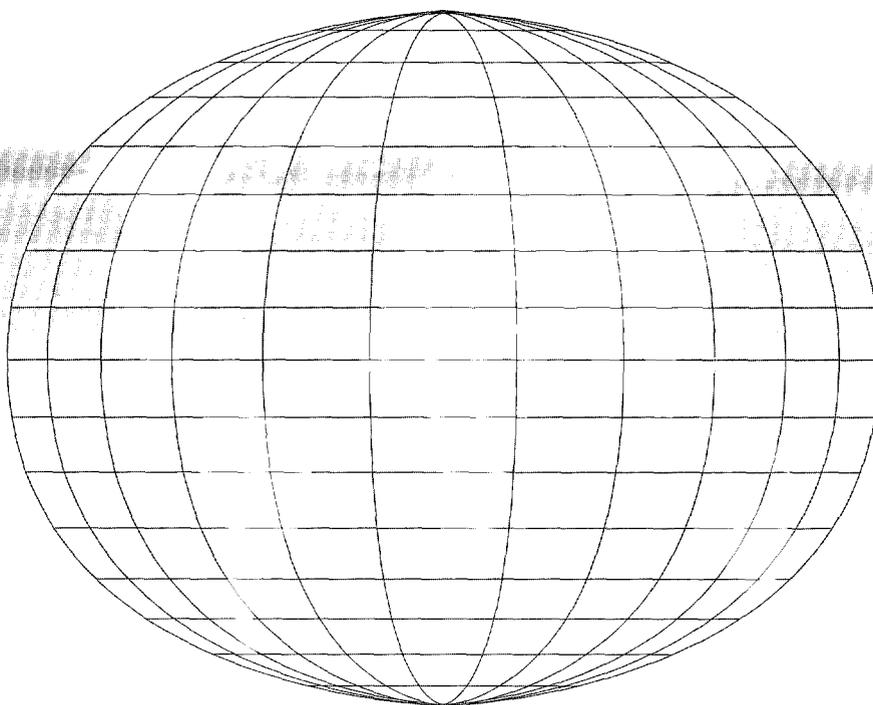


PD-ABN-707

Report of Audit

Financial Audit of the International Rice Research Institute, Resources Provided Through Letter of Commitment No. 263-0152-02 (USAID Egypt Project No. 263-0152)

Report No. 6-263-97-014-N
February 25, 1997



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.

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 25, 1997

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley
FROM: RIG/A/C, Lou Mundy *Timothy E. H. Jm*
SUBJECT: Financial Audit of the International Rice Research Institute, Resources Provided Through Letter of Commitment No. 263-0152-02 (USAID/Egypt Project No. 263-0152)

The attached report, transmitted on January 9, 1997 by Coopers & Lybrand, presents the results of a financial audit of resources provided through Letter of Commitment No. 263-0152-02 to the International Rice Research Institute (Institute) under USAID/Egypt Project No. 263-0152. The purpose of the project was to improve the productivity, stability, profitability, and sustainability of rice farming in Egypt.

We engaged Coopers & Lybrand to perform a financial audit of the Institute's incurred expenditures of \$2,655,090 for the period July 1, 1989 through September 30, 1994. The purpose of the audit was to evaluate the propriety of costs incurred during this period. As of the date of the audit report, the project was completed and no additional funding was being provided to the Institute for any purpose. Therefore, Coopers & Lybrand did not issue reports on the Institute's internal control structure or on their compliance with applicable laws, regulations, and agreement terms.

The audit report questions \$498,366 in costs billed to USAID/Egypt by the Institute. The questioned costs related primarily to costs billed to and reimbursed by USAID/Egypt which should have been paid by the Government of Egypt or were not supported by the Institute's books and records.

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

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

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

8

In response to the draft report, responsible Institute officials provided additional explanation to the report findings. Coopers & Lybrand reviewed the Institute'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 recommendation is 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 \$498,366 (ineligible costs of \$301,984 and unsupported costs of \$196,382) detailed on pages 13 through 32 of the Coopers & Lybrand audit report, and recover from the International Rice Research Institute the amounts determined to be unallowable.

In response to the recommendation, the Mission reported that of the total questioned costs of \$498,366, it had determined that \$114,230 is allowable, \$187,754 is sustained, and \$196,382 remains unsupported and unallowable pending receipt of further justification from the Institute and the Government of Egypt (see Appendix C). Recommendation No. 1 remains open and will be considered to have had a management decision upon the Mission's final determination of the total amount of recovery; it will be considered to have had final action upon the recovery or offset of funds.

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

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

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.

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

TABLE OF CONTENTS

	<u>PAGE</u>
<u>TRANSMITTAL LETTER</u>	
Background	1
Audit objectives and scope	2
Audit results	3
Management comments	5
Independent accountants response	5
Mission response	5
<u>FUND ACCOUNTABILITY STATEMENT</u>	
Report of independent accountants	6
Fund accountability statement and notes	8
<u>APPENDICES</u>	
Appendix A: Management comments	
Appendix B: Independent accountants response	
Appendix C: Mission response	

d

January 9, 1997

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 the United States Agency for International Development Mission to Egypt ("USAID/Egypt") resources provided through Letter of Commitment Number 263-0152-02 and managed by the International Rice Research Institute ("IRRI") under USAID/Egypt's project number 263-0152, during the period from July 1, 1989 through September 30, 1994.

Background

Rice occupies an important place in the diets of many Egyptians. Because of this prominence, the Ministry of Agriculture ("MOA"), with the assistance of the United States Agency for International Development, has established excellent facilities for research and training on all aspects of rice improvement at the Rice Research and Training Center at Sakha ("RRTC"). This facility has enabled the MOA to intensify and expand research relating to the improvement of the productivity, stability, profitability and sustainability of rice farming systems in Egypt. The Center at Sakha has also served other African and Middle Eastern countries with similar rice growing ecologies.

While research has been focussed on maximizing production and productivity of rice in the Delta, exploitation of potential situations for increased rice production has also been explored. In order to maximize these situations, research from the MOA and IRRI formed a collaborative relationship, which begun in 1980, to conduct the necessary research and training. The research focused on the development of rices with good grain quality and resistance to blast and other pests endemic to Egypt. IRRI was also responsible for commissioning the RRTC.

The purposes of the USAID/Egypt project as defined in Amendment 2, the last Contract Amendment to define the project background, dated and signed on May 13, 1993, were to: (1) develop high yielding disease resistant varieties of rice combining all desired agronomic and grain quality features for the Delta; (2) develop high yielding disease resistant and water use efficient varieties of rice as well as appropriate packages of practices for the New Valley; (3) establish appropriate relationships with the Egyptian seed industry; (4) undertake the necessary training programs; and (5) develop plans and materials for the transfer of the new technological packages to farmers. Prior to Amendment 2, the background description in the Contract was in full force and agreement which defined the project purposes above except an additional two purposes were in affect as follows: to develop techniques for growing floating rice in Lake Nasser and to coordinate complete facility management services for the Rice Research and Training Center at Sakha.

The budget for the project was \$ 4,000,000 covering the period from March, 1987 (inception) to June 30, 1994. The project was successfully completed and the final invoice was issued to USAID/Egypt during September, 1994.

Included within the IRRI project budget is an amount for indirect costs which is based on the IRRI company-wide indirect cost rates that varied over the audit period according to the project agreements. The actual rate charged to USAID/Egypt was 23.86% of total costs before

indirect costs. We did not audit this rate as all the records and the documented basis for calculation is maintained in IRRI headquarters in Los Banos, Philippines.

Audit objectives and scope

The primary objective of this engagement was to perform a financial-related audit of USAID/Egypt resources provided through Letter of Commitment Number 263-0152-02 and managed by the IRRI under USAID/Egypt's project number 263-0152, during the period from July 1, 1989 through September 30, 1994.

Specific objectives were to:

1. express an opinion on whether the fund accountability statement for IRRI related to the Letter of Commitment Number 263-0152-02 presents fairly, in all material respects, project revenues received and costs incurred during the period under audit in conformity with applicable accounting principles;
2. determine if the project costs reported as incurred by IRRI related to Letter of Commitment Number 263-0152-02 during the period under audit are allowable, allocable, and reasonable in accordance with agreement terms and applicable laws and regulations;
3. review the internal control structure of IRRI in order to determine the nature, timing and extent of substantive testing, and assess control risk in accordance with Statement on Auditing Standards No. 55; and
4. determine if IRRI has taken corrective action on prior audit report recommendations.

Preliminary planning and review procedures began in May, 1996 and consisted of discussions with personnel from the Office of the Regional Inspector General for Audit in Cairo ("RIG/A/C") and IRRI, and a review of the Letter of Commitment Number 263-0152-02. Audit fieldwork commenced in June and was completed in August, 1996.

IRRI incurred project costs of \$ 2,655,090 during the audit period. On a judgmental basis, we selected for audit testing project costs incurred during November 1989, May 1990, December 1992 and November 1993 which represented 12 percent of total expenditures billed to USAID/Egypt. Within these four months, we selected for detailed testing the larger transactions or those of an unusual nature. Based on the results of this testing, a risk-based approach was then implemented whereby detailed audit testing was extended to include the entire audit period to identify similar costs charged to USAID/Egypt that had been previously determined to be unallowable, unallocable or unreasonable. This methodology resulted in detailed audit testing coverage of approximately 20 percent.

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

1. reconciling project accounting records to billings issued by IRRI to USAID/Egypt to ensure that project costs were supported with appropriate books and records;
2. testing of project costs incurred by IRRI and funded by USAID/Egypt for allowability, allocability, reasonableness and appropriate support;

3. determining that procurement was made using sound commercial practices including competition, reasonable prices were obtained, and there were adequate controls on qualities and quantities received; and
4. reviewing travel and transportation charges to determine whether they are adequately supported and approved.

As part of our examination of IRRI, we reviewed relevant internal controls related to processing of project documents.

Audit results

Fund accountability statement:

Our audit procedures identified \$ 498,366 in questioned costs: \$ 301,984 in ineligible and \$ 196,382 in unsupported project costs. The ineligible questioned costs related primarily to project costs billed to USAID/Egypt that should have been reimbursed by the Government of Egypt ("GOE"). The unsupported questioned costs related primarily to project costs billed to USAID/Egypt that were not supported with books and records.

Internal control structure:

We have not issued a report on the internal control structure. This is because the project was completed in June, 1994 and USAID/Egypt has not provided any additional funding to IRRI for any other purpose. We did, however, review the internal control structure of IRRI in order to determine the nature, timing and extent of substantive testing, and we assessed control risk in accordance with Statement on Auditing Standards No. 55. Because the IRRI project was completed in June, 1994 and the IRRI project management are no longer resident in Cairo, we assessed control risk at the maximum level and relied exclusively on a substantive based testing approach.

The results of this review disclosed matters involving IRRI's internal control structure and its operation related to Letter of Commitment Number 263-0152-02 that we have reported to IRRI's management in a separate letter dated August 29, 1996.

Compliance with agreement terms and applicable laws and regulations:

We have not issued a report on compliance with agreement terms and applicable laws and regulations. This is because the project was completed in June, 1994 and USAID/Egypt is not provided any additional funding to IRRI for any other purpose. We did, however, perform certain tests of compliance in order to determine a proper audit risk assessment.

The results of these tests disclosed immaterial noncompliance matters related to Letter of Commitment Number 263-0152-02 that we have reported to IRRI's management in a separate letter dated August 29, 1996.

Status of prior audit findings:

The following discussion relates to the audit completed for IRRI for the period from March, 1987 through June 30, 1989, audit report number 6-263-90-02-N:

A. Internal Control

The prior audit identified two weaknesses involving the system of internal accounting controls surrounding the accounting function of IRRI:

- 1) IRRI did not maintain a written chart of accounts or procedures manuals for its daily operations.
- 2) The IRRI project manager is the sole signatory on checks for unlimited amounts.

Current status: These findings are also reported for the current audit to the IRRI management in a management letter.

B. Compliance

The prior audit noted four instances of noncompliance with agreement terms and applicable laws and regulations:

- 1) IRRI had provided limited information in technical reports to USAID/Egypt.

Current status: We did not consider the compliance finding above to be related to financial audit objectives. Therefore, we did not consider it further.
- 2) IRRI paid the obligation for social insurance for four employees to the social insurance authority.

Current status: IRRI continued to pay the social insurance obligation for employees. Amounts related to the employer's portion of social insurance are questioned in this report. (See the Report on the Fund Accountability Statement, Note 4 to the fund accountability statement, point B1.)

- 3) IRRI paid overtime compensation to employees without an approval from the Contracting Officer.

Current status: This finding is resolved.

- 4) IRRI did not maintain personnel files containing the necessary documents.

Current status: This finding is resolved.

Other matters

We are required to ensure that the billings to USAID/Egypt are supported with adequate books and records. To fulfill this requirement, we matched the IRRI billings submitted to USAID/Egypt to the IRRI-Egypt ledgers. However, as the billings to USAID/Egypt were made in Los Banos, Philippines, we assumed that differences between the billings and the ledgers related to either expenditures incurred in Los Banos or adjustments that were made to the billings in Los Banos. Accordingly, we requested documentation and explanations for the differences from Los Banos. We did not include these differences among the questioned costs reported in our draft report. Unfortunately, the requested documentation for the differences was not received from Los Banos to date. IRRI management did send explanations for the differences which we will forward to USAID/Egypt Financial Management. Because of the reasons stated, we have included these differences in the questioned costs in our final report.

Management comments

IRRI's management comments have been obtained and are included in Appendix A of this report.

Independent accountants response

In response to management's comments, we have either provided further clarification of our position in Appendix B of this report or have adjusted the final report.

Mission response

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

This report is intended for the information of IRRI's management and the United States Agency for International Development. However, this report is a matter of public record and its distribution is not limited.

Coopers & Lybrand

August 29, 1996

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

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

We have audited the accompanying fund accountability statement of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") resources provided through Letter of Commitment Number 263-0152-02 and managed by the International Rice Research Institute ("IRRI") under USAID/Egypt's project number 263-0152, during the period from July 1, 1989 through September 30, 1994. This fund accountability statement is the responsibility of IRRI's management. Our responsibility is to express an opinion on this fund accountability statement based on our audit.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 31 of Chapter 3 of *Government Auditing Standards* since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of *Government Auditing Standards* is not material because we participate in the Coopers & Lybrand worldwide internal quality control program which requires the Coopers & Lybrand Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Coopers & Lybrand offices.

As described in Note 2, the accompanying fund accountability statement has been prepared on the basis of cash disbursements. Consequently, expenditures are billed to USAID/Egypt when paid rather than when the obligation is incurred. Accordingly, the fund accountability statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.

As detailed in the accompanying fund accountability statement and as more fully described in Note 4 thereto, the results of our tests disclosed \$ 301,984 in ineligible and \$ 196,382 in unsupported project costs. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program-related or are prohibited by agreement terms or applicable laws and regulations. Project costs that are unsupported are those that are not supported with adequate documentation.

In our opinion, except for the effects of the questioned project costs as discussed in the preceding paragraph, the fund accountability statement referred to in the first paragraph presents fairly, in all material respects, project costs incurred by IRRI through Letter of Commitment Number 263-0152-02 under the USAID/Egypt's project number 263-0152, during the period from July 1, 1989 through September 30, 1994 in conformity with the basis of accounting described in Note 2.

This report is intended for the information of IRRI's management and the United States Agency for International Development. However, this report is a matter of public record and its distribution is not limited.

Coopers & Lybrand

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
 PROVIDED THROUGH
 LETTER OF COMMITMENT NUMBER 263-0152-02
 AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
 UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
 JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

FUND ACCOUNTABILITY STATEMENT

Questioned Project Costs

Budget Line Item Description	USAID/Egypt-Approved Budget (Note 1)	Actual (Note 1)	Ineligible (Note 4)	Unsupported (Note 4)	Finding Reference (Note 4)
Expatriate Staff Salaries		\$ 336,650	\$ -	\$ 40,283	Finding A, Page 13
Local Staff Salaries		26,292	-	1,225	Finding B, Page 13
In-Country Training		14,350	-	-	
On-Campus Salaries		13,930	-	-	
Fringe Benefits		96,225	3,465	930	Finding C, Page 14
Consultants		17,064	-	-	
Differential and Allowances		241,520	-	-	
Other Allowances		154,018	-	-	

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

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

FUND ACCOUNTABILITY STATEMENT (CONTINUED)

Budget Line Item Description	USAID/Egypt-Approved Budget (Note 1)	<u>Questioned Project Costs</u>			Finding Reference (Note 4)
		Actual (Note 1)	Ineligible (Note 4)	Unsupported (Note 4)	
Travel and Per diem		\$ 228,477	\$ 36,772	\$ 46,682	Finding D, Page 15
Training		129,355	2,266	1,104	Finding E, Page 16
Field Supplies and Shop Materials		246,554	130,848	-	Finding F, Page 23
Equipment		246,018	44,706	18,003	Finding G, Page 25
Other Direct Costs		298,121	81,126	66,427	Finding H, Page 30
Transportation		78,958	2,511	21,728	Finding I, Page 32

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

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
 PROVIDED THROUGH
 LETTER OF COMMITMENT NUMBER 263-0152-02
 AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
 UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
 JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

FUND ACCOUNTABILITY STATEMENT (CONTINUED)

Budget Line Item Description	USAID/Egypt-Approved Budget (Note 1)	<u>Questioned Project Costs</u>			<u>Finding Reference</u> (Note 4)
		<u>Actual</u> (Note 1)	<u>Ineligible</u> (Note 4)	<u>Unsupported</u> (Note 4)	
Winter Nursery		\$ 16,033	\$ 290	\$ -	Finding J, Page 33
Overhead		<u>511,525</u>	<u>-</u>	<u>-</u>	
TOTAL		<u>\$ 2,655,090</u>	<u>\$ 301,984</u>	<u>\$ 196,382</u>	

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

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF STATEMENT:

The total project budget was U. S. \$ 4,000,000 according to Annex A to the Contract dated February, 1987. Pursuant to this, USAID/Egypt approved Letter of Commitment No. 263-0152-02, dated April 2, 1987, for the same amount.

Subsequently, Amendment 2 to the Contract, dated May 13, 1993, reallocated the \$ 4,000,000 budget among the various budget line items; however, it included an amount for a budget line item entitled "actual expenditures as of August, 1990." This amount did not match the billing records to USAID/Egypt as of August, 1990.

As a result of these inconsistencies noted in the project's budget, we have not included budgeted amounts in the fund accountability statement. We believe that its inclusion would serve no useful purpose.

The "Actual" column represents cumulative project costs incurred by IRRI related to Letter of Commitment Number 263-0152-02 during the period from July 1, 1989 through September 30, 1994.

NOTE 2 - BASIS OF PRESENTATION:

The fund accountability statement of IRRI has been prepared on the basis of cash disbursements. Consequently, incurred project costs are billed to USAID/Egypt when paid rather than when the obligation is incurred.

NOTE 3 - FOREIGN EXCHANGE:

Project costs incurred in Egyptian pounds have been converted to U.S. dollars by IRRI at the exchange rate in effect at the time the expenditure was incurred.

NOTE 4 - QUESTIONED PROJECT COSTS:

Questioned project costs are presented in two separate categories -- ineligible and unsupported. Project costs that are ineligible for USAID/Egypt reimbursement are those that

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED):

are not program-related or are prohibited by agreement terms or applicable laws and regulations. Unsupported project costs are those that are not supported with adequate documentation.

(Please note that "RRTC", "MOA", "ARC", "GOE" and the "Contracting Agency" have been used interchangeably throughout the project documents and all refer to the Contracting Agency (i.e the GOE). "Contract" refers to the Contract between IRRI and MOA and the "General Memorandum of Understanding" refers to the understanding between IRRI and MOA.

The general causes for the following questioned costs related primarily to an ineffective internal control structure and a contract that did not clearly specify the costs allocable to the IRRI project. We have reported these control issues to the IRRI management in a Management Letter.

Questioned project costs identified as either ineligible or unsupported are detailed on the following pages:

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
A. Expatriate Staff Salaries		
1. This finding has been removed as a result of the management comments to the draft report.	\$ -	\$ -
2. Expatriate staff salaries were billed to USAID/Egypt that were not supported with any documentation.	\$ -	\$ <u>40,283</u>
Total Expatriate Staff Salaries	\$ -	\$ <u>40,283</u>
B. Local Staff Salaries		
1. IRRI billed USAID/Egypt for an amount in February, 1992 that was not supported with books and records; therefore, we could not trace the billing to supporting documents.	\$ -	\$ 377
2. IRRI billed USAID/Egypt for an amount in June, 1994 for costs incurred in Egypt and Los Banos, Philippines that was not supported with either books and records in Egypt or with any type of certification of the expenditure being incurred in Los Banos. Consequently, we could not trace the billing to supporting documents.	\$ -	\$ <u>848</u>
Total Local Staff Salaries	\$ -	\$ <u>1,225</u>
C. Fringe Benefits		
1. USAID/Egypt was billed for the employer's share of social security taxes paid for local employees.		

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
C. Fringe Benefits (continued)		
<p>According to the Bilateral Agreement of 1978, no tax, duty, or fee of whatsoever nature shall be imposed upon any American contractor financed by the Government of the United States of America. The Contract, Amendment 1, dated in early 1991, further clarifies this point on Page 9, Paragraph 2, by stating that "the Government of Egypt will provide the same exemptions [tax] to all Contractor employees...or the GOE will reimburse the Contractor for all taxes, fees or the like imposed in contravention of that intent."</p>	\$ 3,465	\$ -
<p>2. IRRRI billed USAID/Egypt for an amount in June, 1994 that was not supported with books and records; therefore, we could not trace the billing to supporting documents.</p>	\$ -	\$ <u>930</u>
Total Fringe Benefits	\$ <u>3,465</u>	\$ <u>930</u>
D. Travel and Per diem		
<p>1. USAID/Egypt was billed for expenditures related to the obtainment of Egyptian visas for IRRRI expatriate employees. These expenditures should have been reimbursed by RRTC as part of the GOE in-kind contribution to the project.</p> <p>The Contract, Page S-10, Article IX, "Logistic Support and/or Property", Paragraph D, Point 5, states that the following items will be provided by the GOE as part of their in-kind contribution to the project: "appropriate permits and visas for long-term personnel of the Contractor and any other visas or permits required by any Contractor personnel while in the Arab Republic of Egypt ("ARE")."</p> <p>In addition, the General Memorandum of Understanding, Article 3, Point 3, states that, "In order to facilitate the implementation of cooperative activities, the Ministry</p>		

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
D. Travel and Per diem (continued)		
will assist in obtaining necessary visas and completion of formalities connected with the visits of IRRI scientists to Egypt."	\$ 82	\$ -
2. USAID/Egypt was billed for per diem for staff that were not employed by the project. In addition, the supporting documents did not include the purpose or detail for the travels.		
According to the General Provisions attached to the Contract, Page 8, "Audit and Records", "the Contractor shall maintain books, records, documents, and other evidence and shall apply consistent accounting procedures and practices sufficient to reflect properly all transactions under or in connection with the Contract."	\$ 2,795	\$ -
3. USAID/Egypt was billed for the cost of international air tickets which should have been billed to the FT-800 account.		
IRRI did not provide us with any written documentation evidencing that IRRI was allowed to use the FT-800 for the reimbursement of the cost of air tickets purchased with Egyptian Pounds. However, we assumed that USAID/Egypt had provided an approval as many of the air ticket purchased with Egyptian Pounds were billed and reimbursed from the FT-800 account.	\$ 33,895	\$ -
4. IRRI billed USAID/Egypt for many amounts that were not supported with books and records; therefore, we could not trace the billing to supporting documents.	\$ -	\$ 46,682
Total Travel and Per diem	\$ 36,772	\$ 46,682

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

		<u>Questioned Project Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
<u>Item Description</u>			
E. Training			
1.	USAID/Egypt was billed LE 3,644 (part of the amount of LE 5,019, invoice 228, dated 5/15/90) for the cost of food and drinks for the Seventh Rice Conference which was not supported with the supplier's invoice or receipt. The only support available was a list of the materials bought, including prices and quantity, signed by the Purchasing Committee.		
	According to the General Provisions attached to the Contract, Page 8, "Audit and Records", "the Contractor shall maintain books, records, documents, and other evidence and shall apply consistent accounting procedures and practices sufficient to reflect properly all transactions under or in connection with the Contract."	-	\$ 1,104
2.	USAID/Egypt was billed for the cost of international air tickets which should have been billed to the FT-800 account.		
	IRRI did not provide us with any written documentation evidencing that IRRI was allowed to use the FT-800 for the reimbursement of the cost of air tickets purchased with Egyptian Pounds. However, we assumed that USAID/Egypt had provided an approval as many of the air ticket purchased with Egyptian Pounds were billed and reimbursed from the FT-800 account.	\$ 2,266	\$ -
Total Training		\$ 2,266	\$ 1,104
F. Field Supplies			
1.	USAID/Egypt was billed for the following expenditures that should have been reimbursed by the RRTC as part of the GOE in-kind contribution to the project:		

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Questioned Project Costs</u>	
<u>Ineligible</u>	<u>Unsupported</u>

Item Description

F. Field Supplies (continued)

- a. Cleaning costs for the Cairo and Giza offices
- b. Furnishing costs for the Cairo and Giza offices
- c. Office supplies and stationery costs
- d. Casual labor costs
- e. Vehicle license renewal fees and traffic fines for the RRTC vehicles in Sakha, Kafr El Sheikh
- f. Gasoline used by the RRTC
- g. Assets that were included on the "Schedule of Office Space, Furniture, Equipment and Vehicles to be furnished by the Contracting Agency"
- h. Custom charges, clearance costs and other taxes
- i. Renovation charges

The details related to each expenditure listed above are as follows:

a. Cleaning costs for the Cairo and Giza offices

According to the Contract detailed budget as amended in Amendments 1 and 2, there was not a budget allocated for these costs. In addition, the Contract, Amendment 1, Article II, final paragraph, states that "IRRI will not be directly responsible for the field operations and facilities management of RRTC at Sakha. The operation (including field supplies, labor and equipment) and management of RRTC will be the direct responsibility of Ministry of Agriculture/Agriculture Research Center ("MOA/ARC") designated personnel with funds provided by the ARC."

\$ 1,747

\$ -

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Questioned Project Costs</u>	
<u>Ineligible</u>	<u>Unsupported</u>

Item Description

F. Field Supplies (continued)

b. Furnishing costs for the Cairo and Giza offices

The Contract, Annex B, Page A-2, "Schedule of Office Space, Furniture, Equipment and Vehicles to be furnished by the Contracting Agency" lists each item that should be provided by the Contracting Agency as part of the GOE in-kind contribution to the project.

\$ 674	\$ -
--------	------

c. Office supplies and stationery costs

According to the Contract, Amendment 1, Article IX, Item D.6, items that will be provided by the GOE as part of their in-kind contribution to the project are "Field, general and office supplies as deemed necessary to execute the research program at RRTC."

\$ 7,385	\$ -
----------	------

d. Casual labor costs

The Contract, Amendment 1, Article II, final paragraph, states that "IRRI will not be directly responsible for the field operations and facilities management of RRTC at Sakha. The operation (including field supplies, labor and equipment) and management of RRTC will be the direct responsibility of MOA/ARC designated personnel with funds provided by the ARC."

\$ 17,579	\$ -
-----------	------

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Questioned Project Costs</u>	
<u>Ineligible</u>	<u>Unsupported</u>

Item Description

F. Field Supplies (continued)

e. Vehicle license renewal fees and traffic fines for the RRTC vehicles in Sakha, Kafr El Sheikh

According to the Contract detailed budget as amended in Amendments 1 and 2, there was not a budget allocated for these costs. In addition, such costs represents fees levied by the GOE which are not allowable for USAID/Egypt reimbursement.

According to the Bilateral Agreement of 1978, no tax, duty, or fee of whatsoever nature shall be imposed upon any American contractor financed by the Government of the United States of America. The Contract, Amendment 1, dated in early 1991, further clarifies this point on Page 9, Paragraph 2, by stating that "the Government of Egypt will provide the same exemptions [tax] to all Contractor employees...or the GOE will reimburse the Contractor for all taxes, fees or the like imposed in contravention of that intent."

\$ 3,993	\$ -
----------	------

f. Gasoline used by the RRTC

According to the Contract, Page S-10, Article IX, "Logistic Support and/or Property", Paragraph D "Automobiles and other local transportation", states that automobiles and local transportation costs will be provided by the GOE as part of their in-kind contribution to the project. \$ 5,399 in gasoline costs were billed by IRR1 in October, 1989 which should have been provided for through the GOE in-kind contribution to the project.

\$ 5,399	\$ -
----------	------

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Questioned Project Costs</u>	
<u>Ineligible</u>	<u>Unsupported</u>

Item Description

F. **Field Supplies (continued)**

- g. **Assets that were included on the "Schedule of Office Space, Furniture, Equipment and Vehicles to be furnished by the Contracting Agency"**

The Contract, Amendment 1, Article II, final paragraph, states that "IRRI will not be directly responsible for the field operations and facilities management of RRTC at Sakha. The operation (including field supplies, labor and equipment) and management of RRTC will be the direct responsibility of MOA/ARC designated personnel with funds provided by the ARC."

Further, the Contract, Article IX, supplemented by Annex B, Page A-2, "Schedule of Office Space, Furniture, Equipment and Vehicles to be furnished by the Contracting Agency" lists each item that should be provided by the Contracting Agency as part of the GOE in-kind contribution to the project.

\$ 38,238

\$ -

- h. **Custom charges, clearance costs and other taxes**

According to the General Memorandum of Understanding, Article III, Point 5, the Ministry should perform the following: "Ensure that items of equipment and supplies, including vehicles imported by IRRI in consultation with the Ministry for use in cooperative work, be exempted from payment of customs duties or any other taxes admissible under the rules of the Egyptian government. However, if any duties or taxes on such equipment and supplies are payable in Egypt, such duties or taxes shall be borne by the Ministry. Also, the Ministry will be responsible for the clearance of equipment supplied by IRRI."

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

		<u>Questioned Project Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
<u>Item Description</u>			
F.	Field Supplies (continued)		
	In addition, the General Provisions of the Contract, Paragraph 34, discuss " Host Country Taxes" as such: "To the extent any of the above taxes, duties or customs are not exempted, they shall be paid by the Contracting Agency. The Contractor shall, before paying any such amounts, obtain the approval of the Contracting Agency. Should the Contractor pay any such amounts, such payments shall be reimbursable under this Contract in LE from the Contracting Agency."	\$ 54	\$ -
	i. Renovation charges		
	According to the Contract, Article IX, Paragraph D, Item 1, the following items will be provided by the Contracting Agency: "Office space for the exclusive use of the Contractor personnel. Such space will be provided at appropriate locations within the RRTC"	\$ 1,595	\$ -
	2. USAID/Egypt was billed for the following expenditures related to items that were not utilized by, or allocable to, the project.		
	j. Utility fees for buildings that were not used by IRR1		
	k. Repair and maintenance cost for vehicles that were not project vehicles		
	l. Repair and maintenance costs for items that were not used by the project		

The details related to each expenditure listed above are as follows:

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
F. Field Supplies (continued)		
j. Utility fees		
USAID/Egypt was billed for utility costs including electricity, water, telex, telephone and fax bills which related to the entire RRTC facility in Sakha, Kafr El-Sheikh, even though IRRI did not occupy the entire building. Also, utility costs for the Giza office were billed to USAID/Egypt.		
The allocability of these expenditures to the IRRI project could not be determined from the supporting documentation provided.		
In addition, according to the Contract, Amendments 1 and 2, there was not a budget for utility costs.	\$ 17,083	\$ -
k. Repair and maintenance cost for vehicles that were not project vehicles		
Repair and maintenance costs were unsupported with documents that would enable us to verify that the vehicles repaired and maintained were either owned or used by the project.		
In addition, we noted that there was not a budget allocated for these costs in the Contract, Annex E, Amendments 1 and 2.	\$ 35,701	\$ -

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

		<u>Questioned Project Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
<u>Item Description</u>			
F. Field Supplies (continued)			
I. Repair and maintenance costs for items that were not used by the project			
<p>According to the Contract, Annex E, Amendments 1 and 2, maintenance costs are not included within the project budget.</p>		\$ <u>1,400</u>	\$ <u>-</u>
Total Field Supplies		\$ <u>130,848</u>	\$ <u>-</u>
G. Equipment			
1. USAID/Egypt was billed for procurements that were not allowed under the project agreement terms.			
<p>According to the Contract, Amendment 1, "IRRI will not be directly responsible for the field operation and facilities management of RRTC at Sakha. However, IRRI will provide laboratory research supplies and equipment and other direct costs. The operation (including field supplies, labor and equipment) and management of RRTC will be the direct responsibility of MOA/ARC designated personnel with funds provided by the ARC." In addition, the Contract, Article IX, provides a list of items that should be provided by the GOE as part of their in-kind contribution to the project, supplemented by Annex B, "Office Space, Furniture, Equipment and Vehicles to be furnished by the Contracting Agency" states, "Such equipment and furniture shall be provided from funds other than those provided in this Contract and title shall be held by the Contracting Agency. Said equipment and furniture shall be for the exclusive use of Contractor personnel. Such procurement or provision will</p>			

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Questioned Project Costs</u>	
<u>Ineligible</u>	<u>Unsupported</u>

Item Description

G. Equipment (continued)

be arranged by the Contracting Agency and substitutions will not be made without consent of the Contractor."

\$ 41,655	\$ -
-----------	------

2. USAID/Egypt was billed custom charges, clearance costs and other taxes which should have been reimbursed by the RRTC as part of the GOE in-kind contribution to the project.

According to the General Memorandum of Understanding, Article III, the Ministry should perform the following: "Ensure that items of equipment and supplies, including vehicles imported by IRRI in consultation with the Ministry for use in cooperative work, be exempted from payment of customs duties or any other taxes admissible under the rules of the Egyptian government. However, if any duties or taxes on such equipment and supplies are payable in Egypt, such duties or taxes shall be borne by the Ministry. Also, the Ministry will be responsible for the clearance of equipment supplied by IRRI."

In addition, the General Provisions of the Contract, Paragraph 34, explains about Host Country Taxes, "To the extent any of the above taxes, duties or customs are not exempted, they shall be paid by the Contracting Agency. The Contractor shall, before paying any such amounts, obtain the approval of the Contracting Agency. Should the Contractor pay any such amounts, such payments shall be reimbursable under this Contract in LE from the Contracting Agency."

\$ 3,051	\$ -
----------	------

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
G. Equipment (continued)		
3. IRRI billed USAID/Egypt for many amounts that were not supported with books and records; therefore, we could not trace the billing to supporting documents.	\$ -	\$ 18,003
Total Equipment	\$ 44,706	\$ 18,003
H. Other Direct Costs		
1. USAID/Egypt was billed for the cost of hourly help that should have been reimbursed by RRTC as a part of the GOE in-kind contribution to the project. According to the Contract, Amendment 1, Article 2, final paragraph, "IRRI will not be directly responsible for the field operations and facilities management of RRTC at Sakha. The operation (including field supplies, labor and equipment) and management of RRTC will be the direct responsibility of MOA/ARC designated personnel with funds provided by the ARC."	\$ 1,566	\$ -
2. USAID/Egypt was billed renovation costs which should have been reimbursed by RRTC as part of the GOE in-kind contribution to the project. According to the Contract, Article IX, Paragraph D, Item 1, the following items should be provided by the Contracting Agency: "Office space for the exclusive use of the Contractor personnel. Such space will be provided at appropriate location within the RRTC."	\$ 1,791	\$ -

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Questioned Project Costs</u>	
<u>Ineligible</u>	<u>Unsupported</u>

Item Description

H. Other Direct Costs (continued)

3. USAID/Egypt was billed for vehicle licenses renewal fees for the RRTC vehicles in Sakha, Kafr El Sheikh.

According to the Contract detailed budget as amended in Amendments 1 and 2, there was not a budget allocated for these costs. In addition, such costs represents fees levied by the GOE which are not allowable for USAID/Egypt reimbursement.

According to the Bilateral Agreement of 1978, no tax, duty, or fee of whatsoever nature shall be imposed upon any American contractor financed by the Government of the United States of America. The Contract, Amendment 1, dated in early 1991, further clarifies this point on Page 9, Paragraph 2, by stating that "the Government of Egypt will provide the same exemptions [tax] to all Contractor employees...or the GOE will reimburse the Contractor for all taxes, fees or the like imposed in contravention of that intent."

\$ 3,445

\$ -

4. USAID/Egypt was billed for custom charges, clearance costs and other taxes which should have been reimbursed by RRTC as part of the GOE in-kind contribution to the project.

According to the General Memorandum of Understanding, Article III, Point 5, the Ministry should perform the following: "Ensure that items of equipment and supplies, including vehicles imported by IRRI in consultation with the Ministry for use in cooperative work, be exempted from payment of customs duties or any other taxes admissible under the rules of the Egyptian government. However, if any

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
H. Other Direct Costs (continued)		
duties or taxes on such equipment and supplies are payable in Egypt, such duties or taxes shall be borne by the Ministry. Also, the Ministry will be responsible for the clearance of equipment supplied by IRRI."		
In addition, the General Provisions of the Contract, Paragraph 34, discuss " Host Country Taxes" as such: "To the extent any of the above taxes, duties or customs are not exempted, they shall be paid by the Contracting Agency. The Contractor shall, before paying any such amounts, obtain the approval of the Contracting Agency. Should the Contractor pay any such amounts, such payments shall be reimbursable under this Contract in LE from the Contracting Agency."	\$ 7,942	\$ -
5. USAID/Egypt was billed for repair and maintenance and gasoline costs for vehicles that were not project-owned vehicles. Additionally, we were unable to verify that the vehicles were ever used by the project.		
Finally, we noted that there was not a budget allocated for these costs in the Contract, Annex E, Amendments 1 and 2.	\$ 16,264	\$ -
6. USAID/Egypt was billed for utility costs including electricity, water, telex, telephone and fax bills which, related to the entire RRTC facility in Sakha, Kafr El-Sheikh, even though IRRI did not occupy the entire building. Also, utility costs for the Giza office were billed to USAID/Egypt.		

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Questioned Project Costs</u>	
<u>Ineligible</u>	<u>Unsupported</u>

Item Description

H. Other Direct Costs (continued)

The allocability of these expenditures to the IRRI project could not be determined from the supporting documentation provided.

In addition, according to the Contract, Amendments 1 and 2, there was not a budget for the utility costs.

\$ 18,734	\$ -
-----------	------

7. USAID/Egypt was billed for costs related to "Excess Baggage" which was unallowable for USAID/Egypt reimbursement under the Contract terms according to a letter dated October 24, 1992 from the IRRI Project Director, which referenced "Per diem and Related Allowances", Page 5, Paragraph 11 of the Contract. The IRRI Project Director, stated that, "While none of the travel allows for excess baggage, if a traveler acquires project related equipment and materials it may be possible to reimburse for excess baggage accumulated. This will normally be on an individual case [by case] bases and include only cost clearly related to project related materials by either weight or number of pieces depending on the charges and the location where the travel originates."

The documentation provided did not verify that the fees paid for excess baggage were for project-related equipment or materials.

\$ 618	\$ -
--------	------

8. USAID/Egypt was billed \$ 75 in July, 1992 for an amount paid to casual labor for repairing wires at the green house. This cost should have been reimbursed by the RRTC as a part of the GOE in-kind contribution to the project.

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Questioned Project Costs</u>	
<u>Ineligible</u>	<u>Unsupported</u>

Item Description

H. Other Direct Costs (continued)

According to the Contract, Amendment No. 1, Article II, Last Paragraph, "IRRI will not be directly responsible for the field operation and facilities management of RRTC at Sakha. The operation (including field supplies, labor, and equipment) and management of RRTC will be the direct responsibility of MOA/ARC designated personnel with funds provided by the ARC."

\$ 75	\$ -
-------	------

9. USAID/Egypt was billed for repair and maintenance costs for items that were not procured with project funds.

In addition, according to the Contract, Annex E, Amendments 1 and 2, maintenance costs are not included within the project budget.

\$ 19,078	\$ -
-----------	------

10. USAID/Egypt was billed for costs for procuring items that were not allowed under the Contract terms.

According to the Contract, Amendment 1, "IRRI will not be directly responsible for the field operation and facilities management of RRTC at Sakha. However, IRRI will provide laboratory research supplies and equipment and other direct costs. The operation (including field supplies, labor and equipment) and management of RRTC will be the direct responsibility of MOA/ARC designated personnel with funds provided by the ARC." In addition, the Contract, Annex B, Page A-2, "Schedule of Office Space, Furniture, Equipment and Vehicles to be furnished by the Contracting Agency" lists each item that should be provided by the Contracting Agency as part

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
H. Other Direct Costs (continued)		
of the GOE in-kind contribution to the project.	\$ 11,548	\$ -
11. USAID/Egypt was billed for the GOE sales tax which is not reimbursable by USAID/Egypt. According to the General Provisions of the Contract, Paragraph 34, "Host Country Taxes", "to extent that any taxes, duties or customs are not exempted, they shall be paid by the Contracting Agency."	\$ 65	\$ -
12. IRRI billed USAID/Egypt for many amounts that were not supported with books and records; therefore, we could not trace the billing to supporting documents.	\$ -	\$ <u>66,427</u>
Total Other Direct Costs	\$ <u>81,126</u>	\$ <u>66,427</u>
I. Transportation		
1. USAID/Egypt was charged with custom charges, clearance costs and other taxes which should have been reimbursed by RRTC as part of the GOE in-kind contribution. The General Memorandum of Understanding, Article III, states that the Ministry should perform the following: "Ensure that items of equipment and supplies, including vehicles imported by IRRI in consultation with the Ministry for use in cooperative work, be exempted from payment of customs duties or any other taxes		

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Questioned Project Costs</u>	
<u>Ineligible</u>	<u>Unsupported</u>

Item Description

I. Transportation (continued)

admissible under the rules of the Egyptian government. However, if any duties or taxes on such equipment and supplies are payable in Egypt, such duties or taxes shall be borne by the Ministry. Also, the Ministry will be responsible for the clearance of equipment supplied by IRRRI" In addition, the General Provisions of the Contract, Paragraph 34, explains regarding Host Country Taxes that "To the extent any of the above taxes, duties or customs are not exempted, they shall be paid by the Contracting Agency. The Contractor shall, before paying any such amounts, obtain the approval of the Contracting Agency. Should the Contractor pay any such amounts, such payments shall be reimbursable under this Contract in LE from the Contracting Agency."

\$ 1,319

\$ -

2. USAID/Egypt was billed for costs related to "Excess Baggage" which is unallowable for USAID/Egypt reimbursement under the Contract terms according to a letter dated October 24, 1992 from the IRRRI Project Director, which referenced "Per diem and Related Allowances", Page 5, Paragraph 11 of the Contract. The letter stated that, "While none of the travel allows for excess baggage, if a traveler acquires project related equipment and materials it may be possible to reimburse for excess baggage accumulated. This will normally be on an individual case [by case] bases and include only cost clearly related to project related materials by either weight or number of pieces depending on the charges and the location where the travel originates."

The documentation provided did not verify that the fees paid for excess baggage were for project-related equipment or materials.

\$ 1,192

\$ -

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

		<u>Questioned Project Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
<u>Item Description</u>			
I.	Transportation (continued)		
3.	IRRI billed USAID/Egypt for amounts in February, 1992 and June, 1994 that were not supported with books and records; therefore, we could not trace the billing to supporting documents.	\$ -	\$ <u>21,728</u>
Total Transportation		\$ <u>2,511</u>	\$ <u>21,728</u>
J.	Winter Nursery		
1.	We have removed this finding from our report.	\$ -	\$ -
2.	USAID/Egypt was billed \$ 290 for an international air ticket for an expatriate employee to travel from Jakarta to Manila which should have been charged to the FT-800 account. IRRI did not provide us with any written documentation evidencing that IRRI was allowed to use the FT-800 for the reimbursement of the cost of air tickets purchased with Egyptian Pounds. However, we assumed that USAID/Egypt had provided an approval as many of the air ticket purchased with Egyptian Pounds were billed and reimbursed from the FT-800 account.	\$ <u>290</u>	\$ -
Total Winter Nursery		\$ <u>290</u>	\$ -
TOTAL QUESTIONED COSTS		\$ <u>301,984</u>	\$ <u>196,382</u>

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

MANAGEMENT COMMENTS

From: INV'E SA/CGH@CGNET.COM 18-NOV-1996 17:14
To: INV'bcooper@usaid.gov "Blair Cooper"
CC: INV'ddelgado@usaid.gov, INV'mocampo@IRRI.CGIAR.ORG
Subj: RE: NARP/IRRI Draft Audit Annex

Return-path: <ESAYEGH@IRRI.CGNET.COM>
Delivery-receipt-to: E.SAYEGH@CGNET.COM
X-PMRQC: 1
Date: Mon, 18 Nov 1996 17:14:18 +0000
From: Edward Sayegh <ESAYEGH@IRRI.CGIAR.ORG>
Subject: Re: NARP/IRRI Draft Audit Annex
To: Blair Cooper <bcooper@usaid.gov>
CC: ddelgado@usaid.gov, mocampo@IRRI.CGIAR.ORG
Reply-to: E.SAYEGH@CGNET.COM
X-Mailer: Pegasus Mail for Windows (v2.20)
X-Confirm-Reading-To: E.SAYEGH@CGNET.COM
Comments: Authenticated sender is <ESAYEGH@198.93.230.10>

We are forwarding today by courier our response to the audit findings. We have enclosed in the same package a copy to Cooper and Lybrand-could you please provide it to them. We hope that we were able to respond to the report. If additional information is needed please let us know.

Sincerely,

Edward N. Sayegh
Treasurer and Director for Finance -IRRI

BEST AVAILABLE COPY

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

MANAGEMENT COMMENTS

1 Cover Letter to the Regional Inspector General, Mr. Lou Mundy

1 The report should clearly indicate the IRR/ Egypt project life of the contract or the project's termination date, that is, it officially ended on 30 June 1994. Nowhere in the audit report is the terminal date mentioned. It quoted, instead, several times the September, 1994 date. Statements in last paragraph of page 1 (Background), "The budget covering the period from March, 1987 (inception) to September 30, 1994" and in page 3 of the cover letter (Internal Control Structure), "Because the IRR/ project was completed in September, 1994 and the IRR/ project management.....approach." are misleading.

It would be more accurate if the audit report clearly indicates what September, 1994 represents and when the USAID sponsored IRR/ Egypt project actually ended.

2. Background, page 1 paragraph 3

The whole paragraph should be deleted and revised to reflect the agreed specific purposes of the project as indicated in Amendment Number 1. The amendment contains all the parties' concerns and comments including those of the USAID's to the original Memorandum of Understanding. Although the signing of the Amendment was a month earlier (on 31 January 1987) than the original MOU, the Amendment forms part of the final version of the projects' contract which was the reference and working document within which each party to the contract have obligated themselves. Memorandum of Understanding was only signed after concerns and comments to such Memorandum have been finalized and incorporated in Amendment No. 1. This matter was communicated to USAID c/o Mr. John Foti, Project Officer, Directorate for Agricultural Resources by Dr. Ahmed Montaz, Director General, Ministry of Agriculture in latter's letter of 22 February 1987.

A- 22 February
letter
A1-Amendment
No. 1

The Amendment could be found attached to the Mother agreement and to USAID's letter of commitment made available to the auditors.

Paragraph 3 should, therefore, read as follows:

The purposes of the USAID/ Egypt project were to: (1) develop high yielding disease resistant varieties combining all desired agronomic and grain quality features for the Delta; (2) develop high yielding, short duration and water use efficient varieties as well as appropriate package of

Y700710/11/1994 10:31

BEST AVAILABLE COPY

34

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

MANAGEMENT COMMENTS

practices for the New Valley, develop techniques for growing floating rice in Lake Nasser; (4) establish appropriate relationships with the Egyptian seed industry; (5) provide complete facility management services for the Sakha Rice Research and Training Center, and; (6) develop plans and materials for the transfer of the new technological packages to farmers.

3. Status of prior audit findings

- A.1) IRRI maintains a written chart of accounts for all expense and balance sheet items per attached charts of accounts. B- Chart of Accounts

The billing to USAID follows the line item per contract in order to suit donor's reporting requirements. Summary report is generated in Los Banos Home Office using the report writer that summarizes each expense item by major category.

Egypt office maintains the expenses portion of chart of accounts for expenses that might apply to the project which was supplied by the Los Banos office. B1- Egypt chart of account

- 2) IRRI Project Manager is the sole signatory only on USS checks. Checks covering LE disbursements require two signatories and therefore, signed by the Project Manager and the Director of RRTC. In either cases, the payments are supported by vouchers and requests approved and countersigned by the RRTC Director and the Project Manager. C- Voucher
C1- Request

- B. 3) Social insurance is not a revenue tax but a statutory or government-supervised employee benefit or pension plan. The contract covers revenue taxes only and did not provide for this statutory employee benefit.

II. Report of Independent Accountant

1. Page 6 Paragraph 4. "As described in Note 2, ... prepared on the basis of cash disbursements."

IRRI's financial statements are prepared on the basis of accounting practices that conform with generally accepted accounting principles, for centers seeking assistance from the Consultative Group on International Agricultural Research (CGIAR). Effective 1 January 1993, IRRI, in accordance with the CGIAR-prescribed accounting practices, adopted the accrual method of accounting for expenditures in accordance with generally accepted accounting principles. (Please refer to Note 2 of 1993 External Audit Report). D- 1993 Audited Financial Statements

**FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152**

**DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994**

MANAGEMENT COMMENTS

2. Page 11 Note 1 - Scope of Statement 2nd paragraph

Actual expenditures included in the 13 May 1993 amendment as shown in the column headings is "as of 28 February 1993" that included total Other Direct Cost with a lump sum actual category total as of August 1990 as a separate line item within the "Other Direct Cost" category. The auditors should note that there used to be two dollar-denominated billings that IRRI sends to USAID until late 1991. One report summarizes those expenses in LE currency converted to US\$ while the second report reflects all expenses incurred in US\$. The total billing for a given month until late 1991 is the total of the two reports.

E- Contract
Budget Schedule

Aside from being transparent, segregation of expenses in local currency from non-LE or US\$ expenditures intends to make the review of the report easier both for the RRTC and IRRI staff. The breakdown which ties-in to the billing records to USAID/Egypt as of August 1990, if you add the two reports is as follows:

F- August 1990
Billing Vouchers

	(LE) converted to US\$	US\$ Report	Report Total
Winter Nursery	876	13,780	US\$ 14,656
Field Supplies	47,751		47,751
Other Direct Cost	6,326	56,160	142,486
Less- Equipment		9,557	9,557
Total Other Direct Cost	6,326	46,607	132,933
Total Per Billing Report	434,953	60,387	US\$ 495,340

Moreover, the auditor's report should delete and make no reference to Amendment 3. Although there was an intention and a proposal to extend the project to 30 September 1994, such proposal (Amendment 3) was not approved and did not materialize.

3. Page 11 Note 2 - Basis of Presentation

Note should be modified to reflect the 1993 change to the accrual method of accounting as commented in aforementioned paragraph 4 (Item II.1.) and to make it more consistent to Coopers & Lybrand's note 3 of the audit report in which it stated the word "incurred" twice that contradicts auditor's own statements under Note 2 and paragraph 4 of their report.

4. Note 4 - Questioned Project Costs (page 12) paragraph 3

The cited causes for the questioned costs by Coopers & Lybrand auditors tend to mislead and should be written parallel to the objectives of Amendment #1 as commented above in Item I no. 1. The whole findings have to be changed since majority of the questioned costs are in accordance with the signed agreement between IRRI and the

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

MANAGEMENT COMMENTS

government revenue taxes which the contract intends to be exempted by the Government in the implementation of the IRRJ/Egypt project. The alternative to which would have been establishing retirement plans for our employees that would be costly to the project.

C. Travel

1. Visas \$82

Egypt visas were for IRRJ scientists who were nationals of countries that required advanced visas from appropriate consulate offices. The payments were, thus, incurred at the Egyptian embassy in Manila. The time required to process the necessary documents and transfer them to the Manila embassy to issue gratis visas is administratively inefficient and far exceeded the lead time required between request to visit and crop development that would render the visit inappropriate. As there were no provisions in the contract for *post facto* billing to the GOE, these costs should be chargeable to the project. The individuals involved were Pruvian, Filipino, and Indian (2 visits).

For the most part in the project's implementation, the provision that the government assist with necessary visa and travel/ residence formalities was interpreted to apply to the resident IRRJ scientist. In this case, it was complied with in full.

2. Per diem for non-project staff \$2,795

These charges were for project-related services performed and were incurred during the first phase of the contract in accordance with the initial 1st Amendment that forms part of the original contract and obligates IRRJ to undertake the facilities management of the RRTC and in accordance with the Letter of Agreement signed in 1990 and referred to in response to item 11.4 above.

Support for these per diems was normally by time sheet signed by employee that indicates the destination traveled too. Most of these were day trips for project-related activities in accordance to the accepted practices of the GOE and RRTC at the time.

3. FT-800 \$33,895

a. As we understand it, the FT-800 funds can only be used for airline travel. It appears the finding included other travel cost in addition to the air fares. These other non-airfare costs are eligible project expenses. There should be an adjustment in the finding in

**FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152**

**DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994**

MANAGEMENT COMMENTS

accordance with the following table as extracted from the 30 November original FT-800 claim.

Bill Date	Travelers	Itinerary	Finding \$	Airfare LE	\$ Conver.	Difference
Feb 90	Maxrous & Nashaat	CAL/SNG/M NL/CAI	3,321.00	8,612.10	2,609.73	711.27
Mar 90		non-ticket	269.00			269.00
Apr 90	Maximous	CAL/MNL/C AI	2,146.00	5,704.10	1,728.52	417.48
May 90	Balal	CAL/Ror/CAI	3,366.00	6,040.10	1,830.33	1,535.67
	Montaz	CAL/AMD/CAI	8,101.00	5,202.00	1,576.36	6,524.64
	Maximous	Non air	400.00			400.00
Aug 90	Maxrous & Badawy	CAL/SEL/M NL/CAI	7,540.00	14,242.60	4315.94	3,224.06
Sept 90	Ezzat	CAL/MNL/C AI	3,346.00	4,599.90	1,393.91	1,952.09
Nov 90	Balal	CAL/KAC AI	2,610.00			
Aug 91	Maxrous	CAL/MNL/C AI	1,296.00	4,309.40	1,305.88	-9.88
Jun 1993	Balal	CAL/ROM/C AI	1,500.00			
		Totals	33,895.00	48,710.20	14,760.67	15,024.33

Conversion made a US\$ = LE 3.3

All related findings and comments by the auditor on FT800 are moot or insignificant due to the USAID's automatic credit to the project.

The charging was automatically corrected when USAID prepared and issued "voucher and schedule to effect correction of errors." USAID also credited back to the project the amount of US 24,984.76.

Trips of Dr. Balal in November 1990 to Indonesia and Malaysia and then to Rome in June 1993 were project-related trips and therefore, legitimate project billings.

D. Training

1. Food for 7th Rice Conference \$1,104

The supplies which are intended for project-related meetings and conferences were obtained from stalls in the open market that do not normally provide receipts. The list is enough support to document the payment voucher.

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

MANAGEMENT COMMENTS

2. International air travel. \$ 2,266

USAID automatically adjusted the project expenditure as mentioned in item C.3 above when donor issued a correcting voucher and actually crediting the project. No actual reimbursement was made to the project for the airfare. Expenses other than airfare are legitimate charges to the project. The finding needs to be adjusted similar to the others to account for airfare only. The adjustment would be:

a. Dr. Abdel Salam's trip to Manila was for his Post Doctoral fellowship and detail is as follows:

Airfare	LE4,145.30	US 1,256
Miscellaneous Expenses		<u>343</u>
Total		US 1,599

b. This pertains to Dr. El-Kady's return trip from Manila to Cairo which could not be charged to FT 800 because the ticket had to be purchased in Manila. Dr. Kady was on a dual-funded training/visiting scientist program. He initially left Cairo for a non-project related training program in Indonesia after which he proceeded directly to Los Baños as a visiting scientist to assist with the Winter Nursery among other things. The outbound ticket to Indonesia was paid for by an Indonesian donor. The project had to shoulder purchase of tickets for his travel from Indonesia to Los Baños and return to Cairo. It was not an LE expense and could not, therefore, be charged to FT-800. Furthermore, Egypt Air does not fly any portion of the normal routing between Indonesia and Manila and could not issue the ticket. The ticket cost is a legitimate project expense.

Moreover, there is no Amendment no. 3 as stated by the auditors and therefore, report should not reflect any reference to Amendment 3.

E. Field Supplies \$130,848

Auditor's findings should be adjusted to conform to the governing agreement signed by both parties per Amendment 1 signed on 31 January 1987. More importantly, to consider the letter of agreement signed in 1990 by Dr. Momtaz and Dr. Lampe. These are valid charges to the project and in accordance with the contract covering the period to 28 February 1991 which provide for complete facility management services for RRTC in Sakha including supplies and materials and within the letter of agreement which became the workign reference document all throughout the project. As stated previously, in response

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

MANAGEMENT COMMENTS

to auditor's cover letter on the background (item 1.2), the original MOU was immediately amended and the signing of this amendment actually preceded the signing of the original MOU. A copy of this amendment was forwarded to USAID with a cover letter to John Foti from Dr. Montaz 22 February 1987.

The actual document is titled, "Amendment Number 1 General Memorandum of Understanding" which was triggered off by USAID's comments and was written in response to USAID's expressed concerns on the original contract. This document is normally found attached to the letter of Commitment and was considered by IRRI to be part of the original contract since there can be no amendment without a mother contract to modify. It effectively became the working document for the first phase of the contract. The issue is further clarified and strongly supported by the Letter of Agreement signed in 1990.

Article I, section 5 of such amendment specifically states that,

"The following collaborative activities have been agreed to by the Ministry and IRRI:"

"To provide complete facility management services for Sakha Rice Research and Training Center."

Moreover, last sentence of the second paragraph under Article I states that,

"... IRRI shall also provide the necessary staff, supplies, and materials to perform the facility management function of the Sakha Center during the life of the project."

The field supplies purchased during the second phase under direct request from the GOE and with the Letter of Agreement (Exhibit G) as bases are further explained as follow:

a. April 1994, Furnishings: These were some tables needed to expand the meeting room facilities to accommodate larger meetings.

b. Nov 91-Aug 93, Office Supplies: These represented the necessary office supplies for managing the program. They were used by the secretarial staff working for the project at RRTC for direct support to the IRRI resident scientists. The office at RRTC was a fully integrated office for which it would be difficult to separate what was used exclusively by the IRRI team from the RRTC staff segregating them would run counter to its project objective of strengthening and continuing collaborative relationship as intended by the agreement between IRRI and Egypt.

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

MANAGEMENT COMMENTS

c. Clearing costs: These charges do not reflect customs taxes or duties but rather the normal cost for clearing materials from The Egyptian customs and are eligible project expenses. (See detailed explanation under Other Direct Cost G.4)

F. Equipment

1 The equipment purchases were done under direct requests from the Government of Egypt to the IRRJ Project Manager, and were all used directly for the integrated collaborative effort between IRRJ and Egypt in accordance with the budgeted line item for equipment. The reason for IRRJ being asked to pay for these items was that there were no counterpart funds available at the time, and the equipment and supplies were urgently needed for the continued operations of the Project. Each voucher, either cash or check, is supported by duly signed and approved request. This request form to purchase a particular item reflects signature of requesting RRTC scientists to the RRTC Director. The RRTC Director, in the person of Dr. Fawzi Naim Mahrous up until March 1993 when he became undersecretary for Extension after which it became Dr. Abdelaziz Tantawi Bedawi, would then sign the request and forward it to the IRRJ Project Manager for concurrence. The requests were initiated by an RRTC scientist, rather than an IRRJ resident scientist even when the IRRJ scientists would be the primary users, to ensure that administrative ownership in the project remains with RRTC and in order to prevent IRRJ scientist from losing contact with their RRTC colleagues.

The RRTC director's signature effectively makes the request from the GOE to IRRJ to obtain the particular item. The understood reason although not necessarily stated each time why IRRJ was being asked to purchase these items was lack of counterpart funds. Also, a 15 day notice was never provided as the expectation for the GOE side was that they should be covered by the Project. Under these circumstances a fifteen day written notice would have been a source of contention and antagonism that would adversely affect the project.

In addition, the decision to finally purchase these items was based on the Letter of Agreement (Exhibit G) signed by Dr. Montaz and Dr. Lampe "in order to develop a new, stronger and more collaborative scientific working relationship."

Additional justification per equipment or line item as they provided direct support to the IRRJ collaborative effort are:

a. Dec. 1991 Computer: This was directly used by the IRRJ Project

BEST AVAILABLE COPY

42

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

MANAGEMENT COMMENTS

officer for the duration of the second phase of the contract and thus used in direct support of the project by IRRJ resident scientists.

b. Feb. 1992 Two Printers: One printer was used by IRRJ Project director in conjunction with computer listed above, the second was used by Dr. Rao. Both were used in direct support of IRRJ resident scientists.

c. Mar. 1992 Air freight: Covers freight charges for the two printers mentioned in b.

d. June 1992 Electric heater: This was a heater sealer designed for sealing laminated pouches used for storing seed for medium term storage at ambient temperature and part of the effort to improve the genetic collection under the breeding program.

e. June 1992 Fax Machine: This was a fax machine installed in the Giza office. It was necessary as it became increasingly difficult to communicate internationally from Sakha until there was a major upgrading of the telephone lines in late 1993. Thus for most of the project it was necessary to relay faxes via the Cairo/Giza office, rather than direct to Sakha. This fax machine was, thus, essential in communicating with IRRJ Los Baños.

f. July 1992 Two Air Conditioners: These air conditioners were used for the IRRJ Giza offices. Two rooms on the second floor of the Rice Building at the ARC in Giza were set aside for the IRRJ resident scientist use when in Cairo on Sunday and Thursday. During the second phase of the contract when IRRJ scientist families were staying in Cairo, they had one working day per week in Cairo. These air conditioners were purchased for these offices and were thus in direct support of the IRRJ effort.

g. January 1993, Laser Printer: This laser printer was for use by the Project secretaries, Magda and Jehan at Sakha, who were providing the necessary secretarial support to the project. The unit replaced a previous printer that had exceeded its service life.

h. July 1993, Chlorophyll Meter: This is a scientific field instrument that was purchased from Japan in yen as the sole source and as such, could not really be charged to the project. It is used in support of Egypt collaboration in the IRRJ Mega Project on maximizing yields involving Dr. Ezzat in Sakha and Dr. Cassman in Los Baños. The instrument measures the chlorophyll in rice leaves and projects the result in terms of Nitrogen. It is, thus, used to determine when to apply additional nitrogen. Purchase of the item is known to USAID in which IRRJ received no objection to such purchase.

I- Gillespie's
letter of 11
April 1993

BEST AVAILABLE COPY

43

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

MANAGEMENT COMMENTS

h. Sept. 1993 Air Conditioner: This air conditioner was used for the tissue culture lab being established at Sakha to enhance the collaboration between Dr. Draz at Sakha and the Tissue culture work being done at IRRI. The lab was established after Dr. Draz spent an 8 month post doctorate fellowship working with the tissue culture program at IRRI with Dr. Zapata who subsequently visited Sakha and for whom the visa cost is included in an earlier finding. Tissue culture is a very climate and clean sensitive program that requires a clean room to operate and clean rooms must have a positive pressure air control system which this air conditioner provided. This was also the laboratory for which the laminar flow hood was purchased.

i. Nov. 1993. Water Pumps: The water pumps replaced the existing pumps no longer repairable in order to operate and provide pressure to the water system at the center. Non-purchase would prevent the toilets from operating, therefore, causing much discomfort to IRRI and RRTC staff.

k. Nov. 1993 Photocopy Machine and Typewriter: These were again provided to support the project effort and assure continued collaboration with IRRI after the project ended. They were replacements for equipment rapidly approaching the normal end of their respective service life.

l. Dec. 1993. Telephone Switch: In November the RRTC primary telephone switch was reported to have been broken with the repair cost nearly equaling the replacement cost. As the telephone was necessary for communication both within and outside RRTC, it was requested that it be replaced so additional extensions could be included to better service the RRTC compound. The switch served the IRRI resident scientists and all staff working on the project.

m. Dec. 1993. Gateway and Apple Computers: This was intended to strengthen the collaboration between RRTC and IRRI as agreed upon and provided for in Article I section B of the contract agreement agreeing to a continuing collaborative relationship. They were intended to upgrade both the clerical and scientific computer capacity at RRTC. The Gateway was needed to transfer the entire IRRI library card catalogue so the RRTC scientist could access the rice literature they would need and obtain it from IRRI under the normal no-charge IRRI policy of providing up to 50 pages of reprint photocopies.

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

MANAGEMENT COMMENTS

n. Feb. 1994, four vacuum cleaners: These were replacements for previous machines that were needed in the plant and soils labs where there can be major problems with dust associated with grinding soil and dry plant material in preparation for chemical analysis. The dust in these rooms can become a health hazard.

o. Feb. 1994 Diesel Engines: The diesel engines were used to replace worn out engines on all the portable trailer mounted threshers, as well as the two new threshers. These were actually ordered from outside Egypt and had to be paid in US dollars. These will be needed for the continuing collaboration between Egypt and IRRI.

p. May 1994, Grass Cutter: This was a replacement for the unit purchased in the first phase of the contract. It was used for maintaining the grounds around the RRTC as well as the paddy bunds prior to field days, etc.

q. May 1994, Refrigerator and Oven: These were laboratory items used for storing or drying samples for chemical analysis, etc. and intended for the continuing collaboration between IRRI and Egypt.

r. June-Sept. 1994, Laser Printers: These were intended to accompany the two computers. Gateway and Apple purchased earlier in the year. There was a delay in the delivery and did not arrive until after the Project formally closed.

G. Other Direct Costs

1. Hourly help: US\$1,566

All charges including those incurred in November 1991 and March 1993 refer to hourly charges paid to laborers at IRRI in Los Baños, Philippines. Thus, these are Peso-denominated expenses (not LE expenses) eligible for Project funding. Most of the time during the project there was at least 1 post doctorate fellow at IRRI responsible for managing the Winter Nursery, which require hourly assistance. This is also in accordance with the Letter of Agreement of 1990 (Exhibit G).

2. Renovation costs

The payments, including March 91 (US\$56) which is just a delayed billing, are covered by the initial amendment when IRRI had responsibility for Facilities Management of the RRTC. The July 1992 and June-Sept. were made by direct requests from the GOE due to lack of counterpart funding and in accordance with the Letter of Agreement of 1990 which provides under the topic of "Field Operations" for repairs and maintenance of billings and equipment excluding major renovation and new constructions.

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

MANAGEMENT COMMENTS

3 & 5. Vehicle Renewal and Repair and Maintenance.

These are covered by Amendment I and further supported by the Letter of Agreement (Exhibit G) of 1990 which specifically mentioned in "Other Direct Cost," repair and maintenance of vehicle among other items. All vehicles were used in the project and in direct support of IRRJ personnel.

In addition, while licensing cost represents a fee to the GOE, it was not one in which exemptions were possible to obtain. Thus, the Project had to advance the money as there were no counterpart funding available. As these were not part of the intended provisions on the reimbursables from the GOE, these costs are eligible project expenses in accordance with the Letter of Agreement (Exhibit G).

4. Clearing cost

There were no customs or duties ever paid during the life of the Project and great care was taken to obtain duty free imports. There was a Customs committee that visited ARC periodically for the purpose of reviewing the import of goods for all projects. The committee meets with the various project expeditors and processed all the clearing documents. It was a somewhat time consuming process. The Project expeditor faithfully attended these committee meeting as needed to clear incoming shipments, and annual renewal goods such as personal cars and household effects on temporary released from custom. The charges contained in the various clearing vouchers represent the eligible cost of clearing shipments and none of the charges represented custom taxes or duties. The charges would include major cost of hiring a private expeditor, storage cost while waiting customs committee approval for duty free imports and shipping cost from port to final destinations. Minor costs would be various parking and access fees, document fees etc. With the Letter of Agreement (Exhibit G) as reference, clearance charges (under Other Direct Costs) were considered chargeable to the project.

And to reiterate, the above explanation covers the following audit findings:

Other direct cost (G.4): Customs Charges Clearance Cost	\$7,942.00
Field Supplies (E.h): Customs Charges, Clearance Cost	54.00
Equipment (F.2): Customs Charges, Clearance Cost	1,051.00
Transportation (H.1): Customs Charges, Clearance cost	<u>1,192.00</u>
Total	\$12,239.00

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

MANAGEMENT COMMENTS

6. Telex and Utilities

These charges are covered by the initial amendment to the contract specifying that IRRI provides complete facilities management services to the RRTC and further supported by the Letter of Agreement (Exhibit G) under Other Direct Costs. Further justifications for the charging to the project are as follows:

- a. Telex charges were primarily used in communicating with IRRI for direct project support or other project needs. The telex was eventually replaced by the email system and phased out during 1992, at which point the charges stopped.
- b. Telephone charges were also in direct project support. There were three lines serving Sakha. One a direct line (323-614) serving the RRTC director and IRRI Project Manager Office, one dedicated to the fax machine in the RRTC Director office (325-099) and the main switch (323-683). Given the quality of the lines, all three were really essential to maintain reasonable reliable communication. In addition, two lines were maintained in Giza for Dr. Balal's office and Sunday use by IRRI staff. These were 736-760 as the phone line, and 620-970 as the fax line. As much of Dr. Balal's works were in direct support of the Project and the fax had to be used to relay incoming fax messages, both Giza lines and all five phone lines were essential for supporting the Project and be eligible project charges.

7. Excess baggage

IRRI normally expects all its travelling staff to serve as couriers to the outreach locators. Thus, more often than not when an individual is returning from Los Banos they will be asked to carry what ever could be transported. The excess baggage was normally cheaper than paying air freight with associated clearing cost, etc. The October 1991 time frame would appear to be the project manager's (R. Tinsley) return from the outreach meeting held in September. At that time he was asked to bring a large number of publications for distribution to the RRTC scientist and general distribution in Egypt. Finally, the shipping costs of goods and project-related materials to and from Egypt is spelled out in the Letter of Agreement (Exhibit G).

8. Labor for repairing the greenhouse wiring.

This represents labor for replacing the manual timers that were based on 60 cys current and thus were operating at only 3/6 the speed needed, requiring daily adjustments to make certain the lights came on at the right time in the evening, with electronic timer independent

BEST AVAILABLE COPY

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

MANAGEMENT COMMENTS

of electric cycles. The installation required someone more skillful than the RRTC direct hired repair technician. We, thus, contracted for a equipment service person from Alexandria to come and make the installation. This is one of several tasks we undertook to adjust equipment from the previous USAID project to something more suitable to conditions in Egypt. Also, repairs and maintenance of equipment are covered under the Letter of Agreement (Exhibit G)

9 Repair and Maintenance

Amendment No. 1 and the 1990 Letter of Agreement were the bases for all repairs and maintenance charges aside from the purpose and intention of having a smooth operation of the project and stronger collaborative relationship in rice research projects with IRRI.

10 General Procurement

These purchases were made in accordance with the initial amendment under which IRRI would provide complete facility management to the RRTC and with the Letter of Agreement (Exhibit G) in addition to the direct requests from the Director of the RRTC as indicated by the request form attached to each individual voucher. The request was due to lack of counterpart funding being available at that time.

11 Sales tax

US\$65

All reasonable efforts were made to obtain sales tax exemptions. We submitted to USAID a list of suppliers and processed the necessary documents, etc. We also provide suppliers with letters stipulating our tax free status (see enclosed samples). However, sales taxes are rather new to Egypt, and exemptions not very common. Thus, while our regular suppliers of goods and services were willing to grant sales tax exemptions, many one time suppliers were reluctant. Considering that these are also sole source suppliers, there is no choice but to pay the sales tax. As there was no mechanism to get this reimbursed by the GOE, it should be accepted as a project expense.

12. Transportation.

The items enumerated under this heading by the auditors are charges within the Letter of Agreement (Exhibit G) under which these expenses were made. Additional explanations are:

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152

DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994

MANAGEMENT COMMENTS

1. Customs fee, and duties

These charges are not customs fees and duties but represent the mechanics normal cost of clearing as explained under Finding G.4.

2. Excess Baggage

This was according to IRRI's normal habit/procedures of utilizing traveling scientist as couriers, whenever possible, to be able to send goods and materials necessary to the project to and from the Philippines (see details under G.7).

I. Winter Nursery

This represents charges for the 15 kgs of rice seeds hand carried by Dr. El-Kady for the winter nursery directly to IRRI necessary to hand carry in order not to get delayed with clearing time that would delay the planting. The expense is also covered within the Letter of Agreement (Exhibit G).

2. FT-800 travel

This was a Indonesian rupee charge arranged by the IRRI office in Jakarta as Dr. El-Kady was proceeding directly from a non-project funded short training course in Indonesia to Los Banos. Also Egypt Air did not fly any segments of the travel and thus the ticket could not be issued by Egypt Air. (See FT-800 Finding C.3)

BEST AVAILABLE COPY

**FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
LETTER OF COMMITMENT NUMBER 263-0152-02
AND MANAGED BY THE INTERNATIONAL RICE RESEARCH INSTITUTE
UNDER THE USAID/EGYPT PROJECT NUMBER 263-0152**

**DURING THE PERIOD FROM
JULY 1, 1989 THROUGH SEPTEMBER 30, 1994**

INDEPENDENT ACCOUNTANTS RESPONSE

The International Rice Research Institute ("IRRI") management provided comments relating to the draft report presented at the exit conference on October 24, 1996. IRRI's comments are included, unedited, in Appendix A to this report. In response to their comments, we have reviewed additional supporting documents provided by IRRI's management. Please note that the finding references used below correspond to those used in our draft and final reports.

TRANSMITTAL LETTER

Background

With regard to the Background section of our letter, we have modified the points as requested by IRRI management except for paragraph 3. IRRI quoted the background information from the General Memorandum of Understanding, Amendment 1, dated January 31, 1987. We quoted from the signed and dated contract and amendments we were given by USAID/Egypt and Dr. Tinsley, the IRRI contact person assigned to us in this audit. We relied on the Memorandum of Understanding when a point in the Contract and amendments thereto require additional clarification. When a point mentioned in both the contract and amendments as well as the Memorandum of Understanding seemed to be in direct conflict, we followed the contract and amendments.

The criteria we used in determining IRRI's role at Sakha is explained below under Field Supplies.

The discrepancy here highlights the point we mentioned in Note 1 of our report relating to the inconsistencies in the agreements.

Status of Prior Audit Findings

As we were asked not to submit either an Internal Control or a Compliance Report because the IRRI project is now complete and no further funding from USAID/Egypt is expected, additional comments related to these points will be contained in a Management Letter which will be submitted along with the final report.

REPORT OF INDEPENDENT ACCOUNTANTS**Basis of Accounting**

Project costs were billed to USAID/Egypt on the basis of cash disbursements. Accordingly, the fund accountability statement has been prepared on the basis of cash disbursements.

Other Direct Costs

IRRI states that the expenditures for Other Direct Costs incurred through August, 1990, as approved to be included in the budget included in Amendment 2 match the IRRI billing to USAID/Egypt in August, 1990. IRRI calculated the billing totals and matched them to the budget the same way that we did with one exception. In the IRRI reconciliation IRRI excluded an expenditure for equipment for \$ 9,553 from the billings they submitted to USAID/Egypt, but without an explanation as to why this was done.

It should be noted that IRRI's response contained a typing error: \$ 47,751 should be \$ 347,751 and \$ 6,326 should be \$ 86,326.

Amendment 3

Although we have removed the mention of Amendment 3 in our report which was as follows:

"In addition, Amendment 3 to the Contract, dated April, 1994, included only six budget line items rather than the twelve budget line items included in the original Contract. These budget line items did not match the budget line items used in the billings to USAID/Egypt."

It should be noted that we were provided with the USAID/Egypt concurrence contained in the Letter of Commitment dated April 2, 1987 for the original Contract between the Ministry and IRRI. We audited based on the assumption that the agreement documents that were provided to us from USAID/Egypt were approved.

Agreements

IRRI management relies on the quote "IRRI shall provide the necessary staff supplies and materials..." to support their justification for omitting questioned costs. See our comments above under "Background" to explain our position.

IRRI management stated that the Letter of Agreement signed on March 19, 1990 has been "the working reference document during the entire life of the project." The Letter of Agreement discusses the contents of the budget line items for the project. We understand that the contents included therein are for the project as a whole-both IRRI share and the GOE share. Amendment 2, page 3, dated April 28, 1991, states, "IRRI will not be directly responsible for the field operation and facilities management of RRTC at Sakha. However, IRRI will provide laboratory and research supplies and equipment as stipulated in the budget..." It further states that "the operation (including field supplies, labor and equipment) and management of RRTC will be the direct responsibility of MOA/ARC designated personnel with funds provided by ARC."

The misclarification of the intent of all the parties involved, especially related to USAID/Egypt's concurrence, in the agreements is apparent.

Questioned Costs by Budget Line Item

Expatriate Staff Salaries

1. We have removed this finding from our report.
2. This finding was added to the final report for the reasons explained in the transmittal letter.

Local Staff Salaries

The two findings for local staff salaries were added to the final report for the reasons explained in the transmittal letter.

Fringe Benefits

1. This questioned cost remains questioned for the reason stated in the report. Cost that are unallowable for USAID/Egypt reimbursement, but are otherwise payable by the project should have been paid by the RRTC.
2. This finding was added to the final report for the reasons explained in the transmittal letter.

Travel and Per diem

1. This questioned cost remains questioned for the reason stated in the report.
2. As all costs were incurred in or prior to May, 1990, we relied on the original contact which states that IRRI is responsible for facilities management at Sakha. Although that terminology is vague, this questioned cost remains questioned as we still maintain that per diems were paid to non-project staff without any explanation as to the purpose of travel and why they were paid by IRRI.
3. As IRRI did not provide any supporting documents to support their breakdown of travel costs into their air fare and other expense categories, the questioned costs remains unchanged. Additionally, the difference column totalling \$ 15,024.33 contains quite large amounts to be per diem or other travel costs.

IRRI did not provide us with a copy of the "Voucher and schedule to effect correction of errors"; therefore, we cannot verify that USAID/Egypt is cognizant of the errors made on the project billings related to Egyptian air tickets that should have been charged to the FT-800 account. The project billings, as officially submitted by IRRI to USAID/Egypt, were incorrect as of the date of this audit. Therefore, the questioned cost related to the Egyptian air tickets is unchanged.

4. This finding was added to the final report for the reasons explained in the transmittal letter.

Training

1. According to the General Provisions attached to the Contract, Page 8, "Audit and Records", "the Contractor shall maintain...documents...sufficient to reflect properly all transactions under or in connection with the Contract." We do not consider internally prepared documents alone to be sufficient to charge costs to USAID/Egypt. Consequently, the questioned cost is unchanged.
2.
 - a. As IRRI did not provide any supporting documents to support their breakdown of travel costs into their air fare and other expense categories, the questioned costs remains unchanged.
 - b. IRRI also did not provide any evidence to support their claim, consequently, the questioned costs remains unchanged.

For our response related to the "Voucher and schedule to effect correction of error", see above under Travel and per diem, #3.

We referred to the IRRI contract, amendment 3 several times as we were provided with a copy of the amendment by USAID/Egypt and Dr. Tinsley, the IRRI contact person for the audit, which was signed on April 21, 1994 by a Ministry representative and on April 24, 1994 by an IRRI representative.

Field Supplies

IRRI quotes "Article I, Section 5" of amendment 1 which is actually from the original agreement and amendment 1 deletes Section 5 entirely. Moreover, the original agreement reads, "coordinate" complete facilities management..., not "provide" complete facilities management... IRRI also quotes, Article I of amendment 1, the last sentence of the second paragraph, which is actually from the original agreement, the last sentence of the second paragraph. Moreover, the original agreement reads, IRRI shall also "help coordinate", not IRRI shall also "provide." Further, the same paragraph was completely changed in the version of Amendment 1 that was provided to us.

It appears that IRRI has several versions of the agreements and those other than the final versions were provided to the auditors. Given, the contradictions present in the agreements and understanding, the disposition of the questioned costs, especially, related to field supplies, is deferred to USAID/Egypt. According to the agreements in our possession the Amendment 1 was signed on February 28, 1991, should field supplies provided for Sakha be allowed for reimbursement, only those purchased between February 23, 1987 (the signing of the original agreement) and February 28, 1991.

Note that IRRI used a. when referring to b. in our draft report the incorrect sequencing continued.

1.
 - a. Should USAID/Egypt conclude that IRRI was responsible for all facilities management prior to February 28, 1991, then this cost may be allowable.
 - b. Should USAID/Egypt conclude that IRRI was responsible for all facilities management prior to February 28, 1991, then part of this cost may be

allowable. For the cost incurred in February, 1994, the questioned cost is unchanged for the reason stated in our report.

- c. Should USAID/Egypt conclude that IRRI was responsible for all facilities management prior to February 28, 1991, then part of this cost may be allowable. For the cost incurred in November, 1991 and after, the questioned costs are unchanged for the reason stated in our report.
 - d. Should USAID/Egypt conclude that IRRI was responsible for all facilities management prior to February 28, 1991, then this cost may be allowable.
 - e. The questioned costs are unchanged for the reason stated in our report.
 - f. Should USAID/Egypt conclude that IRRI was responsible for all facilities management prior to February 28, 1991, then this cost may be allowable.
 - g. Should USAID/Egypt conclude that IRRI was responsible for all facilities management prior to February 28, 1991, then this cost may be allowable.
 - h. The General Memorandum of Understanding, Article III, Point 5, makes very clear the party responsible for clearing equipment through Egyptian customs by stating, "...the Ministry will be responsible for the clearance of equipment supplied by IRRI." Accordingly, the questioned costs are unchanged.
 - i. Should USAID/Egypt conclude that IRRI was responsible for all facilities management prior to February 28, 1991, then this cost may be allowable.
2. IRRI did not respond to the questioned costs noted under this finding. The questioned cost are unchanged.

Equipment

1. We questioned items purchased which were not apparently related to the field work done in Sakha. IRRI's comments have not shown that USAID/Egypt was cognizant and in agreement of informal changes to the formal agreements made between IRRI and the GOE. We agree to remove a few items (electric heater, chlorophyll meter, refrigerator and oven) based on IRRI's explanations that seem to be related directly to field work. Conversely, the remaining questioned cost remains unchanged for the reasons stated in our report.
2. The General Memorandum of Understanding, Article III, Point 5, makes very clear the party responsible for clearing equipment through Egyptian customs by stating, "...the Ministry will be responsible for the clearance of equipment supplied by IRRI." Accordingly, the questioned costs are unchanged.
3. This finding was added to the final report for the reasons explained in the transmittal letter.

Other direct costs

1. IRRI did not provide supporting documents to prove that these costs were incurred in Los Banos. Additionally, IRRI did not provide a reference to the project agreements that would justify these expenses being incurred in Los Banos to benefit the Egypt project. Accordingly, this questioned cost is unchanged for the reasons stated in our report.
2. Should USAID/Egypt conclude that IRRI was responsible for all facilities management prior to February 28, 1991, then this cost may be allowable. For the cost incurred from March, 1991 and forward, the questioned cost is unchanged for the reason stated in our report.
3. The questioned costs are unchanged for the reason stated in our report.
4. The General Memorandum of Understanding, Article III, Point 5, makes very clear the party responsible for clearing equipment through Egyptian customs by stating, "...the Ministry will be responsible for the clearance of equipment supplied by IRRI." Accordingly, the questioned costs are unchanged.
5. The questioned costs are unchanged for the reason stated in our report.
6. Should USAID/Egypt accept to allow some facilities costs at Sakha for the period February 23, 1987 (the signing of the original agreement) and February 28, 1991, this cost could be allowed provided that IRRI had a rational allocation basis for allocating costs of the RRTC Headquarter building to the project. Charges for telex and utilities were for the entire RRTC facility, we could not verify allocability to the project.
7. The details supporting our finding indicate that the excess baggage charges were paid for Dr. Mahrous, not Dr. Tinsley. Accordingly, the explanation provided in IRRI comments does not answer this questioned cost. The questioned cost is unchanged for the reason stated in our report.
8. The questioned costs are unchanged for the reason stated in our report.
9. Should USAID/Egypt conclude that IRRI was responsible for all facilities management prior to February 28, 1991, then this cost may be allowable, although, we still contend that maintenance costs were not budgeted for in any case. For the cost incurred from March, 1991 and forward, the questioned cost is unchanged for the reason stated in our report.
10. Should USAID/Egypt conclude that IRRI was responsible for all facilities management prior to February 28, 1991, then this cost may be allowable. For the cost incurred from March, 1991 and forward, the questioned cost is unchanged for the reason stated in our report.
11. Should tax exemptions be difficult or impractical to obtain then such taxes assessed by the GOE should be reimbursed from GOE funds, not billed to the U.S. Government. For this reason, this cost remains questioned.

55

12. This finding was added to the final report for the reasons explained in the transmittal letter.

Transportation

1. The General Memorandum of Understanding, Article III, Point 5, makes very clear the party responsible for clearing equipment through Egyptian customs by stating, "...the Ministry will be responsible for the clearance of equipment supplied by IRRI." Accordingly, the questioned costs are unchanged.
2. The details supporting our finding indicate that the excess baggage charges were paid for transport of personal items. Accordingly, the explanation provided in IRRI comments does not answer this questioned cost. The questioned cost is unchanged for the reason stated in our report.
3. This finding was added to the final report for the reasons explained in the transmittal letter.

Winter Nursery

1. We do not have evidence to contradict IRRI's explanation of this questioned cost; therefore, we will remove this questioned cost from our report.
2. IRRI also did not provide any evidence to support their claim, consequently, the questioned costs remains unchanged.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

February 19, 1997

M E M O R A N D U M

19 FEB 1997

TO: Lou Mundy, RIG/A/C
FROM: Shirley A. Hunter, OD/FM/FA
SUBJECT: Financial Audit of the International Rice Research Institute, Resources Provided Through Letter of Commitment No. 263-0152-02 (USAID/Egypt project No. 263-0152)
Draft Report dated January 15, 1997

Following is the Mission's response to Recommendation No. 1 under the subject draft report.

Based on the Mission's preliminary review, of the \$498,366 questioned, \$114,230 is allowed; \$187,754 is sustained; and \$196,382 is unsupported pending submission of further justification/documentation by IRRI and the GOE. The recommendation however, remains unresolved until final determination is made.

The following is the Mission Action-Plan to resolve the questioned costs:

1) Ineligible costs

a. Allowable costs:

International Air Tickets

Finding Nos. D.3., E.2. & J.2., representing payments for the International Air Tickets in the total amount of \$36,451:

Based on the letter from MIC dated November 16, 1988, it was stated that any travel expenses whether for project, non-project, or for training purposes to be financed through AID program in Egypt, should be financed only through FT-800 account (attachment c). Accordingly, on December 27, 1989 Mission established an obligation to pay for IRRI's international travel from the FT-800 account. Subsequently, to effect the correction in the accounting system, on March 19, 1992, Mission made a correction entry to transfer IRRI's billed expenditures from the dollar appropriated funds to the FT-800 account, (See attachment a).

51

Mission believes that such costs are allowable based on the Ministry of International Cooperation, letter dated November 16, 1988.

Travel costs other than air fare, are eligible for project expenses since they were not incurred in local currency.

Field Supplies

The amount of \$69,486 represents costs of different items.

Mission believes that in accordance with Memorandum of Understanding dated January 31, 1987, it was stated that IRRI will be responsible for the Sakha Rice Research and Training Center facilities, (see attachment c). Therefore out of the questioned amount of \$130,848, only \$69,486 is allowed. The unallowable costs of \$61,362 are detailed under section 2, Unallowable Costs.

Equipment:

Finding G.2., Customs charges, clearance costs and other taxes for \$3,051. The amount represents clearance costs only as reflected in the auditors break-down, and confirmed by IRRI. Therefore, amount is allowable.

Other Direct costs:

Finding No. H.1., Cost of labor for \$1,566. Mission believes that in accordance with Memorandum of Understanding dated January 31, 1987, it was stated that IRRI will be responsible for the Sakha Rice Research and Training Center facilities, (see attachment c).

Finding No. H.2., Renovation costs for \$1,791. Same as item H.1. above.

Finding No. H.7., Excess Baggage for \$618. IRRI responded that the excess baggage was for project-related equipment and materials. Project Officer agreed to IRRI's response and provided his approval.

Finding No. H.8., Casual Labor for \$75. Same as item H.1. above.

Transportation

Finding No. I.2., Excess baggage for \$1,192. Same as finding H.7.

Accordingly, \$114,230 is allowed.

56

b. Unallowable costs:

Fringe Benefits

Finding No. C.1., Fringe benefits for \$3,465.

The amount represents payments for the employers' share of social insurance for IRRI's local employees.

Mission believes that this is unallowable costs based the Fourth Amendment to the Project Grant Agreement which stated that such costs should be paid by the GOE, (see attachment b).

Travel and Per diem

Finding No. D.1., Travel and Per Diem for \$82:

The amount represents payment for Egyptian visas for IRRI expatriate employees. The letter of agreement dated on May 27, 1991, did not include such costs under the Travel and Per Diem line item. Should the contractor pay any such amounts, such payments shall be reimbursable under this contract in LE by the Contracting Agency. Therefore, Mission believes that such costs is un-allowable and should have been charged to the GOE in-kind contribution.

Finding No. D.2., Travel and Per Diem for \$2,795. The amount represents per diem payments for staff which were not employed by the project. IRRI is required to submit justification/documentation in support of such costs.

Field Supplies:

The amount of \$61,362 represents field supplies for the different items listed below. In accordance with the letter of agreement between MOA/IRRI, the following field operation items are not allowable:

Finding No. f.e., for Vehicles license renewal fees and traffic fines for RRTC vehicles in Sakha, Kafr El Shiekh for \$3,993;

Finding No. f.g.

- Trees, shrubs and ornamental flowers for RRTC for \$230;
- Wood Boxes for \$276;
- Cost for manufacturing two wood doors for \$196;
- Cost of painting 40 wooden boxes for \$108;
- Garden Supplies for \$168;
- Grass cutter for \$612; and
- Renovation costs for \$1,595;

IRRI is required to provide justification for incurring such costs for Mission review and final determination.

Finding No. f.i., Repair and maintenance for items that were not used by the project for \$1,400. Same as f.g. above.

Finding No. f.j., Utility fees for \$17,083. IRRI is required to provide the Mission with the method of allocation for such costs since IRRI did not occupy the entire building;

Finding No. f.k., Repair and maintenance for \$35,701. IRRI is required to submit evidence that such costs were incurred for project used or owned vehicles; and

Equipment

Finding No. G.1., Equipment for \$41,655.

USAID prior approval of procurement is required for any major equipment procurement (Article X in the contract amendment No.1). Such items are subject to the review and approval of the Project Officer.

Other Direct Costs:

Finding No. H.3., Vehicle license renewal fees for RRTC vehicles Sakha, Kafr El-Shiekh for \$3,445. Such expense is un-allowable.

Finding No. H.4., Customs charges, clearance costs and other taxes for \$7,942. The audit report indicated that such costs cover for customs charges, clearance costs and other taxes, however, only customs costs were identified in the report. Therefore, IRRI is required to submit the supporting documentation for Mission review and final determination.

Finding No. H.5., Repair and maintenance for vehicles that were not project-owned for \$16,264. IRRI is required to submit evidence that such costs were incurred for project used or owned vehicles.

Finding No. H.6., Utility costs for \$18,734. IRRI is required to provide the Mission with the method of allocation for such costs since IRRI did not occupy the entire building.

Finding No. H.9., Repair and maintenance costs for \$19,078 for items which were not procured with project funds. IRRI is required to provide justification for incurring such costs to enable the Mission make a determination regarding the allowability of such costs.

Finding No. H.10., Costs for procuring items that were not allowed under the contract for \$11,548. Same as item H.9.

Finding No. H.11., Payments for sales taxes for \$65. Same as item d.1.

Finding No. I.1., Customs charges for \$1,319. Same as H.4. above.

Therefore, \$187,754 is sustained.

2) Un-supported costs:

The un-supported costs for \$196,382 consists of the following:

- The amount of \$187,504 which represents the expenditures incurred in Los Banos, Philippines;
- The amount of \$8,878 which represents the expenditures incurred in both sites, Los Banos and Cairo office.

In accordance with the contract general provisions article 9., "Audit and Records", the contractor shall be required to maintain books, records, documents during the Contract term and for a period of three years after the final payment and that all records shall be subject to inspection and audit by the Contracting Agency, the U.S. Comptroller General and/ or A.I.D. or their reasonable times.

Therefore, the un-supported costs are sustained pending submission of the documentation in support of the total amount questioned of \$196,382 for Mission review and final determination.

Mission will continue to work with IRRI and the Host Government until final determination is made. Based on the above please issue the final report.

Atta