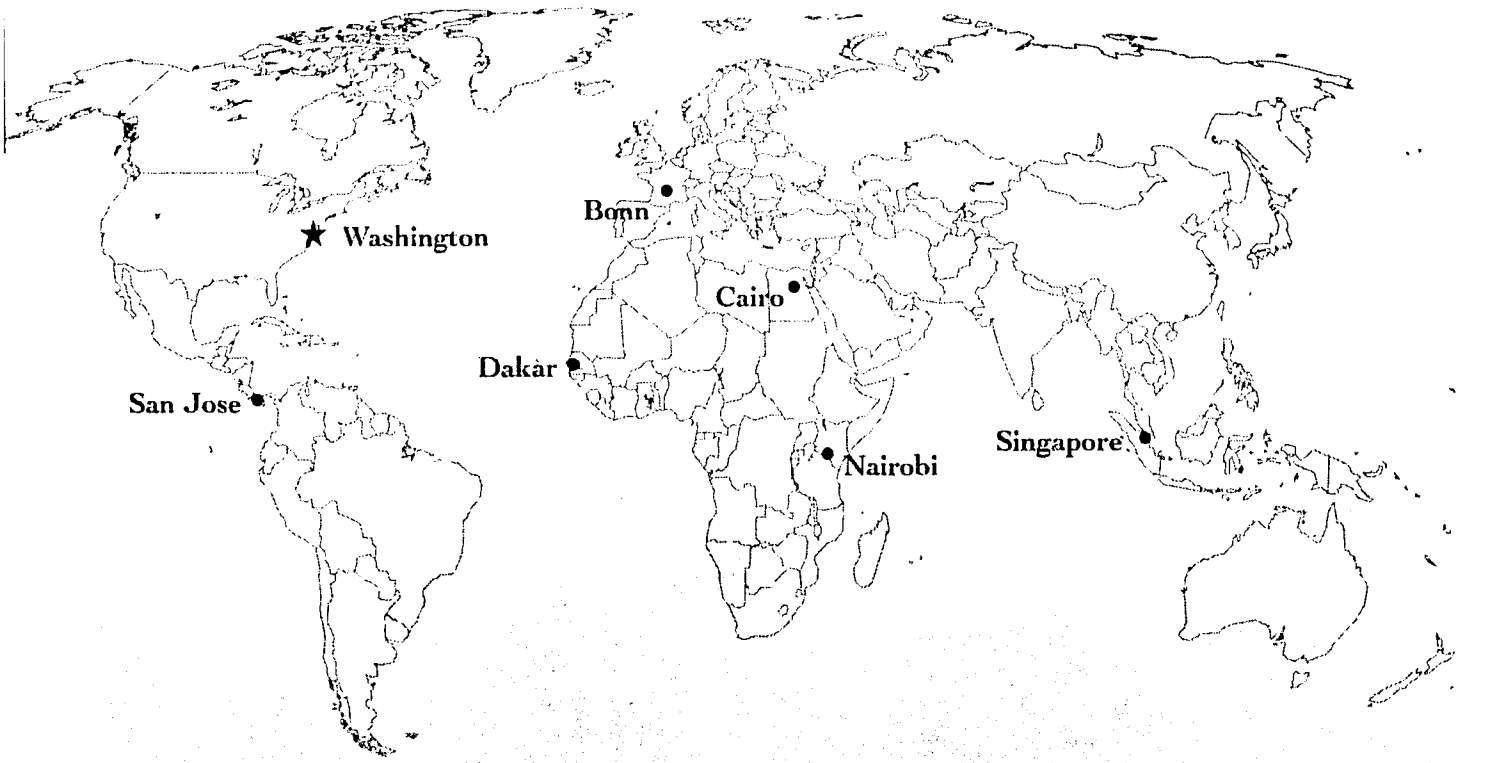
PD-ABL-469

Regional Inspector General for Audit
Cairo, Egypt

Audit of the Irrigation Improvement Project, Local Expenditures Incurred Pursuant to Project Implementation Letter No. 102 under the Irrigation Management Systems Project, Grant No. 263-0132

Report No. 6-263-95-024-N
June 29, 1995



FINANCIAL INFORMATION CONTAINED IN THIS REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC.

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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

June 29, 1995

MEMORANDUM FOR D/USAID/Egypt, John R. Westley

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

SUBJECT : Audit of the Irrigation Improvement Project (IIP), Local Expenditures Incurred Pursuant to Project Implementation Letter (PIL) No. 102 under the Irrigation Management Systems (IMS) Project, Grant No. 263-0132.

The attached report transmitted on May 17, 1995, by Coopers & Lybrand presents the results of a financial audit of the Irrigation Improvement Project (IIP), Local Expenditures Incurred Pursuant to Project Implementation Letter (PIL) No. 102 under the Irrigation Management Systems (IMS) Project, Grant No. 263-0132. The project's objectives are to increase Egyptian agricultural output and to provide ample Nile water for multiple uses.

We engaged Coopers & Lybrand to perform a financial audit of IIP's incurred expenditures of $9,634,680 (equivalent to LE32,276,178) as of September 30, 1994. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Coopers & Lybrand also evaluated IIP's internal controls and compliance with applicable laws, regulations and grant terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Coopers & Lybrand questioned $360,016 in costs billed to USAID by IIP. The questioned costs related primarily to penalties withheld from construction contractors which were not remitted to USAID/Egypt and payments for construction costs that exceeded the approved budget. Coopers & Lybrand noted one reportable weakness in IIP's internal controls relating to the improper reconciliation of project expenditures and no items of material noncompliance with applicable laws and regulations.

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

In response to the draft report, IIP provided documentation and/or gave more explanation to the questioned costs and the internal control finding. Coopers & Lybrand reviewed IIP's response to the findings. Where applicable, they made adjustments to the report or provided further clarification of their position.

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

> **Recommendation No. 1: We recommend that USAID/Egypt resolve $360,016 of ineligible questioned costs as detailed on pages 9 and 10 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 IIP.

With regard to the non-material internal control weakness, it can be handled directly between the Mission and the grantee.

Please advise this office within 30 days of any actions planned or taken to close the recommendation. We appreciate the courtesies extended to the staff of Coopers & Lybrand and to our office.

R

Coopers
&Lybrand

IRRIGATION IMPROVEMENT PROJECT
UNDER THE USAID/EGYPT
IRRIGATION MANAGEMENT SYSTEMS PROJECT
GRANT AGREEMENT NUMBER 263-0132

CONSOLIDATED FUND ACCOUNTABILITY
STATEMENT AND ADDITIONAL INFORMATION

FOR THE PERIOD FROM JANUARY 15, 1991
THROUGH SEPTEMBER 30, 1994

Coopers
&Lybrand

IRRIGATION IMPROVEMENT PROJECT
PROJECT IMPLEMENTATION LETTER
NUMBER 102
UNDER THE USAID/EGYPT
IRRIGATION MANAGEMENT SYSTEMS
PROJECT GRANT AGREEMENT NUMBER 263-0132

CONSOLIDATED FUND ACCOUNTABILITY STATEMENT AND ADDITIONAL INFORMATION

FOR THE PERIOD FROM JANUARY 15, 1991 THROUGH SEPTEMBER 30, 1994

TABLE OF CONTENTS

INTRODUCTION	PAGE
Background	1
Audit objectives and scope	2
Results of audit	3
Management comments	4
Mission response	4
CONSOLIDATED FUND ACCOUNTABILITY STATEMENT	
Report of independent accountants	5
Consolidated fund accountability statement and notes	7
INTERNAL CONTROL STRUCTURE	
Report of independent accountants	11
COMPLIANCE WITH LAWS AND REGULATIONS	
Report of independent accountants	14

APPENDICES

Appendix A: Consolidated fund accountability statement as incurred in Egyptian pounds

Appendix B: Management comments

Appendix C: Independent accountants' response

Appendix D: Mission response

Coopers &Lybrand

certified public accountants

Tiba 2000 Center
Rabaa El-Adaweya
Nasr City
Cairo - 11371
tel: 2608500
fax: 2613204

a member firm of
Coopers & Lybrand (International)

May 17, 1995

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 the United States Agency for International Development Mission to Egypt ("USAID/Egypt") resources managed by the Ministry of Public Works and Water Resources ("MPWWR") Irrigation Directorate offices in Menya, Tanta and Zagazig related to costs-incurred by the Irrigation Improvement Project ("IIP") for Project implementation Letter ("PIL") Number 102 under the USAID/Egypt Irrigation Management Systems ("IMS") Project Grant Agreement Number 263-0132 funded by USAID/Egypt. The audit population included project costs of the IIP which were incurred in MPWWR Irrigation Directorate offices located in Menya, Tanta and Zagazig during the period from January 15, 1991 through September 30, 1994.

Background

The Grant Agreement Number 263-0132, dated September 22, 1981, between USAID/Egypt and the Government of Egypt established funding for the IMS Project. The Project's objectives are to increase the agricultural output of Egypt and to provide ample Nile water for multiple uses. Capital and technical assistance were provided under the Grant Agreement to the MPWWR in five priority areas: operations and maintenance; irrigation system redesign; betterment of Ministry of Irrigation staff capacity; replacement of depreciated structures; and development of a project preparation unit.

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.

Implementation of the activities necessary to accomplish the IMS Project objectives was comprised of ten IMS project components. IIP is one, the

guidelines of which are documented in PIL Number 102. The focus of PIL Number 102 activities was to establish and test an organizational structure within the MPWWR that is capable of providing technical, construction, and on-farm development assistance as well as economic analysis. PIL Number 102 activities also included the employment of user involvement to remodel selected irrigation canal commands by removing old, nonfunctional irrigation structures and installing high quality replacement structures. USAID/Egypt support consisted of: technical assistance; training; commodities; and a portion of the construction costs.

PIL Number 102 has been amended eleven times through December 31, 1994. The USAID/Egypt approved project costs for three MPWWR Irrigation Directorate offices located in Menya, Tanta, and Zagazig related to the IIP are 36,344,456 Egyptian pounds ("LE"). PIL Number 102 amendments have addressed primarily increased budget and spending authorizations and project implementation extensions.

Audit Objectives and Scope

The objective of this engagement was to perform a financial-related cost-incurred audit of IIP project costs incurred in three MPWWR Irrigation Directorate offices located in Menya, Tanta, and Zagazig during the period from January 15, 1991 through September 30, 1994. Specific objectives were to determine whether:

1. the consolidated fund accountability statement for the MPWWR Irrigation Directorate offices located in Menya, Tanta and Zagazig related to costs-incurred by the IIP for PIL Number 102 under the USAID/Egypt IMS Project Grant Agreement Number 263-0132 presents fairly, in all material respects, project costs incurred during the period from January 15, 1991 through September 30, 1994, in conformity with cash basis of accounting;

2. the IIP project costs reported as incurred by three MPWWR Irrigation Directorate offices located in Menya, Tanta and Zagazig and funded by USAID/Egypt during the period from January 15, 1991 through September 30, 1994 are in fact allowable, allocable, and reasonable in accordance with the terms of the Grant Agreement, PIL Number 102 and applicable laws and regulations;

3. the internal controls, accounting systems, and management practices of the IIP are adequate for USAID/Egypt agreements; and

4. the IIP is in compliance, in all material respects, with the Grant Agreement, PIL Number 102 and applicable laws and regulations.

Preliminary planning and review procedures began in December, 1994 which consisted of discussions with personnel from the Office of the Regional Inspector General for Audit in Cairo and the IIP and a review of the Grant Agreement and PIL Number 102. Audit fieldwork commenced in February, 1995 and was completed in March, 1995.

The IIP consists of five MPWWR Irrigation Directorate offices with combined total incurred project costs of LE 32,276,178 during the period from January 15, 1991 through September 30, 1994. On a judgmental basis, we selected MPWWR Irrigation Directorate offices located in Menya, Tanta, and Zagazig for audit testing. At these three locations, we tested project costs incurred of LE 7,805,126 ($ 2,329,888) out of total costs incurred of LE 26,812,159 ($ 8,003,630) which represents a coverage of 29%.

Our tests of IIP project costs incurred in three MPWWR Irrigation Directorate offices located in Menya, Tanta, and Zagazig and funded by USAID/Egypt during the period January 15, 1991 through September 30, 1994 included, but were not limited to, the following:

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

2. testing of IIP project costs incurred and funded by USAID/Egypt for allowability, allocability, reasonability, and appropriate support in conformity with the terms of the Grant Agreement, the PIL, and applicable laws and regulations.

As part of our examination, we made a study and evaluation of relevant internal controls and reviewed compliance with applicable laws and regulations.

Results of Audit

Consolidated fund accountability statement

Our audit procedures identified $ 360,016 in ineligible project costs. The ineligible IIP costs related primarily to penalties withheld from construction contractors which were not remitted to USAID/Egypt or used to reduce future billings to USAID/Egypt and payments for construction costs that exceeded budget.

Internal control structure

We identified one reportable internal control structure weakness. We recommended that the IIP adopt procedures to properly reconcile project expenditures as reported by the MPWWR Irrigation Directorate offices to the compiled headquarter office expenditure report which is submitted to USAID/Egypt. This reportable condition is not considered to be a material weakness.

Compliance with agreement terms and applicable laws and regulations

No material noncompliance was noted.

Management Comments

Management comments have been obtained and are included in Appendix B of this report. In response to their comments, we have either provided further clarification of our position in Appendix C of this report or we have adjusted the final report.

Mission Response

The Mission response is included in Appendix D of this report.

This report is intended for the information of IIP 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.

Coopers & Lybrand

Coopers &Lybrand

certified public accountants

Tiba 2000 Center
Rabaa El-Adaweya
Nasr City
Cairo - 11371
tel: 2608500
fax: 2613204

a member firm of
Coopers & Lybrand (International)

REPORT OF INDEPENDENT ACCOUNTANTS
ON CONSOLIDATED FUND ACCOUNTABILITY STATEMENT

March 19, 1995

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

We have audited the consolidated fund accountability statement of project costs incurred by the Irrigation Improvement Project ("IIP") in the Ministry of Public Works and Water Resources ("MPWWR") Irrigation Directorate offices located in Menya, Tanta, and Zagazig related to Project Implementation Letter ("PIL") Number 102 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Irrigation Management Systems ("IMS") Project Grant Agreement Number 263-0132 funded by USAID/Egypt during the period from January 15, 1991 through September 30, 1994. The consolidated fund accountability statement is the responsibility of IIP'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 consolidated fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated 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 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Coopers and Lybrand worldwide internal quality

control program which requires the Coopers and Lybrand Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other Coopers and Lybrand offices.

As described in Note 2, the consolidated 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 consolidated 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 consolidated fund accountability statement and as more fully described in Note 4 thereto, the results of our tests disclosed $ 360,016 in ineligible project costs. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program-related or are prohibited by the PIL, Grant Agreement, or applicable laws and regulations.

In our opinion, except for the effects of the questioned project costs as discussed in the preceding paragraph, the consolidated fund accountability statement referred to in the first paragraph presents fairly, in all material respects, project costs incurred by the IIP in the MPWWR Irrigation Directorate offices located in Menya, Tanta, and Zagazig related to PIL Number 102 under the USAID/Egypt IMS Project Grant Agreement Number 263-0132 funded by USAID/Egypt during the period from January 15, 1991 through September 30, 1994 in conformity with the basis of accounting described in Note 2.

Our audit was conducted for the purpose of forming an opinion on the consolidated fund accountability statement described in the first paragraph of this report. The supplemental information included in Appendix A is presented for purposes of additional analysis and not as a required part of the consolidated fund accountability statement. This information has been subjected to the auditing procedures applied in the audit of the consolidated fund accountability statement and, in our opinion, except for the effects of the questioned project costs noted in Appendix A, such information is fairly stated, in all material respects, in relation to the consolidated fund accountability statement taken as a whole.

This report is intended for the information of IIP 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.

Coopers & Lybrand

IRRIGATION IMPROVEMENT PROJECT
PROJECT IMPLEMENTATION LETTER NUMBER 102
UNDER THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS
PROJECT GRANT AGREEMENT NUMBER 263-0132

CONSOLIDATED FUND ACCOUNTABILITY STATEMENT

FOR THE PERIOD FROM JANUARY 15, 1991
THROUGH SEPTEMBER 30, 1994

EXPENDITURES	Budget (Note 1)	Actual (Note 1)	Questioned Project Costs: Ineligible (Note 4)	Questioned Project Costs: Unsupported (Note 4)	Questioned Project Cost Reference
Construction-Menya	$ 4,174,292	$ 2,966,353	$ 102,690	$ -	Page 9
Construction-Tanta	3,445,468	2,582,568	87,562	-	Page 10
Construction-Zagazig	3,229,331	2,454,708	169,764	-	Page 10
TOTALS	$ 10,849,091	$ 8,003,629	$ 360,016	$ -	

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

IRRIGATION IMPROVEMENT PROJECT
PROJECT IMPLEMENTATION LETTER NUMBER 102
UNDER THE USAID/EGYPT
IRRIGATION MANAGEMENT SYSTEMS PROJECT
GRANT AGREEMENT NUMBER 263-0132

NOTES TO THE CONSOLIDATED FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF STATEMENT

The consolidated fund accountability statement includes project costs incurred by the IIP in the MPWWR Irrigation Directorate offices located in Menya, Tanta, and Zagazig related to PIL Number 102 under the USAID/Egypt IMS Project Grant Agreement Number 263-0132 funded by USAID/Egypt during the period from January 15, 1991 through September 30, 1994.

The "Budget" column includes all USAID/Egypt approved project costs incurred by the IIP in the MPWWR Irrigation Directorate offices located in Menya, Tanta, and Zagazig related to PIL Number 102 under the IMS Project Grant Agreement Number 263-0132 and are presented for informational purposes only.

The "Actual" column represents cumulative IIP project costs incurred in the MPWWR Directorate offices located in Menya, Tanta, and Zagazig and reimbursed by USAID/Egypt during the period from January 15, 1991 through September 30, 1994.

NOTE 2 - BASIS OF PRESENTATION

The consolidated fund accountability statement for the IIP 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

IIP project costs incurred in LE have been converted to U. S. dollars at the exchange rate of 3.35 LE to one U. S. dollar. The exchange rate used is the average monthly exchange rate for the period from January 15, 1991 through September 30, 1994.

NOTE 4 - QUESTIONED PROJECT COSTS

Questioned 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 adequate documentation or did not have the required prior USAID/Egypt approvals or authorizations. Questioned project costs identified as either ineligible or unsupported are detailed as follows:

NOTE 4 - QUESTIONED PROJECT COSTS (CONT.)

Item Description	Questioned Project Costs Ineligible	Questioned Project Costs Unsupported
Construction - Menya		
1. Penalties were withheld from payments to various construction contractors but were not remitted to USAID/Egypt or used to reduce future billings to USAID/Egypt.	$ 70,785	-
The standard provisions attached to the Grant Agreement stipulates that any interest or other earnings on grant funds disbursed by AID to the grantee under this Agreement should be returned to AID in US dollars by the grantee.		
2. Construction costs that exceeded the USAID/Egypt-approved construction budget were billed to USAID/Egypt.	27,843	-
3. Construction costs which exceeded the original contracted amount were billed to USAID/Egypt.	4,062	-
The PIL stipulates that for approved construction activities, USAID/Egypt will reimburse the Ministry in the amount of 80% of the value of work accomplished for each construction activity up to 80% of the originally contracted amount. Amounts in excess of the 80% limitations have been questioned.		
Total Questioned Costs - Menya	102,690	-
Construction - Tanta		
4. A penalty was withheld from a payment to a construction contractor, but was not remitted to USAID/Egypt or used to reduce future billings to USAID/Egypt.	6,026	-
The standard provisions attached to the Grant Agreement stipulate that any interest or other earnings on grant funds disbursed by AID to the grantee under this Agreement should be returned to AID in US dollars by the grantee.		

NOTE 4 - QUESTIONED PROJECT COSTS (CONT.)

Item Description	Questioned Project Costs Ineligible	Questioned Project Costs Unsupported
5. Construction costs that exceeded the original contract amount were billed to USAID/Egypt.	$ 81,536	-
The PIL stipulates that for approved construction activities USAID/Egypt will reimburse the Ministry in the amount of 80% of the value of work accomplished for each construction activity up to 80% of the originally contracted amount. Amounts in excess of the 80% limitations have been questioned.		
Total Questioned Costs - Tanta	87,562	-
Construction - Zagazig		
6. Penalties were withheld from payments to various construction contractors but were not remitted to USAID/Egypt or used to reduce future billings to USAID/Egypt.	52,638	-
The standard provisions attached to the Grant Agreement stipulate that any interest or other earnings on grant funds disbursed by AID to the grantee under this Agreement shall be returned to AID in US dollars by the grantee.		
7. Construction costs that exceeded the USAID/Egypt-approved construction budget were billed to USAID/Egypt.	82,499	-
8. A guarantee payment was received from a construction contractor but was not returned to the contractor or remitted to USAID/Egypt.	34,627	-
Total Questioned Costs - Zagazig	169,764	-
TOTAL IIP QUESTIONED COSTS	$ 360,016	$ -

Coopers &Lybrand

certified public accountants

Tiba 2000 Center
Rabaa El-Adaweya
Nasr City
Cairo - 11371
tel: 2608500
fax: 2613204

a member firm of
Coopers & Lybrand (International)

REPORT OF INDEPENDENT ACCOUNTANTS
ON THE INTERNAL CONTROL STRUCTURE

March 19, 1995

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

We have audited the consolidated fund accountability statement of project costs incurred by the Irrigation Improvement Project ("IIP") in the Ministry of Public Works and Water Resources ("MPWWR") Irrigation Directorate offices located in Menya, Tanta, and Zagazig related to Project Implementation Letter ("PIL") Number 102 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Irrigation Management Systems ("IMS") Project Grant Agreement Number 263-0132 funded by USAID/Egypt during the period from January 15, 1991 through September 30, 1994, and have issued our report thereon dated March 19, 1995.

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 consolidated fund accountability statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality 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 Coopers and Lybrand worldwide internal quality control program which requires the Coopers and Lybrand Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other Coopers and Lybrand offices.

In planning and performing our audit of project costs incurred by the IIP in the MPWWR Irrigation Directorate offices located in Menya, Tanta and Zagazig, we considered the internal control structure related to PIL Number 102 under the USAID/Egypt IMS Project Grant Agreement Number 263-0132 in order to determine our auditing procedures for the purpose of expressing our opinion on

the consolidated fund accountability statement and not to provide assurance on the internal control structure.

The management of the IIP is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and terms of the 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, and project accounting. For these internal control structure categories cited, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

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

REPORTABLE CONDITIONS

1. Invoicing procedures at the IIP headquarter office need to be improved.

We noted that the IIP consistently invoiced USAID/Egypt for project costs known to them to be ineligible for reimbursement. This occurred because IIP management relied exclusively on USAID/Egypt voucher examiners to disallow project costs. For example, project cost items that were previously disallowed and subsequently incurred by the project were nevertheless invoiced to USAID/Egypt.

Statement on Auditing Standards Number 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 control procedures that management exercises over accounting records to provide a reasonable assurance that specific entity objectives will be achieved. Proper controls include using such methods at appropriate management levels to investigate variances from expectations and to take appropriate and timely corrective action.

Recommendation 1

We recommend that IIP management adhere to the criteria established for determining whether or not a particular project cost is eligible for USAID/Egypt reimbursement. Proper management review should ensure that only those costs eligible for reimbursement are invoiced to USAID/Egypt. Disallowances initiated by USAID/Egypt should be brought to the attention of top management and future invoices to USAID/Egypt should not include cost items that were previously disallowed. Controls should be established so that previously disallowed items are not incurred in the future, and that if they are incurred that they are not billed to USAID/Egypt.

* * * * *

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the 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 consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses under standards established by the American Institute of Certified Public Accountants. However, we believe that the reportable condition described above is not a material weakness.

This report is intended for the information of the IIP 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.

Coopers & Lybrand

Coopers &Lybrand

certified public accountants

Tiba 2000 Center
Rabaa El-Adaweya
Nasr City
Cairo - 11371
tel: 2608500
fax: 2613204

a member firm of
Coopers & Lybrand (International)

REPORT OF INDEPENDENT ACCOUNTANTS ON COMPLIANCE WITH LAWS AND REGULATIONS

March 19, 1995

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

We have audited the consolidated fund accountability statement of project costs incurred by the Irrigation Improvement Project ("IIP") in The Ministry of Public Works and Water Resources ("MPWWR") Irrigation Directorate offices located in Menya, Tanta, and Zagazig related to Project Implementation Letter ("PIL") Number 102 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Irrigation Management Systems ("IMS") Project Grant Agreement Number 263-0132 funded by USAID/Egypt during the period from January 15, 1991 through September 30, 1994, and have issued our report thereon dated March 19, 1995.

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 consolidated fund accountability statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality 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 Coopers and Lybrand worldwide internal quality control program which requires the Coopers and Lybrand Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other Coopers and Lybrand offices.

Compliance with laws, regulations, contracts and grants applicable to the IIP is the responsibility of the IIP management. As part of obtaining reasonable assurance about whether the consolidated fund accountability statement is free of material misstatement, we performed tests of the IIP's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of

the consolidated fund accountability statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

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

This report is intended for the information of the IIP 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.

Coopers & Lybrand

IRRIGATION IMPROVEMENT PROJECT
PROJECT IMPLEMENTATION LETTER NUMBER 102
UNDER THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS
PROJECT GRANT AGREEMENT NUMBER 263-0132

ADDITIONAL INFORMATION
CONSOLIDATED FUND ACCOUNTABILITY STATEMENT
AS INCURRED IN EGYPTIAN POUNDS

FOR THE PERIOD FROM JANUARY 15, 1991
THROUGH SEPTEMBER 30, 1994

	Budget	Actual	Questioned Project Costs	
			Ineligible	Unsupported
EXPENDITURES				
Construction-Menya	LE 13,983,879	LE 9,937,284	LE 344,010	-
Construction-Tanta	11,542,318	8,651,602	293,330	-
Construction-Zagazig	10,818,259	8,223,273	568,711	-
TOTALS	LE 36,344,456	LE 26,812,159	LE 1,206,051	LE -

Coopers
&Lybrand

IRRIGATION IMPROVEMENT PROJECT
PROJECT IMPLEMENTATION LETTER NUMBER 102
UNDER THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS
PROJECT GRANT AGREEMENT NUMBER 263-0132

MANAGEMENT COMMENTS

الإدارة المركزية
رقم الصادر ٦١٥
رقم الملف
تاريخ ٨ ٥ ٩٥ ١

IIP Managment Response to the C&L Draft Report on the Fund Accountability Statement

CONSTRUCTION (MENYA):

- Finding 1:

According to the Egyptian laws and regulations, all types of penalties collected from the contractors are remitted to the Ministry of finance (MOF), and are considered as GOE revenues.
Should these amounts be refunded to the USAID, they are to be collected from the MOF.

- Finding 2:

According to the IIP billing voucher dated December 31, 1994, none of the construction costs, billed to USAID, exceeded the approved budget.
See the attached schedule (Billing Voucher Dec. 94) at page 4 - 5

- Finding 3:

Based upon the IIP (PIL # 102), terms of agreement, the USAID funds up to 80% of the original contracted amount. Any construction costs exceeding the original contract should be covered, entirely, by the GOE.

According to the attached billing voucher, dated December 31, 1994, all expenditures exceeding the original contracted amounts, were disallowed by the the USAID after September 1994 (i.e. after the audited period).

Therefore, we agree with the auditors to include this finding in the final report since the IIP was exceeding the contracted amounts, listed in the report, tilll the end of the audited period.

CONSTRUCTION (TANTA):

- Finding 4:

See the response to finding # 1.

- Finding 5:

See the response to finding # 3.

MANAGEMENT COMMENTS

CONSTRUCTION (ZAGAZIG):

Note:
See IIP (Zagazig Directorate) response at page 6 - 7.

- Finding 6:

See the response to finding # 1.

- Finding 7:

The Final Guarantee will be remitted to the contractor upon the final receival of works.

BY : YEHIA ABDEL AZIZ
TITLE : Project Director
DATE : May 8, 1995

MANAGEMENT COMMENTS

IIP Management Response
to the C&L Draft Report on
the Internal Control Structure

1. *Invoicing procedures at the IIP headquarter Office need to be improved.*

The Headquarter reviews the construction costs requested by the Local Irrigation Directorates for matheinatical accuracy. As for any disallowances regarding overbudgets or exceeding the contracted amounts, they are left to the USAID Project Officer for final decision.

BY : YGHIA ABDEL AZIZ
TITLE : Project Director
DATE : May 8, 1995

MANAGEMENT COMMENTS

COR 23 - '

CUMULATIVE EXPENDITURES STATEMENT
IRRIGATION IMPROVEMENT PROJECT
PROJECT No 263-0132 (PIL #102)

Report No. 15

(1) CONTRACTA FUNDED FROM 72-FT-800 TRUST FUND

ENDING 31/12/1994

CONTRACT			(B)	(c)
AREA	No.	AMOUNT (A)	TOTAL USAID REIMBURSEMENT 80% x (A)=(B)	TOTAL CUMULATIVE USAID REIMBURSEME
QAHWAGI	1	891,290.00	681,653.00	681,652.74
QAHWAGI	2	637,400.00	340,577.00	340,576.78
QAHWAGI	3	1,410,150.00	543,054.00	543,054.05
QAHWAGI	4	1,710,900.00	867,838.00	867,837.73
QAHWAGI	5	1,100,600.00	336,872.00	336,871.51
BAHR SAIDI	1	858,950.00	687,160.00	687,160.00
BAHR SAIDI	2	2,339,300.00	1,722,407.00	1,722,406.75
BAHR SAIDI	3	2,170,820.00	1,736,656.00	1,393,470.20
BAHR SAIDI	4	1,095,732.00	876,585.00	851,834.89
BAHR SAIDI	5	1,671,055.00	1,336,844.00	859,032.00
BAHR SAIDI	6	541,700.00	433,360.00	386,874.16
BAHR SAIDI	8	983,950.00	787,160.00	568,901.35
OIMAN AROUS	1	1,104,810.85	850,148.00	850,147.91
OIMAN AROUS	2	1,264,705.00	1,011,764.00	979,299.97
OIMAN AROUS	4	1,261,250.00	1,009,000.00	936,051.20
SAIDIYA(#1)	1	1,016,064.00	812,851.00	772,687.20
SAIDIYA(#4&5)	2	1,000,000.00	800,000.00	680,298.09
SAIDIYA	3	1,326,256.62	1,061,005.30	668,866.00
SAIDIYA	4	1,414,470.00	1,131,576.00	610,424.00
SAIDIYA	5	228,150.00	182,520.00	182,520.00
SAIDIYA	6	2,567,260.80	2,053,809.00	1,992,553.44
SAIDIYA	7	2,100,412.80	1,680,330.24	1,680,330.00
BALOKTAR	1	1,890,434.00	1,512,347.00	1,255,360.25
BALOKTAR	2	1,204,150.00	937,770.00	892,454.70
BALOKTAR	3	481,896.10	385,516.88	385,517.00
BALOKTAR	4	1,571,675.00	0.00	0.00
BALOKTAR	5	336,100.00	268,880.00	268,880.00
BENI IBEAD	1	1,517,340.00	1,213,872.00	864,910.91
BENI IBEAD	2	1,875,180.00	1,490,068.00	1,490,068.00
BENI IBEAD	3	2,345,775.29	1,851,070.23	814,575.88
ABBADI	1	854,000.00	683,200.00	616,172.91
ABBADI	2	357,000.00	285,600.00	284,862.32
ABBADI	3	97,000.00	77,600.00	77,600.00
ABBADI	4	202,200.00	161,760.00	153,434.86
ABBADI	10	1,130,865.00	904,692.00	768,451.30
ABBADI	11	732,648.00	586,118.00	565,764.74
KHOR EL-SAHEL	1	348,680.00	278,944.00	264,224.00
SUB TOTAL	37	43,649,170.46	31,580,607.65	27,295,126.84

15 Apr 95

MANAGEMENT COMMENTS

CUMULATIVE EXPENDITURES STATEMENT
IRRIGATION IMPROVEMENT PROJECT
PROJECT No. 263-0132 (PIL #102)

Report No. 15

(2) CONTRACTA FUNDED FROM USAID FUNDS

ENDING 31/12/1994

CONTRACT			(B)	(c)
AREA	No.	AMOUNT (A)	TOTAL USAID REIMBURSEMENT 80% x (A)=(B)	TOTAL CUMULATIVE USAID REIMBURSEME
QIMAN AROUS	3	1,984,000.00	1,587,200.00	1,316,597.40
SAIDIYA	8	2,392,850.00	1,914,280.00	906,311.20
SAIDIYA	9	1,477,360.00	1,181,888.00	773,386.19
ASHRUBA	1	1,539,000.00	1,231,200.00	1,097,402.17
ASHRUBA	2	2,902,680.00	2,322,144.00	1,404,723.18
ASHRUBA	3	1,729,640.00	1,383,712.00	927,830.89
ABBADI	5	849,015.00	679,212.00	669,589.60
ABBADI	6	429,962.40	343,970.00	343,970.00
ABBADI	7	237,820.00	190,256.00	190,256.00
ABBADI	8	339,000.00	271,200.00	266,141.15
ABBADI	9	308,758.80	247,007.00	247,007.00
SUB TOTAL	11	14,190,086.20	11,352,069.00	8,143,214.78
GRAND TOTAL	48	57,830,256.66	42,932,676.65	35,438,341.62

MANAGEMENT COMMENTS

NISTRY OF PUBLIC WORKS
IO WATER RESOURCES

RIGATION IMPROVEMENT DEPARTMENT
M EL-ISMAILIA, IRRIGATION BLDG.
OUBRA, EL MEZALAT
ALAFAWI POST NO. 11814
ONE 2204704 / 2203802
2216322 2202802
2204513 / 2210992

IIP

IRRIGATION IMPROVEMENT PROJECT

الاشغال العامة
رد العائية
ركزية لتطوير الري
تطوير الري
.قم ترعة الإسماعيلية
١١٠ الحلفاوي
٢٢٠ / ٢٢٠٣٨٠٢
٢٢١ / ٢٢٠٣٨٠٢
٢٢٠٤ - ٢٢١٠٩٩٢

الادارة المركزية
رقم الصادر : ٥٨٧
رقم الملف :
التاريخ ٢ / ٥ / ١٩٩٥

السيد الأستاذ / فريد صبرى منصور - المبنى الادارى طيبة ٢٠٠٠
رابعة العدوية - مدينة نصر

تحية طيبة ... وبعـــد ...

نتشرف بأن نرفق لسيادتكم الرد الخاص بملاحظات اللجنة المكلفة من مكتب سيادتكم بمراجعة الأعمال التنفيذية للعمليات الجارى تنفيذها بدائرة الادارة العامة لتطوير الرى بشرق الدلتا بالزقازيق والممولة من هيئة المعونة الأمريكية بنسبة ٨٠٪ فى الفترة من ١٩٩١/١/١ وحتى تاريخه.

رجاء التفضل بالاحاطة والتنبيه باللازم ...

وتفضلوا بقبول فائق الاحترام ...

رئيس الادارة المركزية
ومدير مشروع تطوير الـــرى
٥١٢

مهندس / يحيى عبد العزيز

مرفقات
عدد
١

MANAGEMENT COMMENTS

أولا:

عملية رقم (١) تطوير المجرى الرئيسى لترعة السعيدية فى المسافة من الفم وحتى ك ٧٫٨٠٠ مقاولة شركة / الكراكات المصرية.

* أفادت اللجنة ان عمل بوابات لفم ترعة السعيدية كان يجب ان تكون تكاليفها على نشاط الاحلال والتجديد وليس على نشاط مشروع التطوير والذى أدى الى زيادة نسبة الـ ٨٠٪ عما هو مقرر.

وترى الادارة المركزية لتطوير الرى ان عمل بوابات الفم لترعة السعيدية وكبريتها مدرجة ضمن عقد العملية وهى الأساس الأول الذى يترتب عليه تنفيذ مشروع تطوير ترعة السعيدية وفروعها.

ثانيا:

عملية رقم (٥) محطة رفع على مصرف العزازى ك ٠٫٥٥٠ بر أيمن لتغذية ترعة أم حجر مقاولة السيد / محمود مصطفى مرتضى.

* أفادت اللجنة ان تكاليف عقد العملية هو ١٧٧٠٠٠ جنيه (مائة وسبعة وسبعون ألف جنيه) ولكن ختامى العملية بعد التنفيذ أصبح بمبلغ ٢٢٨١٥٠ جنيه (مائتان وثمانية وعشرون ألف ومائة وخمسون جنيها).
مما أدى الى زيادة نسبة الـ ٨٠٪ بمبلغ ٤٠٩٢٠ جنيه (اربعون ألف وتسعمائة وعشرون جنيها).

وترى الادارة المركزية لتطوير الرى ان الزيادة فى عقد العملية يرجع الى بعض التعديلات فى الرسومات والتى تطلبتها ظروف العمل وطبيعة التربة أثناء التنفيذ حيث ان موقع هذه المحطة قريب من مصرف بحر البقر وهذه الزيادة تتحملها الحكومة المصرية بنسبة ١٠٠٪.

ثالثا:

عملية رقم (٧) تطوير شبكة الرى لمساقى المنطقة رقم (٥) على ترعة أم حجر وفروعها مقاولة / محمد السيد مصطفى وشريكه.

* أفادت اللجنة ان قيمة ختامى العملية تجاوز عن قيمة العقد المبرم مع المقاول وترى الادارة المركزية لتطوير الرى ان هذه الزيادة لما تتطلبه حاجة العمل بالطبيعة.

كما اعترضت اللجنة على عدم رد قيمة مبالغ غرامات التأخير التى وقعت على بعض العمليات الى جهة المعونة الأمريكية.

وترى الادارة المركزية لتطوير الرى انه قد تم توقيع هذه الغرامات طبقا لعقد وزارة الأشغال العامة والموارد المائية وقد تم اضافتها الى حساب الايرادات طبقا لتعليمات وزارة المالية الصادرة فى هذا الشأن.

رجاء التفضل بالاحاطة والتنبيه باللازم ...

وتفضلوا بقبول فائق الاحترام ...

رئيس الادارة المركزية
ومدير مشروع تطوير الرى
٥/١٧
مهندس / يحيى عبد العزيز

Coopers
&Lybrand

IRRIGATION IMPROVEMENT PROJECT
PROJECT IMPLEMENTATION LETTER NUMBER 102
UNDER THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS
PROJECT GRANT AGREEMENT NUMBER 263-0132

INDEPENDENT ACCOUNTANTS' RESPONSE

The Irrigation Improvement Project ("IIP") management provided comments relating to the our draft report presented at the exit conference held on April 19, 1995. IIP's comments are included, unedited, in Appendix B to this report. In response to their comments, we reviewed additional supporting documents provided by IIP management. Please note that the finding references used below correspond to those used in our draft and final reports.

Finding 1

IIP management agrees with this finding; however, they assert that the amount questioned should be collected from the Ministry of Finance.

Finding 2

IIP management provided a billing voucher dated December, 1994 for our review in which net construction billings did not exceed the USAID/Egypt-approved budget. This occurred because the USAID/Egypt Voucher Examiner disallowed amounts billed by IIP between September and December, 1994. At the end of the audit period, September 30, 1994, construction billings were over the USAID/Egypt-approved budget; consequently, our finding remains unchanged.

Finding 3

See our response for Finding 2 above.

Finding 4

See our response for Finding 1 above.

INDEPENDENT ACCOUNTANTS' RESPONSE

Finding 5

See our response for Finding 3 above.

Finding 6

See our response for Finding 1 above.

Finding 7

See our response for Finding 2 above.

Finding 8

IIP management response for Finding 8 is addressed at Finding 7 in their comments. IIP management agrees with Finding 8.

IRRIGATION IMPROVEMENT PROJECT
PROJECT IMPLEMENTATION LETTER NUMBER 102
UNDER THE USAID/EGYPT IRRIGATION MANAGEMENT SYSTEMS
PROJECT GRANT AGREEMENT NUMBER 263-0132

MISSION RESPONSE

USAID

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

June 26, 1995

MEMORANDUM

To : **Philippe Darcy, RIG/A/C**

From : **James Redder, OD/FM/FA**

Subject : **Audit of the Irrigation Improvement Project (IIP), Local Expenditures Incurred Pursuant to Project Implementation Letter (PIL) No. 102 under the Irrigation Management Systems (IMS) Project, Grant No. 263-0132. Draft Report dated May 21, 1995.**

Mission is working with the implementing agency to resolve and close the open recommendation under the subject report, and has no comments to offer at this time. Please issue the final report.

106 Kasr El Aini Street
Garden City
Cairo, Egypt