

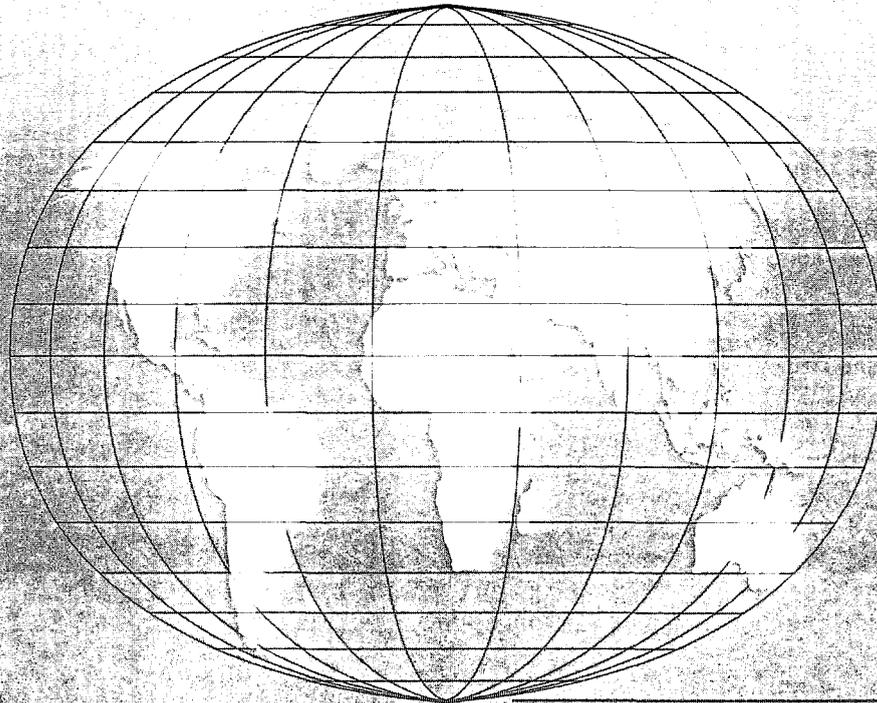
# Report of Audit

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**Financial Audit of the Ministry of Information's  
State Information Service, Expenditures Incurred  
Under the Population/Family Planning  
II and III Projects (USAID/Egypt Project  
Nos. 263-0144 and 263-0227)**

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**Report No. 6-263-97-013-N  
February 24, 1997**



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

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**Regional Inspector General for Audit  
Cairo, Egypt**

**OFFICE OF INSPECTOR GENERAL  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



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

CAIRO, EGYPT

February 24, 1997

**MEMORANDUM**

**TO :** DIRECTOR USAID/Egypt, John R. Westley  
**FROM:** RIG/A/C, Lou Mundy *Lou Mundy*  
**SUBJECT:** Financial Audit of the Ministry of Information's State Information Service, Expenditures Incurred Under the Population/Family Planning II and III Projects (USAID/Egypt Project Nos. 263-0144 and 263-0227)

The attached report, transmitted on December 3, 1996, by Price Waterhouse, presents the results of a financial audit of the State Information Service (Service), an entity established by the Ministry of Information (Ministry) to implement Project Implementation Letters (PILs) Nos. 6 and 5B of the Population/Family Planning II and III Projects (USAID/Egypt Project Nos. 263-0144 and 263-0227). The Service was established to promote family planning and increased contraceptive awareness and practice in Egypt through mass media campaigns on television, radio, and newsprint, and through interpersonal communication.

We engaged Price Waterhouse to perform a financial audit of the Service's incurred expenditures of \$1,472,875 (equivalent to LE4,974,316) for the period April 1, 1993 through March 31, 1994 for PIL No. 6 and April 1, 1994 through June 30, 1995 for PIL No. 5B. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Price Waterhouse also evaluated the Service's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statements.

The audit report questions \$10,992 (equivalent to LE37,007) in costs billed to USAID/Egypt by the Service. The questioned costs related primarily to ineligible vehicle expenses, bonuses and incentives, and customs clearance expenses. Additionally, the

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*A*

auditors noted four material instances of noncompliance with applicable laws, regulations and agreement terms.

In response to the draft report, responsible Service officials provided additional explanation to the report findings. Price Waterhouse reviewed the Service's response to the findings and where applicable made adjustments to the report or provided further clarification of their position (see Appendices A and B).

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 make a management decision on the questioned costs of \$10,992 (ineligible costs of \$10,367 and unsupported costs of \$625) detailed on pages 11 through 19 of the Price Waterhouse audit report, and recover from the State Information Service the amounts determined to be unallowable.

**Recommendation No. 2:** We recommend that USAID/Egypt obtain evidence that the State Information Service has addressed the material noncompliance issues (proper procedures in the procurement of technical and professional services were not consistently applied, cash advances provided to the Local Information Centers were billed to USAID/Egypt, costs chargeable to the Government of Egypt were billed to USAID/Egypt, and an individual bank account for PIL No. 5B funds was not established) detailed on pages 24 and 25 of the Price Waterhouse audit report.

In its response to the audit report, the Mission has sustained \$10,992 of the questioned costs, and deducted this amount from the Service's December 1996 voucher (see Appendix C). Based on the Mission's management decision and final action, Recommendation No. 1 is closed upon issuance of this report.

In response to Recommendation No. 2, the Mission provided evidence that the Service has been requested to develop a consolidated policy regarding competitive bidding for procurement and billing only for expenditures actually incurred (see Appendix C). The Mission response also detailed the action taken to recover costs chargeable to the Government of Egypt and determined that individual bank accounts were not required to distinguish subproject funds. Based on the Mission's management decisions, Recommendation No. 2 is resolved upon issuance of this report. It will be considered to have had final action when the Mission presents acceptable evidence that the required actions have been taken with regard to the development of procedures for procurement and for cash advances.

B

The three reportable conditions identified by the auditor's review of the Service's internal control structure, which are detailed on pages 21 and 22 of the Price Waterhouse audit report, should be handled directly between Mission and Service officials. In addition, the Price Waterhouse auditors, in following-up on prior audit recommendations, noted two reportable conditions in the internal control structure and one instance of nonmaterial noncompliance for which no management decision had been made at the time of their review. Mission and Service officials should ensure that timely action is taken to resolve these prior audit recommendations.

Please advise this office within 30 days of any action planned or taken to close the recommendation. Thank you for the cooperation and assistance extended to the audit staff on this engagement and your continued support of the financial audit program in Egypt.

Attachment: a/s

THE STATE INFORMATION SERVICE

PROJECT IMPLEMENTATION LETTERS ("PILs") NO. 6 AND 5B  
UNDER THE USAID/EGYPT FUNDED  
POPULATION/FAMILY PLANNING PROJECTS  
GRANT AGREEMENTS NO. 263-0144 AND 263-0227

FUND ACCOUNTABILITY STATEMENTS  
AND ADDITIONAL INFORMATION

FOR THE PERIODS  
APRIL 1, 1993 THROUGH MARCH 31, 1994  
FOR PIL NO. 6 AND  
APRIL 1, 1994 THROUGH JUNE 30, 1995  
FOR PIL NO. 5B

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

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**THE STATE INFORMATION SERVICE**  
**PROJECT IMPLEMENTATION LETTERS ("PILs") NO. 6 AND 5B**  
**UNDER THE USAID/EGYPT FUNDED**  
**POPULATION/FAMILY PLANNING PROJECTS**  
**GRANT AGREEMENTS NO. 263-0144 AND 263-0227**

**FUND ACCOUNTABILITY STATEMENTS**  
**AND ADDITIONAL INFORMATION**

**FOR THE PERIODS**  
**APRIL 1, 1993 THROUGH MARCH 31, 1994**  
**FOR PIL NO. 6 AND**  
**APRIL 1, 1994 THROUGH JUNE 30, 1995**  
**FOR PIL NO. 5B**

**TABLE OF CONTENTS**

<b><u>INTRODUCTION</u></b>	<b><u>PAGE</u></b>
Background	1
Audit Objectives and Scope	2
Results of Audit	3
Follow-up on Prior Audit Recommendations	4
Management Comments	5
Mission Response	5
 <b><u>FUND ACCOUNTABILITY STATEMENTS</u></b>	
Report of Independent Accountants	6
Fund Accountability Statements and Notes	8
 <b><u>INTERNAL CONTROL STRUCTURE</u></b>	
Report of Independent Accountants	20
 <b><u>COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS AND GRANTS</u></b>	
Report of Independent Accountants	23
 <b><u>APPENDICES</u></b>	
Appendix A: Management Comments	
Appendix B: Independent Accountants' Response	
Appendix C: Mission Response	

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## *Price Waterhouse*



December 3, 1996

Mr. Lou Mundy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

Dear Mr. Mundy:

This report presents the results of our financial related audit of program revenues received and costs incurred by the State Information Service ("SIS"). The audit population includes revenues received and costs incurred under Project Implementation Letter (PIL) No. 6 and PIL No. 5B, under United States Agency for International Development Mission to Egypt ("USAID/Egypt") financed Population/Family Planning II Project, Grant Agreement No. 263-0144 for PIL No. 6 and Population/Family Planning III Project, Grant Agreement No. 263-0227 for PIL No. 5B (collectively, the "Grant Agreements" or "projects") for the periods April 1, 1993 through March 31, 1994, and April 1, 1994 through June 30, 1995 (collectively, the "audit periods"), respectively.

### Background

SIS is a Government of Egypt ("GOE") entity established in 1980 by decree No. 718 issued by the Ministry of Information. SIS operates under the auspices of the Ministry of Information. The Information, Education and Communication Center ("IEC") was established as a distinct component of SIS.

SIS is the lead governmental agency dedicated to providing and communicating family planning education to the population of Egypt. Since its establishment, SIS has promoted family planning and increased contraceptive awareness and practice in Egypt through mass media campaigns on TV, radio, newsprint and through interpersonal communication. These activities are primarily conducted at SIS's 58 Local Information Centers ("LICs").

The goal of IEC is to assist the GOE in achieving its fertility reduction goals and increase the level and effectiveness of contraceptive use in Egypt by generating demand and awareness through mass media and local outreach.

Although SIS is primarily financed by USAID/Egypt, the GOE agreed to provide a host country contribution to the projects. This contribution consists of both cash and in-kind services. The former consists of premium pay and incentives for employees of IEC's headquarters and local SIS offices, office space, overhead costs, fuel and vehicle maintenance, operating and maintenance costs for the operation of the headquarters, as well as the LICs. The latter covers the cost of radio and TV time utilized by SIS.

PIL No. 6 was initiated in May 1988 under Population/Family Planning II Project and terminated on March 31, 1994. The project was extended under PIL No. 5B under Population/Family Planning III Project, which began on April 1, 1994 and has a termination date of June 30, 1997. Although SIS executed its operations under two different grant agreements, they are of the same nature and have similar objectives.



### Audit Objectives and Scope

The objective of this engagement was to perform a financial related audit of project revenues received and costs incurred by SIS under the Grant Agreements during the audit periods. Specific objectives were to perform and determine the following:

1. Express an opinion on whether the fund accountability statements for the USAID/Egypt financed SIS projects present fairly, in all material respects, project revenues received and costs incurred during the audit periods in conformity with generally accepted accounting principles, or other comprehensive basis of accounting, including the cash receipts and disbursements basis;
2. Determine if the costs reported as incurred under the PILs No. 6 and 5B are in fact allowable, allocable and reasonable in accordance with the terms of the Grant Agreements;
3. Evaluate and obtain a sufficient understanding of the internal control structure of SIS as it relates to the PILs, assess control risk, and identify reportable conditions, including material internal control weaknesses;
4. Perform tests to determine whether SIS complied, in all material respects, with the terms of the Grant Agreements and with applicable laws and regulations; and
5. Determine if SIS has taken corrective action on prior audit report recommendations.

Preliminary planning and review procedures began in March 1996. These procedures consisted of discussions with personnel from the office of the Regional Inspector General for Audit in Cairo and SIS/IEC management, as well as a review of prior non-federal audit reports. Audit fieldwork commenced in June 1996 and was completed in December 3, 1996.

The scope of our audit included a population of project costs amounting to \$624,392 or LE 2,097,957 and \$848,483 or LE 2,876,359 for PILs No. 6 and 5B, respectively. On a judgmental basis, we selected and tested \$205,357 or LE 690,001 (33%) of costs incurred under PIL No. 6 and \$270,587 or LE 917,290 (32%) of cost incurred under PIL No. 5B. Our audit population also included \$488,029 or LE 1,639,778 and \$887,740 or LE 3,009,438 of program revenues received for PILs No. 6 and 5B, respectively. We tested one hundred percent of these revenues.

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

1. Reconciling SIS project accounting records to billings issued to USAID/Egypt to ensure that project costs were appropriately supported.
2. Testing project costs funded by USAID/Egypt for allowability and allocability.
3. Determining whether appropriate procurement procedures that conformed with the terms of the Grant Agreements, PILs and applicable laws and regulations, were applied.
4. Determining if project costs were adequately supported and approved.
5. Establishing the adequacy of SIS control procedures, as they relate to the Grant Agreements to safeguard project funds/assets.



Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards ("GAS") 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 statements are 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 GAS 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 GAS is not material because we participate in the Price Waterhouse worldwide internal quality control program. This program 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 SIS, we assessed internal controls, as they relate to PILs No. 6 and 5B, in order to determine our auditing procedures. We also reviewed SIS's compliance with applicable laws, regulations, contracts and grants as they relate to PILs No. 6 and 5B of the respective Grant Agreements.

#### Results of Audit

##### Fund accountability statements

Our audit procedures identified \$8,887 or LE 29,865 and \$2,105 or LE 7,142 of questionable project costs related to PILs No. 6 and 5B, respectively. These amounts are comprised of \$8,560 or LE 28,765 and \$1,807 or LE 6,132 of ineligible project costs and \$327 or LE 1,100 and \$298 or LE 1,010 of unsupported project costs for PILs No. 6 and 5B, respectively. The fund accountability statements and the details of questionable project costs, both as incurred in Egyptian pounds, are included in supplemental schedules to this report.

##### Internal control structure

Our audit procedures identified three reportable conditions in the internal control structure of SIS. All of which are considered non-material.

During the course of our examination, we noted certain matters involving the internal controls surrounding the funds expended under PIL No. 6 relating to the lack of definitive and objective criteria supporting the payment of supplemental salaries to SIS employees. We reported this matter as a material weakness in our draft report. However, these salaries are applicable only under PIL No. 6, and as this PIL is complete, we have not included any reference to this matter in our final report on the internal control structure. Accordingly, only matters which relate to weaknesses surrounding the internal control structure of PIL No. 5B have been included in our report.

##### Non-material weaknesses

1. SIS controls surrounding fixed assets are not adequate.
2. SIS does not have an appropriate mechanism in place for ensuring that invoices are paid only once.
3. SIS management failed to properly segregate the duties of the petty cash custodian.



Compliance with laws and regulations, contracts and grants

Our audit procedures identified the following four instances of material noncompliance with either the terms of the Grant Agreements, PILs No. 6 or 5B, applicable laws and regulations, or a combination thereof.

1. SIS management did not consistently apply proper procedures in the procurement of technical and professional services.
2. SIS billed USAID/Egypt for advances provided to the LICs.
3. SIS billed USAID/Egypt for costs which should have been paid by the GOE.
4. SIS management did not establish individual bank accounts for the funds of PIL No. 5B.

Other

We also noted certain other matters relating to SIS's internal control structure and its compliance with laws, regulations, contracts and grants that do not materially effect the fund accountability statements. We have reported these matters to SIS management in a separate letter dated December 3, 1996.

Follow-up on Prior Audit Recommendations

We have reviewed the prior audit report of SIS PIL No. 6 for the audit period January 15, 1987 through March 31, 1993 (the "prior audit"). As PIL No. 5B is an initial audit, no prior audit report exists. Our review revealed the following:

Fund accountability statement

The prior audit questioned a cumulative amount of \$73,865 in ineligible and unsupported costs. USAID/Egypt officials sustained \$38,812 and accepted SIS's justifications for the remaining \$35,053. The amount of \$38,812 was refunded to USAID/Egypt.

Internal control

The prior audit report identified seven reportable conditions that were considered to be non-material weaknesses. With the exception of the following conditions, the remaining five findings and related recommendations from the prior audit report have been addressed and implemented.

1. "Lack of insurance for IEC's assets."

This finding remains unresolved and has been included as weakness No. 2 in our letter to management on non-reportable conditions dated December 3, 1996.

2. "IEC does not maintain fidelity insurance for its employees involved in inventory, cash or cash in-transit."

This finding remains unresolved and has been included as weakness No. 2 in our letter to management on non-reportable conditions dated December 3, 1996.



Compliance with laws, regulations, contracts and grants

The prior audit report identified three non-material instances of noncompliance. With the exception of the following conditions, the other finding and its related recommendation from the prior audit report have been addressed and implemented.

1. "IEC did not comply with the applicable tax laws and regulations in Egypt requiring deduction of — withheld taxes from amounts paid to suppliers and payment of salary taxes on the employees' incentives and bonuses."

This finding remains unresolved and has been included as finding No. 1 in our letter to management on non-reportable conditions dated December 3, 1996.

2. "We recommend that IEC obtain three bids from reputable companies or institutions to be considered when awarding contracts."

This finding remains unresolved and has been included as finding No. 1 in our Report on Compliance with Laws, Regulations, Contracts and Grants.

Management Comments

Management's comments have been obtained and are included in Appendix A to this report. In response to management's comments, we either provided further clarification of our position in Appendix B or have adjusted our findings.

Mission Response

The mission's response is included in Appendix C to this report.

This report is intended for the information of SIS management and others within the organization and USAID/Egypt. However, this report is a matter of public record and its distribution is not limited.

*Pricewaterhouse*

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**REPORT OF INDEPENDENT ACCOUNTANTS  
ON THE FUND ACCOUNTABILITY STATEMENTS**

December 3, 1996

Mr. Lou Mundy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

We have audited the fund accountability statements of project revenues received and costs incurred by the State Information Service ("SIS") under Project Implementation Letters ("PILs") No. 6 and 5B, under United States Agency for International Development Mission to Egypt ("USAID/Egypt") Population/Family Planning II Project, Grant Agreement No. 263-0144 for PIL No. 6 and Population/Family Planning III Project, Grant Agreement No. 263-0227 for PIL No. 5B (collectively, the "Grant Agreements" or "projects"), for the periods April 1, 1993 through March 31, 1994 for PIL No. 6 and April 1, 1994 through June 30, 1995 for PIL No. 5B (collectively, the "audit periods"). The fund accountability statements are the responsibility of SIS management. Our responsibility is to express an opinion on the statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards ("GAS") 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 statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. 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 statements. 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 GAS 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 GAS is not material because we participate in the Price Waterhouse worldwide internal quality control program. This program 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, the fund accountability statements have been prepared on the basis of cash receipts and disbursements. Consequently, revenues are recognized when received and expenditures are recognized when paid rather than when obligations are incurred. Accordingly, the fund accountability statements are not intended to present results in accordance with accounting principles generally accepted in the United States of America.

As detailed in the fund accountability statements, and more fully described in Note 5 thereto, the results of our tests disclosed \$8,887 or LE 29,865 and \$2,105 or LE 7,142 of questionable project costs for PILs No. 6 and 5B, respectively. These amounts are comprised of \$8,560 or LE 28,765 and \$1,807 or LE 6,132 of ineligible project costs and \$327 or LE 1,100 and \$298 or LE 1,010 of unsupported project costs for PILs No. 6 and 5B, respectively. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program related or are prohibited by PILs No. 6 and 5B, the Grant Agreements, or applicable laws and regulations. Unsupported project costs are those lacking adequate documentation.



In our opinion, except for the effects of the questionable project costs discussed in the fifth paragraph, the fund accountability statements referred to in the first paragraph present fairly, in all material respects, project revenues received and costs incurred by SIS under PILs No. 6 and 5B of the Grant Agreements during the audit periods, in conformity with the basis of accounting described in Note 2.

In accordance with GAS, we have also issued a report dated December 3, 1996 on our consideration of SIS's internal control structure and a report dated December 3, 1996 on its compliance with laws and regulations, contracts and grants as it relates to PILs No. 6 and 5B of the respective Grant Agreements.

This report is intended for the information of SIS management and others within the organization and USAID/Egypt. However, this report is a matter of public record and its distribution is not limited.

*Pricewaterhouse*

THE STATE INFORMATION SERVICE

PROJECT IMPLEMENTATION LETTER NO. 6  
 UNDER THE USAID/EGYPT FINANCED  
 POPULATION/FAMILY PLANNING II PROJECT  
 GRANT AGREEMENT NO. 263-0144

FUND ACCOUNTABILITY STATEMENT  
 AND ADDITIONAL INFORMATION  
 FOR THE PERIOD  
 APRIL 1, 1993 THROUGH MARCH 31, 1994

	Budget (Note 1)	Actual (Note 1)	Project Cost Reclassifications (Note 4)	Revised Actual (Note 1)	Questionable Project Costs Ineligible (Note 5)	Unsupported (Note 5)	Finding Reference (Note 5)
REVENUES - USAID/EGYPT		\$ 488,029		\$ 488,029			
EXPENDITURES							
Mass Media	\$ 154,064	\$ 120,107	\$ (982)	\$ 119,125	\$ 167	\$ -	Page 11, (A)
Support Information Production	249,971	152,562	-	152,562	-	-	
Interpersonal Communication & Local Activities	178,601	178,656	-	178,656	2,711	327	Page 12, (B)
Training	46,335	44,528	-	44,528	-	-	
Research/Evaluation	16,489	16,606	-	16,606	1,193	-	Page 13, (C)
Equipment	72,242	65,720	982	66,702	-	-	
Administration	21,552	21,858	-	21,858	2,884	-	Page 14, (D)
Support Resource Activities	23,743	24,355	-	24,355	1,605	-	Page 16, (E)
Total	\$ 762,997	\$ 624,392	\$ -	\$ 624,392	\$ 8,560	\$ 327	
OUTSTANDING BALANCE (Note 1)		\$ (136,363)		\$ (136,363)			

The accompanying notes are an integral part of the fund accountability statements.

THE STATE INFORMATION SERVICE

PROJECT IMPLEMENTATION LETTER NO. 5B  
 UNDER THE USAID/EGYPT FUNDED  
 POPULATION/FAMILY PLANNING III PROJECT  
 GRANT AGREEMENT NO. 263-0227

FUND ACCOUNTABILITY STATEMENT  
 AND ADDITIONAL INFORMATION  
 FOR THE PERIOD  
 APRIL 1, 1994 THROUGH JUNE 30, 1995

	<u>Budget</u> (Note 1)	<u>Actual</u> (Note 1)	<u>Project Cost</u> <u>Reclassifications</u> (Note 4)	<u>Revised</u> <u>Actual</u> (Note 1)	<u>Questionable Project Costs</u>		<u>Finding</u> <u>Reference</u> (Note 5)
					<u>Ineligible</u> (Note 5)	<u>Unsupported</u> (Note 5)	
REVENUES - USAID/EGYPT		\$ 887,740		\$ 887,740			
<b>EXPENDITURES</b>							
Mass Media	\$ 379,056	\$ 202,075	\$ -	\$ 202,075	\$ 432	\$ -	Page 17, (A)
Support Information Production	213,569	206,510	-	206,510	-	-	
Interpersonal Communication & Local Activities	280,236	260,138	-	260,138	-	-	
Training	79,646	45,443	-	45,443	-	44	Page 17, (B)
Research	188,791	45,961	-1,132	44,829	644	-	Page 18, (C)
Commodities: Supplies & Equipment	49,558	45,609	1,132	46,741	-	-	
Monitoring & Evaluation	33,628	11,634	-	11,634	-	254	Page 18, (D)
Management, Office Support & Services	70,501	31,113	-	31,113	731	-	Page 19, (E)
<b>Total</b>	<b>\$ 1,294,985</b>	<b>\$ 848,483</b>	<b>\$ -</b>	<b>\$ 848,483</b>	<b>\$ 1,807</b>	<b>\$ 298</b>	
<b>OUTSTANDING BALANCE (Note 1)</b>		<b>\$ 39,257</b>		<b>\$ 39,257</b>			

The accompanying notes are an integral part of the fund accountability statements.

THE STATE INFORMATION SERVICE  
PROJECT IMPLEMENTATION LETTERS NO. 6 AND 5B  
UNDER THE USAID/EGYPT  
POPULATION/FAMILY PLANNING PROJECTS  
GRANT AGREEMENTS NO. 263-0144 AND 263-0227

NOTES TO THE FUND ACCOUNTABILITY STATEMENTS

NOTE 1 - SCOPE OF STATEMENTS:

The fund accountability statements include project revenues received and costs incurred by SIS under Project Implementation Letters ("PILs") No. 6 and 5B under Grant Agreement No. 263-0144 for PIL No. 6 and Grant Agreement No. 263-0227 for PIL No. 5B (collectively, the "Grant Agreement" or "projects"), for the periods April 1, 1993 through March 31, 1994 for PIL No. 6 and April 1, 1994 through June 30, 1995 for PIL No. 5B (collectively, the "audit periods").

"Budget" includes USAID/Egypt approved project costs in accordance with the most recent budget amendments of the PILs within the audit periods, and is presented for informational purposes only. Amendment No. 15 to PIL No. 6, dated February 1, 1994, approved total project costs of \$782,560 or LE 2,629,401 during the period January 1, 1993 through March 31, 1994. SIS's certified fiscal report dated July 1, 1993 for the period January 1, 1993 through March 31, 1993 indicates expenditures of \$19,563 or LE 65,731 were incurred under PIL No. 6 during that period. Accordingly, total "Budget" during the audit period for PIL No. 6 has been calculated to be \$762,997 or LE 2,563,670. Amendment No. 2 to PIL No. 5B, dated October 4, 1994, approved total project costs of \$1,294,985 or LE 4,390,000 for the period April 1, 1994 through June 30, 1995. Budget amounts in Egyptian pounds ("LE") have been converted to US Dollars at an average exchange rate of LE 3.36 and LE 3.39 to one US dollar for PIL No. 6 and 5B, respectively, as explained in Note 3 below.

"Actual" represents cumulative project revenues received and costs incurred by SIS under the PILs during the audit periods. "Revised Actual" represents actual project costs adjusted for reclassifications as explained in Note 4 below. For PIL No. 6, actual revenues are less than project expenditures due to timing differences between the receipt of funds from USAID/Egypt and project disbursements. The balance outstanding for PIL No. 5B is related directly to the fact that SIS advanced billed USAID/Egypt for expenditures that had not yet been incurred. The effect of those advance billings has been reported in the Report of the Independent Accountants on Compliance with Laws, Regulations, Contracts and Grants dated December 3, 1996.

NOTE 2 - BASIS OF PRESENTATION:

The fund accountability statements of SIS have been prepared on the basis of cash receipts and disbursements. Consequently, project revenues are recognized when received. Project costs are recognized when paid rather than when obligations are incurred.

NOTE 3 - FOREIGN EXCHANGE:

Actual and budgeted project revenues and costs incurred in LE have been converted to US dollars at an exchange rate of LE 3.36 and LE 3.39 to one US dollar for PIL No 6 and 5B, respectively. The exchange rate has been calculated by averaging the ending monthly exchange rates during the audit periods.

NOTE 4 - PROJECT COST RECLASSIFICATIONS:

Certain project costs associated with various budget line items were recorded in the project's accounting records in the incorrect budget line item. These misclassified project costs were isolated incidents. They have been reclassified to the proper budget line item to facilitate a more appropriate comparison between actual and budgeted project costs. In accordance with USAID regulations, actual line item expenditures may exceed an individual budget line item to the extent that cumulative expenditures do not exceed total budgeted expenditures approved for the respective PIL.

NOTE 5 - QUESTIONABLE PROJECT COSTS:

Questionable project costs are presented, separately, by respective PIL number, in two categories, ineligible and unsupported. Costs in the column labeled "Ineligible" are those that are not program related or are prohibited by the PILs, Grant Agreements, or applicable laws and regulations. Costs in the column labeled "Unsupported" are those lacking adequate documentation.

Questionable project costs identified as either ineligible or unsupported are detailed as follows:

**NOTE 5 - QUESTIONABLE COSTS (CONT'D.)**

**Questionable Amounts**

**Ineligible**

**Unsupported**

**Item Description:**

**PIL No. 6**

**A. Mass Media:**

1. Costs totaling \$36 related to fuel for project vehicles utilized in field visits to various governorates were charged and billed to USAID/Egypt during the audit period. Per PIL No. 6, project contract amendment No. 14, "...fuel for vehicles, [and]...repair and maintenance of vehicles..." are to be financed by GOE cash contributions. As such, these costs are the responsibility of the GOE. SIS management acknowledges the billing of these costs and attributes the use of USAID/Egypt funds to the limited number of fuel coupons provided by the GOE. Accordingly, the amount is considered ineligible.

\$            36            \$            -

2. Costs in the amount of \$131 related to bonus payments made to two SIS/IEC employees for supervising a radio program entitled "For A Better Village" were billed to USAID/Egypt. The approved budget for PIL No. 6 allows for the payment of performance based incentives. As such, a well established set of criterion should be used to determine the amount of incentive based pay (e.g., guidelines surrounding the payment of incentive pay, objective criteria to determine who merits incentive pay, supporting documentation to support propriety of payment, etc.). However, SIS did not utilize such definitive criterion when making these payments. In absence of such criteria, the amounts paid are questioned as ineligible. According to SIS management, this payment is considered part of radio program costs, and therefore, was billed to USAID/Egypt.

131            -

**Total Mass Media**

**\$            167            \$            -**

**B. Interpersonal Communication and Local Activities:**

1. During the period under audit, SIS billed USAID/Egypt \$1,619 related to fuel for project vehicles utilized by SIS personnel in their visits to Local Information Centers. Per PIL No. 6, contract amendment No. 14, costs related to "...fuel for vehicles,[and]...repair and maintenance of vehicles..." are to be financed by GOE cash contributions. As such, these costs are the responsibility of the GOE. SIS management acknowledged the billing of these costs and attributed the use of USAID/Egypt funds to the limited number of fuel coupons provided by the GOE. Accordingly, this amount is considered ineligible.

1,619            -

**NOTE 5 - QUESTIONABLE COSTS (CONT'D.)**

	<u>Questionable Amounts</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<p>2. Costs totaling \$1,092 relating to bonuses paid to SIS/IEC employees for exerting "extra effort" in their supervision of a school contest were billed to USAID/Egypt. The approved budget for PIL No. 6 allows for the payment of performance based incentives. As such, a well established set of criterion should be used to determine the amount of incentive based pay (e.g., guidelines surrounding the payment of incentive pay, objective criteria to determine who merits incentive pay, supporting documentation to support propriety of payment, etc.). However, SIS did not utilize such definitive criterion when making these payments. In absence of such criteria, the amounts paid are questioned as ineligible. According to management, these payments are not considered bonuses, but instead are fees related to the contest.</p> <p><b>Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been adjusted to the final questioned cost amounts shown.</b></p>	\$ 1,092	\$ -
<p>3. An amount of \$327 was billed to USAID/Egypt related to fees paid to TV and radio union personnel for the production of a media program. According to Section B.5(b) of Annex 2 of the Grant Agreement Standard Provisions, "...the grantee shall maintain accounting books, records, documents, and other evidence relating to the project and to this Agreement, adequate to show without limitation, all costs incurred under the grant, (and) the receipt and use of goods and services acquired under the grant." SIS management could not provide the necessary support for this payment. Therefore, the amount is questioned as unsupported.</p>	-	327
<b>Total Interpersonal Communication and Local Activities</b>	<b>\$ 2,711</b>	<b>\$ 327</b>

**C. Research:**

<p>1. During the period under audit, SIS billed USAID/Egypt \$38 related to fuel for project vehicles utilized by SIS in their visits to Local Information Centers. Per PIL No. 6, contract amendment No. 14, costs related to, "...fuel for vehicles,[and]...repair and maintenance of vehicles..." are to be financed by GOE contributions. As such, these costs are the responsibility of the GOE. SIS management acknowledges the billing of these costs and attributes the use of USAID/Egypt funds to the limited number of fuel coupons provided by the GOE. Accordingly, this amount is considered ineligible.</p>	38	-
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**NOTE 5 - QUESTIONABLE COSTS (CONT'D.)**

	Questionable Amounts	
	<u>Ineligible</u>	<u>Unsupported</u>
2. Costs totaling \$1,155 related to bonus payments made to 24 SIS/IEC employees for supervising research conducted at the various governorate sites. The approved budget for PIL No. 6 allows for the payment of performance based incentives. As such, a well established set of criterion should be used to determine the amount of incentive based pay (e.g., guidelines surrounding the payment of incentive pay, objective criteria to determine who merits incentive pay, supporting documentation to support propriety of payment, etc.). However, SIS did not utilize such definitive criterion when making these payments. In absence of such criteria, the amounts paid are questioned as ineligible. SIS management contends that in consideration for the "extra effort" put forth in conjunction with their duties, these employees deserve additional compensation. However, the payments are not supported by criterion such as those described above.	\$ 1,155	\$ -
<b>Total Research</b>	<b>\$ 1,193</b>	<b>\$ -</b>
<b>D. Administration:</b>		
1. Sales taxes totaling \$52 were billed to USAID/Egypt relating to the maintenance of air conditioners and a telephone bill. Section B.4 of Annex 2 of the Grant Agreement states that, "...under the Bilateral Agreement, AID assistance is exempted from taxes, tariffs, duties, fees, etc...and that if (such taxes) are imposed on SIS/IEC center activities or personnel contracted under the project...the MOI/SIS shall pay with funds other than USAID grant funds." SIS management acknowledges this but stated that these tax exemptions are not accepted by all vendors. Therefore, the amount is questioned as ineligible.	52	-
2. <b>Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information this finding has been removed from the final report.</b>	-	-
3. Incentives totaling \$926 were billed to USAID/Egypt for employees working for the Ministry of Information for providing SIS with various administrative services (e.g., paper work, correspondence with other governmental officials, etc.). The approved budget for PIL No. 6 allows for the payment of incentives to SIS/IEC central and local office personnel only. As these individuals are not direct or seconded SIS/IEC employees, they are not eligible for incentive based compensation. SIS management contends that it has the discretion to establish specific rules with regard to dividing up the approved budget, as long as the total amount expended does not exceed the budget line item. Nevertheless, given the stipulations in the PIL terms, the amount is questioned as ineligible.	926	-

NOTE 5 - QUESTIONABLE COSTS (CONT'D.)

	<u>Questionable Amounts</u>			
	<u>Ineligible</u>	<u>Unsupported</u>		
<p>4. We noted that incentives totaling \$1,894 were billed to USAID/Egypt for SIS/IEC employees related to an incentive program titled "Best Employees." The incentives were based primarily on the respective employees' performance appraisals and were paid every two months. The approved budget for PIL No. 6 allows for the payment of performance based incentives. As such, a well established set of criterion should be used to determine the amount of incentive based pay (e.g., guidelines surrounding the payment of incentive pay, objective criteria to determine who merits incentive pay, documentation supporting the propriety of payments, etc.). However, SIS did not utilize such definitive criterion when making these payments. In absence of such criteria, the amounts paid are questioned as ineligible. According to SIS management, it has the discretion to divide up the approved budget in the contract, as long as the total amount expended does not exceed the approved budget. However, the payments are not supported by criterion such as those described above.</p>	\$	1,894	\$	-
<p>5. Sales tax totaling \$12 was billed to USAID/Egypt related to a telephone bill. Section B.4. of Annex 2 of the Grant Agreement, states that "Under the Bilateral Agreement, AID assistance is exempted from taxes, tariffs, duties, fees, etc...and that if (such taxes) are imposed on SIS/IEC center activities or personnel contracted under the project...the MOI/SIS shall pay with funds other than USAID grant funds." SIS management acknowledges this but noted that this exemption status is not accepted by all vendors. Therefore, this amount is considered ineligible.</p>		12		-
<b>Total Administration</b>	\$	2,884	\$	-
<b>E. Support Resource Activities:</b>				
<p>1. SIS billed USAID/Egypt for \$946 related to the customs clearance of 36 vehicles and all expenses associated with obtaining these vehicles (e.g., per diem, lodging, and transportation). PIL No. 6, Project Element No. 5, Amendment No. 14, dated May 6, 1993, states that "...Service fees, per diem, third party insurance and other fees allocated for clearance of new vehicles...are not eligible for payment with AID funds." According to SIS management, these amounts should have been paid by the GOE, however, due to the urgency of clearance, such costs were drawn from USAID/Egypt funds. As such, this amount is questioned as ineligible.</p>		946		-

NOTE 5 - QUESTIONABLE COSTS (CONT'D.)

	<u>Questionable Amounts</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<p>2. During the period under audit, SIS billed USAID/Egypt \$297 related to fuel and repair costs for project vehicles utilized by SIS in their visits to Local Information Centers. Per PIL No. 6, project contract amendment No. 14, costs related to, "...fuel for vehicles, [and]...repair and maintenance of vehicles..." are to be financed by GOE contributions. As such, these costs are the responsibility of the GOE. SIS management acknowledges the billing of these costs and attributes the use of USAID/Egypt funds to the limited number of fuel coupons provided by the GOE. Accordingly, this amount is considered ineligible.</p>	\$ 297	\$ -
<p>3. <del>Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information this finding has been removed from the final report.</del></p>	-	-
<p>4. An amount of \$208 was billed to USAID/Egypt related to overtime paid to eight SIS/IEC employees. Per PIL No. 6, amendment No. 14, attachment C, all salary amounts are to be funded by the GOE. As overtime represents salary based compensation, this amount should have been paid by the GOE. Accordingly, any amounts paid for overtime have been questioned as ineligible. SIS management stated that they were unaware that these expenditures should be paid by the GOE.</p>	208	-
<p>5. SIS billed USAID/Egypt \$29 related to the purchase of wrapping paper and greeting cards used in conjunction with various social activities. SIS management stated that these payments are in accordance with generally accepted GOE regulations which state that individuals who handle cash are entitled to monthly incentives. However, support evidencing this statement does not exist. OMB A-122, attachment B, Page 11, paragraph 12, states that "...Entertainment costs, costs of amusement, costs of social activities and costs relating thereto...are unallowable." SIS management states that this was an oversight. Therefore, this cost is considered ineligible.</p>		
<p>Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been adjusted to the final questioned cost amounts shown.</p>	29	-

**NOTE 5 - QUESTIONABLE COSTS (CONT'D.)**

6. An amount of \$125 was billed to USAID/Egypt related to bonuses paid to the Purchasing Department Manager and the Finance Manager under the title of "cashier allowances." The approved budget for PIL No. 6 allows for the payment of performance based incentives. As such, a well established set of criterion should be used to determine the amount of incentive based pay (e.g., guidelines surrounding the payment of incentive pay, objective criteria to determine who merits incentive pay, supporting documentation to support propriety of payment, etc.). However, SIS did not utilize such definitive criterion when making these payments. In absence of such criteria, the amounts paid are questioned as ineligible. SIS management stated that these payments are in accordance with generally accepted GOE regulations which state that individuals who handle cash are entitled to monthly incentives. However, support evidencing this statement does not exist.

**Total Support Resource Activities**

**TOTAL PIL NO. 6 QUESTIONABLE COSTS**

**PIL NO. 5B**

**A. Mass Media**

1. Sales tax totaling \$27 was billed to USAID/Egypt related to the purchase of video tapes. Section B.4 of Annex 2 of the Grant Agreement, states that "Under the Bilateral Agreement, AID assistance is exempted from taxes, tariffs, duties, fees etc... and that if (such taxes) are imposed on SIS/IEC center activities or personnel contracted under the project...the MOI/SIS shall pay with funds other than USAID grant funds." Furthermore, per the Contract Standard Provisions (PIL No. 5A), "No identifiable taxes, tariffs, duties or fees for services may be charged to AID funds. These costs may be paid by the GOE as a contribution to the project and recorded as such." SIS management acknowledged the ineligibility of these amounts but stated that these tax exemptions are not accepted by all vendors. Nevertheless, this amount is considered ineligible.

2. The amount of \$69 was billed to USAID/Egypt related to entertainment costs (e.g., meals, pastries, drinks, etc.). According to PIL No. 5A, General Policies and Procedures (covering funds expended under PIL No. 5B), Section 2(C), "...Personnel expenses such as coffee, tea and meals for staff and guests..." are explicitly unallowable. SIS management stated that this was an oversight. Therefore, this amount is considered ineligible.

<u>Questionable Amounts</u>	
<u>Ineligible</u>	<u>Unsupported</u>
\$ 125	\$ -
\$ 1,605	\$ -
\$ 8,560	\$ 327

27

69

**NOTE 5 - QUESTIONABLE COSTS (CONT'D.)**

3. The amount of \$336 was billed to USAID/Egypt related to overtime payments made to SIS/IEC employees who worked after official working hours on the production of the "Baky Men El Zaman" program. According to PIL No. 5B, amendment 3, attachment 5, GOE contributions to SIS include all salaries and incentives to center and local office staff. Accordingly, any amounts paid for overtime have been questioned as ineligible. SIS management stated that they were unaware that these expenditures should be paid by the GOE.

**Total Mass Media**

**B. Training:**

1. An amount of \$44 related to photocopying expenditures incurred during a training course held at a local hotel could not be supported by original documentation evidencing payment. Section B.5(b) of Annex 2 of the Grant Agreement Standard Provisions, states that "The Grantee shall maintain accounting books, records, documents and other evidence relating to the project and to this agreement, adequate to show without limitation, all costs incurred under the grant, (and) the receipt and use of goods and services acquired under the grant." SIS management could not provide support for this payment. Accordingly, this amount is considered unsupported.
2. Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information this finding has been removed from the final report.

**Total Training**

**C. Research:**

1. SIS billed USAID/Egypt for an amount of \$41 related to fuel for project vehicles. Per PIL No. 5B, project contract amendment No. 3, fuel and vehicle maintenance is an authorized expenditure under the GOE cash contribution estimated budget approved by USAID/Egypt. As such, these costs must be paid by the GOE. SIS management acknowledges the billing of these costs and attributes the use of USAID/Egypt funds to the limited number of fuel coupons provided by the GOE. Accordingly, this amount is considered ineligible.

<u>Questionable Amounts</u>			
<u>Ineligible</u>		<u>Unsupported</u>	
\$	336	\$	-
<hr/>			
\$	432	\$	-
<hr/>			
		-	44
<hr/>			
\$	-	\$	44
<hr/>			

41

**NOTE 5 - QUESTIONABLE COSTS (CONT'D.)**

2. Payments amounting to \$603 were paid to 16 SIS/IEC employees who worked overtime in conjunction with supervising research being conducted at the various governorates. According to PIL No. 5B, amendment 3, attachment 5, GOE contributions to SIS include all salaries and incentives to center and local office staff. Accordingly, any amounts paid for overtime have been questioned as ineligible. SIS management stated that they were unaware that these expenditures should be paid by the GOE.

**Total Research**

**D. Monitoring and Evaluation:**

1. An amount of \$254 related to lodging expenses for SIS/IEC employees could not be supported by original documentation evidencing payment. Section B.5 (b) of Annex 2 of the Grant Agreement Standard Provisions, states that "The grantee shall maintain accounting books, records, documents and other evidence relating to the project and to this agreement, adequate to show without limitation, all costs incurred under the grant, (and) the receipt and use of goods and services acquired under the grant." SIS management could not provide adequate support for this payment. Accordingly, the amount is questioned as unsupported.

Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been adjusted to the final questioned cost amounts shown.

**Total Monitoring and Evaluation**

**E. Management Office Support and Services:**

1. An amount of \$155 was billed to USAID/Egypt related to bonuses paid to the Purchasing Department Manager and the Finance Manager under the title of "cashier allowances." According to PIL No. 5B, amendment 3, attachment 5, GOE contributions to SIS include all salaries and incentives to center and local office staff. Accordingly, any amounts paid for bonuses have been questioned as ineligible. SIS management stated that they were unaware that these expenditures should be paid by the GOE.
2. Payments totaling \$97 were paid to SIS/IEC employees who worked overtime. According to PIL No. 5B, amendment 3, attachment 5, GOE contributions to SIS include all salaries and incentives to center and local office staff. Accordingly, any amounts paid for overtime have been questioned as ineligible. SIS management stated that they were unaware that these expenditures should be paid by the GOE.

<u>Questionable Amounts</u>	
<u>Ineligible</u>	<u>Unsupported</u>
\$ 603	\$ -
\$ 644	\$ -
-	254
\$ -	\$ 254
155	-
97	-

**NOTE 5 - QUESTIONABLE COSTS (CONT'D.)**

	<u>Questionable Amounts</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<p>3. The amount of \$35 was billed to USAID/Egypt related to the entertainment costs (e.g., meals, pastries, drinks, etc.) for committee meetings held at SIS/IEC offices. According to PIL No. 5A, General Policies and Procedures (covering funds expended under PIL No. 5B), Section 2(C), "...Personnel expenses such as coffee, tea and meals for staff and guests..." are explicitly unallowable. SIS management was unaware of this provision. Therefore, this amount is considered ineligible.</p> <p>Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been adjusted to the final questioned cost amounts shown.</p>	\$ 35	\$ -
<p>4. Payments totaling \$52 were billed to USAID/Egypt related to overtime paid to mass media consultants contracted by SIS. According to PIL No. 5B, amendment 3, attachment 5, GOE contributions to SIS include all salaries and incentives to center and local office staff. Accordingly, any amounts paid for overtime have been questioned as ineligible. SIS management stated that they were unaware that these expenditures should be paid by the GOE.</p>	52	-
<p>5. Payment totaling \$68 were billed to USAID/Egypt related to bonuses paid to SIS/IEC employees for putting forth "extra effort." According to PIL No. 5B, amendment 3, attachment 5, GOE contributions to SIS include all salaries and incentives to center and local office staff. Accordingly, any amounts paid for bonuses have been questioned as ineligible. SIS management stated that they were unaware that these expenditures should be paid by the GOE.</p>	68	-
<p>6. Payments totaling \$324 were billed to USAID/Egypt related to overtime paid to SIS/IEC employees. According to PIL No. 5B, amendment 3, attachment 5, GOE contributions to SIS include all salaries and incentives to center and local office staff. Accordingly, any amounts paid for overtime have been questioned as ineligible. SIS management stated that they were unaware that these expenditures should be paid by the GOE.</p>	324	-
<b>Total Management Office Support and Services</b>	<b>\$ 731</b>	<b>\$ -</b>
<b>TOTAL PIL NO. 5B QUESTIONABLE COSTS</b>	<b>\$ 1,807</b>	<b>\$ 298</b>
<b>TOTAL PILS NO. 6 AND 5B QUESTIONABLE COSTS</b>	<b>\$ 10,367</b>	<b>\$ 625</b>

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

December 3, 1996

Mr. Lou Mundy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

We have audited the fund accountability statements of project revenues received and costs incurred by the State Information Service ("SIS") under Project Implementation Letters ("PILs") No. 6 and 5B, under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Population/Family Planning II Project, Grant Agreement No. 263-0144 for PIL No. 6 and Population/Family Planning III Project, Grant Agreement No. 263-0227 for PIL No. 5B (collectively, the "Grant Agreements" or "projects") for the periods April 1, 1993 through March 31, 1994 for PIL No. 6 and April 1, 1994 through June 30, 1995 for PIL No. 5B (collectively, the "audit periods"), and have issued our report thereon dated December 3, 1996.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards ("GAS"), 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 statements are 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 GAS 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 GAS is not material because we participate in the Price Waterhouse worldwide internal quality control program. This program 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.

The management of SIS is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statements in accordance with the basis of accounting described in Note 2 of the report on the fund accountability statements. 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.

In planning and performing our audit of the fund accountability statements of SIS for the audit periods we obtained an understanding of the internal control structure as it relates to the PILs under audit. With respect to the internal control structure, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.



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

Our audit disclosed the following reportable conditions not considered material weaknesses.

**1. SIS's controls surrounding fixed assets are not adequate.**

During our audit, we noted that controls surrounding fixed assets are not adequate. Our review of the fixed assets register revealed that the following information was not present:

- ▶ Assets' historical costs
- ▶ Reference to the related invoice number
- ▶ Location of the assets
- ▶ Serial number of the assets

The failure of management to record the aforesaid information results in the following weaknesses:

1. Management is unable to reconcile the fixed asset register with the general ledger due to the fact that the assets' historical costs have not been recorded. Furthermore, the failure of management to record the related invoice number makes subsequent verification of an asset's historical cost impractical.
2. The failure of management to record the location and serial number of the center's assets hinders efforts to verify their existence.

Prudent management practices include adherence to generally accepted standards of effective internal control. These standards are delineated in Statement of Auditing Standard No. 55, **Consideration of the Internal Control Structure in a Financial Statement Audit**. This standard states that a sound and effective internal control system should provide reasonable assurance that adequate controls over the center's assets exist. SIS management was unaware of the need for such controls. Lack of adequate controls over the center's assets increases the potential for the occurrence and non-detection of errors and irregularities.

**Recommendation No. 1**

We recommend that SIS management record in the fixed asset register the historical cost of each asset acquired, the invoice number related to each acquisition, the location of the asset and the asset's serial number. Additionally, we recommend that management periodically reconcile the fixed asset register to the general ledger and investigate and resolve any large or seemingly unusual items.

\* \* \* \* \*

**2. SIS does not have an appropriate mechanism in place for ensuring that invoices are paid only once.**

During our testing, we noted that SIS does not have proper controls in place to ensure that invoices are indelibly marked or mutilated subsequent to payment. Prudent management practices include adherence to generally accepted standards of effective internal control. These standards are delineated in Statement of Auditing Standard No. 55, **Consideration of the Internal Control Structure in a Financial Statement Audit**. This standard states that an entity's control procedures should include the design and use of



adequate documents and records and appropriate monitoring to help ensure the proper recording of transactions and events, independent checks on performance and proper valuation of recorded amounts. According to SIS management, every invoice is approved by the Financial Manager which indicates the invoice has been paid and duplicate payment is prevented. However, during our review we noted the Financial Manager signs on all invoices to evidence his review and approval, but this control does not necessarily prevent duplicate payment as his signature simply denotes that an invoice is approved for payment, not that the invoice has been paid. Accordingly, the risk that an invoice will be paid more than once has not been sufficiently mitigated by the aforesaid control.

Lack of an appropriate invoice canceling mechanism increases the risk that management will make duplicate payments on one invoice. As a result, the risk that management will double bill USAID/Egypt also increases.

**Recommendation No. 2**

We recommend that SIS cancel all invoices by indelibly marking or mutilating them "PAID".

\* \* \* \* \*

**3. SIS management failed to properly segregate the duties of the petty cash custodian.**

We noted during the course of our examination of SIS that the individual responsible for petty cash has both custody of said funds and records transactions in the underlying financial records. Prudent management practices include adherence to generally accepted standards of effective internal control. These standards are delineated in Statement of Auditing Standards No. 55, **Consideration of the Internal Control Structure in a Financial Statement Audit**. This standard states that an entity's internal control structure comprises the control environment, the accounting system and control procedures. Control procedures relating to the internal control structure include the proper segregation of duties to reduce the opportunities to allow any person to be in a position to perpetrate and conceal errors and irregularities in the normal course of their duties.

SIS management stated that they were unaware that a conflict existed in the present internal control structure. Lack of proper segregation of duties increases the potential for the occurrence and non-detection of errors and irregularities.

**Recommendation No. 3**

We recommend that SIS segregate the duties surrounding the custody of petty cash funds and the recording and support of petty cash transactions.

\* \* \* \* \*

We also noted other matters involving the internal control structure and its operations that we have reported to SIS management in a separate letter dated September 4, 1996.

This report is intended for the information of SIS management and others within the organization and USAID/Egypt. However, this report is a matter of public record and its distribution is not limited.

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**REPORT OF INDEPENDENT ACCOUNTANTS  
ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS AND GRANTS**

December 3, 1996

Mr. Lou Mundy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

We have audited the fund accountability statements of project revenues received and costs incurred by the State Information Service ("SIS") under Project Implementation Letters ("PILs") No. 6 and 5B, under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Family Planning II Project, Grant Agreement No. 263-0144 for PIL No. 6, and Population/Family Planning III Project, Grant Agreement No. 263-0277 for PIL No. 5B (collectively, the "Grant Agreements" or "projects"), for the periods April 1, 1993 through March 31, 1994 for PIL No. 6 and April 1, 1994 through June 30, 1995 for PIL No. 5B (collectively, the "audit periods"), and have issued our report thereon dated December 3, 1996.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards ("GAS"), 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 statements are 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 GAS 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 GAS is not material because we participate in the Price Waterhouse worldwide internal quality control program. This program 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 SIS is the responsibility of SIS management. As part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatement, we performed tests of SIS's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the fund accountability statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. For purposes of this report, we have categorized the provisions of laws, regulations, contracts, and grants we tested as part of obtaining such reasonable assurance into the following categories:

- Procurement policies and procedures
- Restrictions on billing taxes
- Deposit and investment restrictions
- Budgetary expenditure limitations
- Maintenance of accounting books, records and documents
- Compensation limitations

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 statements. The results of our tests of compliance disclosed the following instances of noncompliance, the effects of which may be material to the fund accountability statements but for which the ultimate resolution cannot presently be determined. Accordingly, no provision for any liability that may result has been recognized in the fund accountability statements.



## MATERIAL INSTANCES OF NONCOMPLIANCE

### **1. SIS management did not consistently apply proper procurement procedures in the procurement of technical and professional services.**

During the course of our audit, we noted that competitive bidding procedures were not followed in the procurement of training contractors and contractors for the production of documentaries and video songs. According to Handbook 11, chapter 1, USAID requires that competitive principles be followed in procuring technical or professional services. Solicitation of a reasonable number of potential suppliers is required for all contracting amounts less than \$100,000. As per the contract terms, the grantee should maintain documents to show the nature and extent of solicitation of prospective suppliers and the basis from which awards were made. Additionally, the Government of Egypt's procurement law, Law No. 9 of 1983, Article 2, requires publicity and freedom of competition.

SIS management informed us that competitive procedures are not consistently applied for all SIS procurement or contracting services as it is not always practical to do so. Lack of competitive offers may result in excessive amounts being paid for goods and services provided.

#### Recommendation No. 1

We recommend that SIS management comply fully with the competitive principles delineated in both the Grant Agreement and GOE Law No. 9. Both of these authoritative documents require competition amongst suppliers.

\* \* \* \* \*

### **2. SIS billed USAID/Egypt for advances provided to the Local Information Centers.**

During the course of our examination, we noted that SIS billed USAID/Egypt for advances totaling \$25,868 or LE 87,692, provided to the various Local Information Centers for anticipated expenditures.

Pursuant to the Protocol for cash advances between GOE and USAID/Egypt, dated September 30, 1990, SIS follows the actual cost reimbursement billing system in reporting to USAID/Egypt. The aforementioned basis requires that all billings be made subsequent to the receipt of goods and services. No goods or services were received; yet the \$25,868 or LE 87,692 was billed to USAID/Egypt.

SIS management acknowledged their noncompliance with the USAID/Egypt regulations. However, we noted that advance billings identified above were settled with USAID/Egypt in periods subsequent to the periods under audit.

#### Recommendation No. 2

We recommend that SIS discontinue the practice of advance billing and comply with the aforesaid USAID/Egypt regulations. Accordingly, only actual costs incurred should be billed.

\* \* \* \* \*



**3. SIS billed USAID/Egypt for costs which should have been paid by the GOE.**

During our review of SIS project expenditures, we noted that the cost of items such as vehicle clearance charges, fuel expenses, salaries, bonuses, overtime payments, vehicle repair and maintenance costs and taxes that should have been paid by the GOE, were billed to USAID/Egypt.

Accordingly, we have questioned as ineligible \$946 of vehicle clearance fees, \$2,031 of fuel and repair and maintenance costs, \$1,746 related to incentives, salaries and overtime payments and \$91 of taxes in our report on the fund accountability statements. Management has indicated that they were unaware that these expenditures were to be funded by the GOE.

**Recommendation No. 3**

We recommend that SIS comply with the terms of the Grant Agreements regarding billing USAID/Egypt only for costs that are allowable under the respective Grant Agreements. Costs to be paid by the GOE should not be billed to USAID/Egypt; any such costs billed, should be refunded to USAID/Egypt.

\*\*\*\*\*

**4. SIS management did not establish individual bank accounts for the funds of PIL No. 5B.**

During the course of our examination of PIL No. 5B, we noted that SIS had not established a distinct bank account for the receipts and disbursements related to this PIL. Instead, SIS commingled funds related to PIL No. 5B and the SIS/SDP project (another USAID/Egypt funded grant). Furthermore, we noted instances where SIS utilized PIL No. 5B funds to finance expenditures related to the SIS/SDP project. SIS management failed to follow the rules and regulations stipulated in the underlying grant agreement relating to the establishment of distinct bank accounts for each grant awarded.

According to PIL No. 5A, General Policies and Procedures (covering funds expended under PIL No. 5B), the "...National Investment Bank (NIB) account funds to support SIS/IEC center activities must be kept distinct and should not be commingled with other cash provided by the MOI, the SIS, the GOE, or any other donor." Management concurred with the finding.

**Recommendation No. 4**

We recommend that SIS management maintain separate bank accounts for USAID/Egypt funded projects, in order to maintain adequate control over funds.

\*\*\*\*\*

We considered these material instances of noncompliance in forming our opinion on whether SIS's fund accountability statements are presented fairly, in all material respects, in conformity with generally accepted accounting principles, and this report does not affect our report dated September 4, 1996, on those statements.

We also noted other matters involving SIS's compliance with laws, regulations, contracts and grants that we have reported to management in a separate letter dated September 4, 1996.

This report is intended for the information of SIS management and others within the organization and USAID/Egypt. However, this report is a matter of public record, and its distribution is not limited.

*Pricewaterhouse*

25

THE STATE INFORMATION SERVICE  
PROJECT IMPLEMENTATION LETTERS NO. 6 AND 5B  
UNDER USAID/EGYPT  
FAMILY PLANNING PROJECTS  
GRANT AGREEMENTS NO. 263-0144 AND 263-0227

Management Comments



الهيئة العامة للإستعلامات  
مركز الإعلام والتتعليم والاتصال  
٣ ميدان التحرير - القاهرة  
تليفون : ٥٤٥٥٨٦ / ٨٦٥ . ٢٥٥

M/S Price Water House  
4 . Road 261 . New Maadi  
Cairo.  
Egypt

3-12-96

Sub: SIS/IEC Center Audit Report

(Supporting documents)

Dear Sirs.

Please refer to your preliminary audit report for SIS/IEC Center for the periods April 1, 1994 through June 30, 1995 and April 1, 1993 through March 31, 1994 and SIS/IEC Center's comments on the same sent to you under separate cover .

We have the pleasure to herewith enclose supporting documents for your review and consideration .

With best regards .

Truly Yours  
D.G. SIS/IEC Center

for (F.A. Osman)

A. Zagh Loul

THE STATE INFORMATION SERVICE  
PROJECT IMPLEMENTATION LETTERS NO. 6 AND 5B  
UNDER USAID/EGYPT  
FAMILY PLANNING PROJECTS  
GRANT AGREEMENTS NO. 263-0144 AND 263-0227

Management Comments

SIS'S RESPONSE TO THE DRAFT AUDIT

REPORT PREPARED BY

PRICE WATERHOUSE

The following is SIS's response to the draft audit report of Price Waterhouse related to: Internal Control; Compliance with Laws, Regulations, Contracts and Grants; and Questioned Costs.

I. INTERNAL CONTROL

Reportable Conditions - Material Weaknesses

**Finding:** SIS does not apply definitive and objective criterion related to supplemental salaries paid to its employees.

Recommendation No. 1

We recommend that management develop and implement a well established set of criterion to determine the appropriate amount and underlying situations that merit incentive based pay (e.g. Guidelines surrounding the payment of incentive pay, objective criteria to determine who merits incentive pay, documentation supporting the propriety of payments, etc.). These criterion should be applied consistently to all employees.

SIS RESPONSE

In the Price Waterhouse finding, the term supplemental salaries is used. We assume that Price Waterhouse is referring only to incentives not salary supplements which are no longer paid out of PIL funds but are paid out of the GOE contribution. We agree that guidelines should be stated which define the conditions under which SIS employees should receive payments for extra effort or working extra time on the project. In fact, criteria for receiving incentives was written in the 1992 Workplan for the SIS and continue to be used as a basis for paying SIS employees both under POP II and POP III. These stated criteria can be found as backup documentation for explaining some of the questioned costs in this audit. For example, the written criteria can be found in the explanation for one of the questioned cost from PIL #6, reference C2. (Documentation related to this questioned cost has been provided to Price Waterhouse under separate cover.)

THE STATE INFORMATION SERVICE  
PROJECT IMPLEMENTATION LETTERS NO. 6 AND 5B  
UNDER USAID/EGYPT  
FAMILY PLANNING PROJECTS  
GRANT AGREEMENTS NO. 263-0144 AND 263-0227

Management Comments

**Reportable Conditions-Non Material Weaknesses**

**Finding:** SIS's controls surrounding fixed assets are not adequate.

**Recommendation No. 1**

We recommend that SIS management record in the fixed asset register the historical cost of each asset acquired, the invoice number related to each acquisition, the location of the asset and the asset's serial number. Additionally, we recommend that management periodically reconcile the fixed asset register to the general ledger and investigate and resolve any large or seemingly unusual items.

**SIS RESPONSE**

SIS recognizes the importance of keeping adequate records regarding fixed assets. Therefore, the SIS will provide additional information in the fixed asset register as stated in the Price Waterhouse recommendation above. SIS will also assign management personnel to periodically reconcile the fixed asset register with the general ledger to ensure the accuracy of the records.

**Finding:** SIS does not have an appropriate mechanism in place for ensuring that invoices are paid only once.

**Recommendation No. 2**

We recommend that SIS cancel all invoices by indelibly marking or mutilating them "PAID."

**SIS RESPONSE**

SIS recognizes that an important internal control mechanism for ensuring that invoices are not paid twice is to stamp the invoices with a "PAID" stamp. Therefore, the accounting staff will begin including the procedure of marking the invoices "paid" after the payment has been made.

THE STATE INFORMATION SERVICE  
PROJECT IMPLEMENTATION LETTERS NO. 6 AND 5B  
UNDER USAID/EGYPT  
FAMILY PLANNING PROJECTS  
GRANT AGREEMENTS NO. 263-0144 AND 263-0227

Management Comments

**Finding:** SIS management failed to properly segregate the duties of the petty cash custodian.

**Recommendation No. 3**

WE recommend that SIS segregate the duties surrounding the custody of petty cash funds and the recording and support of petty cash transactions.

**SIS RESPONSE**

SIS will segregate the duties of the petty cash custodian. The custodian will only be responsible for the custody of the funds. Another employee will be assigned the duty of recording the transactions in the financial records.

**2. COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS AND GRANTS**

**Finding:** SIS management did not consistently apply proper procurement procedures in the procurement of technical and professional services.

**Recommendation No. 1**

We recommend that SIS management comply fully with the competitive principles delineated in both the Grant Agreement and GOE Law No. 9. Both of these authoritative documents require competition amongst suppliers.

**SIS RESPONSE**

This is a prior audit recommendation. The prior recommendation stated that SIS should obtain three bids from reputable companies or institutions when awarding contracts. It is the policy of SIS to adhere to the procurement regulations of both GOE Law No. 9 and the Grant Agreement. There are times, depending on the nature of the work, when three bids cannot be obtained because there are not three qualified vendors. We assume that the auditors must have found instances during the period of the current audit where competitive procedures were not followed. However, the auditors have not cited examples describing how the SIS did not comply with the proper regulations, therefore the SIS can not comment on this finding and recommendation further.

THE STATE INFORMATION SERVICE  
PROJECT IMPLEMENTATION LETTERS NO. 6 AND 5B  
UNDER USAID/EGYPT  
FAMILY PLANNING PROJECTS  
GRANT AGREEMENTS NO. 263-0144 AND 263-0227

Management Comments

**Finding:** SIS billed USAID/EGYPT for advances provided to the Local Information Centers.

**Recommendation No. 2**

We recommend that SIS discontinue the practice of advance billing and comply with the aforesaid USAID/Egypt regulations. Accordingly, only actual costs incurred should be billed.

**SIS RESPONSE**

SIS will discontinue the practice of billing USAID for advances made to the local Information Centers. USAID will be billed only when the actual expenditure of funds by the Local Management Centers has occurred.

**Finding:** SIS billed USAID/Egypt for costs which should have been paid by the GOE.

**Recommendation No. 3**

We recommend that SIS comply with the terms of the Grant Agreements regarding billing USAID/Egypt only for costs that are allowable under the respective Grant Agreements. Costs to be paid by the GOE should not be billed to USAID/Egypt; any such costs billed, should be refunded to USAID/Egypt.

**SIS RESPONSE**

SIS agrees to comply with the terms of the Grant Agreement with USAID and will not bill USAID for costs which should be paid by the GOE. The accounting personnel at SIS will be thoroughly briefed on what expenses should be paid by the GOE so that these errors will not occur in the future.

THE STATE INFORMATION SERVICE  
PROJECT IMPLEMENTATION LETTERS NO. 6 AND 5B  
UNDER USAID/EGYPT  
FAMILY PLANNING PROJECTS  
GRANT AGREEMENTS NO. 263-0144 AND 263-0227

Management Comments

**Finding:** SIS management did not establish individual bank accounts for the funds of PIL No. 5B.

**Recommendation No. 4**

We recommend that SIS management maintain separate bank accounts for USAID/Egypt funded projects in order to maintain adequate control over funds.

**SIS RESPONSE**

SIS is under no requirement to establish a separate bank account for the funds related to the joint project with the MOH. The funds for this joint project are in PIL No. 5B. There is no separate PIL for the SIS/MOH project. If USAID wanted the monies for the SIS/MOH joint project in a separate bank account, the USAID should have arranged with the NIB to have a separate account with a separate line of credit for these funds. As it is, the SIS/MOH funds were put in PIL 5B and an NIB account was set up with one line of credit for the SIS/IEC center and the SIS/MOH project. The budget for the SIS/IEC center and the SIS/MOH project are clearly defined. As long as the funds for the SIS/MOH project are accounted for separately in the SIS financial records, there is no control problem with regard to these funds. Therefore, the SIS disagrees with this finding.

**3. QUESTIONED COSTS**

The audit report cites a number of questioned costs and categorizes them into either ineligible costs or unsupported costs. The SIS has investigated these costs and has prepared a table (attached) which classifies the questioned costs as follows:

1. SIS agrees that the ineligible or unsupported costs are not allowable under the terms of the SIS agreement with USAID and will assume financial responsibility for the unallowable costs.

2. SIS disagrees with the auditors and has determined that the questioned costs are allowable under the terms of the agreement with USAID. SIS has provided Price Waterhouse with detailed documentation and justification to explain why the costs are allowable. (These details have been provided to Price Waterhouse under separate cover.)

THE STATE INFORMATION SERVICE  
PROJECT IMPLEMENTATION LETTERS NO. 6 AND 5B

UNDER USAID/EGYPT  
FAMILY PLANNING PROJECTS  
GRANT AGREEMENTS NO. 263-0144 AND 263-0227

Management Comments

SIS/POP II/POP III

Finding #	Line Item	Page #	Audit Question Costs		SIS Respond				
			Ineligible	Unsupported	Total Costs	Ineligible Costs	Unsupported Costs		
						Agrees	Disagrees	Agrees	Disagrees
A/	Mass Media:								
	1	1/11	120			120			
B/	Interpersonal Communication & Local Activities:								
	2		440					440	
C/	Research	1	5,440			5,440			
		2	4,500					4,500	
		3		1,100					
D/	Administration:	1	129			129			
		2	3,880					3,880	
		3	176			176			
		4	780					780	
		5	3,110					3,110	
		6	6,365					6,365	
E/	Support Resource Activities:	1	40			40			
		2	3,178					3,178	
		3	998			998			
		4	700		712				712
		5	307					99	208
		6	420					420	
	Sub-Total PIL # 6		30,583	1,812	32,395	7,422	23,161	0	1,812
A/	Mass Media:								
	1	8/11	92			92			
	2		235					235	
3			1,140				1,140		

THE STATE INFORMATION SERVICE  
PROJECT IMPLEMENTATION LETTERS NO. 6 AND 5B  
UNDER USAID/EGYPT  
FAMILY PLANNING PROJECTS  
GRANT AGREEMENTS NO. 263-0144 AND 263-0227

Management Comments

SIS/POP II/POP III

Finding #	Line-Item	Page #	Audit Question Costs		SIS Respond					
			Ineligible	Unsupported	Total Q Costs	Ineligible Costs Agrees	Ineligible Costs Disagrees	Unsupported Costs Agrees	Unsupported Costs Disagrees	
B/ 1	Training:	9/11		150					150	
B/ 2			690				690			
C/ 1	Research:	9/11	140							
C/ 2		10/11	2,045				2,045			
D/ 1	Monitoring & Evaluation:	10/11		900						900
E/ 1	Management Office Support & Services:									
E/ 2		10/11	525				525			
E/ 3		10/11	330					330		
E/ 4		11/11	430					430		
E/ 5		11/11	175					175		
E/ 6		11/11	230					230		
		11/11	1,100					1,100		
	Sub-Total PIL # 5B		7,132	1,050	8,182	757	6,375	0	1,050	
	TOTAL		37,715	2,862	40,577	8,179	29,536	0	2,862	

SIS Management provided additional support other than that shown here. Due to its voluminous nature we have omitted it.

UNAVAILABLE COPY 33

THE STATE INFORMATION SERVICE  
PROJECT IMPLEMENTATION LETTERS NO. 6 AND 5B  
UNDER USAID/EGYPT  
POPULATION/FAMILY PLANNING PROJECTS  
GRANT AGREEMENTS NO. 263-0144 AND 263-0227

Independent Accountants' Response

Management of the State Information Service ("SIS") of the Population/Family Planning projects provided comments to our report presented at the exit conference held on November 5, 1996. These comments have been included, unedited, in Appendix A of this report. We have reviewed management's comments and have either adjusted our final report or clarified our positions. Our response below parallels the audit report findings and management's comments.

RESPONSE TO SIS MANAGEMENT COMMENTS TO QUESTIONABLE COSTS AS  
DETAILED IN SUPPLEMENTAL SCHEDULE NO. 2

PIL NO. 6

A. MASS MEDIA:

1. Management agrees with our finding.
2. Subsequent to the exit conference management provided additional support relating to the bonus amount paid. Management has indicated in the support provided that these amounts are actually incentives and not bonuses. Furthermore, management has indicated that the bonus or incentive was based on established guidelines. It is our contention that the labeling of said payments as bonuses or incentives is a matter of semantics. Our position rests with the fact that the support provided by management does not provide clear evidence as to the application of the established guidelines (e.g., the criteria under which the employee received the bonus/incentive, support in the form of time sheets, agreed upon performance goals, evaluation of end results, etc.). Accordingly, our position remains unchanged and the finding remains questioned as shown.

B. INTERPERSONAL COMMUNICATION AND LOCAL ACTIVITIES:

1. Management agrees with our finding.
2. Based on our review of the additional support provided by management subsequent to the exit conference, we have adjusted this finding to exclude \$247 or LE 830 of costs included in the total previously questioned amount of \$1,339 or LE 4,500. Management was able to provide adequate support for these costs. Accordingly, the total revised amount is now \$1,092 or LE 3,670.
3. To further clarify our position, we are not questioning the fact that support in the form of a cancelled check exists for the actual payment of LE 20,000 related to this program. However, we still have been unable to review support for the individual components that comprise the aforesaid payment. One of these components is the LE 1,100 related to fees paid to TV and Radio union personnel. Accordingly, our position remains unchanged and the costs remains questioned as shown.

C. RESEARCH:

1. Management agrees with our finding.
2. Per review of the support provided by management, they contend that the payments made were not bonuses but instead were incentives in lieu of per diem. We disagree as we noted from the support for voucher # 260 that LE 12,797 was paid to the SIS/IEC employees as lodging, meals and transportation in conjunction with the "For a Better Village" program. Accordingly, our position remains unchanged and the costs remain questioned as shown.

**D. ADMINISTRATION:**

1. Management agrees with our finding.
2. Based on our review of the additional support provided by management subsequent to the exit conference, we have adjusted our report to exclude the amount of \$232 or LE 780 previously questioned as ineligible.
3. Based on our review of additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.
4. To further clarify our position, we do not contend that the "Best Employees" program lacked approval or that the amount related to the incentive program failed to be budgeted for. We simply contend that specific criterion (e.g., guidelines surrounding the payment of incentive pay, objective criterion to determine who merits incentive pay, etc.) were not applied when making these payments. The support provided by management only included lists of employees receiving these incentives and the amounts paid. Qualifying criterion and objective evaluation supporting payments were not present. Accordingly, our position remains unchanged and the costs remain questioned as shown.
5. Management agrees with our finding.

**E. SUPPORT RESOURCES ACTIVITIES:**

1. Based on our review of the additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remains questioned as shown.
2. Management agrees with our finding.
3. Based on our review of the additional support provided by management subsequent to the exit conference, we have adjusted our report to exclude the amount of \$212 or LE 712 previously questioned as ineligible.
4. Based on our review of additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.
5. Based on our review of additional support provided by management subsequent to the exit conference, we have adjusted this finding to exclude \$62 or LE 208 of costs included in the total previously questioned amount of \$91 or LE 307. Management was able to provide adequate support for these costs. Accordingly, the total revised question cost amount is now \$29 or LE 99. This amount was concurred to by management.
6. Management agrees with our finding.

**PIL NO. 5B**

**A. MASS MEDIA:**

1. Management agrees with our finding.
2. Management stated that they could locate neither the amount nor the description mentioned in our audit report in voucher # 221. To clarify, the amount questioned was a component of LE 26,886 paid as an advance for the "Baky El Zaman" program. The amount in question was included in the production expenditure component which totaled LE 1,241. Management contends that the amount was paid as an advance to the aforesaid program not as entertainment. We agree that the amount was included as an advance payment. However, the nature of what the advance was used to fund (i.e., entertainment) is the crux of our position. Accordingly, our position remains unchanged and the costs remains questioned as shown.

35

3. Management contends that the amounts in question were not paid as overtime, but instead were incentives in lieu of transportation. Based upon our review of the support provided by management, we are unable to ascertain the propriety of these disbursements as transportation as sufficient evidence supporting their assertion was not presented (e.g., location of projects, mileage to and from sites, calculations supporting payments, etc.). In absence of such support our position remains unchanged and the costs remain questioned as shown.

**B. TRAINING:**

1. Based upon our review of the additional support provided by management, we noted that the amount in question was handwritten on to the invoice by an SIS employee and was not part of the initial receipt provided by the hotel. Accordingly, our position remains unchanged and the cost remains questioned as shown.
2. Based on our review of additional support provided by management subsequent to the exit conference, we have adjusted our report to exclude the amount of \$204 or LE 690 previously questioned as ineligible.

**C. RESEARCH:**

1. Management agrees with our finding.
2. Per review of the support provided by management, they contend that the payments made were incentives in lieu of per diem. We disagree with this contention as we noted from the support for voucher # 324 that LE 611 was paid to the SIS/IEC employees as lodging and meals in conjunction with research conducted on TV spots. Accordingly, our position remains unchanged and the costs remain questioned.

**D. MONITORING AND EVALUATION:**

1. Per review of the additional support provided by management subsequent to the exit conference, we have adjusted this finding to exclude \$11 or LE 40 of costs included in the total previously questioned amount of \$265 or LE 900. Management was able to provide adequate support for these costs. Accordingly, the total revised questioned cost amount is now \$254 or LE 860.

**E. MANAGEMENT OFFICE SUPPORT AND SERVICES:**

1. Management agrees with our finding.
2. Based on our review of the additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.
3. Based on our review of the additional support provided by management subsequent to the exit conference, we have adjusted this finding to exclude \$92 or LE 310 of costs included in the total previously questioned amount of \$127 or LE 430. Management was able to provide adequate support for these costs. Per review of the support provided by management, we noted that the description of the event that necessitated these entertainment costs was clearly labeled as "... drinks for guests and committee members for committees held at SIS/IEC Head Office", not for "approved training, workshops and conferences..." as purported by management in their response. Accordingly, the total revised question cost amount is now \$35 or LE 120.
4. Based on our review of additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.
5. Based on our review of additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.
6. Based on our review of additional support provided by management subsequent to the exit conference, our position remains unchanged and the costs remain questioned as shown.

**RESPONSE TO SIS MANAGEMENT COMMENTS TO THE  
REPORT ON THE INTERNAL CONTROL STRUCTURE**

**REPORTABLE CONDITIONS - MATERIAL WEAKNESSES**

1. We reviewed management's comments and have amended our report, accordingly.

**REPORTABLE CONDITIONS - NON-MATERIAL WEAKNESSES**

1. Management agrees with our finding.
2. Management agrees with our finding.
3. Management agrees with our finding.

**RESPONSE TO SIS MANAGEMENT COMMENTS TO THE REPORT  
ON COMPLIANCE WITH LAWS AND REGULATIONS CONTRACTS AND GRANTS**

1. Based upon our review of management's comments, our position remains unchanged.
2. Management agrees with our finding.
3. Management agrees with our finding.
4. Based upon our review of management's comments, our position remains unchanged.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT  
**MEMORANDUM**

19 FEB 1997

DATE : February 18, 1997

TO : L. Mundy, RIG/A/C

FROM : *[Signature]*  
for Shirley A. Hunter, OD/FM/FA

SUBJECT : Financial Audit of the Ministry of Information's State Information Service, Expenditures Incurred Under the Population/Family Planning II and III Projects (USAID/Egypt Project Nos. 263-0144 and 263-0227)  
Draft Report dated January 15, 1997

Following is the Mission's response to the recommendations under the subject draft audit report.

**Recommendation No. 1:**

We recommend that USAID/Egypt make a management decision on the questioned costs of \$10,992 (ineligible costs of \$10,367 and unsupported costs of \$625) detailed on pages 11 through 19 of the audit report, and recover from the Ministry of Information the amounts determined to be unallowable.

**Mission Response:**

Mission has reviewed the audit report and held two meetings with the SIS. As a result, Mission has determined that the entire amount of \$10,992 is unallowable. The Project Officer's memo dated February 17, 1997 (copy attached), included a letter from SIS, approving the deduction of the sustained amount from the December 1996 voucher. Attached is a copy of the Voucher No. 7-1892 dated 2/18/97, showing the deduction of LE 37,007 in settlement of the sustained amount. Based on this action, Mission requests closure of this recommendation.

**Recommendation No. 2:**

We recommend that USAID/Egypt obtain evidence that the Ministry of Information, through its State Information Service, has addressed the material non-compliance issues (proper procedures in the procurement of technical and professional services were not consistently applied, cash advances provided to the Local Information Centers were billed to USAID, costs chargeable to the Government of Egypt were billed to USAID, and an individual bank accounts for PIL No. 5B funds was not established) detailed in the audit report.

**Mission Response:**

Mission has reviewed the recommendation, and offers the following comments on the findings:

1. SIS did not consistently apply proper procurement procedures in the procurement of technical and professional services.

\* Mission has requested the work papers from PW to determine whether the instances of non-compliance are with the Grant Agreement terms or of Local Law No. 9, and to determine the frequency and materiality of such instances. Accordingly, SIS was requested in a letter dated February 17, 1997 (copy attached) to develop a consolidated policy combining the terms of the Grant Agreement as well as the Law No. 9 regarding competitive bidding for procurement, which will be distributed as an attachment to a Circular. The Circular will instruct SIS employees to a) comply with the Grant Agreement terms and the Local law No. 9 with regards to competitive bidding for procurement; and b) to assign one person to be responsible for reviewing procurement procedures to ensure compliance. This will be completed by March 20, 1997.

2. SIS billed USAID/Egypt for advances provided to the Local Information Centers.

\* The auditors stated that these advances were later settled by SIS. However, SIS was also requested to include instructions in the Circular under item 1 above, to ensure that the SIS accounting personnel are requested to bill only for actual expenditures; and to assign one individual to be responsible for reviewing transactions and ensuring adherence to this requirement of billing actual expenses. This will be completed by March 20, 1997.

3. SIS billed USAID/Egypt for costs which should have been paid by the GOE.

\* This instances of non-compliance is related to questioned costs under Recommendation No. 1, which was sustained by the Mission and deducted from the SIS voucher. Therefore, Mission requests that this finding be closed.

4. SIS management did not establish individual bank account for the funds of PIL No. 5B.

\* Please note that funds for the SIS/IEC and the SIS/MOH are both included under two separate line items in one budget

under PIL 5B. Furthermore, there was no requirement to establish separate bank account for the funds related to the joint project with the MOH. The joint project with SIS/IEC and SIS/MOH is administered by the same organization, and there are specific funds for each item. Therefore, Mission believes there is no instance of non-compliance. Accordingly, Mission requests that this finding be closed.

Based on the above, Mission requests resolution of Recommendation No. 2 under the subject audit.

Att: a/s

40