USAID/Egypt IMS Project No. 263-0132 funded by USAID/Egypt for the period from March 10, 1986 through June 30, 1993. Specific objectives were to assess whether:

1. the fund accountability statement for the MSM component related to PIL No. 72 presents fairly, in all material respects, project costs incurred, excluding subcontractor payments, by the MSM component related to PIL No. 72 under the USAID/Egypt IMS Project No. 263-0132 funded by USAID/Egypt for the period from March 10, 1986 through June 30, 1993 in conformity with applicable accounting principles;
2. the project costs reported as incurred, excluding subcontractor payments, by the MSM component related to PIL No. 72 under the USAID/Egypt IMS Project No. 263-0132 funded by USAID/Egypt for the period from March 10, 1986 through June 30, 1993 are allowable and allocable in accordance with the terms of the grant agreement, PIL and applicable laws and regulations;
3. the internal controls, accounting systems, and management practices of the MSM component are adequate for USAID/Egypt agreements; and
4. the MSM component is in compliance, in all material respects, with the grant agreement, PIL, and applicable laws and regulations.

Preliminary planning and review procedures began in March, 1994. These procedures consisted of both discussions with the RIG/A/C personnel and the MSM component project officials and a review of the grant agreement and PIL No. 72. Audit fieldwork commenced in March, 1994 and was completed in August, 1994.

The scope of our financial-related cost-incurred resulted in an audit population to include all project costs incurred, excluding subcontractor payments, by the MSM component related to PIL No. 72 under the USAID/Egypt IMS Project No. 263-0132 funded by USAID/Egypt. On a judgmental basis, we selected and tested project costs incurred, excluding subcontractor payments, of LE 685,285 out of total project costs, excluding subcontractor payments, of LE 2,028,252 for the period from March 10, 1986 through June 30, 1993.

Our tests of project costs incurred, excluding subcontractor payments, by the MSM component related to PIL No. 72 under the USAID/Egypt IMS Project No. 263-0132 funded by USAID/Egypt for the period March 10, 1986 through June 30, 1993 included, but were not limited to, the following:

1. reconciling project accounting records to billings issued by the MSM component to USAID/Egypt to ensure that project costs were supported with appropriate books and records;

2. testing of project costs incurred and funded by USAID/Egypt for allowability, allocability, and appropriate support;
3. assessing the propriety of fixed asset purchases and their conformity with the terms of the grant agreement, the PIL, and applicable laws and regulations;
4. assessing if salary costs were adequately supported and approved; and
5. assessing the adequacy of the MSM component's control procedures to safeguard USAID/Egypt-funded project equipment.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 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 and firms.

As part of our examination of the MSM component, we made a study and evaluation of relevant internal controls. We also reviewed the project's compliance with the terms of the grant agreement, the PIL, and applicable laws and regulations.

Results of Audit

Fund accountability statement:

Our audit procedures identified \$ 217,412 in questionable project costs, including \$ 149,007 of unsupported project costs; both converted from Egyptian pounds to U.S. dollars at the applicable exchange rate. The fund accountability statement, stated as incurred in Egyptian pounds, is included in Appendix A and the detail of the questionable project costs, as incurred in Egyptian pounds, is included in Appendix B of this report.

Internal control structure:

Our audit procedures identified five reportable internal control structure weaknesses. Reportable conditions numbered one through four are material weaknesses. We recommend that the MSM component adopt procedures to: 1) properly segregate incompatible job duties; 2) improve the billing, accounting, and filing system design and controls; 3) adequately safeguard and control USAID/Egypt-financed assets; 4) properly classify project expenditures in the project's accounting records; and 5) prepare useful project budgets.

Compliance with agreement terms and applicable laws and regulations:

Our audit procedures identified six material instances of noncompliance related to the MSM component's failure to: 1) bill only those project costs that are detailed in the PIL No. 72 project's budget; 2) report project-generated income to USAID/Egypt; 3) adhere to the PIL No. 72 project budget limitations; 4) bill project costs to USAID/Egypt on a cost-reimbursable basis; 5) maintain books and records in accordance with grant agreement requirements; and 6) maintain proper employee files.

Management Comments

The MSM component project management comments have been obtained and are included in Appendix C of this report. In response to management's comments, we have either provided further clarification of our position, where necessary, in Appendix D of this report or have adjusted the final report.

Mission Response

The mission response is included in Appendix E of this report.

This report is intended for the information of the MSM component 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

Price Waterhouse

REPORT OF INDEPENDENT ACCOUNTANTS

August 1, 1994

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

We have audited the accompanying fund accountability statement of the project costs incurred, excluding subcontractor payments, by the Ministry of Public Works and Water Resources ("MPWWR") Main Systems Management ("MSM") component related to Project Implementation Letter ("PIL") No. 72 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Irrigation Management Systems ("IMS") Project No. 263-0132 ("grant agreement") funded by USAID/Egypt for the period from March 10, 1986 through June 30, 1993. The fund accountability statement is the responsibility of the MSM component's management. Our responsibility is to express an opinion on this statement based on our audit.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 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 and firms.

As described in Note 2 to the accompanying fund accountability statement, 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. 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 detailed in the accompanying fund accountability statement and more fully described in Note 5 thereto, the results of our tests disclosed \$ 68,405 of ineligible and \$ 149,007 of unsupported project costs. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program-related or are prohibited by either the PIL, grant agreement, or applicable laws and regulations. Unsupported project cost are those that are not supported with either adequate documentation or required USAID/Egypt approved authorization.

In our opinion, except for the effects of the questionable project costs as discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in all material respects, project costs incurred, excluding subcontractor payments, by the MSM component related to PIL No. 72 under the USAID/Egypt IMS Project No. 263-0132 funded by USAID/Egypt for the period from March 10, 1986 to June 30, 1993 in conformity with the basis of accounting described in Note 2 to the accompanying fund accountability statement.

Our audit 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 fund accountability statement. This information has been subjected to the auditing procedures applied in the audit of the fund accountability statement and, in our opinion, except for the effects of the questionable project costs detailed in Note 5 to the fund accountability statement, such information is fairly stated, in all material respects, in relation to the fund accountability statement taken as a whole.

This report is intended for the information of the MSM component 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

THE MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
MAIN SYSTEMS MANAGEMENT COMPONENT
PROJECT IMPLEMENTATION LETTER NUMBER 72
UNDER THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS
PROJECT NO. 263-0132

FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD FROM MARCH 10, 1986
THROUGH JUNE 30, 1993

	Budget (Note 1)	Actual (Note 1)	Project Cost Reclassifications (Note 4)	Revised Actual (Note 1)	Questionable costs		Finding Reference (Note 5)
					Ineligible (Note 5)	Unsupported (Note 5)	
Support personnel	\$ 79,100	\$ 80,090	\$ 12,953	\$ 93,043	\$ 15,268	\$ 5,540	Pg. 10, A
Professional consultants	24,202	21,042	(12,337)	8,705	2,372	6,334	Pg. 10, B
In-country training	1,135	1,135	-	1,135	-	-	
Office equipment and supplies	101,134	106,392	18,607	124,999	179	40,440	Pg. 11, C
Professional equipment and supplies	50,925	51,807	566	52,372	-	1,457	Pg. 11, D
Workshops	89,309	83,109	978	84,088	2,311	2,100	Pg. 13, E
Training equipment and supplies	171	171	-	171	-	171	Pg. 13, F
Communication reports	4,193	3,664	-	3,664	-	-	
Travel and per diem	100,845	104,896	(4,352)	100,544	45	7,528	Pg. 14, G
Vehicle maintenance and other	<u>364,555</u>	<u>349,375</u>	<u>(16,415)</u>	<u>332,960</u>	<u>40,554</u>	<u>63,853</u>	Pg. 16, H
Subtotals	815,569	801,681		801,681	60,729	127,423	
Cash (Note 1)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,676</u>	<u>21,584</u>	Pg. 17, I
TOTALS	\$ <u>815,569</u>	\$ <u>801,681</u>	\$ <u>-</u>	\$ <u>801,681</u>	\$ <u>68,405</u>	\$ <u>149,007</u>	

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

THE MINISTRY OF PUBLIC WORKS AND WATER RESOURCES

MAIN SYSTEMS MANAGEMENT COMPONENT

PROJECT IMPLEMENTATION LETTER NUMBER 72

**UNDER THE USAID/EGYPT
IRRIGATION MANAGEMENT SYSTEMS PROJECT
NO. 263-0132**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF STATEMENT:

The fund accountability statement of the MSM component includes all project costs incurred, excluding subcontractor payments, by the MSM component related to PIL No. 72 under the USAID/Egypt IMS Project No. 263-0132 funded by USAID/Egypt for the period from March 10, 1986 through June 30, 1993. The budget includes all USAID/Egypt-approved project costs related to PIL No. 72 under the USAID/Egypt IMS Project No. 263-0132, is based on the budget amendment dated July 30, 1992, and is presented for informational purposes only. The USAID/Egypt-approved budget for PIL No. 72 approves project costs for 2,063,389 Egyptian pounds ("LE"), excluding the subcontractor costs budget. The LE amount has been converted to U.S. dollars at the average exchange rate of LE 2.53 to one U.S. dollar as explained in Note 3 below. The actual represents cumulative project costs incurred, excluding subcontractor payments, by the MSM component and billed to and reimbursed by USAID/Egypt related to the PIL No. 72 for the period from March 10, 1986 through June 30, 1993. The revised actual represents actual project costs adjusted for project cost reclassifications as explained in Note 4 below. The fund accountability statement includes detail relating to ten project budget line items. Detail has also been provided for questionable project costs resulting from the proof of cash performed on project's cash accounts.

NOTE 2 - BASIS OF PRESENTATION:

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

NOTE 3 - FOREIGN EXCHANGE:

Project costs incurred in LE have been converted to U.S. dollars at the average monthly exchange rate of 2.53 LE to one U.S. dollar for the period from March 10, 1986 through June 30, 1993.

NOTE 4 - PROJECT COST RECLASSIFICATIONS:

Certain billed project costs associated with various budget line items were misclassified. These project costs have been reclassified to the proper budget line item to facilitate comparison between actual and budgeted project costs.

Questionable project costs are presented in two separate categories-ineligible and unsupported. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program-related or are prohibited by either the PIL, grant agreement, or applicable laws and regulations. Unsupported project cost are those that are not supported with either adequate documentation or the required USAID/Egypt approved authorization. Documentation is deemed to be adequate if such documentation adequately supports compliance with the project's Grant Agreement, Standard Provisions, Section B.5. Section B.5 states that the recipient should maintain or cause to be maintained books and records relating to the project and to this agreement adequate to document, without limitations, the receipt and use of goods and services acquired under the grant. All questionable project costs identified as either ineligible or unsupported are detailed below:

<u>Item Description</u>	<u>Questionable Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
A. Support personnel		
1. MSM paid salaries to individuals who did not have contracts with the project. Consequently, we are unable to verify that the employees paid were employed by the project.		\$ 3,110
2. MSM paid labor day bonuses to employees even though the same employees had received a labor day bonus from the Ministry. These individuals are GOE employees.		75
3. MSM paid employee bonuses that are not approved by USAID/Egypt. Such bonuses are also not included as one of the acceptable employee payments in the IMS Higher Coordination Committee meeting minutes that explain the IMS regulations regarding such payments. The bonuses paid related to the following occasions:		
a) grant for school entrance divided among ten employees;		
b) termination;		
c) labor day; and		
d) holiday.	\$ 454	
4. Overtime payments were made to MSM employees without USAID/Egypt approval.		121
5. Salaries for three office boys were paid by MSM; however, these services are shared by MSM and the Ministry. We determined that half of the salary paid is allocable to the MSM project. The remaining portion is questionable.		348
6. MSM billed USAID/Egypt twice for the employee's share of social security. The first billing was for gross salaries and the second billing was for the payment issued to the social security department. The second billing is questionable.		692

<u>Item Description</u>	<u>Questionable Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>

A. Support personnel (Cont.)

7. MSM billed USAID/Egypt for the foreign consultants' locally-hired employee's social insurance (employee and employer share); even though, the foreign consultants reimbursed the same amount to MSM.	\$ 1,095	
8. MSM billed USAID/Egypt twice for the employee's share of social security. The first billing was for gross salaries and the second billing was for the payment issued to the social security department. The first billing is questionable.		\$ 374
9. MSM paid the employer's share of social security for locally hired personnel for the entire project period and billed those payments to USAID/Egypt. Taxes paid to the Government of Egypt are ineligible for USAID/Egypt reimbursement.	13,719	
10. Based on MSM management's comments received subsequent to the issuance of the draft report, this finding has been removed.		
11. MSM inadvertently recorded a project expenditure twice in the general ledger and billed both amounts to USAID/Egypt. The second amount is questionable.		<u>820</u>
Total Support personnel	<u>15,268</u>	<u>5,540</u>

B. Professional consultants

1. We noted that the February, 1987 billing submitted to USAID/Egypt did not reconcile with the MSM general ledger. The February, 1987 general ledger total was less than the billing to USAID/Egypt and the difference was not either explained by MSM management or offset by a corresponding reduction in the billing and is, therefore, questionable.		237
2. MSM billed USAID/Egypt twice for income tax. The first billing was for gross professional consultant payments and the second billing was for the payment issued to the tax department. The second billing is questionable.		42
3. Payments were made to individuals to arrange for clearance of vehicle spare parts from the GOE customs authorities. Custom clearing is not one of the types of consulting specified in the USAID/Egypt-approved budget.	2,372	
4. Consultants' salaries were not supported by assignment letters or seconding decrees. The amount questionable was reduced to LE 15,319 after deducting amounts questionable in other exceptions included in Note 5 to the fund accountability statement.		<u>6,055</u>
Total Professional consultants	<u>2,372</u>	<u>6,334</u>

	<u>Questionable Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>

Item Description

C. Office equipment and supplies

1. We noted that the billings submitted to USAID/Egypt did not reconcile with the MSM general ledger. Instances where the general ledger total was less than the billing to USAID/Egypt and the difference was not either explained by MSM management or offset by a corresponding reduction in the billing and is, therefore, questionable.	\$ 1,440
2. MSM billed USAID/Egypt certain sales taxes paid by MSM. Taxes paid to the GOE are ineligible for USAID/Egypt reimbursement.	\$ 179
3. Payments were unsupported by any supporting documents. We were unable to determine the type of expenditures made.	43
4. Furniture purchases procured for Giza and Imbaba offices were billed to USAID/Egypt without either a budget provision or USAID/Egypt prior approval.	23,487
5. Renovation payments were billed to USAID/Egypt without either a budget provision or a USAID/Egypt prior approval.	15,334
6. Based on MSM management's comments received subsequent to the issuance of the draft report, this finding has been removed.	
7. Advances issued by MSM were billed to USAID/Egypt. When the advances were settled, the unliquidated advances were returned to MSM, but not credited in the USAID/Egypt billings.	136
Total Office equipment and supplies	<u>179</u> <u>40,440</u>

D. Professional equipment and supplies

1. Based on MSM management's comments received subsequent to the issuance of the draft report, this finding has been removed.	
2. We noted that the billings submitted to USAID/Egypt did not reconcile with the MSM general ledger. Instances where the general ledger total was less than the billing to USAID/Egypt, the difference was not either explained by MSM management or offset by a corresponding reduction in the billing and is therefore, questionable.	558
3. Electrical supplies were purchased, but were not supported with an invoice.	<u>899</u>
Total Professional equipment and supplies	<u>1,457</u>

E. Workshops

1. The following items supplies relate to the Menya Seminar conducted from 07/12/91 to 07/17/91:		
a) Photography expenses were unsupported by receipts.		
b) Travel expenses between Cairo and Menya were unsupported by train tickets.		
c) Breakfast, tips, and sales taxes were included in the accommodation voucher. Contractor Notice No. 14-89, states that breakfast and tips are included as part of the per diem rate, accordingly cannot be charged as a separate cost. The grant agreement's standard provisions state that the grant will be free from any taxation and taxes should be paid or reimbursed with funds other than those provided under the grant.		
d) The remaining portion of the accommodation voucher, discussed in E.1 c) above is unsupported by a workshop agreement that documents the details of these costs.	\$ 2,006	\$ 512
2. Payments for photocopying, travel, and office supplies were unsupported by receipts relating to the Tanta Workshop conducted for the period from 08/17/91 to 08/19/91.		71
3. The following items relate to the Ismalia Workshop conducted for the period from 12/16/92 to 12/19/92:		
a) Telephone calls were made without receipts. We were unable to verify that these calls were business related.		
b) Tips were paid. Contractor Notice No.14-89, which presents guidance as to USAID/Egypt's policies, states that tips are included as part of the per diem rate; accordingly, they cannot be charged as a separate cost.		
c) Costs for breakfast and reception admittance were incurred for four unauthorized participants	186	102
4. The following items relate to the Alexandria workshop conducted for the period from 10/08/92 to 10/11/92:		
a) Photocopying expenses were billed to USAID/Egypt without receipts.		
b) Tips were paid.		
c) The unexpended portion of the advance was returned to MSM; but the adjustment was not reflected in the billing to USAID/Egypt.	119	229

<u>Item Description</u>	<u>Questionable Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>

E. Workshops (Cont.)

5. MSM billed USAID/Egypt for an advance payment for a workshop that was canceled. The workshop was to be conducted in the Oberoi Aswan during 1991. \$ 1,186

Total Workshops \$ 2,311 2,100

F. Training equipment

1. We noted that the billing submitted to USAID/Egypt did not reconcile with the MSM general ledger. Instances where the general ledger total was less than the billing to USAID/Egypt, the difference was not either explained by MSM management or offset by a corresponding reduction in the billing and is, therefore, questionable. 171

Total Training equipment 171

G. Travel and per diem

1. MSM applied per diem rates for employees' out-of-town travel that were not approved by USAID/Egypt. The variances occurred throughout 1993. The variance between the approved rates and the rates used by MSM is questionable. 322

2. Payments relating to travel and per diem were unsupported by:

a) information verifying payments.

b) hotel voucher 48

3. Transportation costs were paid for an engineer that are considered excessive given that transportation costs for the same mode of transportation to the same location are normally approximately twenty percent of what was paid. The Grant Agreement, Standard Provisions, section B.5, states that "no more than reasonable prices will be paid for any goods or services financed under the grant." USAID will make the final determination of reasonableness. 45

4. We noted that the billing submitted to USAID/Egypt did not reconcile with the MSM general ledger. Instances where the general ledger total was less than the billing to USAID/Egypt, the difference was not either explained by MSM management or offset by a corresponding reduction in the billing and is therefore, questionable. 329

5. Per diem and accommodation was paid for an engineer contracted by the foreign consultants working for the project. MSM management did not provide appropriate support to enable us to verify the basis for allocation of this cost to MSM. 84

NOTE 5 - QUESTIONABLE COSTS (CONT.):

<u>Item Description</u>	<u>Questionable Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
G. Travel and per diem (Cont.)		
6. MSM paid travel and per diem expenses to the foreign consultants and GOE employees without either a budget provision or a separate USAID/Egypt agreement or approval.		\$ 6,307
7. Overtime payments were made to MSM employees without USAID/Egypt approval.		<u>438</u>
Total Travel and per diem	\$ <u>45</u>	<u>7,528</u>
H. Vehicle maintenance and other		
1. MSM billed USAID/Egypt for work permit expenses paid for its foreign consultants. MSM management did not provide appropriate support to enable us to verify the basis for allocation of this cost to MSM.		76
2. We noted that the billings submitted to USAID/Egypt did not reconcile with the MSM general ledger. Instances where the general ledger total was less than the billing to USAID/Egypt, the difference was not either explained by MSM management or offset by a corresponding reduction in the billing and is, therefore, questionable.		5,503
3. MSM billed USAID/Egypt for maintenance and repair expenses for vehicles that are not part of the project according to the MSM project car list, and are GOE vehicles.	4,254	
4. MSM billed USAID/Egypt for maintenance and repair expenses for vehicles that are not part of the project according to the MSM project car list, and are United Nations vehicles.	1,384	
5. MSM billed USAID/Egypt vehicle parking violation tickets. Taxes, fines, and penalties of the GOE are not USAID/Egypt -reimbursable project costs.	87	
6. MSM billed to USAID/Egypt costs for meals and incidental expenses for drivers incurred on a trip to Alexandria to clear through customs the project's imported spare parts. Expenses such as these should not be billed separately, but should be included in the per diem payments as directed by Contractor Notice No.14-89, which presents guidance as to USAID/Egypt's policies, states that meals and incidental expenses are included as part of the per diem rate; accordingly, they cannot be charged as a separate cost.	158	

NOTE 5 - QUESTIONABLE COSTS (CONT.):

<u>Item Description</u>	<u>Questionable Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
H. Vehicle maintenance and other (Cont.)		
7. MSM billed USAID/Egypt for advances issued for project expenditures. Subsequently, the advances were settled and the residual was returned to the project bank account, but the billing to USAID/Egypt was not adjusted.		\$ 1,129
8. MSM did not reimburse USAID/Egypt for personal usage of USAID/Egypt-funded project vehicles for home-office-home commuting. We have estimated the amount to be refunded to USAID/Egypt for the period from 6/30/91 to 6/30/93 as MSM does not keep detailed records for personal use of project vehicles.	\$ 17,827	
9. MSM billed USAID/Egypt expenses for a Sixth of October festival without either a budget provision or a USAID/Egypt approval.		118
10. Amounts were billed to USAID/Egypt and MSM management did not provide supporting documents.		28,365
11. MSM billed to USAID/Egypt payments for GOE, taxes and revenue stamps related to project vehicles licensing. Taxes assessed by the GOE are not USAID/Egypt-reimbursable project costs.	900	
12. MSM billed USAID/Egypt for tips paid. No tips are allowable under USAID/Egypt regulations. Contractor Notice Number 14-89, which presents guidance as to USAID/Egypt's policies, states that meals and incidental expenses are included as part of the per diem rate; accordingly, they cannot be charged as a separate cost.	330	
13. MSM billed to USAID/Egypt the cost of building a master room in El Kanater station. Office facilities are included in the GOE contribution to the MSM project according to financial plans prepared by MSM and submitted to USAID/Egypt.2	3,391	
14. MSM paid a daily commuting transportation allowance for one MSM employee without either a budget provision or a USAID/Egypt approval.		119
15. Car repair expenses were paid by MSM that should have been reimbursed by the insurance company according to the insurance policy. MSM did not provide evidence that such insurance reimbursements occurred and were remitted USAID/Egypt or utilized to offset the cost of car repairs.	8,190	
16. MSM billed electricity expenses to USAID/Egypt without either a budget provision or a USAID/Egypt approval.		1,978

NOTE 5 - QUESTIONABLE COSTS (CONT.):

<u>Item Description</u>	<u>Questionable Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
H. Vehicle maintenance and other (Cont.)		
17. MSM billed USAID/Egypt for expenses incurred to maintain the project's equipment. According to the budget, approved by USAID/Egypt, maintenance is the responsibility of the GOE.	\$ 3,441	
18. MSM billed to USAID/Egypt expenses incurred to renovate the MSM offices in Giza and Imbaba. The MSM budget does not provide for renovation costs and no separate USAID/Egypt approval was provided.		\$ 25,949
19. MSM paid an installation fee for an air conditioner, while this fee was also included in the air conditioner's price and billed to USAID/Egypt as part of the air conditioner's price.		79
20. MSM billed to USAID/Egypt vendor taxes paid for computer maintenance related to the project's foreign consultants. MSM management did not provide appropriate support to enable us to verify the basis for allocation of this cost to MSM.		98
21. MSM billed to USAID/Egypt expenses for transferring the project's telephones and fax lines from the former MSM office in Giza to the current MSM office in Imbaba. The MSM project budget does not contain a provision for such costs and no separate USAID/Egypt approval was provided.		395
22. Project car # 12469, used by the project director, was repainted. We were unable to verify that there was a justified reason for such repainting. Repainting should only be made to project vehicles in connection with repairs requiring such repainting.	592	
23. MSM billed USAID/Egypt twice for vendor tax paid. The first billing was for gross purchases and the second billing was for the payment issued to the tax department. The first billing is questionable.		<u>44</u>
Total Vehicle maintenance and other	<u>40,554</u>	<u>63,853</u>
I. Cash		
1. MSM collects bid guarantee payments from bidding suppliers. Bid guarantee payments received, yet not either returned to suppliers or remitted USAID/Egypt is questionable. The payable balance was accumulated prior to January, 1991 and is not yet resolved.	249	
2. Advances issued by MSM were billed to USAID/Egypt. When the advances were settled, the unliquidated advances were returned to MSM, but not credited in the billing.		13,914

NOTE 5 - QUESTIONABLE COSTS (CONT.):

<u>Item Description</u>	<u>Questionable Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
I. Cash (Cont.)		
3. MSM billed USAID/Egypt for project expenditures for which the related checks never cleared the project bank account. Project costs must be incurred and paid by the project to be USAID/Egypt-reimbursable.		\$ 7,670
4. MSM received an insurance reimbursement for car repair expenses that were charged to USAID/Egypt; however, the reimbursements were neither used to offset the repair cost nor deducted from the USAID/Egypt billing.	\$ 7,285	
5. MSM assessed a fine on an Egyptian district for misusing MSM equipment. The fine was collected, but was neither used to offset project expenditures nor remitted USAID/Egypt.	<u>142</u>	<u> </u>
Total Cash	<u>7,676</u>	<u>21,584</u>
TOTAL QUESTIONABLE COSTS	\$ <u>68,405</u>	\$ <u>149,007</u>

Price Waterhouse

REPORT OF INDEPENDENT ACCOUNTANTS ON INTERNAL CONTROL STRUCTURE

August 1, 1994

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

We have audited the fund accountability statement of project costs incurred, excluding subcontractor payments, by the Ministry of Public Works and Water Resources ("MPWWR") Main Systems Management ("MSM") component related to Project Implementation Letter ("PIL") No. 72 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Irrigation Management Systems ("IMS") Project No. 263-0132 ("grant agreement") funded by USAID/Egypt for the period from March 10, 1986 through June 30, 1993, and have issued our report thereon dated August 1, 1994.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 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 and firms.

In planning and performing our audit of the MSM component, we considered its internal control structure related to project costs incurred, excluding subcontractor payments, by the MSM component related to PIL No. 72 under the USAID/Egypt IMS Project No. 263-0132 in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of the MSM component 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 assets are safeguarded against loss from unauthorized use or disposition and that transactions are



executed in accordance with management's authorization and terms of applicable agreements, and recorded properly to permit the preparation of reliable financial reports 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, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we determined the significant internal control structure policies and procedures to be in the categories of cash receipts and disbursements, fund custody, project accounting and safeguarding of assets. 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of 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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit disclosed the following reportable conditions which we believe constitute material weaknesses:

MATERIAL WEAKNESSES

1. The MSM component has not properly segregated incompatible job duties.

We noted that the MSM component has not prepared job descriptions for the project employees and consequently, one MSM component employee is responsible for the following incompatible job functions:

1. initiating, approving, and recording of journal entries;
2. maintaining bank account records and bank statements, serving as a signatory on project bank accounts, preparing bank reconciliations;
3. preparing billings to USAID/Egypt; and
4. maintaining custody of accounting records and blank bank checks.

Statement on Auditing Standards No. 55, *Consideration of the Internal Control Structure in a Financial Statement Audit*, ("SAS No. 55") states that a significant element of an effective internal control structure is the policies and procedures that management must establish to provide a reasonable assurance that specific entity objectives will be achieved. Segregating incompatible job duties is a necessary control procedure to reduce the opportunities to allow any one person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of their duties. Specifically, the



functions of transaction authorization, recording, and asset custody should be segregated. Integrating incompatible job functions could lead to errors or irregularities occurring and not being detected by employees in the normal course of performing their assigned duties.

Recommendation 1

The MSM component management should segregate incompatible job duties, especially those which involve asset custody, authorization, bank reconciliation, and recording responsibilities.

Further, we recommend that the MSM component management develop and adhere to a suitable organizational structure and job descriptions so that job functions are clearly defined and responsibilities are genuinely segregated. Management should not be able to override established controls except for extreme circumstances.

* * * * *

2. The MSM component's billing, accounting, and filing system contains internal control structure weaknesses.

The MSM component's accounting records consist of a manually posted general ledger. Since billings to USAID/Egypt are prepared from this ledger, its accuracy and reliability should not be compromised. We found that inadequate attention was devoted to preparation of billings and procedures were poorly documented. As a result, it is difficult to trace billed amounts to the general ledger and discrepancies between billings and the general ledgers could not be explained by management. Specifically, we noted the following weaknesses in the project's accounting and filing internal control structure:

1. Billing procedures are not systemized and documented.
2. Billings are not reviewed by a responsible MSM component employee.
3. The MSM component accountant does not reconcile billings submitted to USAID/Egypt with any of the following: 1) actual USAID/Egypt reimbursements; 2) the MSM component accounting records and bank statements; and 3) USAID/Egypt voucher examiner records. Additionally, the MSM component does not properly account for USAID/Egypt disallowances.
4. Adjustments made subsequent to billing submission to USAID/Egypt in the MSM component general ledger are made without either explanation or evidence of proper management approval and are not reflected in the billings to USAID/Egypt. For example, USAID/Egypt-financed assets were sold by the project and the MSM component refunded the proceeds to USAID/Egypt, but did not adjust the billing. Similarly, advances billed are not adjusted in the billing when settled.
5. Billings are kept in unorganized files. Draft copies could not be distinguished from final copies. Adjustments made to the billings are not documented within the billing file. No form of evidence was provided to explain discrepancies between the USAID/Egypt billings and the general ledger.



6. The general ledger is prepared in pencil.
7. Prenumbered forms are not utilized.
8. Vouchers and receipts are not stamped "paid" when the payment process is completed.

SAS No. 55 states that a significant element of an effective internal control structure is the control procedures management exercises over accounting records to provide reasonable assurance that specific entity objectives will be achieved. Adequately designed and maintained documents and records are imperative to ensure that management has accurate information from which decisions can be made and that USAID/Egypt's monitoring requirements are met. Without adequately controlled document flow throughout the accounting system and properly prepared accounting records, management cannot be reasonably sure that: 1) all project events have been accounted for; 2) only legitimate events have been recorded; 3) control has been maintained over project transactions; and 4) assets have been accounted for and reported accurately.

Recommendation 2

The MSM component management should strengthen the controls surrounding the USAID/Egypt billing procedures. We recommend that the MSM component systematize and document its billing procedures. Billing procedures should include, at a minimum, the following:

1. Preparation of the USAID/Egypt billings by the Project Accountant and review by the Project Director.
2. Periodic reconciliations between the project accounting records and USAID/Egypt records.
3. Proper recording of USAID/Egypt disallowances.
4. Adequate maintenance of USAID/Egypt billing files.
5. Preparation of the MSM component's project accounting records in indelible ink and adjustments to both the billings and accounting records properly explained. Such adjustments should be made only if approved and documented by management.
6. Proper design of the MSM component's accounting system to incorporate prenumbered forms especially for receiving reports, purchase orders and asset requisitions.
7. Cancellation of supporting documents in the form of a "paid" stamp applied to all supporting documents when the payment process is complete.

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3. The MSM component does not adequately control USAID/Egypt-financed assets.

We noted that the MSM component's management does not assure that physical inventories of the project's USAID/Egypt-financed assets are properly taken. Records are not maintained which identify the MSM component's project assets' location; therefore, a proper physical count is precluded. In addition, the project management apparently does not understand the necessity of conducting physical inventory counts and further, seems to misunderstand how a proper inventory is taken.

SAS No. 55 states that one of the requisite elements of a proper internal control system is the adequate safeguard over access to and use of the entities' assets. A proper internal control system includes the use of records to help ensure the proper recording of transactions and events coupled with independent checks on proper valuation of recorded amounts, such as reconciliations and comparison of assets with recorded accountability.

Without either physical inventories being taken or a proper record being maintained which identifies the MSM component's project assets' location and status, project management cannot effectively monitor and control USAID/Egypt-financed assets. Further, the probability that assets have been or will be misused or misappropriated is increased since the project's management has no comprehensive record with which to verify the location and use of assets. In addition, without the obsolescence and condition of equipment being evaluated on a regular basis, unused or damaged equipment is likely to remain on the project's accounting records, thereby, misinforming project management and USAID/Egypt that the useable equipment balance is higher than actual. Finally, a lack of understanding by management as to the necessity of and proper methodology for conducting proper physical inventory counts will increase the potential for assets not being properly accounted for, controlled and safeguarded.

Recommendation 3

We recommend that the MSM component management redesign its control system over project assets to include a management-delegated, documented system of authority and responsibility for the project assets. Further, management should establish and implement a plan to first record all USAID/Egypt-financed assets in a properly detailed fixed asset register based on the billings submitted to USAID/Egypt. Those assets identified as financed by USAID/Egypt should be physically located, accounted for, tagged, and evaluated. Subsequently, project management should evaluate and resolve discrepancies found between the recorded assets and the productive assets in use and accounted for in the project.

• • • • •



4. The MSM component project costs were misclassified when compared to its applicable PIL No. 72 budget line item.

We noted instances in which actual costs were misclassified when compared to its applicable PIL No. 72 budget line item. Misclassifications typically occurred where the proper allocation of project costs to their appropriate budget line items would have resulted in the budget line item exceeding its USAID/Egypt-approved budgeted amounts. For example, the budget submitted by the MSM component and approved by USAID/Egypt provides for professional consultant costs; however, the MSM component utilized the budget to provide for normal, recurring personnel costs to avoid budget overruns in the Support Personnel budget line item.

SAS No. 55 states that one of the elements of a sound internal control structure is an adequate accounting system. An effective accounting system consists of methods and records established to identify, assemble, analyze, classify, record, and report the entity's transactions that will enable management to maintain accountability for project assets, adhere to USAID/Egypt-approved budgets, and report legitimate project expenditures to USAID/Egypt.

The MSM component's failure to accurately record project costs results in incorrect and misleading financial information. Therefore, it becomes difficult for management to effectively monitor project costs versus the budget prepared by the MSM component. It further decreases management's ability to use budgets as a decision and cost control tool. Additionally, the MSM component's failure to accurately record project costs causes USAID/Egypt project expenditures and budget approval oversight to be difficult and somewhat ineffective.

Recommendation 4

The MSM component's management should implement controls to ensure that all project costs are properly classified in compliance with the USAID/Egypt-approved budgets now and in the future. Specifically, a chart of accounts detailing what types of project costs are to be included in each budget line item or account should be developed, utilized and closely monitored by management.

• • • • •

We also 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 judgement, 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 statements. Our audit disclosed the following other reportable conditions:



REPORTABLE CONDITIONS

5. The MSM component's budgeting of project expenditures is inadequate.

The MSM component prepared and USAID/Egypt approved a project budget containing ten budget line items, excluding two subcontractor budget line items. The "Vehicle Maintenance and Other" ("VMO") budget line item was designed to be used as a "miscellaneous" budget line item. Approximately 45 percent of the project's budget was allocated to the VMO budget line item while approximately 55 percent of the project's budget was allocated among the remaining nine budget line items.

We noted that the MSM component charged unallowable items to the VMO budget line item. The nature of such a large "miscellaneous" budget line item is of little use to management since it becomes an account for project costs that do not "fit" within the project's budget. Management cannot easily monitor project costs charged to the VMO budget line item because project costs are not classified by type.

An effective accounting system consists of methods and records established to identify, assemble, analyze, classify, record, and report the entity's transactions that will enable management to maintain accountability for project assets, adhere to USAID/Egypt-approved budgets, and report legitimate project expenditures to USAID/Egypt.

The MSM component's overuse of the "VMO" budget line item results in financial data that is misstated. Therefore, it is difficult for management to effectively monitor project costs and prevents management from using budgets and financial statements as effective decisional tools. Additionally, the MSM component's failure to accurately record project costs makes USAID/Egypt project expenditures and budget approval oversight difficult because the informational benefit of the MSM component-prepared budgeted and financial statements is minimal.

Recommendation 5

The MSM component's management should implement controls to ensure that budgets are prepared in such a way to provide that maximum informational benefit to decision makers. Those budgets should be utilized to dictate the proper classification and allowability of project costs.

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This report is intended for the information of the MSM component 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.

Price Waterhouse

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**

August 1, 1994

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

We have audited the fund accountability statement of project costs incurred, excluding subcontractor payments, by the Ministry of Public Works and Water Resources ("MPWWR") Main Systems Management ("MSM") component related to Project Implementation Letter ("PIL") No. 72 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Irrigation Management Systems ("IMS") Project No. 263-0132 ("grant agreement") funded by USAID/Egypt for the period from March 10, 1986 through June 30, 1993, and have issued our report thereon dated August 1, 1994.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 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 and firms.

Compliance with laws, regulations, contracts and grants applicable to the MSM component is the responsibility of the MSM component management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of the MSM component's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit 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 effects of which are included as questionable project costs in the fund accountability statement of the MSM component related to PIL No. 72 under the USAID/Egypt IMS Project No. 263-0132 for the period from March 10, 1986 through June 30, 1993:

1. The MSM component billed to USAID/Egypt cost incurred for which no budget provision existed.

We noted that the MSM component billed to USAID/Egypt cost incurred that were not of the type listed in the project's detailed USAID/Egypt-approved budget. Project costs were also billed for which the allocability to the project's budget is questionable although, the vagueness of the project's budget with regard to the GOE contribution contributes to unawareness of which project costs are the responsibility of the GOE and which are the responsibility of the project. We noted project costs billed to USAID/Egypt for which no specific budget provision existed and were similar to the type of costs normally reimbursed by the GOE. Included as questionable payments in the MSM component, PIL No. 72, fund accountability statement and reported upon in our Report of Independent Accountants on that statement is \$ 91,318 in payments of this type.

Items included in our report are as follows:

- MSM paid labor day bonuses to employees even though the same employees had received a labor day bonus. These individuals are GOE employees. Furthermore, the bonuses were not approved for payment by USAID/Egypt. \$ 75
- MSM paid employee bonuses that are not approved by USAID/Egypt and, furthermore, are not included as one of the acceptable employee payments in the IMS Higher Coordination Committee meeting minutes that explain the IMS regulations regarding such payments. The bonuses paid are as follows:
 - a) Grant for school entrance divided among ten employees.
 - c) Labor day bonus.
 - d) Holiday bonus. 454
- Overtime payments were made to MSM employees without USAID/Egypt approval. 121



● MSM assumes responsibility for communicating with GOE authorities regarding locally-hired employees for both MSM and the foreign consultants for MSM. MSM billed USAID/Egypt for the foreign consultants' locally-hired employee's social insurance (employee and employer share); even though, the foreign consultants reimbursed the same amount to MSM.	\$ 1,095
● Payments were made to individuals to arrange for clearance of vehicle spare parts from the GOE customs authorities. Custom clearing is not one of the types of consulting specified in the USAID/Egypt-approved budget.	2,372
● Furniture purchases procured for Giza and Imbaba offices were billed to USAID/Egypt without either a budget provision or USAID/Egypt prior approval.	23,487
● Renovation payments were billed to USAID/Egypt without either a budget provision or a USAID/Egypt prior approval.	15,334
● Per diem and accommodation was paid for an engineer contracted by the foreign consultants working for the project. MSM management did not provide appropriate support to enable us to verify the basis for allocation of this cost to MSM.	84
● MSM paid travel and per diem expenses to the foreign consultants' and GOE employees without either a budget provision or a separate USAID/Egypt agreement or approval.	6,307
● Overtime payments were made to MSM employees without USAID/Egypt approval.	438
● MSM billed USAID/Egypt for work permit expenses paid for its foreign consultants. MSM management did not provide appropriate support to enable us to verify the basis for allocation of this cost to MSM.	76
● MSM billed USAID/Egypt for maintenance and repair expenses for vehicles that are not part of the project according to the MSM project car list, and are GOE vehicles.	4,254
● MSM billed USAID/Egypt for maintenance and repair expenses for vehicles that are not part of the project according to the MSM project car list, and are United Nations vehicles.	1,384



• MSM billed USAID/Egypt expenses for a Sixth of October festival without either a budget provision or a USAID/Egypt approval.	\$ 118
• MSM billed to USAID the cost of building a master room in El Kanater station. Office facilities are included in the GOE contribution to the MSM project according to financial plans prepared by MSM and submitted to USAID/Egypt.	3,391
• MSM paid a daily commuting transportation allowance for one MSM employee without either a budget provision or a USAID/Egypt approval.	119
• MSM billed electricity expenses to USAID/Egypt without either a budget provision or a USAID/Egypt approval.	1,978
• MSM billed USAID/Egypt for expenses incurred to maintain the project's equipment. According to the budget, approved by USAID/Egypt, maintenance is the responsibility of the GOE.	3,441
• MSM billed to USAID/Egypt expenses incurred to renovate the MSM offices in Giza and Imbaba. The MSM budget does not provide for renovation costs and no separate USAID/Egypt approval was provided.	25,949
• MSM billed to USAID/Egypt vendor taxes paid for computer maintenance related to the project's foreign consultants. MSM management did not provide appropriate support to enable us to verify the basis for allocation of this cost to MSM.	98
• MSM billed to USAID/Egypt expenses for transferring the project's telephones and fax lines from the former MSM office in Giza to the current MSM office in Imbaba. The MSM project budget does not contain a provision for such costs and no separate USAID/Egypt approval was provided.	395
• Salaries for three office boys were paid by MSM; however, these services are shared by MSM and the Ministry. We determined that half of the salary paid is allocable to the MSM project. The remaining portion is questionable.	<u>348</u>
	\$ <u>91,318</u>



Recommendation 1

We recommend that the MSM component adhere to the USAID/Egypt-approved budget. For project costs not specifically provided in the budget. The MSM component should obtain a separate USAID/Egypt approval prior to billing USAID/Egypt for those costs.

• • • • •

2. The MSM component did not report project-generated income to USAID/Egypt.

We noted the following income either due to the MSM component or collected by them was not reported to USAID/Egypt, remitted USAID/Egypt, or used to offset project expenditures. Included as questionable payments in the MSM component, PIL No. 72, fund accountability statement and reported upon in our Report of Independent Accountants on that statement is \$ 33,693 in payments of this type.

- MSM collects bid guarantee payments from bidding suppliers. Bid guarantee payments received, yet not either returned to suppliers or remitted USAID/Egypt is questionable. The payable balance was accumulated prior to January, 1991 and is not yet resolved. \$ 249
 - MSM did not reimburse USAID/Egypt for personal usage of USAID/Egypt-funded project vehicles for home-office-home commuting. We have estimated the amount to be refunded to USAID/Egypt for the period from 6/30/91 to 6/30/93 as MSM does not keep detailed records for personal use of project vehicles. 17,827
 - Car repair expenses were paid by MSM that should have been reimbursed by the insurance company according to the insurance policy. MSM did not provide evidence that such insurance reimbursements occurred and were remitted USAID/Egypt or utilized to offset the cost of car repairs. 8,190
 - MSM received an insurance reimbursements for car repair expenses that were charged to USAID/Egypt; however, the reimbursements were neither used to offset the repair cost nor deducted from the USAID/Egypt billing. 7,285
 - MSM assessed a fine on an Egyptian district for misusing MSM equipment. The fine was collected, but was neither used to offset project expenditures nor remitted USAID/Egypt. 142
- \$ 33,693**

Recommendation 2



The MSM component should report the existence project-generated income and obtain USAID/Egypt's concurrence on the disposition of such items.

• • • • •

3. Based on MSM management's comments received subsequent to the issuance of the draft report, this recommendation has been removed.

• • • • •

4. The MSM component billed project costs to USAID/Egypt before the costs were incurred and paid by the project.

The MSM component billed USAID/Egypt for advance payments issued for travel, per diem, workshops, and project equipment. Upon settlement of those advances, we found no evidence that the MSM component reduced the USAID/Egypt billing for the residual amounts due and returned to the MSM component. We noted advances billed yet, not refunded to USAID/Egypt of \$ 16,575 which were reported as questionable project costs in the fund accountability statement and reported upon in our Report of Independent Accountants on that statement.

Items included in our report are as follows:

• Advances issued by MSM were billed to USAID/Egypt. When the advances were settled, the unliquidated advances were returned to MSM, but not credited in the USAID/Egypt billings.	\$ 136
• The unexpended portion of an advance was returned to MSM; but the adjustment was not reflected in the billing to USAID/Egypt.	210
• MSM billed USAID/Egypt for an advance payment for a workshop that was canceled. The workshop was to be conducted in the Oberoi Aswan during 1991.	\$ 1,186
• MSM billed USAID/Egypt for advances issued for project expenditures. Subsequently, the advances were settled and the residual was returned to the project bank account, but the billing to USAID/Egypt was not adjusted.	1,129
• Advances issued by MSM were billed to USAID/Egypt. When the advances were settled, the unliquidated advances were returned to MSM, but not credited in the billing.	<u>13,914</u>
Total advances returned not reflected in the billing to USAID/Egypt	<u>16,575</u>

We also noted that the MSM component billed USAID/Egypt certain project costs in advance of paying those costs. For example, the MSM component billed USAID/Egypt for gross salaries that included applicable tax payables and also billed USAID/Egypt when the tax payable was paid to the tax departments resulting in double billings to

USAID/Egypt. We noted such duplicate billings of \$ 1,152 which were reported as questionable project costs in the fund accountability statement and reported upon in our Report of Independent Accountants on that statement.

Items included in our report are as follows:

<ul style="list-style-type: none"> ● MSM billed USAID/Egypt twice for the employee's share of social security. The first billing was for gross salaries and the second billing was for the payment issued to the social security department. The second billing is questionable. 	692
<ul style="list-style-type: none"> ● MSM billed USAID/Egypt twice for the employee's share of social security. The first billing was for gross salaries and the second billing was for the payment issued to the social security department. The first billing is questionable. 	374
<ul style="list-style-type: none"> ● MSM billed USAID/Egypt twice for income tax. The first billing was for gross professional consultant payments and the second billing was for the payment issued to the tax department. The second billing is questionable. 	42
<ul style="list-style-type: none"> ● MSM billed USAID/Egypt twice for vendor tax paid. The first billing was for gross purchases and the second billing was for the payment issued to the tax department. The first billing is questionable. 	<u>44</u>
Total duplicate billings	<u>\$ 1,152</u> <u>17,727</u>

The agreement between USAID/Egypt and the MSM component 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.."

Billings submitted to USAID/Egypt for reimbursement for either payables or costs in which the related either service has not been rendered or goods have not been provided to the project constitutes not only a contract principle violation, but might lead to a situation whereby USAID/Egypt is billed for amounts that were neither incurred not paid by the project.

Recommendation 4

We recommend that the MSM component discontinue billing to USAID/Egypt advance payments and payables to USAID/Egypt.

• • • • •

5. The MSM component did not properly maintain adequate books and records to support project costs as required by section B. 5 of the Standard Provisions attached to the Grant Agreement.

The details of the questionable project costs related to \$ 180,480 of unsupported project costs are identified in the fund accountability statement and reported upon in our Report of Independent Accountants on that statement. Primarily these unsupported project costs relate to project costs that were billed to USAID/Egypt for which the MSM component's management did not provide any supporting documentation, provided supporting documentation, but did not provide the required USAID/Egypt approval, and for which the MSM component's accounting records did not document that the related billed cost was recorded and paid.

For example, among other unsupported project costs, we noted that billings submitted to USAID/Egypt did not reconcile with the MSM component general ledger. Instances where the general ledger total was less than the billing to USAID/Egypt and the difference was not either explained by MSM component's management or offset by a corresponding reduction in the billing and therefore, questionable. We noted such billing discrepancies in the following budget line items:

• Professional consultants	\$ 237
• Office equipment and supplies	1,440
• Professional equipment and supplies	558
• Training equipment	171
• Travel and per diem	\$ 329
• Vehicle maintenance and other	<u>5,503</u>
	<u>8,238</u>

We noted also that MSM billed USAID/Egypt for project expenditures for which the related checks never cleared the project bank account. Project costs must be incurred and paid by the project to be USAID/Egypt-reimbursable.

	<u>7,670</u>
\$	<u>15,908</u>

Recommendation 5

We recommend that the MSM component comply with the terms of agreement and keep proper books and records to support project costs.

• • • • •

6. The MSM component did not maintain adequate personnel files.

We noted salary payments billed to USAID/Egypt which were not supported with employment contracts, decrees, or assignment letters. Included as questionable payments in the MSM component, PIL No. 72, fund accountability statement and reported upon in our Report of independent Accountants on that statement is \$ 9,721 in unsupported payments of this type. Items included in our report are as follows:

- MSM paid salaries to individuals who did not have valid contracts with the project. Consequently, we are unable to verify that the employees paid were employed by the project. \$ 3,110

- Consultant's salaries were not supported by assignment letter or seconding decrees. \$ 6,055
\$ 9,165

Recommendation 6

We recommend that the MSM component comply with USAID/Egypt's regulations stipulating that all costs billed to USAID/Egypt be supported with adequate documentation.

We considered these material instances of noncompliance in forming our opinion on whether the fund accountability statement referred to above is presented fairly, in all material respects, in conformity with the cash basis of accounting, and this report does not affect our report dated August 1, 1994, on that fund accountability statement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the MSM component complied, in all material respects, with the provisions referred to in the fourth paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the MSM component had not complied, in all material respects, with those provisions.

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

Price Waterhouse

THE MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
MAIN SYSTEMS MANAGEMENT COMPONENT
PROJECT IMPLEMENTATION LETTER NUMBER 72
UNDER THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS
PROJECT NO. 263-0132

ADDITIONAL INFORMATION

FUND ACCOUNTABILITY STATEMENT
AS INCURRED IN EGYPTIAN POUNDS

FOR THE PERIOD FROM MARCH 10, 1986
THROUGH JUNE 30, 1993

	<u>Budget</u>	<u>Actual</u>	<u>Project cost Reclassifications</u>	<u>Revised Actual</u>	<u>Questionable Costs</u>	<u>Appendix B Finding Reference</u>
Support personnel	LE 200,123	LE 202,628	LE 32,771	LE 235,399	LE 52,642	Pg. 3 of 20, A
Professional consultants	61,231	53,236	(31,212)	22,024	22,024	Pg. 4 of 20, B
In-country training	2,871	2,871	-	2,871	-	
Office equipment and supplies	255,870	269,171	47,076	316,247	102,766	Pg. 6 of 20, C
Professional equipment and supplies	128,839	131,071	1,431	132,502	3,686	Pg. 6 of 20, D
Workshops	225,952	210,267	2,475	212,742	11,159	Pg. 9 of 20, E
Training equipment and supplies	432	432	-	432	432	Pg. 9 of 20, F
Communication reports	10,609	9,269	-	9,269	-	
Travel and per diem	255,139	265,387	(11,011)	254,376	19,162	Pg. 11 of 20, G
Vehicle maintenance and other	<u>922,323</u>	<u>883,920</u>	<u>(41,530)</u>	<u>842,390</u>	<u>264,155</u>	Pg. 19 of 20, H
Subtotals	2,063,389	2,028,252	-	2,028,252	476,026	
Cash	-	-	-	-	<u>74,029</u>	Pg. 20 of 20, I
TOTALS	LE <u>2,063,389</u>	LE <u>2,028,252</u>	LE <u>-</u>	LE <u>2,028,252</u>	LE <u>550,055</u>	Pg. 20 of 20

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THE MINISTRY OF PUBLIC WORKS AND WATER RESOURCES

MAIN SYSTEMS MANAGEMENT COMPONENT

PROJECT IMPLEMENTATION LETTER NUMBER 72

UNDER THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS
PROJECT NO. 263-0132

ADDITIONAL INFORMATION

QUESTIONABLE COSTS DETAIL OF AMOUNTS
AS INCURRED IN EGYPTIAN POUNDS

FOR THE PERIOD FROM MARCH 10, 1986
THROUGH JUNE 30, 1993

Appendix B, in its entirety, was provided to MSM management and USAID/Egypt management. Due to the size of this Appendix, it was excluded from the final report.

THE MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
MAIN SYSTEMS MANAGEMENT COMPONENT
PROJECT IMPLEMENTATION LETTER NUMBER 72
UNDER THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS
PROJECT NO. 263-0132
MANAGEMENT COMMENTS

RESPONSE TO THE RECOMMENDATIONS ON INTERNAL CONTROL STRUCTURE

The format of that response to the Price Water House Audit recommendations will include the following:

- 1- The recommendations of Price Water House.
- 2- The response to the audit report on Internal Control Structure.

RECOMMENDATION # 1

The MSM component management should segregate incompatible job duties especially those which involve asset custody, authorization, bank reconciliation and recording responsibilities.

RESPONSE

A Job Description Chart was made for all Financial staff. Two junior accountants were hired on contract basis to help in financial duties.

RECOMMENDATION # 2

The MSM Component management should strengthen the controls surrounding the USAID/Egypt billing procedures. We recommend that the MSM component systemize and document its billing procedures. Billing procedures should include at a minimum.

1. Preparation of the USAID/Egypt billing by the project accountant and review by the Project Director.

Response

The Project's accountants prepare a Bill to be sent to the USAID after the Project Director's revision.

2. **Periodic reconciliation between the project accounting record and USAID/Egypt record.**

Response

We are following this recommend

3. **Proper recording of USAID/Egypt disallowances.**

Response

It is impossible for the previous period, but we will start from now

4. **Adequate maintenance of USAID/Egypt billing files.**

Response

The maintenance of USAID/Egypt billing files is available starting from 1989

5. **Preparation of the MSM component's project accounting records in indelible ink and adjustment to both the billings and accounting records properly explained.
Such adjustment should be made only if approved and documented by management.**

Response

Starting to follow this recommendation.

6. **Prepare design of the MSM component's accounting system to incorporate renumbered forms especially for receiving reports, purchase orders and asset requisitions.**

Response

This procedure will be followed when the project will be Main Systems Management we have no objection to do it now.

7. **Cancellation of supporting documents in the form of a "PAID" stamp applied to all supporting documents when the payment process is complete**

Response

We already followed this instruction.

RECOMMENDATION # 3

We recommend that the MSM component management redesign its Control System over project assets to include a management-delegated, documented system of authority and responsibility for the project assets.

Response

We separate project assets into Harza assets and all these assets are saved in computer of Qanater Store.

RECOMMENDATION # 4

The MSM Component's management should implement controls to ensure that all project costs are properly classified in compliance with the USAID/Egypt approved budgets now and future.

Response

Will take this recommendation into consideration in near future.

RECOMMENDATION # 5

The component's management should implement controls to ensure that budgets are prepared in such a way to provide that maximum information benefit to decision makers. Those budgets should be utilized to dictate the proper classification and allow ability of project cost.

Response

In future will take into consideration the increasing of the budget items to be more effectiveness.

**MSM MANAGEMENT RESPONSE TO THE REPORT OF
INDEPENDENT ACCOUNTANT ON COMPLIANCE WITH
LAWS AND REGULATIONS**

RECOMMENDATION # 1

We recommend that the MSM component adhere to USAID/Egypt approved budget.

Response

We agreed on this and will get all approvals needed for the expenditures.

RECOMMENDATION # 2

The MSM component should report the existence project generated income and obtain USAID/Egypt concurrence on the disposition of such items.

- * MSM collect bid guarantee payment from bidding suppliers.

Response

We agreed to give back the amount to the USAID/Egypt

- * MSM did not reimburse USAID/Egypt for personal usage

Response

At the HCC meeting in May 1992, decided that all personnel using the project vehicles should pay LE4 monthly (same subscription for the MPWWR personnel) so, the amount will be as follows:

LE4 X 50 persons (maximum) X 14 months = LE2800

- * Car repair expenses paid by MSM that should have been reimbursed by the insurance company

Response

All reimbursement checks were deposited into the Bank and we have all receipts.

- * **MSM received an insurance reimbursement for car repair expenses**

Response

All the amount paid to El-Shark Insurance Co. were calculated and also the reimbursement amount.

- * **MSM assessed a fine on an Egyptian district for misusing MSM equipment**

Response

This amount was deposit in the Bank and we agreed to reimbursed it to the USAID/Egypt if needed.

RECOMMENDATION # 3

We recommend that the MSM Component properly classify project costs and adhere to USAID/Egypt approved budget.

Response

Agreed to classify project costs and adhere to the USAID/Egypt approved budget although there are some expenditures can be used under more than one item

RECOMMENDATION # 4

We recommend that the MSM component discontinue billing to USAID/Egypt advance payment

Response

We agreed to discontinue any advance payment of bill and we started already.

RECOMMENDATION # 5

We recommend that the MSM component comply with the terms of agreement and keep proper books and records to support project costs

Response

We agreed and started to follow this recommendation.

RECOMMENDATION # 6

We recommend that the MSM Component comply with USAID/Egypt's regulations stipulating that all costs billed to USAID/Egypt be supported with adequate documentation.

Response

We already follow this recommendation

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LINE ITEM	TOTAL QC	DISAGREED	AGREED	COMMENT
A) SUPPORT PERSONNEL				
1- Salaries paid	3666	3666	-	-All employees have contract (see Administration office) -All those people have a contract we must pay them -See IMS Higher Coordination -See attached Paper -Those boys work for the project - -There's agreement between MSM & Harza for Egyptian Employees -They do that at the beginning of the Project only -All legal issues regarding personnel are handled by MSM - -OK
2- Labor Day bonus	75	75	-	
3- Employee bonus	454	454	-	
4- Overtime payment	121	121	-	
5- Salaries for 3 office boys	348	348	-	
6- MSM billed USAID/Egypt twice	692	-	692	
7- Employee's Social Insurance	1095	1095	-	
8- MSM billed USAID/Egypt twice	374	-	374	
9- Employee's share of Social Security	13719	13719	-	
10- Misclassified	2078	-	2078	
11- Expenditure twice in G/L	820	-	820	
B) PROFESSIONAL CONSULTANTS				
1- Feb., 1987 general ledger	237	-	237	-May be the bill pass to USAID before the end other the month -They do that as the request of USAID office -As we discuss we must pay to individual for clearance of vehicle (that is not Customs) -We agreed to change the line item
2- Income tax	42	42	-	
3- Clearance of vehicle	2372	2372	-	
4- Consultants salaries	6055	-	6055	
C) OFFICE EQUIPMENT AND SUPPLIES				
1- The general ledger total less than the billing	1440	-	-	-Agreed to added this amount -Sales taxes paid before having a letter from AID -It's missing -See USAID approval -See USAID approval -Agreed to credit in the USAID bill -The 15% allocation of budget approved on support personnel only, was considered to be applied on all line items. In the process of getting approvals
2- Sales taxes	179	179	-	
3- Payment were unsupported	43	43	-	
4- Furniture purchases for Giza & Imbaba	23487	23487	-	
5- Renovation payment	15334	15334	-	
6- Unliquidated advances	136	-	136	
7- The questionable amount is the portion exceeding the budgeted amount	1448	1448	-	

LINE ITEM	TOTAL QC	DISAGREED	AGREED	COMMENT
D) PROFESSIONAL EQUIPMENT & SUPPLIES				
1- MSM billed expenditure to USAID	27391	27391	-	-See approval of USAID
2- G/L total less than the billing	558	-	558	-No comment
3- Electrical supplies	899	899	-	-May be it was missing
E) WORKSHOPS				
1- Minya Seminar				
Miscellaneous	42	42	-	-No receipts
Travel	28	28	-	-One participant lost his ticket but he attended
Breakfast	945	945	-	-The package is bed and breakfast
Tips	132	132	-	-Tips is a must
Sales tax	219	219	-	-It was before receiving the sales tax letter
Unsupported	5004	5004	-	-The total bill is available
2- Tanta				
Photocopying	100	100	-	-Using the hotel photocopier
Travel	22	22	-	-The participant lost his receipt
Office supplies	58	58	-	-Purchasing stationeries during the workshop
unexpended advance	534	534	-	
3- Ismailia				
Telephone calls	75	75	-	-All calls were business
Tips	350	350	-	-Tips is a must
Unauthorized participant costs	305	305	-	-These for the participants who
4- Alexandria				
Photocopying	45	45	-	-Using the hotel photocopier
Tips	300	300	-	-
	534	534	-	-
F) TRAINING EQUIPMENT				
1- The G/L total was less than the billing	171	-	171	-No comment

LINE ITEM	TOTAL QC	DISAGREED	AGREED	COMMENT
G) TRAVEL AND PER DIEM				
1- The variance between the approved rates	322	322	-	-Before having a per diem rates
2- a) Payment relating to travel	82	82	-	-The voucher at the petty cash
b) Hotel voucher	40	40	-	-There's approval from the project Manager
3- Transportation costs	115	115	-	-There's no ticket in this check
4- The difference between L/G & the billing to USAID	832		832	-This amount adjusted by USAID at before
5- Per diem and accommodation	213	213	-	
6- MSM paid travel and per diem expenses to foreign consultants and GOE employees	15957	15957	-	-All engineers took per diem from MSM that is an agreement between Harza & MSM
7- Overtime payment	1109	1109	-	-Approval from the HHC (attached)

LINE ITEM	TOTAL QC	DISAGREED	AGREED	COMMENT
H) VEHICLE MAINTENANCE AND OTHER				
1- MSM billed USAID/Egypt for work per diem expenses	193	193	-	-These cars for consultants
2- Difference between G/L and the billing	13923	13923	-	-These cars belong to the Chairman of HCC
3- Maintain and repair expenses for vehicles	10763	10763	-	-We didn't have vehicles and used USA Project vehicles
4- Maintain and repair expenses for vehicles	3501	3501	-	-They must paid a parking for cars
5- Maintain and repair expenses for violation ticket, taxes, fines and penalties	219	219	-	-
6- MSM billed to USAID/Egypt	399	-	399	-Agreed to change line item to per diem
7- MSM billed to USAID/Egypt for advance	2857	-	2857	-Agreed to adjusted the amount
8- Personal use of project vehicles	45101	45101	-	-See attached USAID approval
9- Sbrth of October festival	300	300	-	-
10- Amounts were billed to USAID/Egypt & MSM Management did not provide suportting documents	71764	71764	-	-They see all the documents with the approval of the Administration Manager
11- Vehicles licensing	2278	-	2278	-Agreed to take it from GOE
12- MSM billed USAID\Egypt for tips paid	834	-	834	-
13- MSM billed to USAID/Egypt the cost of building a master room	8580	8580	-	-AID approval will be obtained
14- MSM paid a dally transportation	300	300	-	-We need the details
15- Car repair expenses	20721	-	20721	-
16- MSM billed electricity	5004	5004	-	-Approval will be obtained
17- Expenses incurred to maintain the project's equipment	8705	8705	-	-We can increase line item at the budget
18- Renovation costs	65652	65652	-	-Approval will be obtained
19- Installation fee for an air condition	200	200	-	-That's fee of transfer Air condition from Giza to Imbaba
20- MSM billed to USAID/Egypt vendor taxes	248	248	-	-See the bill
21- Transferring the project's telephone & fax	1000	1000	-	-Approval from USAID
22- Project car 12469 used by Project Director	1500	1500	-	-We must do that for renew car lenience
23- MSM billed USAID/Egypt twice for vendor tax paid	111	111	-	-We did not paid this taxes (see the bill)

LINE ITEM	TOTAL QC	DISAGREED	AGREED	COMMENT
1) CASH				
1- Bid guarantee payment from bidding supplies	630	-	630	-It saved with Harza Director and we'll returned it to USAID
2- Advance issued by MSM were billed to USAID/Egypt	35503	-	35505	-We agreed to credited in the billing
3- MSM billed USAID/Egypt for project expenditures for which the related checks never cleared the project bank account	19404	19404	-	-See attached bank statement
4- MSM received and insurance reimbursement for car repair expenses	18431	-	18431	-Agreed to deduct from USAID/Egypt billing
5- MSM assessed a fine on an Egyptian district for misusing MSM equipment	360	-	360	-Agreed to re it to USAID/Egypt

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**MAIN SYSTEM MANAGEMENT PROJECT
PROJECT IMPLEMENTATION LETTER NO. 72
UNDER THE IRRIGATION MANAGEMENT SYSTEMS
PROJECT GRANT AGREEMENT NO. 263-0132**

Independent Accountants' Response

Management of the Main System Management Project (MSM) provided comments relating to the Price Waterhouse draft audit report presented at the exit conference held on October 24, 1994. These comments are included, unedited, in Appendix C to this report. We have reviewed these comments and additional supporting documentation provided by MSM. Where applicable, we either adjusted the final report or clarified our positions. Our response below parallels our audit report's findings and management's comments.

MSM management response to our draft report on Internal Control Structure:

MSM management agreed with the majority of our internal control recommendations. Management also asserts that some corrective actions have been taken subsequent to the audit. None of these corrective actions were tested to substantiate their existence. For those recommendations which MSM management dissented or felt the recommended procedures were already being followed, we offer the following:

Recommendation No. 2:

- Item 1: MSM management asserts that Project Accountants already prepare final bills to be sent to USAID after the Project Director's review and revision of bills. However, no evidence of this procedure was noted for those bills tested during our audit. Accordingly, our position remains unchanged.
- Item 4: MSM management asserts that USAID billing files are maintained from 1989. We do not disagree that MSM has billing files, only that the quality of such files is poor. During our audit, we noted that USAID billing files were extremely unorganized. Accordingly, our position remains unchanged.
- Item 7: MSM management asserts that they already cancel invoices and supporting documents after they are paid by stamping them accordingly. However, no evidence of this procedure was noted for certain invoices and supporting documents that were tested during our audit. Accordingly, our position remains unchanged.

Recommendation No. 3:

Management states that they segregate project assets from Harza assets and enter all assets in the MSM computer. Our recommendation stands; MSM should redesign its control system over project assets to include a management-delegated, documented system of authority and responsibility for project assets.

MSM management response to our draft report on Compliance with Laws and Regulations:

MSM management agreed with most of our compliance recommendations. Management also asserts that some corrective actions have been taken subsequent to the audit. None of these corrective actions were tested to substantiate their existence. For those recommendations which MSM management disagreed or felt the recommended procedures were already being followed, we offer the following:

Recommendation No. 1:

MSM management asserts that car repair expenses paid by USAID were subsequently reimbursed by the insurance company. However, we have not substantiated this and our position remains unchanged.

Recommendation No. 2:

Item 2: There is no evidence that the HCC approval provided with management's response has been approved by USAID. Therefore, the estimated amount to be refunded to USAID for personal use of cars remains unchanged until such approval is received. Accordingly, our finding is included unamended in our final report.

Item 3: MSM management asserts that the reimbursement checks received from the insurance company were deposited into the bank. However, these amounts were not deducted from project billings. Our position remains unchanged.

Item 4: MSM asserts that both the amounts reimbursed and paid to the insurance company were calculated. However, MSM has not clarified whether these amounts were refunded back to USAID or not. Accordingly, our recommendation remains unchanged.

Item 5: MSM agrees with our recommendation to refund the fine assessed on an Egyptian district for mixing MSM equipments. However, since the amount has not yet been refunded to USAID, our recommendation remains unamended in our final report.

Recommendation No. 6:

MSM management states that they already comply with USAID regulations stating that all costs billed to USAID be supported with adequate documentation. However, given the unsupported questionable costs in our report, our position remains unchanged.

MSM management response to our notes on the Fund Accountability statement:

MSM offered individual comments on each of our questionable costs. For those questionable costs which MSM disagreed, we offer the following:

A. Support Personnel:

Finding No. 1:

MSM management disagrees with our assertion. Contracts were only provided for five of the questioned MSM employees. Accordingly, the cumulative amount of their salaries was deducted from our finding. The remaining amount relates to contracts which could not be located for other employees mentioned in our finding.

Finding No. 2:

MSM management disagrees with our finding stating that a Labor Day bonus was paid to employees having contracts with the MSM project. However, our position remains unchanged.

Finding No. 3:

MSM management disagrees with our finding stating that approval of employee bonuses is mentioned in the IMS Higher Coordination Committee meeting minutes. However, upon review of those minutes, it was confirmed that such bonuses are not included as an acceptable employee payment. Accordingly, our position remains unchanged.

Finding No. 4:

MSM management disagrees with our finding. However, no USAID approvals for overtime payments were obtained from MSM. Accordingly, our position remains unchanged.

Finding No. 5:

MSM disagrees with our finding. Management states that office boys worked for the project. However, since they also provided services for the ministry, it was determined that half of the salary paid would be allocable to the MSM project, leaving the remaining portion questionable. Our position remains unchanged.

Finding No. 7:

MSM management disagrees with our finding. However, MSM was reimbursed for the employee's social insurance and did not pass reimbursement on to USAID. Our position remains unchanged.

Finding No. 9:

MSM management disagrees with our finding. However, the employee's share of Social Security is not allowed by USAID. Our position remains unchanged.

B. Professional Consultants

Finding No. 2:

MSM management disagrees with our finding. However, this questioned amount is a case of double billing. Our position remains unchanged.

Finding No. 3:

MSM management disagrees with our finding. However, payments to individuals to arrange for vehicle parts customs clearance are not allowed as a type of consulting service specified in the USAID budget. Accordingly, our position remains unchanged.

C. Office Equipment and Supplies:

Finding No. 2:

MSM disagrees with our finding stating that the questioned amount had been paid before USAID exempted the project from paying sales tax. However, even prior to the issuance of an exemption letter, these taxes should have been covered by the GOE. Therefore, our position remains unchanged.

Finding No. 3:

MSM management disagrees with our finding. However, they admit that the payment documents are missing. Therefore, our position remains unchanged.

Finding No. 4:

No USAID approvals were obtained from MSM for these furniture purchases. Accordingly, our position remains unchanged.

Finding No. 5:

No USAID approvals were obtained from MSM for these renovation expenditures. Accordingly, our position remains unchanged.

Finding No. 7:

We agree with management's response. This finding has been removed from our final report.

D. Professional Equipment and Supplies:

Finding No. 1:

We agree with management's response. This finding has been removed from our final report.

Finding No. 3:

MSM management disagrees with our finding, stating that the supporting documents are missing. Accordingly, it remains an unsupported questionable cost in our final report.

E. Workshops:

MSM management disagrees with all findings regarding the workshops budget line item.

- MSM management asserts that no receipts were available for miscellaneous expenses, including tips. However, since these expenses are unsupported, our position remains unchanged.
- MSM management states that tickets supporting the travel expenses of Minya and Tanta seminars were lost by the participants. Our position remains unchanged.
- During the Tanta Seminar, MSM management disagrees with questioning the unexpended advance as unsupported. However, no comments or supporting documents were provided. Accordingly, this amount remains an unsupported questionable cost in our final report.
- No receipts were provided for photocopying expenses or telephone calls questioned during the Tanta, Ismailia and Alexandria seminars. Therefore, such amounts remain unsupported questionable costs in our final report.
- Regarding questioned sales tax at the Minya seminar, see our comments in finding No. 2, section C.

No documents were provided for unsupported purchases of office supplies during the Tanta seminar. Our position remains unchanged.

MSM asserts that the Menya seminar package included breakfast. However, breakfast is included as part of the per diem allowance given participants. Therefore, our position remains unchanged.

G. Travel and Per Diem:

Finding No. 1:

MSM management disagrees with our finding, stating that reasonable travel and per diem rates were used before having approved rates. However, MSM management was following the rates of a new travel and per diem plan which had not been approved by USAID. We questioned the difference between the application of the old approved plan and the unapproved plan. Our position remains unchanged.

Finding No. 2:

- a) MSM management asserts that the voucher is included in petty cash despite the fact that it was not found during our audit. Our position remains unchanged. The amount is still included as a questioned cost in our final report.
- b) MSM disagrees with our finding stating that the expense had been approved by the project manager. Yet, no supporting documents were provided. Our position remains unchanged.

Finding No. 3:

MSM disagrees with our finding. However, they did not properly address the reason for the excessive travel amount. Therefore, our position remains unchanged.

Finding No. 5:

MSM management disagrees with our finding. Their response does not properly address their reason for questioning this amount. No appropriate support has been provided to verify the basis for allocating this cost. Therefore, our position remains unchanged.

Finding No. 6:

MSM management disagrees with our finding. However, a proper response was not provided. Therefore, our position remains unchanged.

Finding No. 7:

MSM management disagrees with our finding. There was no proof that the HCC approval attached to the MSM response had been approved by USAID. Therefore, no changes are made to our reported finding.

H. Vehicle maintenance and other:

Finding No. 1:

MSM disagrees with our finding. However, since no appropriate support verifying the basis for allocating this cost was provided, our position remains unchanged.

Finding No. 2:

MSM management's response did not address our finding adequately. Therefore, no changes were made to our final report.

Finding No. 3:

MSM management disagrees with our finding. However, since no prior approval has been provided allowing MSM reimbursement for maintenance and repair expenses of cars not on the project list, our position remains unchanged.

Finding No. 4:

MSM management disagrees with our findings. However, no proper justification is provided with their response. Accordingly, our position remains unchanged.

Finding No. 5:

MSM management disagrees with our finding. However, the questioned amounts were paid for parking violations. These amounts are clearly disallowed and our position remains unchanged.

Finding No. 8:

MSM management disagrees with our finding stating that our calculations should use GOE personal vehicle usage rates. In our finding we did the calculations based on USAID rates, because no written approval was provided from USAID specifying which rate to be used. Therefore, our position remains unchanged.

Finding No. 9:

MSM management disagrees with our finding. However, no justification is provided with the response. Accordingly, our position remains unchanged.

Finding No. 10:

No supporting documents were provided with MSM management's response. Therefore, our finding remains unchanged in the final report.

Finding No. 13:

MSM management disagreed with our finding stating that USAID approval will be obtained. However, our position remains unchanged until USAID approval is obtained.

Finding No. 14:

MSM management disagrees with our finding stating that they need more details. Until this issue is resolved, our position remains unchanged.

Finding No. 16:

MSM management disagrees with our finding stating that USAID approval would be obtained. However, until the approval is obtained, our position remains unchanged.

Finding No. 17:

MSM management disagrees with our finding. However, per the budget approved by USAID, maintenance is the responsibility of the GOE. Our position remains unchanged.

Finding No. 18:

MSM management disagrees with our finding stating that USAID approval would be obtained. However, until the approval is obtained, our position remains unchanged.

Finding No. 19:

MSM management disagrees with our finding. However, such installation costs were also documented in a voucher for the cost of the air conditioner. Our position remains unchanged.

Finding 20:

MSM disagrees with our finding stating that such payments were not actually incurred. However, upon reviewing appropriate documentation, it was noted that these amounts were billed to USAID twice. Therefore, no changes are made to our reported finding.

Finding 21:

MSM management disagrees with our finding. However, such costs should be covered by the GOE. No approval was obtained from USAID authorizing the expenditure. Our position remains unchanged.

Finding 22:

MSM management disagrees with our finding stating that such amount was used to renew the car license. However, this amount was actually spent on car painting. Therefore, no changes are made to our reported finding.

Finding 23:

MSM disagrees with our finding stating that such payments were not actually incurred twice. However, upon reviewing the vouchers, it was noted that these amounts were billed to USAID twice. Therefore, no changes are made to our reported finding.

1. Cash:

Finding No. 3:

MSM management disagrees with our finding and referred to a bank statement that was supposed to be attached to the response. However, no bank statement was attached. Accordingly, our position remains unchanged.

THE MINISTRY OF PUBLIC WORKS AND WATER RESOURCES
MAIN SYSTEMS MANAGEMENT COMPONENT
PROJECT IMPLEMENTATION LETTER NUMBER 72
UNDER THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS
PROJECT NO. 263-0132
MISSION RESPONSE

55

USAID

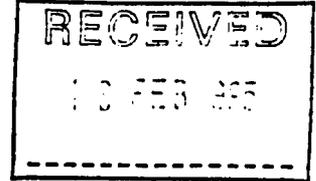


UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

February 12, 1995

MEMORANDUM



TO: Philippe Darcy, AD/RIG/A

FROM: James Redder, OD/FM/FA

James Redder

SUBJECT: Audit of the Ministry of Public Works and Water Resources, Main Systems Management Component (MSM), Local Expenditures Incurred Pursuant to Project Implementation Letter (PIL) No. 72 Under the Irrigation Management Systems Project No. 263-0132 - Draft Report

Mission is working with the implementing agency to resolve and close the three recommendations under the subject report, and has not comments to offer at this time. Please issue the final report.

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Clearanc Sheet

February 12, 1995

MEMORANDUM

TO: Philippe Darcy, AD/RIG/A

FROM: James Redder, OD/FM/FA

SUBJECT: Audit of the Ministry of Public Works and Water Resources, Main Systems Management Component (MSM), Local Expenditures Incurred Pursuant to Project Implementation Letter (PIL) No. 72 Under the Irrigation Management Systems Project No. 263-0132 - Draft Report

Cleared By : C. Houston, AGR/ILD CHA 2/12/95

Drafted by: R. EL Zoghby, FM/FA FE
2/12/95