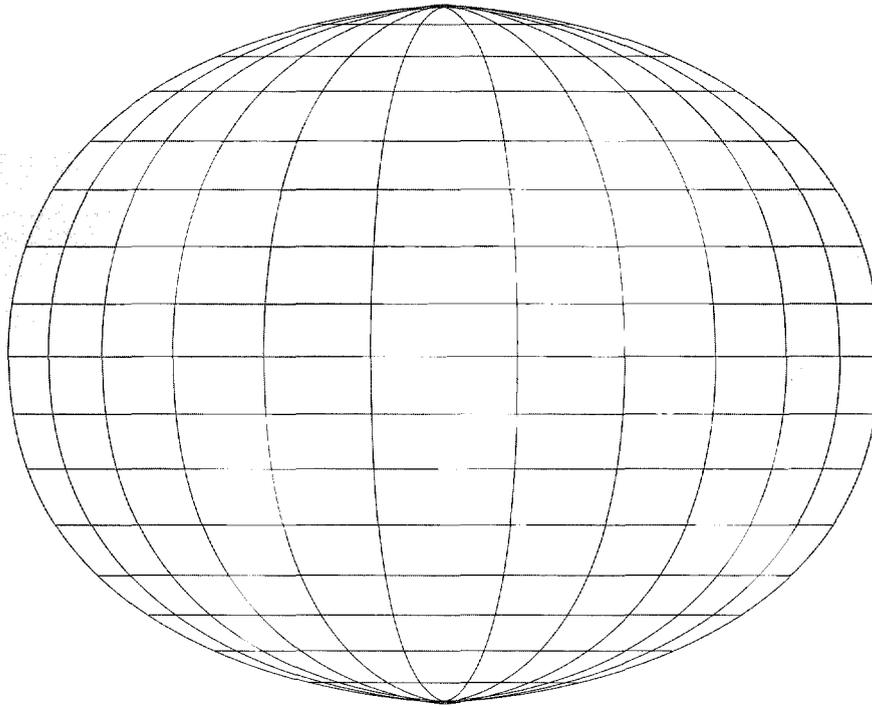


Report of Audit

**Financial Audit of the Egyptian Center
for Economic Studies for the Period
January 1, 1996 to December 31, 1996
(USAID/Egypt Project No. 263-0230)**

**Report No. 6-263-97-035-N
August 26, 1997**



FINANCIAL INFORMATION CONTAINED
IN THIS REPORT MAY BE PRIVILEGED.
THE RESTRICTION OF 18 US 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

August 26, 1997

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley

FROM: RIG/A/C, Lou Mundy *J. Rollins for*

SUBJECT: Financial Audit of the Egyptian Center for Economic Studies
(USAID/Egypt Project Number 263-0230)

The attached report, transmitted on July 28, 1997, by Price Waterhouse, presents the results of a financial audit of the Egyptian Center for Economic Studies (Center), under Cooperative Agreement No. 263-0230-A-00-3104-00 of USAID/Egypt's Grant Agreement No. 263-0230. The purpose of the cooperative agreement was to support the development of the Center in order to establish an institutional mechanism and analytical capability for researching policy options and fostering dialogue on important economic and regulatory policy issues in Egypt.

We engaged Price Waterhouse to perform a financial audit of the Center's incurred expenditures of \$884,756 (equivalent to LE 2,999,323*) for the period January 1, 1996 through December 31, 1996. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Price Waterhouse also evaluated the Center's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement.

* \$1 = LE 3.39 (Egyptian Pounds)

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A

The audit report questions \$13,571 (equivalent to LE 46,007) of social insurance costs which were reimbursed by USAID/Egypt but should have been charged to the Government of Egypt's (GOE) local currency special account jointly programmed by the GOE and the Mission. The auditors did not note any instances of material internal control weaknesses nor any instances of material noncompliance with applicable laws, regulations and agreement terms.

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

Recommendation No. 1: We recommend that USAID/Egypt make a management decision on questioned (ineligible) costs of \$13,571 detailed on page 8 of the Price Waterhouse audit report, and recover from the Government of Egypt the amounts determined to be unallowable.

In resolving the questioned costs issue, it was noted that the practice of mischarging social insurance costs extended three months before the audited period. Thus the total amount mischarged was determined to be \$15,817 vice the \$13,571 questioned in the audit. Center officials requested and, on May 7, 1997, received USAID/Egypt's approval to refund from the local currency special account the \$15,817 mischarged. Subsequently, the Mission requested the GOE's approval to use the local currency special account to reimburse the questioned costs to the project. On August 18, 1997, the Mission provided us documentation showing the adjustment between accounts to recover the \$15,817 had been made. Therefore, we consider that Recommendation No. 1 is closed upon issuance of this report.

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

B

EGYPTIAN CENTER FOR ECONOMIC STUDIES
COOPERATIVE AGREEMENT NO. 263-0230-A-00-3104-00
UNDER USAID/EGYPT
GRANT AGREEMENT NO. 263-0230
FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION
FOR THE PERIOD
JANUARY 1, 1996 THROUGH DECEMBER 31, 1996

EGYPTIAN CENTER FOR ECONOMIC STUDIES
COOPERATIVE AGREEMENT NO. 263-0230-A-00-3104-00
UNDER USAID/EGYPT
GRANT AGREEMENT NO. 263-0230

FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION
FOR THE PERIOD
JANUARY 1, 1996 THROUGH DECEMBER 31, 1996

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July 28, 1997

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

This report presents the results of our financial related audit of project revenues received and costs incurred by the Egyptian Center for Economic Studies ("ECES"). The audit population includes revenues received and costs incurred by ECES under Cooperative Agreement No. 263-0230-A-00-3104-00 ("Cooperative Agreement") of the United States Agency for International Development/Egypt ("USAID/Egypt") Grant Agreement No. 263-0230 ("Grant Agreement") for the period January 1, 1996 through December 31, 1996.

Background:

The Egyptian Center for Economic Studies is a not-for-profit, private research institution, established formally in January 1992 through registry with the Ministry of Social Affairs and Cairo Governorate, in accordance with Government of Egypt (GOE) Law No. 32 of 1964.

ECES is a "Think Tank" whose objectives are to provide policy-makers with results of applied economic policy research to support the policy formulation process; foster an active dialogue between policy makers and private sector institutions; strengthen the capacity of government institutions for policy analysis; promote applied economic policy research and the advancement of the science of economics, finance and management; and promote public understanding of economic development issues and encourage active participation in the economic process.

ECES receives no funding from the GOE. Although ECES receives contributions from private sources, virtually all operational funding is currently received from USAID/Egypt. USAID/Egypt and the GOE entered into a Grant Agreement on August 10, 1993. The Grant Agreement provided funding of \$8.5 million over a 5 year period to support the ECES project. A Cooperative Agreement was executed September 23, 1993 and serves as a grant agreement funding vehicle to ECES. Amendment No. 3 to the Cooperative Agreement budgeted \$7,512,342 of funds to ECES during the period September 23, 1993 to March 31, 1998; \$4,512,342 of this amount was obligated to ECES during the period January 1, 1993 through October 31, 1997.

Prior to the expiration of the Grant and Cooperative Agreements, ECES will commence a significant fund raising campaign. After the expiration of the Agreements, it is envisioned that ECES will be fully operational and financially sustainable.

Audit Objectives and Scope

The objective of this engagement was to perform a financial related audit of USAID/Egypt resources managed by ECES under the Cooperative Agreement of the Grant Agreement for the period January 1, 1996 through December 31, 1996 (the "audit period"). Specific objectives were to perform and determine the following:

1. Express an opinion on whether the fund accountability statement for ECES presents fairly, in all material respects, project revenues received and costs incurred during the audit period in conformity with generally accepted accounting principles or another comprehensive basis of accounting, including the cash receipts and disbursements basis and modifications of the cash basis;
2. Determine if the costs reported as incurred by ECES are in fact allowable, allocable, and reasonable in accordance with the terms of the Cooperative Agreement;
3. Evaluate and obtain a sufficient understanding of the internal control structure of ECES, assess control risk, and identify reportable conditions, including material internal control weaknesses;
4. Perform tests to determine whether ECES complied, in all material respects, with applicable laws and regulations and the terms of the Grant and Cooperative agreements; and
5. Determine if ECES has taken corrective action on prior audit recommendations.

Preliminary planning and review procedures began in February 1997. These procedures consisted of discussions with personnel from the office of the Regional Inspector General for Audit in Cairo and ECES management. Audit fieldwork commenced in April 1997 and was completed in May 1997.

The scope of our audit included a population of \$795,731 or LE 2,697,528 of revenues received and \$884,756 or LE 2,999,323 of expenditures incurred during the audit period. On a judgmental basis, we selected and tested project costs incurred of \$183,455 or LE 621,912 (21%). We also tested \$795,731 or LE 2,697,528 (100%) of USAID/Egypt revenues received during the audit period.

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

1. Testing project costs funded by USAID Egypt for allowability, allocability, reasonableness, and proper support.
2. Reviewing ECES accounting records to determine whether costs incurred and reimbursements received were properly recorded.
3. Establishing the adequacy of ECES control procedures to safeguard project funds assets.
4. Determining that salary rates were reasonable, in accordance with those approved by USAID/Egypt, and supported by appropriate payroll records.
5. Determining that sound commercial practices were used, reasonable prices were obtained, and adequate controls exist on quantities received and the quality thereof, in the procurement of goods and services.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program that requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

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

Results of Audit

Fund accountability statement

Our audit procedures identified \$13,571 or LE 46,007 of ineligible project costs. No unsupported project costs were identified. The fund accountability statement, as incurred in Egyptian Pounds, is included as a supplemental schedule to this report.

Internal control structure

Our audit procedures identified no reportable conditions in the internal control structure of ECES.

Compliance with laws, regulations, contracts and grants

Our audit procedures identified no instances of noncompliance that are required to be reported in accordance with GAS.

Follow up on prior audit recommendations

We reviewed ECES' prior audit report dated May 20, 1996, covering the period October 1, 1994 through December 31, 1995 (the "prior audit"). The prior audit contained no internal control structure findings and no compliance findings.

Management Comments

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

Mission Response

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

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

Price Waterhouse

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

July 28, 1997

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

We have audited the fund accountability statement of project revenues received and costs incurred by the Egyptian Center for Economic Studies ("ECES") under Cooperative Agreement No. 263-0230-A-00-3104-00 ("Cooperative Agreement") of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Grant Agreement No. 263-0230 ("Grant Agreement") for the period January 1, 1996 through December 31, 1996. The fund accountability statement is the responsibility of ECES management. Our responsibility is to express an opinion on this statement based on our audit.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 of Chapter 3 of GAS since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of GAS is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

As described in Note 3, the fund accountability statement has been prepared on the basis of cash receipts and disbursements. Consequently, revenues are recognized when received and expenditures are recognized when paid rather than when 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 fund accountability statement, and more fully described in Note 5 thereto, the results of our tests disclosed \$13,571 or LE 46,007 of questionable ineligible project costs. No unsupported project costs were identified. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program related or are prohibited by the Cooperative Agreement, the Grant Agreement, or applicable laws and regulations. Unsupported project costs are those lacking adequate documentation.

In our opinion, except for the effects of the questionable project costs discussed in the preceding paragraph, the fund accountability statement referred to in the first paragraph presents fairly, in all material respects, project revenues received and costs incurred by ECES under the Cooperative Agreement of the Grant Agreement for the period January 1, 1996 through December 31, 1996, in conformity with the basis of accounting described in Note 3.

In accordance with GAS, we have also issued a report dated July 28, 1997 on our consideration of ECES' internal control structure and a report dated July 28, 1997 on its compliance with laws, regulations, contracts, and grants.

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

Pricewaterhouse

EGYPTIAN CENTER FOR ECONOMIC STUDIES

COOPERATIVE AGREEMENT NO. 263-0230-A-00-3104-00
 UNDER USAID/EGYPT
 GRANT AGREEMENT NO. 263-0230

FUND ACCOUNTABILITY STATEMENT
 CASH RECEIPTS AND DISBURSEMENTS BASIS (NOTE 3)

FOR THE PERIOD JANUARY 1, 1996 THROUGH DECEMBER 31, 1996

	Budget (Note 2)	Actual (Note 2)	Questionable Project Costs		Finding Reference
			Ineligible (Note 5)	Unsupported (Note 5)	
REVENUES - USAID/EGYPT		\$ 795,731			
EXPENDITURES					
Salaries	\$ 2,927,530	405,769	\$ -	\$ -	-
Benefits	582,467	52,587	13,571	-	Page 8
Operational Costs	1,555,870	241,415	-	-	-
Office Equipment	267,130	94,034	-	-	-
International Travel	347,456	16,233	-	-	-
Technical Assistance	488,494	65,155	-	-	-
Audit and Evaluation	110,960	9,563	-	-	-
Total Expenditures	\$ 6,279,907	884,756	\$ 13,571	\$ -	
OUTSTANDING BALANCE (Note 2)		\$ (89,025)			

The accompanying notes are an integral part of this Fund Accountability Statement.

EGYPTIAN CENTER FOR ECONOMIC STUDIES

**COOPERATIVE AGREEMENT NO. 263-0230-A-00-3104-00
UNDER USAID/EGYPT
GRANT AGREEMENT NO. 263-0230**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF STATEMENT:

The fund accountability statement of ECES includes project revenues received and costs incurred by ECES under the Cooperative Agreement of the Grant Agreement for the period January 1, 1996 through December 31, 1996 (the "audit period").

NOTE 2 - SOURCE OF DATA:

"Budget" includes USAID Egypt approved project costs in accordance with the most recent authorization of the Cooperative Agreement within the audit period, and is presented for informational purposes only. Amendment No. 3 to the Cooperative Agreement, dated September 25, 1996, approved total budgeted project costs in the amount of \$7,512,342 or LE 25,466,839 from January 1, 1993 through March 31, 1998. ECES incurred \$1,232,435 or LE 4,177,955 during the period January 1, 1993 through December 31, 1995. Accordingly, total "Budget" during the audit period and through March 31, 1998 is calculated to be \$6,279,907 or LE 21,288,885. "Budget" in LE has been converted to US Dollars at an average exchange rate of LE 3.39 to one US Dollar as explained in Note 4 below.

"Actual" represents cumulative project revenues received and costs incurred and paid by ECES during the audit period. Revenues and expenditures in LE have been converted to US Dollars at an average exchange rate of LE 3.39 to one US Dollar as explained in Note 4 below. Actual expenditures are greater than USAID/Egypt revenues due to timing differences in the receipt of reimbursements from USAID/Egypt.

NOTE 3 - BASIS OF PRESENTATION:

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

NOTE 4 - FOREIGN EXCHANGE:

Actual and budgeted project revenues and costs incurred in LE have been converted to US Dollars at an exchange rate of 3.39 LE to one US Dollar. The exchange rate has been calculated by averaging the ending monthly exchange rates during the audit period.

NOTE 5 - QUESTIONABLE COSTS:

Questionable costs are presented in two separate categories, ineligible and unsupported. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program related or prohibited by the Cooperative Agreement, the Grant Agreement, or applicable laws and regulations. Unsupported project costs are those lacking adequate documentation. Questionable project costs identified as either ineligible or unsupported are detailed below:

NOTE 5 - QUESTIONABLE COSTS (CONT'D.)

Questionable Costs	
Ineligible	Unsupported

A. Benefits

- I. During the audit period, ECES billed USAID/Egypt with \$13,571 of costs related to ECES' share of social insurance contributions. Section No. 1 of Amendment No. 1 to the Grant Agreement, dated September 28, 1995, states that a special covenant regarding the payment of taxes, tariffs, duties and other levies will be added to the Grant Agreement. This special covenant provides that for "any transaction (including any commodity procurement) financed under the Grant, is not exempt from identifiable taxes, tariffs, duties or other levies (including social insurance assessments) [emphasis added] imposed under the laws in effect in the Arab Republic of Egypt, USAID/Egypt shall, unless otherwise expressly provided in Project Implementation Letters, pay the same with grantee-owned local currency funds held by USAID [emphasis added]." The grantee, in this case, is the Government of Egypt ("GOE").

ECES management was informed of the ramifications of Amendment No. 1. On April 22, 1997, management formally requested that the USAID/Egypt Contracting Officer ("CO") approve a transfer of \$15,817, the total amount of ECES' portion of social insurance assessments paid by ECES and reimbursed by USAID/Egypt under the Grant Agreement since October 1, 1995, to the Grant Agreement.

On May 7, 1997 the CO approved the refund in a letter addressed to ECES management. "At this time, the ECES cooperative agreement is covered through an amendment to the grant agreement allowing the use of funds from the special account to pay the employer's share of social insurance. By this letter, I am approving the refund of \$15,817 from the special account, for the social insurance ECES has paid since October 1, 1995 [emphasis added]."

Total Benefits Questioned Costs

TOTAL QUESTIONABLE COSTS

\$	13,571	\$	-
\$	13,571	\$	-
\$	13,571	\$	-

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

July 28, 1997

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

We have audited the fund accountability statement of project revenues received and costs incurred by the Egyptian Center for Economic Studies ("ECES") under Cooperative Agreement No. 263-0230-A-00-3104-00 ("Cooperative Agreement") of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Grant Agreement No. 263-0230 ("Grant Agreement") for the period January 1, 1996 through December 31, 1996 (the "audit period"), and have issued our report thereon dated July 28, 1997.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 of Chapter 3 of GAS since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of GAS is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

The management of ECES is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with the terms of the Agreements, and the basis of accounting described in Note 3 of the report on the fund accountability statement. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the fund accountability statement of ECES for the audit period, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

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

Priscilla Waterhouse

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

July 28, 1997

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

We have audited the fund accountability statement of project revenues received and costs incurred by the Egyptian Center for Economic Studies ("ECES") under Cooperative Agreement No. 263-0230-A-00-3104-00 ("Cooperative Agreement") of the United States Agency for International Development Mission to Egypt ("USAID Egypt") Grant Agreement No. 263-0230 ("Grant Agreement") for the period January 1, 1996 through December 31, 1996 (the "audit period"), and have issued our report thereon dated July 28, 1997.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 of Chapter 3 of GAS since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of GAS is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

Compliance with laws, regulations, contracts and grants applicable to ECES is the responsibility of ECES management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of ECES' compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the fund accountability statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. For purposes of this report, we categorized the provisions of laws, regulations, contracts, and grants we tested as part of obtaining such reasonable assurance into the following categories:

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

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under GAS.

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

Pricewaterhouse

EGYPTIAN CENTER FOR ECONOMIC STUDIES

COOPERATIVE AGREEMENT NO. 263-0230-A-00-3104-00
UNDER USAID/EGYPT
GRANT AGREEMENT NO. 263-0230

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FOR THE PERIOD
JANUARY 1, 1996 THROUGH DECEMBER 31, 1996

MANAGEMENT COMMENTS



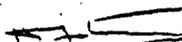
July 28, 1997

Jim Page
Audit Manager
Price Waterhouse
22 El Nasr Street
New Maadi
Cairo, Egypt

Dear Mr. Page,

We concur with your audit finding relating to social insurance employer share payments. However, we understand that this issue will be resolved and closed since we obtained USAID and MIC approval for replenishing AID program funds from the FT800 account for the life of the project.

Sincerely yours,


Hisham A. Fahmy
Deputy Director

EGYPTIAN CENTER FOR ECONOMIC STUDIES

COOPERATIVE AGREEMENT NO. 263-0230-A-00-3104-00
UNDER USAID/EGYPT
GRANT AGREEMENT NO. 263-0230

FOR THE PERIOD
JANUARY 1, 1996 THROUGH DECEMBER 31, 1996

INDEPENDENT ACCOUNTANTS' RESPONSE

Management of the Egyptian Center for Economic Studies ("ECES") provided comments to our draft report presented at the exit conference. These comments are included in Appendix A to this report. ECES management concurred with our finding relating to social insurance employer share payments. Management stated in their comments that the issue will be resolved and closed since they have obtained USAID/Egypt and Ministry of International Cooperation ("MIC") approval for replenishing USAID/Egypt program funds from the FT-800 account for the life of the project. However, based on the fact that the corrective actions took place subsequent to our field work and were the result of our audit, we believe that our report should remain unchanged.

We wish to take this opportunity to express our deep appreciation to ECES personnel for the cooperation and courtesy extended to us throughout the course of our audit.

EGYPTIAN CENTER FOR ECONOMIC STUDIES
COOPERATIVE AGREEMENT NO. 263-0230-A-00-3104-00
UNDER USAID/EGYPT
GRANT AGREEMENT NO. 263-0230

FOR THE PERIOD
JANUARY 1, 1996 THROUGH DECEMBER 31, 1996

MISSION RESPONSE



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

August 26, 1997

MEMORANDUM

To : Jay Rollins, A/RIG/A

From : Shirley Hunter, Division Chief, FM/FA

Subject : Financial Audit of Egyptian Center for Economic Studies, Draft Report Received on July 6, 1997.

Following are the actions taken by the Mission to resolve/close the audit finding identified under the subject audit.

The audit identified the ineligible costs of \$13,571 (LE46,007) representing the Employer share of Social Insurance billed to, and reimbursed from the ECES dollar appropriated funds for the period from October 1, 1995 until December 31, 1996.

The September 1995 amendment to the Project Grant Agreement included a prohibition to pay social insurance from the Grant funds.

At the request of ECES, and based on the approval of the Procurement Officer, dated May 7, 1997, and the concurrence of the Ministry of International cooperation, dated July 21, 1997, Mission determined to transfer the Social Insurance charges of LE 53,620 from the program funds to the FT-800 Account, see attached.

Mission established an FT-800 Account titled "Ltr dtd 07/21/97" to charge Social Insurance payments billed by ECES, and effected the transfer of LE 53,620 from the program appropriated funds to the FT-800 Account.

Based on the above, Mission believes that proper corrective action has been taken and therefore, requests issuance of the final report with the recommendation closed.

Thanks for your assistance.

a/s

**REPORT OF INDEPENDENT ACCOUNTANTS
ON ADDITIONAL INFORMATION**

July 28, 1996

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

Our audit was conducted for the purpose of forming an opinion on the basic fund accountability statement of the Egyptian Center for Economic Studies ("ECES") taken as a whole. We have issued our report thereon dated July 28, 1997. The fund accountability statement and the schedule of questionable project costs, as expressed in Egyptian Pounds ("LE") (the "Supplemental Schedules"), are presented for purposes of additional analysis and are not a required part of the basic fund accountability statement. The information in the Supplemental Schedules has been subjected to the auditing procedures applied in the audit of the basic fund accountability statement; and, in our opinion, except for the effects of the questionable project costs discussed in the fifth paragraph of our report dated July 28, 1997 on the fund accountability statement, such information is fairly stated, in all material respects, in relation to the basic fund accountability statement of ECES taken as a whole.

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

Price Waterhouse

EGYPTIAN CENTER FOR ECONOMIC STUDIES

COOPERATIVE AGREEMENT NO. 263-0230-A-00-3104-00

UNDER USAID/EGYPT

GRANT AGREEMENT NO. 263-0230

FUND ACCOUNTABILITY STATEMENT

CASH RECEIPTS AND DISBURSEMENTS BASIS IN EGYPTIAN POUNDS

FOR THE PERIOD JANUARY 1, 1996 THROUGH DECEMBER 31, 1996

	<u>Budget</u>	<u>Actual</u>	<u>Questionable Project Costs</u>		<u>Finding Reference</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
<u>REVENUES - USAID/EGYPT</u>		LE 2,697,528			
<u>EXPENDITURES</u>					
Salaries	LE 9,924,327	1,375,559	LE -	LE -	-
Benefits	1,974,563	178,269	46,007	-	SS No. 2, Page 1
Operational Costs	5,274,399	818,396	-	-	-
Office Equipment	905,571	318,776	-	-	-
International Travel	1,177,876	55,032	-	-	-
Technical Assistance	1,655,995	220,874	-	-	-
Audit and Evaluation	376,154	32,417	-	-	-
Total Expenditures	LE <u>21,288,885</u>	LE <u>2,999,323</u>	LE <u>46,007</u>	LE <u>-</u>	
OUTSTANDING BALANCE		LE <u>(301,795)</u>			

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EGYPTIAN CENTER FOR ECONOMIC STUDIES

COOPERATIVE AGREEMENT NO. 263-0230-A-00-3104-00

UNDER USAID/EGYPT

GRANT AGREEMENT NO. 263-0230

BEST AVAILABLE COPY

QUESTIONABLE PROJECT COSTS
DETAILS OF AMOUNTS AS INCURRED IN EGYPTIAN POUNDS

FOR THE PERIOD

JANUARY 1, 1996 THROUGH DECEMBER 31, 1996

Questionable Costs

Expressed in US Dollars	Ineligible	Unsupported
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A. Benefits

1. During the audit period, ECES billed USAID Egypt with LE 46,007 of costs related to ECES' share of social insurance contributions. Section No. 1 of Amendment No. 1 to the Grant Agreement, dated September 28, 1995, states that a special covenant regarding the payment of taxes, tariffs, duties and other levies will be added to the Grant Agreement. This special covenant provides that for "any transaction (including any commodity procurement) financed under the Grant, is not exempt from identifiable taxes, tariffs, duties or other levies (including social insurance assessments) [emphasis added] imposed under the laws in effect in the Arab Republic of Egypt. USAID/Egypt shall, unless otherwise expressly provided in Project Implementation Letters, pay the same with grantee-owned local currency funds held by USAID [emphasis added]." The grantee, in this case, is the Government of Egypt ("GOE").

ECES management was informed of the ramifications of Amendment No. 1. On April 22, 1997, management formally requested that the USAID Egypt Contracting Officer ("CO") approve a transfer of LE 53,620, the total amount of ECES' portion of social insurance assessments paid by ECES and reimbursed by USAID/Egypt under the Grant Agreement since October 1, 1995, to the Grant Agreement.

On May 7, 1997 the CO approved the refund in a letter addressed to ECES management. "At this time, the ECES cooperative agreement is covered through an amendment to the grant agreement allowing the use of funds from the special account to pay the employer's share of social insurance. By this letter, I am approving the refund of LE 53,620 from the special account, for the social insurance ECES has paid since October 1, 1995 [emphasis added]."

Month	Amount
Jan. 1996	LE 3,226
Feb. 1996	3,363
March 1996	3,363
April 1996	3,463
May 1996	3,690
June 1996	3,918
July 1996	3,927
Aug. 1996	3,927
Sept. 1996	3,927
Oct. 1996	4,401
Nov. 1996	4,401
Dec. 1996	4,401
Total	LE 46,007

Total Benefits Questioned Costs

TOTAL QUESTIONABLE COSTS

S	13,571	LE	46,007	LE	-
S	13,571	LE	46,007	LE	-
S	13,571	LE	46,007	LE	-