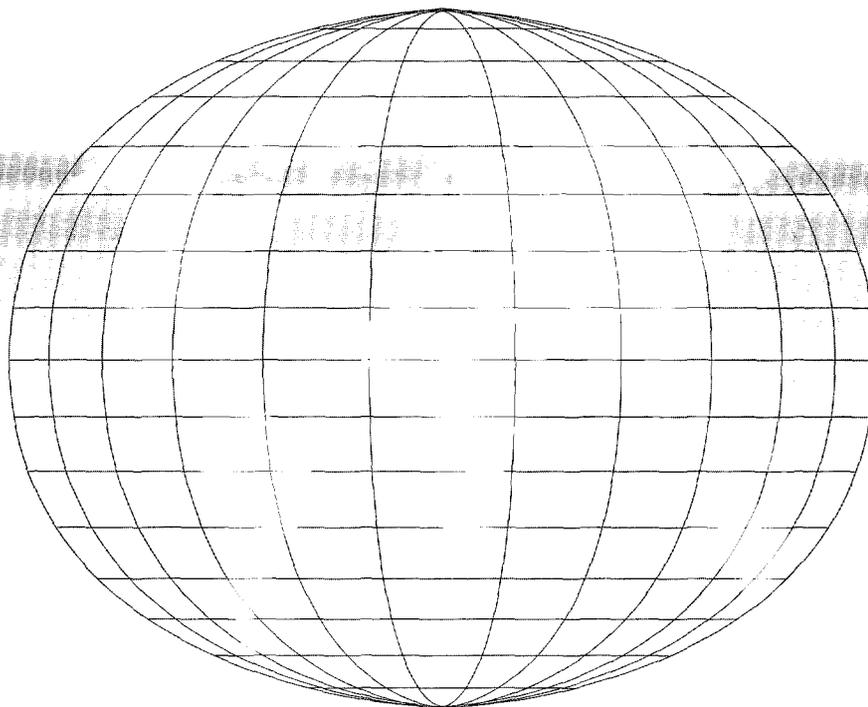


Report of Audit

PD-ABQ-044

**Financial Audit of the Ministry of Education,
Expenditures Incurred Under
Project Implementation Letters Nos. 9, and 10
of the Basic Education Project
(USAID/Egypt Project No. 263-0139)**

**Report No. 6-263-98-003-N
December 4, 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



CAIRO, EGYPT

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

December 4, 1997

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley
FROM: RIG/A/C, Lou Mundy *Lou Mundy*
SUBJECT: Financial Audit of the Ministry of Education, Expenditures Incurred Under Project Implementation Letter Nos. 9 and 10 of the Basic Education Project No. 263-0139 (Audit Report No. 6-263-98-003-N)

The attached report, transmitted on July 1, 1997, by Coopers & Lybrand, presents the results of a financial audit of the Ministry of Education (Ministry), expenditures incurred under Project Implementation Letter (PIL) Nos. 9 and 10 of the Basic Education Project, USAID/Egypt Project No. 263-0139. The purposes of the PILs were to fund the construction and furnishing of schools in selected communities throughout Egypt and for related follow-up services contracted by the National Investment Bank.

We engaged Coopers & Lybrand to perform a financial audit of the Ministry's incurred expenditures of \$3,091,966 (equivalent to LE 10,450,848) for the period April 1, 1993 through September 30, 1994 for PIL No. 9 and \$110,114 (equivalent to LE 372,185) for the period February 1, 1993 to August 31, 1994 for PIL No. 10. The purpose of the audit was to evaluate the propriety of costs incurred during these periods. Coopers & Lybrand also evaluated the Ministry's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statements. The Basic Education Project was completed in September 1994; therefore Coopers & Lybrand did not issue reports on internal controls or compliance.

The audit report questions \$222,812 (equivalent to LE 753,105) in costs billed to USAID/Egypt by the Ministry. The questioned costs related primarily to contractor penalties and unallocable costs billed to USAID/Egypt.

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In response to the draft report, responsible Ministry officials provided additional explanation to the report findings. Coopers & Lybrand 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 Inspector General's recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Egypt make a management decision on the questioned costs of \$222,812 detailed on pages 12 through 18 of the Coopers & Lybrand audit report (ineligible costs of \$188,528 and unsupported costs of \$34,284), and recover from the Ministry of Education the amounts determined to be unallowable.

In response to the recommendation, the Mission reported that of the total questioned costs of \$222,812, it had determined that \$53,957 (\$42,913 ineligible and \$11,044 unsupported) was allowable, and \$168,855 (\$145,615 ineligible and \$23,240 unsupported) was sustained. The sustained amount was refunded by check. Accordingly, the Mission requested closure of the recommendation.

Based on the Mission's determination of the amount of questioned costs sustained and its recovery of that amount, we consider the recommendation to have received a management decision and to be closed upon issuance of the final audit 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

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FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
MANAGED BY THE MINISTRY OF EDUCATION
PROJECT IMPLEMENTATION LETTERS NUMBERS 9 AND 10
UNDER THE BASIC EDUCATION PROJECT
GRANT AGREEMENT NUMBER 263-0139

FOR THE PERIODS FROM APRIL 1, 1993 TO SEPTEMBER 30, 1994 (PIL 9) AND
FROM FEBRUARY 1, 1993 TO AUGUST 31, 1994 (PIL 10)

"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."

BEST AVAILABLE COPY

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
MANAGED BY THE MINISTRY OF EDUCATION
PROJECT IMPLEMENTATION LETTERS NUMBERS 9 AND 10
UNDER THE BASIC EDUCATION PROJECT
GRANT AGREEMENT NUMBER 263-0139

FOR THE PERIODS FROM APRIL 1, 1993 TO SEPTEMBER 30, 1994 (PIL 9) AND
FROM FEBRUARY 1, 1993 TO AUGUST 31, 1994 (PIL 10)

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July 1, 1996

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

Dear Mr. Mundy:

This report presents the results of our financial-related audit of United States Agency for International Development Mission to Egypt ("USAID/Egypt") resources provided through Project Implementation Letters ("PILs") Numbers 9 and 10 and managed by the Ministry of Education ("MOE") for the periods from April 1, 1993 to September 30, 1994 (PIL 9) and from February 1, 1993 to August 31, 1994 (PIL 10).

Background

The grant from USAID/Egypt to the Arab Republic of Egypt for Basic Education originated in 1981 with the objective of increasing literacy rates in Egypt. The Basic Education I grant sought, primarily, to aid in increasing the enrollment rates of children, especially rural girls between the ages of 6 and 15 and to improve the relevance, efficiency and effectiveness of primary and basic education in Egypt. To achieve these goals, the grant initially financed the construction of new classrooms including the necessary furnishings to operate these classrooms in five Egyptian governorates: Beheira, Kafr El Sheikh, Assiut, Sohag and Qena and later expanded its assistance to twenty-six governorates. Funds were also provided to purchase instructional materials and equipment for Egyptian basic education schools and to provide technical assistance in program and policy areas related to the relevance, efficiency and effectiveness of education.

Building sites for new classrooms were to be selected so as to have a maximum effect on increasing enrollment rates. Communities to benefit from project-financed classrooms were selected in those areas in which female enrollments fell below the national average, the existing schools were incomplete, the nearest school was more than a reasonable walking distance away from the school-age population, overcrowding was severe, the existing school buildings were clearly substandard, or where community standards required separate facilities for girls.

The MOE is primarily responsible for project implementation which was designed to be accomplished through several PILs of which the PIL Nos. 9 and 10 are two. PIL No. 9 was intended to fund the construction and furnishing of the schools in the selected communities. PIL No. 10 was intended to enable the National Investment Bank to carry out its follow-up responsibilities with respect to the Basic Education Project.

PIL No. 9 has been amended thirty five times through September 30, 1994. These amendments deal primarily with budget and spending authorizations and additions of governorates to benefit under PIL No. 9 implementation. PIL No. 10 has been amended thirty two times through August 31, 1994. These amendments deal primarily with budget and spending authorizations.

The Grant Agreement for Basic Education, originally dated August 19, 1981 and amended five times through March 30, 1989, has an extended project completion date of June 30, 1994 with financing of 190 million US dollars with local currency not to exceed the equivalent of 155.9 million US dollars.

Audit objectives and scope

The primary objective of this engagement was to perform a financial-related audit of USAID/Egypt resources provided through PILs Numbers 9 and 10 managed by the MOE related to grant agreement number 263-0139 for the periods from April 1, 1993 to September 30, 1994 (PIL 9) and from February 1, 1993 to August 31, 1994 (PIL 10).

Specific objectives were to:

1. express an opinion on whether the fund accountability statements for the MOE related to PILs Numbers 9 and 10 present fairly, in all material respects, project costs incurred and revenues received for the periods from April 1, 1993 to September 30, 1994 (PIL 9) and from February 1, 1993 to August 31, 1994 (PIL 10) in conformity with applicable accounting principles;
2. determine if the project costs reported as incurred under the PILs are allowable, allocable, and reasonable in accordance with the terms of the agreements;
3. review the internal control structure of the MOE surrounding PIL Nos. 9 and 10 in order to determine the amount of substantive testing and assess control risk in accordance with Statement on Auditing Standards No. 55.

Preliminary planning and review procedures began in August, 1996 and consisted of discussions with personnel from the Office of the Regional Inspector General for Audit in Cairo ("RIG/A/C"), the Ministry of Education in Giza and the National Investment Bank, and a review of the grant agreements and PILs Numbers 9 and 10. Audit fieldwork commenced in January, 1997 and was completed in June, 1997.

The MOE incurred project costs of \$ 3,091,966 (equivalent to LE 10,450,848) for PIL Number 9 and \$ 110,114 (equivalent to LE 372,185) for PIL Number 10 during the previously mentioned audit periods. On a judgmental basis, we visited the National Investment Bank and the governorates of Beheira, Kafr el Sheikh, Qena, Giza, Daqahlia, Qaliubia, Aswan and Red Sea and selected for audit testing project costs incurred of \$ 943,184 (equivalent to LE 3,187,963) for PIL Number 9 and \$ 44,455 (equivalent to LE 150,258) for PIL Number 10 which represent a coverage of 31 % and 40 % respectively. Project costs incurred and tested were converted to U.S. dollars at the exchange rate of 1 US Dollar = LE 3.38 for PIL Numbers 9 and 10.

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

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

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

As part of our examination of the MOE, we reviewed relevant internal controls related to the processing of project documents and performed tests of compliance with agreement terms in order to reach a proper audit risk assessment.

Audit results

Fund accountability statements:

Our audit procedures identified the following questioned costs:

	Ineligible	Unsupported	Total
PIL Number 9	US\$ 188,528	US\$ 34,284	US\$ 222,812
PIL Number 10	-	-	-
Total	US\$ 188,528	US\$ 34,284	US\$ 222,812

The ineligible questioned costs related primarily to contractor penalties and unallocable costs billed to USAID/Egypt . The unsupported project costs related primarily to unsettled advances and lack of support for the preparation line item in Qaliubia Governorate.

Internal control structure:

We have not issued a report on the internal control structure. This is because the project was completed and USAID/Egypt is not providing any additional funding to the MOE for any other purpose. We did, however, review the internal control structure of the MOE related to PIL Nos. 9 and 10 in order to determine the nature, timing and extent of substantive testing, and we assessed control risk in accordance with Statement on Auditing Standards No. 55. Because the MOE project was completed in September, 1994 and the pervasive nature of internal control weaknesses identified during the previous audit of the project we assessed control risk at the maximum level and relied exclusively on a substantive based testing approach.

Compliance with agreement terms and applicable laws and regulations:

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

Status of prior audit findings:

As we have not issued a report on the internal control structure or a report on compliance with agreement terms and applicable laws and regulations for the period under audit as discussed above, we have also not assessed the MOE's addressing of prior internal control structure weaknesses and instances of noncompliance with agreement terms and applicable laws and regulations.

Indirect Cost Rate

The MOE was not authorized by USAID/Egypt to charge indirect costs.

Management comments

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

Independent accountants response

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

Mission response

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

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

Coopers & Lybrand

June 17, 1997

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

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

We have audited the accompanying fund accountability statements of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") resources provided through Project Implementation Letters ("PILs") Numbers 9 and 10 and managed by the Ministry of Education ("MOE") for the periods from April 1, 1993 to September 30, 1994 (PIL 9) and from February 1, 1993 to August 31, 1994 (PIL 10). These fund accountability statements are the responsibility of the MOE's management. Our responsibility is to express an opinion on these fund accountability statements based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 31 of Chapter 3 of *Government Auditing Standards* since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of *Government Auditing Standards* is not material because we participate in the Coopers & Lybrand worldwide internal quality control program which requires the Coopers & Lybrand Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Coopers & Lybrand offices.

As described in Note 2, the accompanying fund accountability statements were prepared on the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles.

As detailed in the accompanying fund accountability statements and as more fully described in Note 4 thereto, the results of our tests disclosed the following questioned project costs for PIL Number 9, \$ 222,812 (equivalent to LE 753,105) which consists of \$ 188,528 (equivalent to LE 637,225) in ineligible and \$ 34,284 (equivalent to LE 115,876) in unsupported project costs. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program-related or are prohibited by agreement terms or applicable laws and regulations. Project costs that are unsupported are those that are not supported with adequate documentation.

In our opinion, except for the effects of the questioned project costs as discussed in the preceding paragraph, the fund accountability statements referred to in the first paragraph presents fairly, in all material respects, project costs incurred by the MOE through PILs Numbers 9 and 10 for the periods from April 1, 1993 to September 30, 1994 (PIL 9) and from February 1, 1993 to August 31, 1994 (PIL 10) in conformity with the basis of accounting described in Note 2.

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

Coopers & Lybrand

**FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
MANAGED BY THE MINISTRY OF EDUCATION RELATED TO
PROJECT IMPLEMENTATION LETTER NUMBER 9
UNDER THE BASIC EDUCATION PROJECT
GRANT AGREEMENT NUMBER 263-0139**

FOR THE PERIOD FROM APRIL 1, 1993 TO SEPTEMBER 30, 1994

FUND ACCOUNTABILITY STATEMENT

	<u>Budget</u> (Note 1) (US\$)	<u>Actual</u> (Note 1) (US\$)	<u>Questioned Costs</u>	
			<u>Ineligible</u> (Note 4) (US\$)	<u>Unsupported</u> (Note 4) (US\$)
Revenues:				
Receipts from USAID/Egypt		3,091,965		
Project Costs				
Beheira	7,621,276	204,745	25,570	1,843
Kafr El Sheikh	2,451,774	201,358	29,591	
Assiut	3,076,717	153,698		
Sohag	4,276,714	50,550		
Qena	4,833,424	136,186	4,018	3,227
Sharqia	4,203,828	79,620		
Giza	2,803,018	122,180		
Total c/f	29,266,751	948,337	59,179	5,070

The accompanying notes form an integral part of the financial statements.

**FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
MANAGED BY THE MINISTRY OF EDUCATION RELATED TO
PROJECT IMPLEMENTATION LETTER NUMBER 9
UNDER THE BASIC EDUCATION PROJECT
GRANT AGREEMENT NUMBER 263-0139**

FOR THE PERIOD FROM APRIL 1, 1993 TO SEPTEMBER 30, 1994

FUND ACCOUNTABILITY STATEMENT

	<u>Budget</u> (Note 1) (US\$)	<u>Actual</u> (Note 1) (US\$)	<u>Questioned Costs</u>	
			<u>Ineligible</u> (Note 4) (US\$)	<u>Unsupported</u> (Note 4) (US\$)
Total b/f	29,266,751	948,337	59,179	5,070
Fayoum	5,321,842	103,361		
Beni Suef	4,558,029	159,914		
Minya	6,300,873	232,016		
Daqahlia	6,561,914	252,919	7,722	3,374
Gharbia	5,042,899	108,860		
Monofia	3,254,438	46,602		
Qaliubia	7,251,627	177,299	1,368	6,560
Dumiat	3,332,840	103,011		
Aswan	3,165,680	412,670	108,962	13,639
Ismailia	3,208,580	16,404		
Suez	1,139,053	27,417		
Total c/f	78,404,526	2,588,810	177,231	28,643

The accompanying notes form an integral part of the financial statements.

**FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
MANAGED BY THE MINISTRY OF EDUCATION RELATED TO
PROJECT IMPLEMENTATION LETTER NUMBER 9
UNDER THE BASIC EDUCATION PROJECT
GRANT AGREEMENT NUMBER 263-0139**

FOR THE PERIOD FROM APRIL 1, 1993 TO SEPTEMBER 30, 1994

FUND ACCOUNTABILITY STATEMENT

	<u>Budget</u> (Note 1) (US\$)	<u>Actual</u> (Note 1) (US\$)	<u>Questioned Costs</u>	
			<u>Ineligible</u> (Note 4) (US\$)	<u>Unsupported</u> (Note 4) (US\$)
Total b/f	78,404,526	2,588,810	177,231	28,643
Port Said	1,050,296	6,782		
Marsa Matrouh	2,401,479	77,199		
New Valley	3,884,615	104,931		
Red Sea	2,370,562	118,946	11,297	5,641
North Sinai	2,405,325	67,851		
South Sinai	562,130	33,988		
Cairo	88,757	(6,944)		
Alexandria	369,822	100,403		
Total	91,537,512	3,091,966	188,528	34,284

The accompanying notes form an integral part of the financial statements.

**FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
MANAGED BY THE MINISTRY OF EDUCATION RELATED TO
PROJECT IMPLEMENTATION LETTER NUMBER 10
UNDER THE BASIC EDUCATION PROJECT
GRANT AGREEMENT NUMBER 263-0139**

FOR THE PERIOD FROM FEBRUARY 1, 1993 TO AUGUST 31, 1994

FUND ACCOUNTABILITY STATEMENT

	<u>Budget</u> (US \$) (Note 1)	<u>Actual</u> (US\$) (Note 1)
Revenues:		
Receipts from USAID/Egypt		84,072
Project Costs:		
Salaries and Site Visits	189,349	45,331
Per Diems	59,172	13,017
Travel and Transportation	68,047	14,485
Governorates Representatives	17,751	3,803
Miscellaneous	16,272	2,286
Audit Firm	34,911	28,264
A & E Construction Supervision	17,456	2,928
Total Expenditures	402,958	110,114

The accompanying notes form an integral part of the financial statements.

**FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
MANAGED BY THE MINISTRY OF EDUCATION RELATED TO
PROJECT IMPLEMENTATION LETTERS NUMBERS 9 AND 10
UNDER THE BASIC EDUCATION PROJECT
GRANT AGREEMENT NUMBER 263-0139**

**FOR THE PERIODS FROM APRIL 1, 1993 TO SEPTEMBER 30, 1994 (PIL 9) AND
FROM FEBRUARY 1, 1993 TO AUGUST 31, 1994 (PIL 10)**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF STATEMENT:

The "Budget" column include all USAID/Egypt-approved project costs related to PIL Nos. 9 and 10 and is based on the most recent budget amendment. This information is presented for informational purposes only.

The "Actual" column represents cumulative project costs incurred by the MOE and funds received from USAID/Egypt related to PIL Nos. 9 and 10 for the periods from April 1, 1993 to September 30, 1994 (PIL 9) and from February 1, 1993 to August 31, 1994 (PIL 10). Funds received does not include the line of credit held in the National Bank of Egypt which will revert to the FT-800 account at the project's completion.

NOTE 2 - BASIS OF PRESENTATION:

The fund accountability statements of the MOE have been prepared on the cash basis. Consequently, project costs are recognized when paid rather than when the obligation is incurred and project revenues are recognized when received rather than when earned.

NOTE 3 - FOREIGN EXCHANGE:

Project costs incurred in Egyptian pounds have been converted to U.S. dollars at the exchange rate of 3.38 LE to 1 U.S. dollar. The exchange rate used is the average monthly exchange rate for the audit periods.

NOTE 4 - QUESTIONED PROJECT COSTS:

Questioned project costs are presented in two separate categories - ineligible and unsupported. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program-related or are prohibited by applicable agreement terms or laws and regulations. Unsupported project costs are those that are not supported with adequate documentation.

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED):

The general causes for the following questioned costs related primarily to a pervasive lack of awareness of USAID regulations and grant agreement and PIL terms on the part of MOE management.

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

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
A. Beheira		
1. We found that advance payments for water and electricity connections to schools were billed to USAID/Egypt. These amounts were unsettled at the time of our visit to Beheira in May, 1997. Section B.5 (a) of the Standard Provisions Annex of the Grant Agreement states that "the Grantee will maintain or cause to be maintained, in accordance with generally-accepted accounting principles and practices consistently applied, books and records sufficient to show, without limitation, the receipt and use of goods and services acquired under the Grant". We consider this amount unsupported.	\$ -	\$ 1,843
2. We found that penalties had not been deducted from contractors according to the terms of the contracts, the undeducted penalty being billed to USAID/Egypt. A legal opinion issued by USAID/Egypt on June 14, 1995 states that "...from June 14, 1994 delay penalties are penalties applied to the contractors for not complying with the contract terms and should reduce the costs billed to USAID/Egypt in order to be used to		

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED):

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<p>further the project objectives". This opinion is applicable to all projects effective the date of its issuance, except for the Basic Education Project where all delay penalties are refundable to USAID/Egypt.</p>	\$ 4,559	\$ -
<p>3. We found that penalties had been deducted from contractors and billed to USAID/Egypt. A legal opinion issued by USAID/Egypt on June 14, 1995 states that "...from June 14, 1994 delay penalties are penalties applied to the contractors for not complying with the contract terms and should reduce the costs billed to USAID/Egypt in order to be used to further the project objectives". This opinion is applicable to all projects effective the date of its issuance, except for the Basic Education Project where all delay penalties are refundable to USAID/Egypt.</p>	\$ <u>21,011</u>	\$ -
Total Beheira	\$ <u>25,570</u>	\$ <u>1,843</u>
B. Kafr El Sheikh		
<p>1. Sales taxes were billed to USAID/Egypt under settlements of an advance. Section B.4 (a) of the Standard Provisions Annex of the Grant Agreement states that "this Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee". We consider this amount ineligible.</p>	\$ 1,971	\$ -
<p>2. Purchase of musical instruments were billed to USAID/Egypt. The USAID/Egypt and the National Bank of Egypt provided a list of authorized purchases under the preparation line item dated June 14, 1993 which did not include musical instruments.</p>	\$ <u>27,620</u>	\$ -
Total Kafr El Sheikh	\$ <u>29,591</u>	\$ -

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED):

<u>Item Description</u>		<u>Questioned Project Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
C.	Qena		
1.	We found that advance payments for water and electricity connections to schools were billed to USAID/Egypt. These amounts were unsettled at the time of our visit to Qena in March, 1997. Section B.5 (a) of the Standard Provisions Annex of the Grant Agreement states that "the Grantee will maintain or cause to be maintained, in accordance with generally-accepted accounting principles and practices consistently applied, books and records sufficient to show, without limitation, the receipt and use of goods and services acquired under the Grant". We consider this amount unsupported.	\$ -	\$ 1,979
2.	We found that the expenditure for water connection to the Dankek school was unsupported except by a hand written note from an employee of Bahary Kamula City Council stating that the amount of LE 4,217 had been spent. Section B.5 (a) of the Standard Provisions Annex of the Grant Agreement states that "the Grantee will maintain or cause to be maintained, in accordance with generally-accepted accounting principles and practices consistently applied, books and records sufficient to show, without limitation, the receipt and use of goods and services acquired under the Grant". We consider this amount unsupported.	\$ -	\$ 1,248
3.	We found that penalties had been deducted from contractors and billed to USAID/Egypt. A legal opinion issued by USAID/Egypt on June 14, 1995 states that "...from June 14, 1994 delay penalties are penalties applied to the contractors for not complying with the contract terms and should reduce the costs billed to USAID/Egypt in order to be used to further the project objectives". This opinion is applicable to all projects effective the date		

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED):

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
of its issuance, except for the Basic Education Project where all delay penalties are refundable to USAID/Egypt.		
Total Qena	\$ <u>4,018</u>	\$ <u>-</u>
	\$ <u>4,018</u>	\$ <u>3,227</u>
D. Daqahlia		
1. We found that advance payments for water and electricity connections to schools were billed to USAID/Egypt. These amounts were unsettled at the time of our visit to Daqahlia in May, 1997. Section B.5 (a) of the Standard Provisions Annex of the Grant Agreement states that "the Grantee will maintain or cause to be maintained, in accordance with generally-accepted accounting principles and practices consistently applied, books and records sufficient to show, without limitation, the receipt and use of goods and services acquired under the Grant". We consider this amount unsupported.	\$ -	\$ 3,374
2. Purchase of typewriter ribbons for the use of Governmental Commercial School examinations were billed to USAID/Egypt. The Project is for Basic Education so these amounts are not allocable to the Grant Agreement.	\$ 6,755	\$ -
3. Sales taxes were billed to USAID/Egypt under settlements of an advance. Section B.4 (a) of the Standard Provisions Annex of the Grant Agreement states that "this Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee". We consider this amount ineligible.	\$ 967	\$ -
Total Daqahlia	\$ <u>7,722</u>	\$ <u>3,374</u>

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED):

		<u>Questioned Project Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
<u>Item Description</u>			
E.	Qaliubia		
1.	We found penalties deducted from contractors that had been billed to USAID/Egypt. There were no supporting documents or descriptions in the accounting records and the Ministry of Education personnel in Qaliubia did not know details of the amounts. A legal opinion issued by USAID/Egypt on June 14, 1995 states that "...from June 14, 1994 delay penalties are penalties applied to the contractors for not complying with the contract terms and should reduce the costs billed to USAID/Egypt in order to be used to further the project objectives". This opinion is applicable to all projects effective the date of its issuance, except for the Basic Education Project where all delay penalties are refundable to USAID/Egypt.	\$ -	\$ 6,560
2.	We found that penalties had been deducted from contractors and billed to USAID/Egypt. A legal opinion issued by USAID/Egypt on June 14, 1995 states that "...from June 14, 1994 delay penalties are penalties applied to the contractors for not complying with the contract terms and should reduce the costs billed to USAID/Egypt in order to be used to further the project objectives". This opinion is applicable to all projects effective the date of its issuance, except for the Basic Education Project where all delay penalties are refundable to USAID/Egypt.	\$ 1,368	\$ -
3.	The National Investment Bank provided support for this finding and it has been removed from the final report.		
Total Qaliubia		<u>\$ -</u> <u>\$ 1,368</u>	<u>\$ -</u> <u>\$ 6,560</u>

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED):

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
F. Aswan		
1. We found that advance payments for water and electricity connections to schools were billed to USAID/Egypt. These amounts were unsettled at the time of our visit to Aswan in March, 1997. Section B.5 (a) of the Standard Provisions Annex of the Grant Agreement states that "the Grantee will maintain or cause to be maintained, in accordance with generally-accepted accounting principles and practices consistently applied, books and records sufficient to show, without limitation, the receipt and use of goods and services acquired under the Grant". We consider this amount unsupported.	\$ -	\$ 13,639
2. We found that penalties had been deducted from contractors and billed to USAID/Egypt. A legal opinion issued by USAID/Egypt on June 14, 1995 states that "...from June 14, 1994 delay penalties are penalties applied to the contractors for not complying with the contract terms and should reduce the costs billed to USAID/Egypt in order to be used to further the project objectives". This opinion is applicable to all projects effective the date of its issuance, except for the Basic Education Project where all delay penalties are refundable to USAID/Egypt. This amount was transferred from the Ministry of Education in Aswan to the National Investment Bank in Cairo, but the National Investment Bank was unable to determine whether it had been deposited in its own account or the Ministry of Education account held there, or whether it had been deducted from billings to USAID/Egypt.	\$ 69,770	\$ -

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED):

<u>Item Description</u>	<u>Questioned Project Costs</u> <u>Ineligible</u>	<u>Unsupported</u>
<p>3. Purchase of musical instruments were billed to USAID/Egypt. The USAID/Egypt and the National Bank of Egypt provided a list of authorized purchases under the preparation line item dated June 14, 1993 which did not include musical instruments.</p>	<p>\$ <u>39,192</u></p>	<p>\$ <u>-</u></p>
<p>Total Aswan</p>	<p>\$ <u>108,962</u></p>	<p>\$ <u>13,639</u></p>
<p>G. Red Sea</p>		
<p>1. We found that the settlement of an advance of LE 21,000 (entry number 17 dated November 1, 1993) to Safaga City Council for water connections with expenditures of LE 19,066 was unsupported except by a statement from the City Council stating that the amount of LE 19,066 had been spent and receiving reports for the water connections. Section B.5 (a) of the Standard Provisions Annex of the Grant Agreement states that "the Grantee will maintain or cause to be maintained, in accordance with generally-accepted accounting principles and practices consistently applied, books and records sufficient to show, without limitation, the receipt and use of goods and services acquired under the Grant".</p>	<p>\$ -</p>	<p>\$ 5,641</p>
<p>2. Purchases of 38 ovens, 25 sewing machines, 25 Moulinex blenders and 35 cupboards for tailored cloth were billed to USAID/Egypt. The USAID/Egypt and the National Bank of Egypt provided a list of authorized purchases under the preparation line item dated June 14, 1993 which did not include these items.</p>	<p>\$ <u>11,297</u></p>	<p>\$ <u>-</u></p>
<p>Total Red Sea</p>	<p>\$ <u>11,297</u></p>	<p>\$ <u>5,641</u></p>
<p>Total Questioned Costs</p>	<p>\$ <u>188,528</u></p>	<p>\$ <u>34,284</u></p>

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
MANAGED BY THE MINISTRY OF EDUCATION RELATED TO
PROJECT IMPLEMENTATION LETTER NUMBER 9
UNDER THE BASIC EDUCATION PROJECT
GRANT AGREEMENT NUMBER 263-0139

FOR THE PERIOD FROM APRIL 1, 1993 TO SEPTEMBER 30, 1994

MANAGEMENT COMMENTS

El-Beheira :

1/ - Concerning the advance payments for water & electricity connections amounting to LE 16450, please find attached the supporting documents sufficient to show the receipt and use of goods and services for these payments.

2/ concerning the deducted penalties from the contractors amounting to LE 15409, LE 71018,

I have the honor to notify that:

1. Not all the penalties are applied to the contractors for not complying with the contract terms but there are penalties for not committing to the Egyptian laws such as the delay in the due date.

2. It is logical that penalties are refundable to USAID/Egypt during the project life in order to be used in further project objectives. But after the end of the project life, it is recommended that the penalties are to be handled by the Egyptian government as being responsible for handling any deficiency from the supplier's side resulting for not complying with the contract terms.

3. An amount of LE 7528 represents final insurance due for some contractors, and it is included in the amount of LE 71018 listed in the report.

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MANAGEMENT COMMENTS

Kafr EL Sheikh :

1- Concerning the advance payments to Ideal for furniture amounting to LE 81660, please find attached the supporting documents sufficient to show the receipt and use of goods for these payments.

2- Concerning the purchase of musical instruments amounting to LE 93357, I have the honour to notify that the project implementation letter number 9 did not include specified items for the authorized purchases like furniture and equipment. Since the musical instruments are considered to be among the furniture and equipments necessary for the basic education schools please find attached copies of the ratified supporting documents of payments.

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MANAGEMENT COMMENTS

Qena:

1/ Concerning the advance payments for water and electricity connections amounting to LE 6629, LE 4217, please find attached the supporting documents sufficient to show the receipt and use of goods and services for these payments.

2/ Concerning the deducted penalties from the contractors amounting to LE 13580,

I have the honour to notify that:

1- Not all the penalties are applied to the contractors for not complying with the contract terms but there are penalties for not committing to the Egyptian laws such as the delay in the due date.

2- It is logical that penalties are refundable to USAID/Egypt during the project life in order to be used in further project objectives. But after the end of the project life, it is recommended that the penalties are to be handled by the Egyptian government as being responsible for handling any deficiency from the supplier's side resulting from not complying with the contract terms.

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MANAGEMENT COMMENTS

Dakhia:

- 1- Concerning the advance payments for water and electricity connections amounting to LE 11403, the supporting documents - sufficient to show the receipt and use of goods and services for these payments will be delivered after being completed.

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MANAGEMENT COMMENTS

EL Qaliubia ::

1. Concerning the deducted penalties from the contractors amounting to LE 53512, LE 4623.

I have the honour to notify that:

1- Not all the penalties are applied to the contractors for not complying with the contract terms but there are penalties for not committing to the Egyptian laws such as the delay in the due date.

2 It is logical that penalties are refundable to USAID/Egypt during the project life in order to be used in further project objectives. But after the end of the project life, it is recommended that penalties are to be handled by the Egyptian government as being the responsible for handling any deficiency from the supplier's side resulting from not complying with the contract terms.

3 - The amount of LE 31339 includes the previous amounts and it is not to be observed, as it represents final entries.

2/. Concerning the unsupported preparation line item amounting to LE 22494,

Please find attached the supporting documents sufficient to show the use and receipt of these preparation line item

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MANAGEMENT COMMENTS

1. Aswan:

1/ Concerning the advance payments for the water and electricity connections amounting to LE 46099,
/ / / / / the supporting documents sufficient to show the receipt and use of goods and services for these payments will be delivered after being completed.

2/ - Concerning the deducted penalties from the contractors amounting to LE. 235 823,

I have the honour to notify that:

1- Not all the penalties are applied to the contractors for not complying with the contract terms but there are penalties for not committing to the Egyptian laws such as the delay in the due date.

2- It is logical that penalties are refundable to USAID/Egypt during the project life in order to be used in further project objectives. But at the end of the project life, it is recommended that the penalties are to be handled by the Egyptian government as being responsible for handling any deficiency from the supplier's side resulting from not complying with the contract terms.

3- In all cases, the above mentioned amount included bonds and contracts insurance that were repaid to the suppliers which amounted to LE 90778 and it is not to be observed.

4- Concerning the amount transferred, the National Investment Bank has repaid the amount of LE 149418 to USAID/Egypt through the cheque number 316122 dated 03/16/1996 with a total of LE 1.182.194 and this is the value of the observations that were not ratified in the previous audit report till February 1993.

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MANAGEMENT COMMENTS

Aswan (continued) :

- 3/ Concerning the purchase of musical instrument amounting to LE 132466 I have the honour to notify that the project implementation letter number 9 did not include specified items for the authorized purchases like furniture and equipment.
- Since the musical instruments are considered to be among the furniture and equipment necessary for the basic education schools, please find attached copies of the ratified supporting documents of payments.

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MANAGEMENT COMMENTS

Red Sea :-

1/ Concerning the advance payments for water connections amounting to LE 19066, please find attached the supporting documents sufficient to show the receipt and use of goods and services for these payments.

2/ Concerning the purchases of Sewing machines, Moulinex blenders and Cupboards amounting to LE 38184, I have the honour to notify that the project implementation letter number 9 did not include specified items for the authorized purchases like furniture and equipment. Since the sewing machines, moulinex blenders and cupboards are considered to be among the furniture and equipments necessary for the basic education schools to train the girls on the housekeeping works. Please find attached copies of the ratified supporting documents of payments.

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FOR THE PERIOD FROM APRIL 1, 1993 TO SEPTEMBER 30, 1994

INDEPENDENT ACCOUNTANTS RESPONSE

Finding A.1

The National Investment Bank (NIB) provided third part support for expenditures of LE 10,221 which have been removed from our finding. Adequate third party documentation was not provided to support other amounts and they remain questioned.

Finding A.2

The NIB state in their response that the penalties were deducted under the terms of Egyptian Law, and not under contract terms. We believe that Egyptian Contracting Law forms an implied term in any contract entered into by the Ministry of Education and that amounts deducted should be returned to USAID/Egypt. This finding remains unchanged.

Finding A.3

The NIB state in their response that the penalties were deducted under the terms of Egyptian Law, and not under contract terms. We believe that Egyptian Contracting Law forms an implied term in any contract entered into by the Ministry of Education and that amounts deducted should be returned to USAID/Egypt. This finding remains unchanged.

Finding B.1

The NIB provided third part support for expenditures of LE 81,660. However, this amount included sales taxes of LE 6,663 which are ineligible for reimbursement and have remained questioned as an ineligible cost.

Finding B.2

The NIB state in their response that PIL No. 9 did not specify furniture to be purchased. However, as we state in the criteria of our finding, USAID/Egypt and the National Bank of Egypt provided a list of authorized purchases under the preparation line item dated June 14, 1993 which did not include musical instruments. This finding remains unchanged.

Finding C.1

The NIB provided us with handwritten memos from the companies involved stating that they had completed the work but adequate third party documentation was not provided to support this amount and they remain questioned.

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INDEPENDENT ACCOUNTANTS RESPONSE

Finding C.2

The NIB provided us with handwritten memos from the companies involved stating that they had completed the work but adequate third party documentation was not provided to support this amount and they remain questioned.

Finding C.3

The NIB state in their response that the penalties were deducted under the terms of Egyptian Law, and not under contract terms. We believe that Egyptian Contracting Law forms an implied term in any contract entered into by the Ministry of Education and that amounts deducted should be returned to USAID/Egypt. This finding remains unchanged.

Findings D.1, 2 and 3

The NIB did not provide us with a response to these findings.

Finding E.1

We agree that an amount of LE 31,339 has been questioned twice. Accordingly, only LE 22,173 remains as an unsupported cost.

Finding E.2

The NIB state in their response that the penalties were deducted under the terms of Egyptian Law, and not under contract terms. We believe that Egyptian Contracting Law forms an implied term in any contract entered into by the Ministry of Education and that amounts deducted should be returned to USAID/Egypt. This finding remains unchanged.

Finding E.3

The NIB provided third part support for expenditures of LE 22,494. This finding has been removed.

Finding F.1

The NIB did not provide us with a response to this finding.

**FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
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INDEPENDENT ACCOUNTANTS RESPONSE

Finding F.2

The NIB states that an amount LE 149,418 was remitted to USAID/Egypt in a check dated March 16, 1993 but no support was provided to support this assertion. The NIB state in their response that the penalties were deducted under the terms of Egyptian Law, and not under contract terms. We believe that Egyptian Contracting Law forms an implied term in any contract entered into by the Ministry of Education and that amounts deducted should be returned to USAID/Egypt. This finding remains unchanged.

Finding F.3

The NIB state in their response that PIL No. 9 did not specify furniture to be purchased. However, as we state in the criteria of our finding, USAID/Egypt and the National Bank of Egypt provided a list of authorized purchases under the preparation line item dated June 14, 1993 which did not include musical instruments. This finding remains unchanged.

Finding G.1

The NIB provided us with reports from the city council stating that water connections "in several places" had been examined and were in accordance with contract specifications but adequate third party documentation was not provided to support this amount and they remain questioned.

Finding G.2

The NIB state in their response that PIL No. 9 did not specify furniture to be purchased. However, as we state in the criteria of our finding, USAID/Egypt and the National Bank of Egypt provided a list of authorized purchases under the preparation line item dated June 14, 1993 which did not include musical instruments. This finding remains unchanged.

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FOR THE PERIOD FROM APRIL 1, 1993 TO SEPTEMBER 30, 1994

MISSION RESPONSE



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

3 - Dec 1997

MEMORANDUM

DATE : Decemember 2, 1997

TO : Lou Mundy, RIG/A/C

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

SUBJECT : Financial Audit of the Ministry of Education, Expenditures Incurred under Project Implementation Letters (PILs) 9 and 10 under the Basic Education Project, USAID/Egypt Project No. 263-0139 - Draft Report dated October 30, 1997

Following is the Mission response to Recommendation No. 1 under the subject audit:

Recommendation No. 1:

We recommend that USAID/Egypt make a management decision on the questioned costs of \$222,812 (ineligible costs of \$188,528 and unsupported costs of \$34,284) detailed on pages 12 through 18 of the audit report, and recover from the Ministry of Education the amounts determined to be unallowable.

Mission Response:

Based on Mission review, of the total amount of \$222,812 (LE 753,105), \$53,957 (LE 182,376) is determined to be allowable, and \$168,855 (LE 570,729) is sustained. The sustained amount was refunded by NIB check No. 0328758 in the amount of \$168,855 (LE 570,729), dated November 26, 1997, USAID Cash Receipt No. 18052 (Attachment No. 1). Accordingly, Mission requests closure of the recommendation upon issuance of the final report.

Following are the details of Mission determination, and attached is a summary sheet reflecting the amounts allowed/sustained.

Finding A - Beheira:

1. The unsupported costs of \$1,843 (LE 6,229)

This amount represents advance payments for water and electricity connections billed to USAID. NIB has not submitted documents to support this amount, therefore, \$1,843 (LE 6,229) is sustained and was refunded by NIB.

2. The ineligible amount of \$4,559 (LE 15,409) represents penalties not deducted from contractors and billed to USAID.

According to the USAID Legal Opinion dated June 14, 1995, penalties are to be refunded to USAID. Accordingly, **\$4,559 (LE 15,409) is sustained and was refunded by NIB.**

3. The ineligible amount of \$21,011 (LE 71,018) represents penalties deducted from contractors and billed to USAID.

According to the USAID Legal Opinion dated June 14, 1995, penalties are to be refunded to USAID. Accordingly, **\$21,011 (LE 71,018) is sustained and was refunded by NIB.**

B. Kafr El Sheikh:

1. The ineligible amount of \$1,971 (LE 6,663) represents sales taxes billed to USAID/Egypt under settlement of advances.

Sales taxes are ineligible for reimbursement, therefore, **\$1,971 (LE 6,663) is sustained and was refunded by NIB.**

2. The ineligible amount of \$27,620 (LE 93,357) represents the cost of musical instruments.

Musical instruments are not allocable to the PIL and are not budgeted for. Therefore, **\$27,620 (LE 93,357) is sustained and was refunded by NIB.**

C. Qena:

1. The unsupported amount of \$1,979 (LE 6,689) represents advance payments billed to USAID.

NIB has not submitted documents to support this amount, therefore, **\$1,979 (LE 6,689) is sustained and was refunded by NIB.**

2. The unsupported amount of \$1,248 (LE 4,217) represents unsupported expenditure for water connection.

NIB has not submitted documents to support this amount, therefore, **\$1,248 (LE 4,217) is sustained and was refunded by NIB.**

3. The ineligible amount of \$4,018 (LE 13,580) represents penalties deducted from contractors and billed to USAID.

According to the USAID Legal Opinion dated June 14, 1995, penalties are to be refunded to USAID. Accordingly, **\$4,018**

is sustained and was refunded by NIB.

D. Daqahlia:

1. The unsupported amount of \$3,374 (LE 11,403) represents advance payments for water and electricity connections billed to USAID.

NIB has not submitted documents to support this amount, therefore, **\$3,374 (LE 11,403) is sustained and was refunded by NIB.**

2. The ineligible amount of \$6,755 (LE 22,833) represents the cost of musical instruments.

Musical instruments are not allocable to the PIL and are not budgeted for. Therefore, **\$6,755 (LE 22,833) is sustained and was refunded by NIB.**

3. The ineligible amount of \$967 (LE 3,267) represents sales taxes billed to USAID/Egypt under settlement of advances.

Sales taxes are ineligible for reimbursement, therefore, **\$967 (LE 3,267) is sustained and was refunded by NIB.**

E. Qaliubia:

1. The unsupported amount of \$6,560 (LE 22,173) represents penalties deducted from contractors and billed to USAID.

According to the USAID Legal Opinion dated June 14, 1995, penalties are to be refunded to USAID. Accordingly, **\$6,560 (LE 22,173) is sustained and was refunded by NIB.**

2. The ineligible amount of \$1,368 (LE 4,623) represents penalties deducted from contractors and billed to USAID.

According to the Legal Opinion dated June 14, 1995, penalties are to be refunded to USAID. Accordingly, **\$1,368 (LE 4,623) is sustained and was refunded by NIB.**

F. Aswan:

1. The unsupported amount of \$13,639 (LE 46,099) represents advance payments for water and electricity connections were billed to USAID.

NIB has submitted documents to support the amount of \$5,403 (LE 18,261) which are detailed as follows:

- LE 1,559.6: NIB submitted a certification by a third party (the superintendent of the school) that water connections at the cost of LE 1,427 was satisfactorily completed. In addition, NIB submitted a claim settlement by the Educational Directorate for LE 172.6 (excluding taxes of LE 23) for electrical connections as well as a receiving report for electrical supplies (Attachment No. 2).

- LE 8,854: NIB submitted final settlement for electricity connections for four schools in the amount of LE 8,854, (excluding taxes of LE 74) (Attachment No. 3).

- LE 6,145.7: NIB submitted final settlement by the Electricity Authority in Aswan, in the total amount of LE 6,145.7 (excluding taxes of LE 241) (Attachment No. 4).

- LE 1,702: NIB submitted final invoice (Form 50) as well as receiving report for LE 1,121 for water connections. NIB also submitted Form 50 for LE 580 for water connections (Attachment No. 5).

Accordingly, **\$5,403 (LE 18,265) (including LE 4 mathematical difference) is determined to be allowable, and \$8,236 (LE 27,837) is sustained and was refunded by NIB.**

2. The ineligible amount of \$69,770 (LE 234,823) represents penalties and bonds/insurance deducted from contractors and billed to USAID.

This amount consists of:

- a. **\$42,913 (LE 145,045)** amount transferred from Aswan to NIB, but there was no evidence that the amount was refunded to USAID.

NIB responded that this amount was previously refunded under the prior NIB audit, Report No. 6-263-95-01-N for Aswan governorate. Mission reviewed the documents provided as well as our records for amounts refunded under the prior audit. Mission review has confirmed that this amount was part of a total of LE 149,418 that was previously refunded by NIB for Aswan governorate (Attachment No. 6). Based on the above, Mission believes that **\$42,913 (LE 145,045) is not sustained**, since it was in fact refunded to USAID.

b. \$26,857 (LE 90,778) represents bonds and contractors insurance. NIB has not submitted documents to support this amount. Therefore, \$26,857 (LE 90,778) is sustained and was refunded by NIB.

Therefore, of the \$69,770 (LE 235,823) questioned, \$42,913 (LE 145,045) is determined to be eligible, and \$26,857 (LE 90,778) is sustained and was refunded by NIB.

3. The ineligible amount of \$39,192 (LE 132,468) represents the cost of musical instruments.

Musical instruments are not allocable to the PIL and are not budgeted for. Therefore, \$39,192 (LE 132,468) is sustained and was refunded by NIB.

G. Red Sea:

1. The unsupported amount of \$5,641 (LE 19,066) represents advance payments for water connections billed to USAID.

NIB has submitted documents to support the amount of LE 19,066, which contain an invoice from the local unit in Safaga, Form 50, as well as a receiving report by the committee (Attachment No. 7). Accordingly, Mission has determined this amount is adequately supported, and therefore \$5,641 (LE 19,066) is considered allowable.

2. The ineligible amount of \$11,297 (LE 38,184) represents the cost of ovens, sewing machines, blenders and cupboards, unallocable to the PIL.

These items are not allocable to the PIL and are not budgeted for. Therefore, \$11,297 (LE 38,184) is sustained and was refunded by NIB.

Thank you for your cooperation.

Att: a/s

Audit of the National Investment Bank - PIL 9, Proj. 263-0139

Draft Audit Report dated October 30, 1997

Summary Table of Amounts Allowed/Sustained

A/R Page No.	Find. No.	Amount Questioned	Amount Determined to be Allowed			Amount Determined to be Sustained		
			Eligible	Supported	Total	Ineligible	Unsupporte	Total
12	A.1	1,843.00			0.00		1,843.00	1,843.00
13	A.2	4,559.00			0.00	4,559.00		4,559.00
13	A.3	21,011.00			0.00	21,011.00		21,011.00
13	B.1	1,971.00			0.00	1,971.00		1,971.00
13	B.2	27,620.00			0.00	27,620.00		27,620.00
14	C.1	1,979.00			0.00		1,979.00	1,979.00
14	C.2	1,248.00			0.00		1,248.00	1,248.00
15	C.3	4,018.00			0.00	4,018.00		4,018.00
15	D.1	3,374.00			0.00		3,374.00	3,374.00
15	D.2	6,755.00			0.00	6,755.00		6,755.00
15	D.3	967.00			0.00	967.00		967.00
16	E.1	6,560.00			0.00		6,560.00	6,560.00
16	E.2	1,368.00			0.00	1,368.00		1,368.00
17	F.1	13,639.00		5,403.00	5,403.00		8,236.00	8,236.00
17	F.2	69,770.00	42,913.00		42,913.00	26,857.00		26,857.00
18	F.3	39,192.00			0.00	39,192.00		39,192.00
18	G.1	5,641.00		5,641.00	5,641.00			0.00
18	G.2	11,297.00			0.00	11,297.00		11,297.00
TOTAL		222,812.00	42,913.00	11,044.00	53,957.00	145,615.00	23,240.00	168,855.00