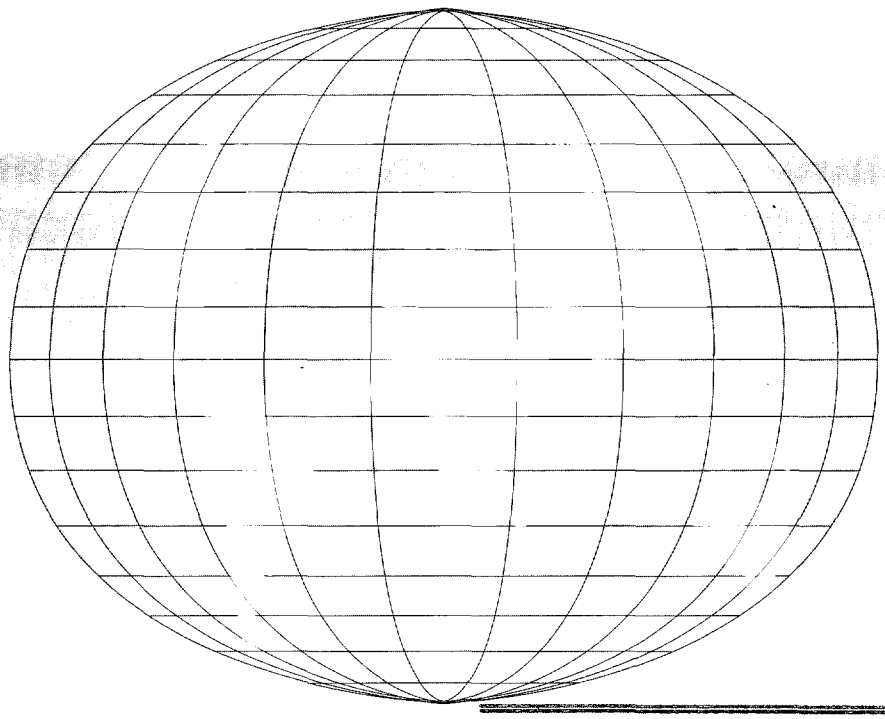
PD-ABP-505

Report of Audit

Financial Audit of the Ministry of Public Works and Water Resources, Expenditures Incurred Under the Water Research Center Component of the Irrigation Management System Project (USAID/Egypt Project No.263-0132)

Report No. 6-263-97-030-N
July 30, 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

USAID

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

CAIRO, EGYPT

July 30, 1997

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley

FROM: RIG/A/C, Lou Mundy for Bruce Boyer

SUBJECT: Financial Audit of the Ministry of Public Works and Water Resources' National Water Research Center, Expenditures Incurred Under the Water Research Center Component of the Irrigation Management Systems Project (USAID/Egypt Project No. 263-0132)

The attached report, transmitted on June 26, 1997, by Allied Accountants, presents the results of a financial audit of the National Water Research Center (Center) managed by the Ministry of Public Works and Water Resources (Ministry) under Project Implementation Letters Nos. 90, 112, 134, 140, 145, 148, and 149 of the Irrigation Management Systems Project, USAID/Egypt Project No. 263-0132. The purpose of the project was to improve the system-wide water use efficiency for irrigation. The objective of the Water Research Center component was to strengthen the Center and improve its capabilities to utilize private contractors, universities, and other research organizations to carry out special research projects.

We engaged Allied Accountants to perform a financial audit of the Center's incurred expenditures of $605,626 (equivalent to LE2,051,915) for the period April 22, 1990 through September 30, 1995. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Allied Accountants 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 Statements. As of the date of the audit report, the project was completed and no additional funding was being provided for any purpose. Therefore, Allied Accountants did not issue reports on internal controls or compliance.

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

The audit report questions $26,649 (equivalent to LE90,500) in costs billed to USAID/Egypt by the Ministry. The questioned costs related primarily to payment of unrelated project expenses and unsupported vehicle expenses.

In response to the draft report, responsible Ministry officials provided additional explanation to the report findings. Allied Accountants reviewed the Ministry'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 $26,649 (ineligible costs of $20,628 and unsupported costs of $6,021) detailed on pages 20 through 23 of the Allied Accountants audit report, and recover from the Ministry of Public Works and Water Resources the amounts determined to be unallowable.**

To date, the Mission has met with the auditee's financial representative, reviewed and discussed the findings, and requested additional documentation related to the questioned costs. The Mission is currently reviewing this documentation and expects to make a determination in August 1997. Therefore, recommendation No. 1 is open and will be considered to have had a management decision upon the Mission's determination of the 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

ALLIED ACCOUNTANTS

Ragheb, Istanbouli & El Kilany
A Member Firm of ARTHUR ANDERSEN & Co. SC
Public Accountants & Business Advisors
Fellows & Members of the Egyptian Society of Accountants & Auditors

المحاسبون المتضامنون
راغب ، اسطنبولي والكيلاني
مراسلو آرثر آندرسن وشركاه
محاسبون قانونيون وخبراء تنظيم وإدارة
زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

June 26, 1997

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

Dear Mr. Mundy:

This report presents the results of the financial audit of the Water Research Center Component (WRC) funded by the United States Agency for International Development Mission to Egypt (USAID/Egypt), pursuant to the Irrigation Management Systems Project, Grant Agreement No. 263-0132. USAID/Egypt funding was provided through the Project Implementation Letters (PILs) Nos. 90, 112,134,140, 145, 148, and 149. The audit periods were as follows:

- PIL No. 90, July 1, 1993 to September 30, 1994,
- PIL No. 112, April 22, 1990 to April 28, 1994,
- PIL No. 134, November 15, 1992 to July 15, 1993,
- PIL No. 140, July 1, 1993 to September 30, 1995,
- PIL No. 145, July 21, 1994 to September 21, 1995,
- PIL No. 148, September 1, 1994 to August 30, 1995,
- PIL No. 149, December 19, 1994 to June 30, 1995.

Background

Grant Agreement No. 263-0132 between the Arab Republic of Egypt and the United States of America was signed on September 22, 1981. The purpose of the Grant was to fund the Irrigation Management Systems Project (IMS) to be implemented by the Ministry of Public Works and Water Resources (MPWWR). The Grant Agreement expired on September 21, 1995. The goal of the IMS was to increase production and productivity in the agricultural sector. The overall purpose was to improve the system-wide water use efficiency for irrigation.

The project had ten components, one of which was the Water Research Center Component, implemented by the National Water Research Center (NWRC) of the Ministry of Public Works and Water Resources. The objective of this component was to strengthen the National Water Research Center and its eleven institutes and improve their capabilities to utilize private contractors, universities, and other research organizations to carry out special research projects.

Project Implementation Letter (PIL) No. 90, signed on January 14, 1988 and expired on September 30, 1994, provided funds for the Water Research Center Component.

PIL No. 112, signed on April 22, 1990 and expired on April 28, 1994, provided funds for the services performed for the period March 1, 1993 to December 31, 1993 related to the procurement and installation of air conditioning systems for the NWRC's Shoubra building and the library in Delta Barrage.

العنوان : ٣٧ شارع الأحرار ، برج موبيكا ، المهندسين - ص. ب.- ٩٧ الدقي ، جيزة ، مصر - تليفون : ٣٣٦٢٠٠٠ - فاكس : ٣٦٠٠٨١٣
ADDRESS: 37 ELAHRAR STREET, MOBICA TOWER, MOHANDESEEN - P.O.BOX 97 DOKKI, GIZA, EGYPT - TEL.: (202) 3362000 -FAX: (202) 3600813

PIL No. 134, signed on October 27, 1992 and expired on July 15, 1993, provided funds for the services performed for the period November 15, 1992 to July 15, 1993 related to the procurement of equipment and materials for the NWRC's library and conference room at Delta Barrage.
PIL No. 140, signed June 2, 1993 and expired on September 30, 1995, provided funds for the period July 1, 1993 to September 30, 1995 to the Drainage Research Institute, one of the NWRC's eleven institutes, to perform studies and research on supplementing the available water supply by the reuse of agricultural drainage water of lower quality.

PIL No. 145, signed on July 21, 1994 and expired on September 21, 1995, provided funds for the Research Institute for Groundwater, one of the NWRC's eleven institutes, to perform studies and research on the environmental assessment of agricultural and domestic pollution in Greater Cairo.

PIL No. 148, signed on September 13, 1994 and expired on August 30, 1995, provided funds for the period September 1, 1994 to August 30, 1995 to the Hydraulics and Sediment Research Institute, one of the NWRC's eleven institutes, to perform studies and research on rehabilitating the existing hydraulic structures along the Nile river.

PIL No. 149, signed on December 19, 1994 and expired on June 30, 1995, provided funds to the Hydraulics and Sediment Research Institute and the Groundwater Research Institute, two of the NWRC's eleven institutes, to perform studies and research on minimizing the evaporation losses from Lake Nasser and on using different reaches of the Nile river as reservoirs to store water.

Audit Objectives, Scope, and Methodology

The objective of this engagement was to conduct a financial audit of USAID/Egypt resources managed by the National Water Research Center (NWRC), as part of Grant Agreement No. 263-0132, under the Project Implementation Letters Nos. 90, 112, 134, 140, 145, 148, and 149. The audit periods were as follows:

- PIL No. 90, July 1, 1993 to September 30, 1994,
- PIL No. 112, April 22, 1990 to April 28, 1994,
- PIL No. 134, November 15, 1992 to July 15, 1993,
- PIL No. 140, July 1, 1993 to September 30, 1995,
- PIL No. 145, July 21, 1994 to September 21, 1995,
- PIL No. 148, September 1, 1994 to August 30, 1995,
- PIL No. 149, December 19, 1994 to June 30, 1995.

The specific objectives of our engagement were to:

1. Express an opinion on whether the fund accountability statements for the USAID/Egypt financed project present fairly, in all material respects, funds received and costs incurred for the audit period in conformity with generally accepted accounting principles or another comprehensive basis of accounting;

2. Determine if the costs reported as incurred under the Water Research Center Component are in fact allowable, allocable, and reasonable in accordance with the terms of the PILs and Grant Agreement;

3. Evaluate and obtain a sufficient understanding of the internal control structure of the NWRC as it relates to the Water Research Center Component, to assess control risk;

4. Perform tests to determine whether the NWRC complied, in all material respects, with the PILs, Grant Agreement terms, and applicable laws and regulations; and

5. Determine if the NWRC has taken corrective action on prior audit report recommendations.

The scope of the financial cost-incurred audit was all the funds provided by USAID/Egypt and the expenditures remitted for the NWRC under the PILs and periods mentioned above.

The methodology of the audit consisted of an evaluation of the internal control structure, testing of expenditures remitted under the PILs, and testing of the NWRC's compliance with the PILs, Grant Agreement, and the applicable laws and regulations.

Our testing included systematic and judgmental selection of costs incurred for each significant account disclosed in the fund accountability statements. We tested funds provided and expenditures as follows:

	Actual LE	Actual US $
Funds provided by USAID/Egypt:		
PIL No. 90	1,362,530	401,926
PIL No. 112	320,884	94,936
PIL No. 134	213,048	63,219
PIL No. 140	53,629	15,820
PIL No. 145	80,967	23,814
PIL No. 148	165,091	48,556
PIL No. 149	42,721	12,565
Total funds provided	2,238,870	660,836
Total tested	2,238,870	660,836
Percentage tested: 100%		
Expenditures:		
PIL No. 90	1,105,125	325,997
PIL No. 112	320,884	94,936
PIL No. 134	213,048	63,219
PIL No. 140	53,629	15,820
PIL No. 145	115,412	33,945
PIL No. 148	180,805	53,176
PIL No. 149	63,012	18,533
Total expenditures	2,051,915	605,626
Total tested	1,410,696	416,553
Percentage tested: 69%		

Our testing included, but was not limited to, the following procedures:

1. A review of direct expenditures billed to and reimbursed by USAID/Egypt. Records were reconciled to reports submitted to USAID/Egypt.

2. A review of the funds provided by USAID/Egypt to ensure that they were deposited in a separate bank account and that the related transactions were properly recorded. We also performed a review of the procedures used to control cash.

3. A review of Project Ledgers to determine whether costs reported were properly recorded. A review reconciliation of direct costs billed to and reimbursed by USAID/Egypt to the project ledgers.

4. A review of procurement procedures to determine whether sound commercial practices, including competitive bids, were used.

5. A review of travel and transportation charges to determine whether they were adequately supported, approved, and in accordance with the project implementation plans.
6. A determination of whether advances of funds were justified based on existing documentation, including a reconciliation of funds advanced, disbursed, and available.

7. A review of whether project income and/or reimbursements, if any, representing recoveries of direct costs, were recorded as income or credited to project cost accounts.

8. A review of the status of host country contribution to determine if the Government of Egypt provided the contribution as required in the PILs.

During our audit planning, we considered the NWRC's internal control structure as it relates to PILs Nos. 90, 112, 134, 140, 145, 148, and 149 to obtain an understanding of the design of relevant control policies and procedures and to assess control risk. We obtained a sufficient understanding of the internal control structure to plan the audit and to determine the nature and extent of tests to be performed.

Initial planning began with an entrance conference attended by RIG/A/C, USAID/FM, USAID/Egypt Project Officer, NWRC officials, and our audit team. At the end of the field work, we held a meeting with NWRC management personnel to discuss unresolved findings identified during our field work.

The Grant Agreement, the PILs, and their amendments were reviewed to gain an understanding of the agreement terms and applicable laws and regulations.

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatements.

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 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 Arthur Andersen & Co. worldwide internal quality control program, which requires our office to be subjected every three years to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

We have not issued Reports on the Internal Control Structure and Compliance with Applicable Laws and Regulations as required by Paragraph 15 of Chapter 5 of the Government Auditing Standards. In addition, we have not reported on follow-up of Prior Audit Recommendations as required by Paragraph 26 of Chapter 5 of the Government Auditing Standards. As of the date of our report on the fund accountability statements for the Water Research Center Component, PILs Nos. 90, 112, 134, 140, 145, 148, and 149, Grant Agreement No. 263-0132, the project was completed and no additional funding was provided for this component. General recommendations on the Internal Control and Compliance with Applicable Laws and Regulations have been addressed through a separate letter to management dated January 30, 1997.

Results of Audit

Fund Accountability Statements

Our audit identified US $26,649 (LE 90,500) in aggregate questioned costs related to the operating expenditures as follows:

- US $8,305 (LE 28,152) ineligible costs for PIL No. 90,
- US $265 (LE 900) unsupported costs for PIL No. 90,
- US $1,932 (LE 6,552) unsupported costs for PIL No. 140,
- US $558 (LE 1,896) ineligible costs for PIL No. 145,
- US $3,824 (LE 13,000) unsupported costs for PIL No. 145, and
- US $11,765 (LE 40,000) ineligible costs for PIL No. 148.

The details of costs questioned are presented in the Fund Accountability Statements - Audit Findings section of this report. We considered the questioned costs in forming our audit opinion on the fund accountability statements.

Internal Control Structure

We have not issued a Report on the Internal Control Structure as required by Paragraph 15 of Chapter 5 of the Government Auditing Standards. As of the date of our report on the fund accountability statements for the Water Research Center Component, PILs Nos. 90, 112, 134, 140, 145, 148, and 149, Grant Agreement No. 263-0132, the project was completed and no additional funding was provided for this component. General recommendations on the Internal Control Structure have been addressed through a separate management letter dated January 30, 1997.

Compliance with Applicable Laws and Regulations

We have not issued a Report on Compliance with Applicable Laws and Regulations as required by Paragraph 15 of Chapter 5 of the Government Auditing Standards. As of the date of our report on the fund accountability statements for the Water Research Center Component, PILs Nos. 90, 112, 134, 140, 145, 148, and 149, Grant Agreement No. 263-0132, the project was completed and no additional funding was provided for this component. General recommendations on the Compliance with Applicable Laws and Regulations have been addressed through a separate management letter dated January 30, 1997.

Follow-up of Prior Audit Recommendations

We have not reported on follow-up of Prior Audit Recommendations as required by Paragraph 26 of Chapter 5 of the Government Auditing Standards. As of the date of our report on the fund accountability statements for the Water Research Center Component under the Irrigation Management Systems Project, PILs Nos. 90, 112, 134, 140, 145, 148, and 149, the project was completed and no additional funding was provided for this component.

Management Comments

The National Water Research Center of the Ministry of Public Works and Water Resources has provided comments on the results of the audit findings. The entire management response is included as Appendix A. Our response to management's comments is included as Appendix B. We have deleted or modified the findings for which adequate supporting documentation was provided by the National Water Research Center.

ALLIED ACCOUNTANTS
Ragheb, Istanbouli & El Kilany
A Member Firm of ARTHUR ANDERSEN & Co. SC
Public Accountants & Business Advisors
Fellows & Members of the Egyptian Society of Accountants & Auditors

المحاسبون المتضامنون
راغب ، اسطنبولي والكيلاني
مراسلو أرثر أندرسن وشركاه
محاسبون قانونيون وخبراء تنظيم وإدارة
زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

Report of Independent Public Accountants

We have audited the accompanying fund accountability statements of the National Water Research Center of the Ministry of Public Works and Water Resources relating to funds received and costs incurred under the Water Research Center Component, Grant Agreement No. 263-0132, funded by the United States Agency for International Development for the periods: July 1, 1993 to September 30, 1994 under Project Implementation Letter No. 90; April 22, 1990 to April 28, 1994 under Project Implementation Letter No. 112; November 15, 1992 to July 15, 1993 under Project Implementation Letter No. 134; July 1, 1993 to September 30, 1995 under Project Implementation Letter No. 140; July 21, 1994 to September 21, 1995 under Project Implementation Letter No. 145; September 1, 1994 to August 30, 1995 under Project Implementation Letter No. 148; and December 19, 1994 to June 30, 1995 under Project Implementation Letter No. 149. These fund accountability statements are the responsibility of the management of the National Water Research Center of the Ministry of Public Works and Water Resources. Our responsibility is to express an opinion on these fund accountability statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statements 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 33 of Chapter 3 of Government Auditing Standards since no such quality 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 Arthur Andersen & Co. worldwide internal quality control program, which requires our office to be subjected every three years to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

We have not issued Reports on Internal Control and Compliance with Applicable Laws and Regulations as required by Paragraph 15 of Chapter 5 of the Government Auditing Standards. In addition, we have not reported on follow-up of Prior Audit Recommendations as required by Paragraph 26 of Chapter 5 of the Government Auditing Standards. As of the date of our report on the fund accountability statements, the project was completed and no additional funding was provided for the Water Research Center Component.

العنوان : ٣٧ شارع الأحرار ، برج موبيكا ، المهندسين - ص. ب. ٩٧ الدقي ، جيزة ، مصر - تليفون : ٣٣٦٢٠٠٠ - فاكس : ٣٦٠٠٨١٣
ADDRESS: 37 ELAHRAR STREET, MOBICA TOWER, MOHANDESEEN - P.O.BOX 97 DOKKI, GIZA, EGYPT - TEL.: (202) 3362000 -FAX: (202) 3600813

As described in Note 2, the accompanying fund accountability statements have been prepared on the cash basis. A cash basis is a comprehensive basis of accounting other than generally accepted accounting principles, because revenues and expenditures are recognized when received or paid rather than when earned or incurred. Accordingly, the accompanying fund accountability statements are not intended to present results in accordance with generally accepted accounting principles.

In our opinion, the fund accountability statements referred to above present fairly, in all material respects, funds received and costs incurred by the National Water Research Center of the Ministry of Public Works and Water Resources under the Water Research Center Component, Grant Agreement No. 263-0132 funded by the United States Agency for International Development for the periods: July 1, 1993 to September 30, 1994 under Project Implementation Letter No. 90; April 22, 1990 to April 28, 1994 under Project Implementation Letter No. 112; November 15, 1992 to July 15, 1993 under Project Implementation Letter No. 134; July 1, 1993 to September 30, 1995 under Project Implementation Letter No. 140; July 21, 1994 to September 21, 1995 under Project Implementation Letter No. 145; September 1, 1994 to August 30, 1995 under Project Implementation Letter No. 148; and December 19, 1994 to June 30, 1995 under Project Implementation Letter No. 149, in conformity with the cash basis of accounting as described in Note 2.

This report is intended for the information of the management and others within the National Water Research Center of the Ministry of Public Works and Water Resources and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

January 30, 1997
Allied Accountants

Allied Accountants

National Water Research Center of the
Ministry of Public Works and Water Resources

Audit of Local Expenditures Incurred Under the
Water Research Center Component of the
Irrigation Management Systems Project
Grant Agreement No. 263-0132
Project Implementation Letter No. 90

Fund Accountability Statement
for the period July 1, 1993 to September 30, 1994

Budget Elements	Budget US $ (Note 5)	Actual US $	Questioned Costs (Note 6) Ineligible US $	Questioned Costs (Note 6) Unsupported US $
Source of funds:				
Beginning balance		(75,929)		
Funds provided by USAID/Egypt		401,926		
Total funds available		325,997		
Expenditures:				
In-country training	12,000	10,680		
Library materials and books	1,487	1,379		
Equipment and office facilities	2,025	2,051		
Laboratory equipment	14,867	13,688		
Furniture	39,823	32,833	2,956	
Local support staff	23,689	25,182	501	
Travel and per diem	55,576	54,230		
Communications	9,570	6,545		
Maintenance and operation costs	185,622	143,989	561	265
Office supplies	15,316	13,313		
Other support costs	23,644	22,107	4,287	
Total expenditures	383,619	325,997	8,305	265

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

National Water Research Center of the
Ministry of Public Works and Water Resources

Audit of Local Expenditures Incurred Under the
Water Research Center Component of the
Irrigation Management Systems Project
Grant Agreement No. 263-0132
Project Implementation Letter No. 112

Fund Accountability Statement
for the period April 22,1990 to April 28, 1994

Budget Elements	Budget	Actual	Questioned Costs (Note 6) Ineligible	Questioned Costs (Note 6) Unsupported
	US $	US $	US $	US $
Source of funds:				
Funds provided by USAID/Egypt		94,936		
Expenditures:				
Air conditioners	97,185	94,936		
Total expenditures	97,185	94,936		

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

National Water Research Center of the
Ministry of Public Works and Water Resources

Audit of Local Expenditures Incurred Under the
Water Research Center Component of the
Irrigation Management Systems Project
Grant Agreement No. 263-0132
Project Implementation Letter No. 134

Fund Accountability Statement
for the period November 15, 1992 to July 15, 1993

Budget Elements	Budget	Actual	Questioned Costs (Note 6) Ineligible	Unsupported
	US $	US $	US $	US $
Source of funds:				
Funds provided by USAID/Egypt		63,219		
Expenditures:				
Library furniture	68,896	63,219		
Total expenditures	68,896	63,219		

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

National Water Research Center of the
Ministry of Public Works and Water Resources

Audit of Local Expenditures Incurred Under the
Water Research Center Component of the
Irrigation Management Systems Project
Grant Agreement No. 263-0132
Project Implementation Letter No. 140

Fund Accountability Statement
for the period July 1, 1993 to September 30, 1995

Budget Elements	Budget	Actual	Questioned Costs (Note 6) Ineligible	Questioned Costs (Note 6) Unsupported
	US $	US $	US $	US $
Source of funds:				
Funds provided by USAID/Egypt		15,820		
Expenditures:				
Field equipment	6,490	4,712		
Laboratory equipment	2,950	372		
Publication of reports	590	176		
Maintenance of field equipment	1,770	678		
Maintenance of computers	590	227		
Communications	885	366		
Workshops/seminars	590	-		
Laboratory analysis	2,950	590		
Local consultants	6,195	2,696		1,533
Travel and per diem	10,618	3,929		
Vehicle operations	4,425	1,671		399
Office supplies	885	329		
Miscellaneous	295	74		
Total expenditures	39,233	15,820		1,932

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

National Water Research Center of the
Ministry of Public Works and Water Resources

Audit of Local Expenditures Incurred Under the
Water Research Center Component of the
Irrigation Management Systems Project
Grant Agreement No. 263-0132
Project Implementation Letter No. 145

Fund Accountability Statement
for the period July 21, 1994 to September 21, 1995

Budget Elements	Budget US $	Actual US $	Questioned Costs (Note 6) Ineligible US $	Questioned Costs (Note 6) Unsupported US $
Source of funds:				
Funds provided by USAID/Egypt		23,814		
Expenditures:				
Office supplies	5,882	5,848		
Local support staff	5,000	4,989		
Communications	2,353	1,125	215	
Maintenance vehicles	4,412	4,329		
Vehicle operations expenses	4,118	4,162		3,824
Maintenance equipment	4,118	4,113		
Other support costs	2,647	2,639	343	
Travel and per diem	6,764	6,740		
Total expenditures	35,294	33,945	558	3,824
Balance (Note 4)		(10,131)		

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

National Water Research Center of the
Ministry of Public Works and Water Resources

Audit of Local Expenditures Incurred Under the
Water Research Center Component of the
Irrigation Management Systems Project
Grant Agreement No. 263-0132
Project Implementation Letter No. 148

Fund Accountability Statement
for the period September 1, 1994 to August 30, 1995

Budget Elements	Budget US $	Actual US $	Questioned Costs (Note 6) Ineligible US $	Questioned Costs (Note 6) Unsupported US $
Source of funds:				
Funds provided by USAID/Egypt		48,556		
Expenditures:				
Laboratory equipment	11,765	11,765	11,765	
Office supplies	4,412	5,736		
Publication of reports	882	882		
Maintenance of equipment	1,765	564		
Maintenance of computers	882	2,470		
Communications	882	878		
Workshops/seminars	1,176	-		
Local consultants	1,765	1,765		
Local labor	3,765	3,766		
Travel and per diem	16,176	16,176		
Vehicle operations	8,824	8,826		
Miscellaneous	882	348		
Total expenditures	53,176	53,176	11,765	
Balance (Note 4)		(4,620)		

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

National Water Research Center of the
Ministry of Public Works and Water Resources

Audit of Local Expenditures Incurred Under the
Water Research Center Component of the
Irrigation Management Systems Project
Grant Agreement No. 263-0132
Project Implementation Letter No. 149

Fund Accountability Statement
for the period December 19, 1994 to June 30, 1995

Budget Elements	Budget US $	Actual US $	Questioned Costs (Note 6) Ineligible US $	Questioned Costs (Note 6) Unsupported US $
Source of funds:				
Funds provided by USAID/Egypt		12,565		
Expenditures:				
Office supplies	7,353	4,076		
Other support	7,353	2,211		
Local labor	5,882	3,366		
Travel	14,706	8,880		
Total expenditures	35,294	18,533		
Balance (Note 4)		(5,968)		

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

N· tional Water Research Center of the
Minis.ry of Public Works and Water Resources

Audit of Local Expenditures Incurred Under the
Water Research Center Component of the
Irrigation Management Systems Project
Grant Agreement No. 263-0132
Project Implementation Letter Nos. 90,
112, 134, 140, 145, 148 and 149

Fund Accountability Statements
for the period April 22, 1990 to September 30, 1995

Notes to the Fund Accountability Statements

Note 1: Project Activities:

Grant Agreement No. 263-0132 between the Arab Republic of Egypt and the United States of America was signed on September 22, 1981. The purpose of the Grant was to fund the Irrigation Management Systems Project (IMS) to be implemented by the Ministry of Public Works and Water Resources (MPWWR). The Grant Agreement expired on September 21, 1995. The goal of the IMS was to increase production and productivity in the agricultural sector. The overall purpose was to improve the system-wide water use efficiency for irrigation.

The project had ten components, one of which was the Water Research Center Component, implemented by the National Water Research Center (NWRC) of the Ministry of Public Works and Water Resources. The objective of this component was to strengthen the National Water Research Center and its eleven institutes and improve their capabilities to utilize private contractors, universities, and other research organizations to carry out special research projects.

Project Implementation Letter (PIL) No. 90, signed on January 14, 1988 and expired on September 30, 1994 provided funds for the Water Research Center Component.

PIL No. 112, signed on April 22, 1990 and expired on April 28, 1994, provided funds for the services performed for the period March 1, 1993 to December 31, 1993 related to the procurement and installation of air conditioning systems for the NWRC's Shoubra building and the library in Delta Barrage.

PIL No. 134, signed on October 27, 1992 and expired on July 15, 1993, provided funds for the services performed for the period November 15, 1992 to July 15, 1993 related to the procurement of equipment and materials for the NWRC's library and conference room at Delta Barrage.

PIL No. 140, signed June 2, 1993 and expired on September 30, 1995, provided funds for the period July 1, 1993 to September 30, 1995 to the Drainage Research Institute, one of the NWRC's eleven institutes, to perform studies and research on supplementing the available water supply by the reuse of agricultural drainage water of lower quality.

PIL No. 145, signed on July 21, 1994 and expired on September 21, 1995, provided funds for the Research Institute for Groundwater, one of the NWRC's eleven institutes, to perform studies and research on the environmental assessment of agricultural and domestic pollution in Greater Cairo.

PIL No. 148, signed on September 13, 1994 and expired on August 30, 1995, provided funds for the period September 1, 1994 to August 30, 1995 to the Hydraulics and Sediment Research Institute, one of the NWRC's eleven institutes, to perform studies and research on rehabilitating the existing hydraulic structures along the Nile river.

PIL No. 149, signed on December 19, 1994 and expired on June 30, 1995, provided funds to the Hydraulics and Sediment Research Institute and the Groundwater Research Institute, two of the NWRC's eleven institutes, to perform studies and research on minimizing the evaporation losses from Lake Nasser and using different reaches of the Nile river as reservoirs to store water.

Note 2: Basis of Presentation

The fund accountability statements have been prepared on the cash basis. Consequently, revenues and expenditures are recognized when received or paid rather than when earned or incurred.

Note 3: Exchange Rate

Expenditures incurred in Egyptian Pounds (LE) have been converted into US Dollars (US $) at an average exchange rate as follows:

- PILs Nos. 90 and 140 LE 3.39 to US $1.
- PIL No. 112 LE 3.38 to US $1.
- PIL No. 134 LE 3.37 to US $1.
- PILs Nos. 145, 148, and 149 LE 3.4 to US $1.

Note 4: Balance

The balance for PILs Nos. 145 and 148 represents disallowed costs from a prior financial audit of PIL No. 90, these costs were deducted from reimbursements of actual expenses under these PILs. The balance for PIL No. 149 relates to expenses for the month of June 1995, for which the National Water Research Center has not submitted the reimbursement request to USAID/Egypt.

Note 5: Budget

The budget for PIL No. 90, as presented in the fund accountability statement, represents funds available for the expenses incurred during the audit period. It has been calculated for reporting purposes only by deducting the expenditures reported in the prior audit report as of June 30, 1993 from the total budget approved as of September 30, 1994, as follows:

Approved budget as of September 30, 1994	US $1,319,728
Expenditures per prior audit report as of June 30, 1993	(936,109)
Budget available for the audit period	US $ 383,619

Note 6: Questioned Costs

Questioned costs are expenditures that we have determined are not in accordance with the Grant Agreement, PILs, or other applicable USAID/Egypt regulations and are presented in two separate categories: ineligible and unsupported. "Ineligible" costs are deemed to be unallowable because they are not program related, unreasonable, or prohibited by the Grant Agreement or applicable laws and regulations. "Unsupported" costs are expenditures which are not supported by adequate documentation.

Our audit identified US $26,649 (LE 90,500) in aggregate questioned costs as follows:

- US $8,305 (LE 28,152) ineligible costs for PIL No. 90,
- US $265 (LE 900) unsupported costs for PIL No. 90,
- US $1,932 (LE 6,552) unsupported costs for PIL No. 140,
- US $558 (LE 1,896) ineligible costs for PIL No. 145,
- US $3,824 (LE 13,000) unsupported costs for PIL No. 145, and
- US $11,765 (LE 40,000) ineligible costs for PIL No. 148.

The basis for questioning specific costs are set forth in the "Audit Findings" section of this report.

National Water Research Center of the
Ministry of Public Works and Water Resources

Audit of Local Expenditures Incurred Under the
Water Research Center Component of the
Irrigation Management Systems Project
Grant Agreement No. 263-0132
Project Implementation Letters Nos. 90,
112, 134, 140, 145, 148, and 149

Fund Accountability Statement
for the period April 22, 1990 to September 30, 1995

Summary of Audit Findings

Budget Element	Questioned Costs Ineligible US $	Questioned Costs Unsupported US $
Project Implementation Letter No. 90		
Furniture		
Finding No. 2	2,956	
Local support staff		
Finding No. 3	501	
Maintenance and operation costs		
Finding No. 1		265
Finding No. 2	548	
Finding No. 3	13	
	561	265
Other support costs		
Finding No. 2	4,182	
Finding No. 3	105	
	4,287	
Subtotal for PIL No. 90	**8,305**	**265**
Project Implementation Letter No. 140		
Local consultants		
Finding No. 4		1,533
Vehicles operations		
Finding No. 4		399
Subtotal for PIL No. 140		**1,932**
Project Implementation Letter No. 145		
Communications		
Finding No. 6	215	
Vehicle operations expenses		
Finding No. 5		3,824

Other support costs		
Finding No. 6	343	
Subtotal for PIL No. 145	**558**	**,824**
Project Implementation Letter No. 148		
Laboratory equipment		
Finding No. 7	11,765	
Subtotal for PIL No. 148	**11,765**	
Total	**20,628**	**6,021**

National Water Research Center of the
Ministry of Public Works and Water Resources

Audit of Local Expenditures Incurred Under the
Water Research Center Component of the
Irrigation Management Systems Project
Grant Agreement No. 263-0132
Project Implementation Letters Nos. 90,
112, 134, 140, 145, 148, and 149

Fund Accountability Statements
for the period April 22, 1990 to September 30, 1995

Audit Findings

Project Implementation Letter No. 90

Finding No. 1: Unsupported Costs

The National Water Research Center (NWRC) of the Ministry of Public Works and Water Resources paid and was reimbursed by USAID/Egypt for unsupported costs for maintenance and operations costs. Project Grant Agreement No. 263-0132, Standards Provision, Annex 2, Section B.5 requires that the grantee maintain books, records, documents, and other evidence relating to the USAID sponsored project or program to show, without limitation, all costs incurred under the grant and the receipt and use of goods and services acquired under the grant. NWRC indicated that supporting documents could not be located because after one year documents are sent to storage. In addition, NWRC did not have written policies and procedures, nor was there evidence that NWRC's eleven institutes were informed about the records and controls to be kept. These costs were reported in the fund accountability statement as follows:

	US $	LE
Maintenance and operation costs	265	900
Total	265	900

USAID/Egypt was billed for unsupported expenses of US $265 (LE 900).

Finding No. 2: Payment of Unrelated Project Expenses:

NWRC paid and was reimbursed for the purchase of garden equipment, installation of gates, purchase of flower boxes, carpets, curtains, tiles, and building renovation costs. These expenses were not included in the workplan or the budget approved by USAID/Egypt, nor did they seem to be project related. Project Grant Agreement No. 263-0132, Standard Provisions, Annex 2, Section B.2 requires the project to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules, or other arrangements, with any modifications therein, approved by USAID/Egypt pursuant to this Agreement. There is no evidence that the expenses remitted by NWRC's main office and its eleven institutes were reviewed and approved by NWRC's management. NWRC's chairman indicated that these payments were approved by USAID/Egypt, however, we were not provided with those approvals. These costs were reported in the fund accountability statements as follows:

	US $	LE
Furniture	2,956	10,020
Maintenance and operation costs	548	1,856
Other support costs	4,182	14,176
Total	7,686	26,052

USAID/Egypt was billed for ineligible expenses of US $7,686 (LE 26,052).

Finding No. 3: Payment of Taxes, Social Insurance, and License Renewal Fees

NWRC paid and was reimbursed for taxes, social insurance, and car license renewal fees. Project Grant Standard Provisions, Annex 2, Section B.4 of Grant Agreement No. 263-0132 indicates that NWRC should not pay any identifiable taxes, tariffs, duties, or other levies imposed under the laws of Egypt with USAID funds. NWRC's accountant indicated that the payment process out of USAID/Egypt funds is faster and less cumbersome than incurring such expenses out of Government of Egypt funds. These costs were reported in the fund accountability statements under:

	US $	LE
Local support staff	501	1,699
Maintenance and operation costs	13	45
Other support costs	105	356
Total	619	2,100

USAID/Egypt was billed for ineligible expenses of US $619 (LE 2,100).

Project Implementation Letter No. 140

Finding No. 4: Unsupported Costs

The National Water Research Center of the Ministry of Public Works and Water Resources paid and was reimbursed by USAID/Egypt for unsupported costs for local consultants, gasoline coupons, repair of vehicles, and vehicles operations. Project Grant Agreement No. 263-0132, Standard Provisions, Annex 2, Section B.5 requires that the grantee maintain books, records, documents, and other evidence relating to the USAID sponsored project or program to show, without limitation, all costs incurred under the grant and the receipt and use of goods and services acquired under the grant. NWRC's chairman indicated that supporting documents might be available at the NWRC's institute implementing this PIL, however, it could be difficult to locate them, since after one year documents are sent to the warehouse for storage. In addition, NWRC did not have written policies and procedures, nor was there evidence that NWRC's eleven institutes were informed about the records and controls to be kept. These costs were reported in the fund accountability statement as follows:

	US $	LE
Local consultants	1,533	5,200
Vehicle operations	399	1,352
Total	1,932	6,552

USAID/Egypt was billed for unsupported expenses of US $1,932 (LE 6,552).

Project Implementation Letter No. 145

Finding No. 5: Unsupported Costs

The National Water Research Center of the Ministry of Public Works and Water Resources paid and was reimbursed by USAID/Egypt for unsupported costs for gasoline coupons and repair and maintenance of vehicles. Project Grant Agreement No. 263-0132, Standard Provisions, Annex 2, Section B.5 requires that the grantee maintain books, records, documents, and other evidence relating to the USAID sponsored project or program to show, without limitation, all costs incurred under the grant and the receipt and use of goods and services acquired under the grant. NWRC's chairman indicated that supporting documents might be available at the NWRC's institute implementing this PIL, however, it could be difficult to locate, since after one year documents are sent to the warehouse for storage. In addition, NWRC did not have written policies and procedures, nor was there evidence that NWRC's eleven institutes were informed about the records and controls to be kept.

USAID/Egypt was billed for unsupported expenses of US $3,824 (LE 13,000).

Finding No. 6: Payment of Unrelated Project Expenses:

During our audit we noted that, NWRC paid and was reimbursed for payments of international telephone calls and printing letterhead for the Ground Water Research Institute. These payments do not appear to be project related, nor were they included in the approved budget and proposal. Project Grant Agreement No. 263-0132, Standard Provisions, Annex 2, Section B.2 requires the project to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices; and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, with any modifications therein, approved by USAID/Egypt pursuant to this Agreement. The institute did not keep a log for phone calls. NWRC's chairman indicated that the budget was mainly to support the Ground Water Research Institute operation activities, and that the letterheads were required to circulate reports issued about the research funded by this PIL. These costs were reported in the fund accountability statements as follows:

	US $	LE
Communications	215	731
Other support costs	343	1,165
Total	558	1,896

USAID/Egypt was billed for ineligible expenses of US $558 (LE 1,896).

Project Implementation Letter No. 148

Finding No. 7: Payment of Unrelated Project Expenses:

During our audit we noted that, NWRC paid and was reimbursed for the purchase of a rubber boat for US $ 11,765 (LE 40,000) under the budget line item for laboratory equipment. There was no USAID/Egypt approval of this procurement. According to the proposal approved for PIL No. 148, equipment would be procured to perform laboratory tests of the samples collected. However, the proposal did not include a procurement plan. Project Grant Agreement No. 263-0132, Standard Provisions, Annex 2, Section B.2 requires the project to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices; and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, with any modifications therein, approved by USAID/Egypt pursuant to this Agreement. The procurement of the boat does not appear to meet the criteria as laboratory equipment. NWRC's

chairman indicated that the boat was considered laboratory equipment and was essential to carry out the research.

USAID/Egypt was billed for ineligible expenses of US $11,765 (LE 40,000).

National Water Research Center of the
Ministry of Public Works and Water Resources

Audit of Local Expenditures Incurred Under the
Water Research Center Component of the
Irrigation Management Systems Project
Grant Agreement No. 263-0132
Project Implementation Letters Nos. 90,
112, 134, 140, 145, 148, and 149

Fund Accountability Statements
for the Period April 22, 1990 to September 30, 1995

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

National Water Research Center of the
Ministry of Public Works and Water Resources

Audit of Local Expenditures Incurred Under the
Water Research Center Component of the
Irrigation Management Systems Project
Grant Agreement No. 263-0132
Project Implementation Letters Nos. 90,
112, 134, 140, 145, 148, and No. 149

Fund Accountability Statements
for the Period April 22, 1990 to September 30, 1995

Table of Contents **Page**

Transmittal letter

Background	1
Audit Objectives, Scope, and Methodology	2
Results of Audit	5
Management Comments	5

Fund Accountability Statements

Report of Independent Public Accountants	6
Fund Accountability Statement PIL No. 90	8
Fund Accountability Statement PIL No. 112	9
Fund Accountability Statement PIL No. 134	10
Fund Accountability Statement PIL No. 140	11
Fund Accountability Statement PIL No. 145	12
Fund Accountability Statement PIL No. 148	13
Fund Accountability Statement PIL No. 149	14
Notes to the Fund Accountability Statements	15
Audit Findings	20

Appendices

Appendix A: National Water Research Center Management Comments

Appendix B: Auditors' Response to Management Comments

Appendix C: United States Agency for International Development Mission in Egypt's Response to the Audit Report

Appendix A

National Water Research Center of the
Ministry of Public Works and Water Resources

Audit of Local Expenditures Incurred Under the
Water Research Center Component of the
Irrigation Management Systems Project
Grant Agreement No. 263-0132
Project Implementation Letters Nos. 90,
112, 134, 140, 145, 148, and 149

for the period April 22, 1990 to September 30, 1995

Management Comments

بسم الله الرحمن الرحيم

Ministry of Public Works & Water Resources
National Water Research Center
Chairman's Office

وزارة الأشغال العامة والموارد المائية
المركز القومي لبحوث المياه
مكتب رئيس المركز

May 29, 1997
Cairo, Egypt.

Ms. Luz Zeron
Arthur Andersen / Allied Accountants
37 El Ahrar St., Mobica Bldg.
Mohandeseen. Giza.
Cairo. Egypt.

Dear. Zeron:

This is to refer to your Audit Report regarding the fund accountability statements relating to Project Implementation Letters (PIL) Nos. 90, 112, 134, 140, 145, 148, and 149 with respect to National Water Research Center Project (NWRC) No. 263-01132 which are funded by the United States Agency for International Development Mission in Egypt (USAID/Egypt) for the periods 11/15/92 through 09/30/95.

Enclosed please find the response and support documents to the items that needed further justification from the part of the NWRC.

With my best regards.

Sincerely Yours,

Mohamed Abu Zied

Dr. M. Abu-Zied.
Chairman, NWRC

ترعة الاسماعيلية - ص. ب: ٧٤ - شبرا الخيمة ١٣٤١١ - مصر - تليفون : ٢٢٠٥٣٤١ فاكس : ٢٢٠٨٢١٩
Fum Ismailiya Canal P.O Box 74, Shoubra El-Kheima 13411 — Egypt Tel : 2205341 Fax : 2208219

26

Finding No. 1

1- Local support staff

Concerning temporary labor appointed for short special assignments requested for the field research work. In cases of short periods not exceeding one week, and according to government rules and regulations, the written approval of the Institute Director is enough.
(attached is the approved Labor Request Form).

2- Maintenance and operations costs.

All institutes follow the standard Governmental Inventory System, by virtue of which the consumed fuel coupons since 1993 were submitted to the NWRC Central Administration Dept. and eventually to the General Stores Dept.

Finding No. 2

1- Furniture

Most management schools consider employee moral and working conditions to be extremely important and necessary for productivity and job satisfaction. Moderately decorated office facilities of reasonable cost are necessary for doing business. For this reason, the Annual Work Plan of NWRC for the year 1994 included furniture as one of the items approved by USAID. These included carpets, flower boxes and curtains, the latter being specially important for protection of the equipment from the harmful sunrays and heat.

2- Building maintenance

Since NWRC Research Institutes form one integral entity, the NWRC annual budget usually takes into consideration the requirements of the Main Office as well as the affiliated Research Institute requirements. This policy was found to raise the overall efficiency and improve the performance of the Center as a whole. Knowing that the Project Director is fully authorized to consider budget redistribution according to need, part of the NWRC budget was allocated for Building Maintenance of the Survey Research Institute.

3- Other support costs

a) Field agricultural small equipment (designated by garden equipment).

This is a special kind of small farm equipment used in field work and experimental stations at NWRC Delta Barrage premises including Central Laboratories

b) Installation of gates:

It was a must that a fence be constructed urgently for safekeeping of the building which is surrounded by other buildings not owned by the Center. Expensive and sophisticated project equipment are kept in the Main Office building. It was necessary to assure their safety. Moreover, the mentioned amount of L.E. 7140 is dated 3/6/93 which is a date prior to the auditing assignment, and was previously reviewed.
(Attached is a copy of the invoice).

Finding No. 3

1- Local support staff

Social insurance of Groundwater Research Institute is accepted to be covered by NWRC, as for the social insurance of Nile Research Institute, it has not been loaded on USAID fund as it has been covered by the Local Consultant himself.

2- Maintenance and operations costs

Sales taxes of Drainage Research Institute is accepted to be covered by NWRC.

2- Other support costs

License fees of Water Distribution Research Institute is accepted to be covered by NWRC. However, the license fees paid by Hydraulic Research Institute is not a taxes fee, but rather an obligatory insurance approved by USAID.

Finding No. 4

1- Local consultants

Local Consultants are short-term assigned personnel appointed for offering special technical services to the Institute as: consultation, on-the-job staff training, project documentation, report writing , etc.... The short-term assignments are approved by Institute Directors according to a term of reference.
(Attached is the approved consultants Request Form).

2- Vehicle operations

(See Finding No. 1, item 2).
(Attached is the documents for control over fuel coupon usage & 1 coupon book).

Finding No. 5

1- Vehicle operations

(See Finding No. 1, item 2)
(Attached is 21 coupon books).

Finding No. 6

1- Communications

These are charges of both phone calls and facsimiles made with experts and scientists in the field, either to inquire about simulation packages, analysis techniques, etc. They are all related to the work of the project. However, not all of the communications are charged to the PIL 145, because those made a month before the end of the project are charged to the Egyptian Government.

2- Other support costs

Groundwater Research Institute letterhead including Institute logo and contact address is very important in letters officially addressed to different institutions around the world. The letterhead is also used in printed reports and official documents sent to USAID and other authorities.

Finding No. 7

2- Laboratory equipment

(See Institute justification for "Rubber Boat")

Appendix B

National Water Research Center of the
Ministry of Public Works and Water Resources

Audit of Local Expenditures Incurred Under the
Water Research Center Component of the
Irrigation Management Systems Project
Grant Agreement No. 263-0132
Project Implementation Letters Nos. 90,
112, 134, 140, 145, 148, and 149

for the period April 22, 1990 to September 30, 1995

Auditors' Response to Management Comments

Our comments below address the responses of the National Water Research Center (NWRC) of the Ministry of Public Works and Water Resources (MPWWR) to the findings on the fund accountability statements in our audit report of the Water Research Center (WRC) Component for the costs financed by the United States Agency for International Development, Grant Agreement No. 263-0132, for the periods: July 1, 1993 to September 30, 1994 under Project Implementation Letter No. 90; April 22, 1990 to April 28, 1994 under Project Implementation Letter No. 112; November 15, 1992 to July 15, 1993 under Project Implementation Letter No. 134; July 1, 1993 to September 30, 1995 under Project Implementation Letter No. 140; July 21, 1994 to September 21, 1995 under Project Implementation Letter No. 145; September 1, 1994 to August 30, 1995 under Project Implementation Letter No. 148; and December 19, 1994 to June 30, 1995 under Project Implementation Letter No. 149.

Fund Accountability Statement

Project Implementation Letter No. 90

Finding No. 1: Unsupported Costs

Project Grant Agreement No. 263-0132, Standard Provisions, Annex 2, Section B.5 requires that the NWRC maintain books, records, documents, and other evidence relating to the USAID/Egypt sponsored project or program to show, without limitation, all costs incurred under the grant and the receipt and use of goods and services acquired under the grant. Based on that criteria and the additional supporting documents provided by NWRC, we determined that:

1. Adequate supporting documents were provided for salaries for part-time employees for the Groundwater Research Institute for US $183 (LE 620). The finding has been deleted.
2. NWRC did not provide fuel coupon books, serial Nos. 688001 to 688025, and 908951 to 908975. In addition, no evidence was provided to show that these fuel coupon books amounting to US $265 (LE 900) were issued for the Institute's vehicles. The finding remains unchanged.

Finding No. 2: Payment of Unrelated Project Expenses:

Project Grant Agreement No. 263-0132, Standard Provisions, Annex 2, Section B.2 requires that the project to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules, or other arrangements, with any modifications therein, approved by USAID/Egypt pursuant to this agreement. Based on that criteria and NWRC's response, we determined that:

30

1. No evidence of USAID/Egypt's approval was provided for the purchase of flower boxes, curtains and carpets for US $2,956 (LE 10,020). These items were not included in the work plan. The finding remains unchanged.
2. No evidence of USAID/Egypt's approval was provided for building maintenance costs for US $548 (LE 1,856). This item was not included in the work plan. The finding remains unchanged.
3. No evidence of USAID/Egypt's approval was provided for the purchase of garden equipment and for the installation of two gates for US $4,182 (LE 14,176). These items were not included in the work plan. The finding remains unchanged. However, the installation of four gates for US $2,106 (LE 7,140) relates to a prior period which was previously reviewed. The finding has been deleted.

Finding No. 3: Payment of Taxes, Social Insurance, and License Renewal Fees:

Project Grant Standard Provisions, Annex 2, Section B.4 of Grant Agreement No. 263-0132 indicates that NWRC should not pay any identifiable taxes, tariffs, duties, or other levies imposed under the laws of Egypt with USAID funds. Based on that criteria and the additional supporting documents provided by NWRC, we determined that:

1. NWRC concurs with the questioned costs for the social insurance for the Groundwater Research Institute of US $259 (LE 877). On the other hand, NWRC indicated in their response that social insurance and taxes for the Nile Research Institute were paid by the Institute, however, our testing indicated that these expenses amounting to US $242 (LE 822) were paid out of USAID/Egypt's funds. The finding remains unchanged.
2. NWRC concurs with the questioned costs for the maintenance and operations costs of the Drainage Research Institute for US $13 (LE 45). The finding remains unchanged.
3. NWRC concurs with the questioned costs for vehicle insurance fees for the Water Distribution Research Institute for US $9 (LE 30). NWRC does not concur with the questioned costs of US $96 (LE 326) related to the payment of vehicle insurance fees for the Hydraulics Research Institute. NWRC justifies this expense as "obligatory insurance approved by USAID". However, NWRC did not provide evidence of USAID approval. Accordingly, the finding remains unchanged.

Project Implementation Letter No. 140

Finding No. 4: Unsupported Costs:

Project Grant Agreement No. 263-0132, Standard Provisions, Annex 2, Section B.5 requires that the NWRC maintain books, records, documents, and other evidence relating to the USAID/Egypt sponsored project or program to show, without limitation, all costs incurred under the grant and the receipt and use of goods and services acquired under the grant. Based on that criteria and the additional supporting documents provided by NWRC, we determined that:

1. NWRC did not provide any evidence to support the receipt of services performed by local consultants for US $1,533 (LE 5,200). The finding remains unchanged.
2. NWRC provided documents showing control over fuel coupons usage for coupon books, serial Nos. 183801 to 183825, and 107226 to 107250 for an amount of US $ 827 (LE 2,803). The finding has been deleted. However, the date of purchase of the fuel coupon book for serial No. 28601 to 28625 for an amount of US $399 (LE 1,352) did not correspond to the date of disbursements in question. The finding remains unchanged.

Project Implementation Letter No. 145

Finding No. 5: Unsupported Costs:

Project Grant Agreement No. 263-0132, Standard Provisions, Annex 2, Section B.5 requires that the NWRC maintain books, records, documents, and other evidence relating to the USAID/Egypt sponsored project or program to show, without limitation, all costs incurred under the grant and the receipt and use of goods and services acquired under the grant. Based on that criteria and the additional supporting documents provided by NWRC, we determined that the following fuel coupon books have not been provided:

- Serial No. 63126 to 63200
- Serial No. 72976 to 73000
- Serial No. 117576 to 117651
- Serial No. 117673 to 117725

In addition, no evidence was provided to show that the fuel coupon books amounting to US $3,824 (LE 13,000) were issued for the Institute's vehicles. The finding remains unchanged.

Finding No. 6: Payment of Unrelated Project Expenses:

Project Grant Agreement No. 263-0132, Standard Provisions, Annex 2, Section B.2 requires that the project to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules, or other arrangements, with any modifications therein, approved by USAID/Egypt pursuant to this agreement. Based on that criteria and NWRC's response, we determined that:

1. NWRC did not provide any documents, log books, or any other evidence to support its contention that the international phone calls amounting to US $215 (LE 731) were project related. The finding remains unchanged.
2. No additional evidence was provided by NWRC to show USAID/Egypt's approval for printing letterheads for the Groundwater Research Institute for US $343 (LE 1,165). The finding remains unchanged.

Project Implementation Letter No. 148

Finding No. 7: Payment of Unrelated Project Expenses:

Project Grant Agreement No. 263-0132, Standard Provisions, Annex 2, Section B.2 requires that the project be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules, or other arrangements, with any modifications therein, approved by USAID/Egypt pursuant to this agreement. Based on that criteria NWRC's response, we determined that:

- No evidence of USAID/Egypt's approval was provided for the purchase of a rubber boat for US $11,765 (LE 40,000). This item was not included in the approved proposal for PIL No. 148. The finding remains unchanged.

32

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

Memorandum

30 JUL 1997

Date : July 28, 1997

To : Bruce Boyer, RIG/A/C

From : Shirley A. Hunter, Division Chief/FM/FA

Subject : Financial Audit of the Ministry of Public Works and Water Resources' National Water Research Center (WRC), Expenditures Incurred Under the Water Research Center Component of the Irrigation Management Systems Project (USAID/Egypt Project No. 263-0132), Project Implementation Letters No. 90, 112, 134, 140,145, 148 and 149 - Mission response to the Final Draft Report

Mission has met with the auditee's financial representative, reviewed and discussed the findings, and requested additional documentation/justification in support of the questioned costs.

Due to the large number of institutes which are monitored by WRC, the collection of the supporting documentation consumed time and effort and were submitted by WRC on July 22, 1997.

Both FM and the Technical Office are currently reviewing the supporting documentation. Mission determination and request for resolution are scheduled for August 1997.

Therefore, please issue the final report.

Thank you for your assistance.

106 Kasr El Aini Street
Garden City
Cairo, Egypt