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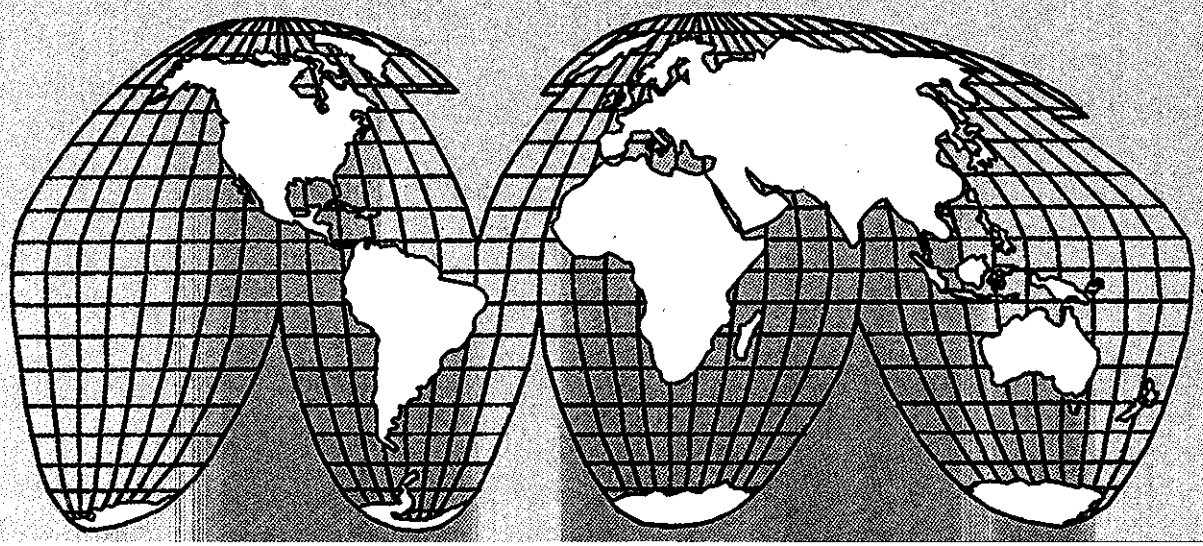
USAID

OFFICE OF INSPECTOR GENERAL

Audit of Locally Incurred Costs Under the Red Sea Component of the USAID/Egypt-Financed Egyptian Environmental Policy Program

Audit Report No. 6-263-02-001-F

February 3, 2002



U.S. Agency for International Development

Cairo, Egypt

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

RIG/Cairo

February 3, 2002

MEMORANDUM

FOR: Alan Davis, Director, USAID/Egypt/EI/E
Gary Kinney, Director, USAID/Egypt/PROC

FROM: Darryl T. Burris, RIG/Cairo

SUBJECT: Audit of Locally Incurred Costs Under the Red Sea Component of the USAID/Egypt-Financed Egyptian Environmental Policy Program (Audit Report No. 6-263-02-001-F)

This is our final report on the subject audit. We reviewed your comments to our draft report and included them as Appendix II to this report.

The report contains one recommendation for USAID/Egypt to request the Egyptian Environmental Affairs Agency to assign a USAID-financed Jeep to an Environmental Affairs Agency office along the Red Sea coastline. Based on your comments to our draft report, USAID/Egypt has taken final action on Recommendation No. 1.

I appreciate the cooperation and courtesy extended to my staff by USAID/Egypt and its contractors during the audit.

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Summary of Results

The Regional Inspector General/Cairo performed this audit of locally incurred costs under the Red Sea component of the USAID/Egypt-financed Egyptian Environmental Policy Program to determine whether (1) local accounting and procurement systems meet USAID guidelines and (2) locally incurred expenditures are reasonable and supported (page 4).

Local procurement policies met USAID guidelines, but while performing end use checks on USAID-financed property, we found one Jeep that was not being used as intended (page 5). To address this issue we recommend that USAID/Egypt request the Egyptian Environmental Affairs Agency to assign the Jeep to an Environmental Affairs Agency office along the Red Sea coastline (page 6).

In addition, the International Resources Group had not submitted to USAID/Egypt an Annual Report of Government Property in Custody as required. International Resources Group officials agreed and took action to submit the required report (page 5).

Finally, locally incurred disbursements were reasonable and supported by documentation (page 6).

Background

The U.S. Government provides assistance to developing countries through a variety of mechanisms, including nonprofit organizations and contractors based in the United States. Many of these organizations have offices overseas. While the costs incurred by these organizations are subject to the same regulations applied to U.S. costs, when measured against the total expenditures of a large U.S.-based grantee or contractor, the locally expended amounts may not be considered material and, therefore, not audited.

The Regional Inspector General/Cairo audited costs incurred by the International Resources Group under the Red Sea component of the USAID/Egypt-financed Egyptian Environmental Policy Program. This Program includes $110 million in cash transfers to the Government of Egypt as agreed-upon policies are accomplished, and $60 million in technical assistance to further policy formulation and implementation. Under this policy program, the International Resources Group operates a Program Support Unit that provides the Egyptian Environmental Affairs Agency with most of its technical assistance needs, including needs related to natural resources management and conservation of the Red Sea coral reef ecosystem.

Audit Objectives

RIG/Cairo performed this audit to answer the following questions:

1. Do the local accounting and procurement systems, including the systems to account for procured equipment, meet USAID guidelines?

2. Are expenditures reasonable and supported by documentation?

The scope of our audit covered expenditures incurred from October 1, 2000, through September 30, 2001. A full discussion of the audit scope and methodology is in Appendix I.

Audit Findings

Do the local accounting and procurement systems, including the systems to account for procured equipment, meet USAID guidelines?

We did not determine whether the local accounting system meets USAID guidelines because the system is not used to either accumulate all of the International Resources Group's project-related costs or to produce contract reimbursement billing invoices that are sent to USAID. The local procurement system meets USAID guidelines, but the International Resources Group did not prepare and submit to USAID/Egypt an Annual Report of Property and one USAID-financed vehicle was not being used as intended. The following sections provide more detail on the results of our audit.

Local Accounting System

The International Resources Group's local accounting system is not used to accumulate all of its costs on the project or to produce billing invoices to USAID. Instead, the accounting system aims only to record locally incurred project-related disbursements in an Excel spreadsheet. These disbursements are summarized monthly and forwarded to the International Resources Group's headquarters along with original disbursement vouchers. The headquarters office then enters the locally incurred disbursements into its accounting system along with project-related, headquarters-incurred costs. Once all costs have been entered into the headquarters' accounting system, headquarters prepares an invoice of incurred costs and submits the bill to the International Resources Group's Program Support Unit in Cairo. The Cairo office then reviews the invoice and submits it to USAID/Egypt for payment.

Although we did not determine whether the local accounting system meets USAID guidelines, we did note that the Program Support Unit had adequate internal

controls over its disbursements, including proper segregation of duties, as well as adequate controls over the preparation of its general ledger.

Local Procurement System

The Program Support Unit's procurement policies met USAID's guidelines, and the policies were being followed. For example, consistent with USAID's procurement regulations, the Support Unit's procurement policies said that for purchases in excess of $2,500 at least three competitive bids must be received and that source, origin, nationality, and shipping requirements must be met. Moreover, the policies included excerpts from Chapter 311 of USAID's Automated Directives System, which provides guidance on local procurements. Besides having procurement policies that were consistent with USAID's, the International Resources Group's inventory listing of USAID-financed property as well as an inventory of property transferred to the Government of Egypt were complete and accurate. However, we did identify the following issues.

Annual Report of Government Property

The International Resources Group's contract with USAID requires it to submit an Annual Report of Government Property. The Program Support Unit, however, was unaware of the requirement and had not submitted the property report to USAID/Egypt.

Annual property reports are important because mission controllers are responsible for forwarding them to USAID/Washington's Central Accounting and Reporting office. This office is responsible for maintaining the general ledger accounts for capitalized property and operating materials and supplies, which are then reported on USAID's financial statements. Hence, if annual inventory reports of government-owned property in custody of contractors are not submitted to USAID, then inventory values will not be recorded in USAID's general ledger, and their absence could result in a misstatement of property /inventory values in USAID's financial statements.

Although the International Resources Group's Program Support Unit had not prepared the required annual property report, it did take corrective action during our fieldwork to prepare and submit the report to USAID/Egypt. Consequently, no additional action on USAID's part is needed.

Use of USAID-Financed Vehicle

While performing end use checks on four Jeep Cherokees that had been bought by the International Resources Group and transferred to the Environmental Affairs Agency, we found that one Jeep was not being used as intended. That is, although the Jeeps were purchased to support the government's Red Sea Rangers and to

patrol the Red Sea coastline, one vehicle had been assigned personal license plates and was being driven in Cairo by an Environmental Affairs Agency official.

Although project officials said that the lack of the one Jeep was not currently hindering the project's implementation, the officials did say that more vehicles will be needed to transport additional Red Sea Rangers that will be hired during the next phase of the Egyptian Environmental Policy Program and to support the expansion of the Program along the Red Sea coast.

The procurement justifications for the four Jeeps showed that the Jeeps were purchased for the benefit of the Red Sea Rangers. Moreover, USAID's grant agreement with the Government of Egypt for the Egyptian Environmental Policy Program specifies, "Any goods or services financed under this Agreement, unless otherwise agreed in writing by USAID, will be devoted to the Agreement until the completion or termination of the Agreement...". Accordingly, based on the procurement justifications and USAID's grant agreement, the Jeep being driven in Cairo with personal license plates should be returned to an Environmental Affairs Agency office where it can be used by the Rangers to patrol the Red Sea coastline.

Recommendation No. 1: We recommend that USAID/Egypt request the Egyptian Environmental Affairs Agency to assign the USAID-financed Jeep being driven in Cairo to an Environmental Affairs Agency office along the Red Sea coastline (e.g., EEAA/Hurghada or EEAA/El Quesir) and to assign it governmental license plates.

Are expenditures reasonable and supported by documentation?

Our review of 57 judgmentally selected vouchers covering the period from October 1, 2000 through September 30, 2001, showed that the International Resources Group's disbursements are reasonable and supported by documentation. However, we did question $106 in porter fees, which were charged to USAID under the contractor's living quarter allowances account.

Officials from the International Resources Group agreed and prepared a journal voucher to treat the $106 in porter fees as an un-billable expense. Consequently, no additional action on USAID's part is needed.

Management Comments and Our Evaluation

USAID/Egypt agreed with our recommendation and requested the Egyptian Environmental Affairs Agency to assign the USAID-financed Jeep to an office along the Red Sea coastline and to assign it governmental license plates. Based on the Mission's comments, final action has been taken on Recommendation No. 1.

Scope and Methodology

Scope

The audit was performed in accordance with generally accepted government auditing standards and assessed whether the International Resources Group's local accounting and procurement systems, including the systems to account for procured equipment, met USAID guidelines and whether locally-incurred disbursements were reasonable and supported by documentation.

Fieldwork was performed at the International Resources Group's Program Support Unit in Cairo and Hurghada, Egypt from October 14 through October 28, 2001, and covered approximately $2 million in disbursements between October 1, 2000 and September 30, 2001. The audit scope included:

- Controls over the procurement and disbursement processes;
- 57 locally-incurred disbursements totaling $300,000;
- 7 procurement transactions totaling $34,000; and
- Supporting documentation for procurement and disbursement transactions.

The audit did not cover costs incurred by the International Resources Group's headquarters office in the United States.

Methodology

To determine whether the International Resources Group's local procurement system met USAID guidelines, we interviewed International Resources Group and Program Support Unit officials and reviewed controls over the procurement process. To test the local procurement system, we judgmentally-selected a sample of seven procurement transactions, reviewed supporting documentation, and performed tests to ensure that competition, when required, was being used and that source, origin, and nationality requirements were met. In regards to USAID-financed property in custody of the International Resources Group, we performed tests, including end use checks, to assess the accuracy of inventory listings and to determine whether commodities were being used as intended.

To determine whether project disbursements were reasonable and supported by documentation, we interviewed International Resources Group officials, reviewed controls over the disbursement process, judgmentally selected a sample of 57 expenditures, and examined documentation, which supported those transactions.

Management Comments

USAID

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

MEMORANDUM

January 27, 2002

For: Darryl T. Burris, RIG/Cairo

From: Alan Davis, Director, EI/E /s/

CC: Willard Pearson, Director
Anthony Vance, AD/EI
Homi Jamshed, FM

Subject: EI/E comments on Audit of Locally Incurred Costs Under the Red Sea Component of the USAID/Egypt-Finance Egyptian Environmental Policy Program (EEPP)

EI/E agrees with the recommendation of the subject audit to request the Egyptian Environmental Affairs Agency (EEAA) to assign the USAID-financed jeep currently being driven in Cairo to an EEAA office along the Red Sea coastline and to assign it governmental plates. EI/E sent a copy of the draft audit report to the EEAA Chief Executive Officer on December 6, 2001 and subsequently followed up in person with a EEAA staff member to request that the GOE comply with the recommendations of the report. A copy of the letter to EEAA is attached for your information. EI/E considers that the requested actions have been taken and that the report can be closed. Thank you again for your professionalism and flexibility in implementing this audit.

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