



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/EGYPT'S DEMOCRACY AND GOVERNANCE ACTIVITIES

AUDIT REPORT NO. 6-263-10-001-P
October 27, 2009

CAIRO, EGYPT



Office of Inspector General

October 27, 2009

MEMORANDUM

TO: USAID/Egypt Mission Director, Hilda Arellano

FROM: Regional Inspector General/Cairo, Jacqueline Bell /s/

SUBJECT: Audit of USAID/Egypt's Democracy and Governance Activities (Audit Report No. 6-263-10-001-P)

This memorandum transmits our final report on the subject audit. In finalizing the report, we carefully considered your comments on the draft report, and we have included the mission's comments in their entirety in appendix II.

This report includes 10 recommendations for your action. Based on management's comments, the audit considers that management decisions have been reached and final action taken on recommendations nos. 1, 2, 3, 4, 5, 6, 7, 9, and 10. Determination of final action will be made by the Audit, Performance and Compliance Division (M/CFO/APC) upon completion of the planned corrective actions for recommendation no. 8.

Thank you for the cooperation and courtesy extended to the audit team during this audit.

CONTENTS

Summary of Results.....	1
Background.....	2
Audit Objective	4
Audit Findings	5
USAID/Egypt’s Democracy and Governance Projects Achieved Limited Impact.....	11
USAID/Egypt Should Increase Management Oversight.....	14
USAID/Egypt Award Recipients Should Ensure That Antiterrorism Measures Are Conducted	16
USAID/Egypt Should Verify Reported Data	18
USAID/Egypt Should Monitor Cost Share Contributions	20
USAID/Egypt Should Obtain Waivers for Participant Training	22
USAID/Egypt Should Evaluate Options for Unused Equipment.....	24
USAID/Egypt Should Ensure Technical Representative Requirements Are Met	26
Evaluation of Management Comments	28
Appendix I – Scope and Methodology	30
Appendix II – Management Comments.....	33
Appendix III – Bilateral and Direct Grants Program Implementers	42
Appendix IV – Planned vs. Actual Indicators for Fiscal Year 2008	43
Appendix V – Planned Activities for Fiscal Year 2008	45

SUMMARY OF RESULTS

The U.S. Government works strategically with the Government of Egypt to promote peace and regional stability, counter extremism and terrorism, and create an environment conducive to economic reforms. The U.S. Government provides \$415 million in economic assistance to the Arab Republic of Egypt, which includes programs to promote democracy. The mission's funding for democracy and governance programs averaged \$24 million from fiscal years (FYs) 1999–2009. USAID/Egypt's funding increased in 2004 by 97 percent, which was sustained from 2006 to 2008. Since FY 2004, USAID/Egypt's Office of Democracy and Governance has designed and awarded \$181 million in program activities that focus on rule of law and human rights, good governance, and civil society. As of September 30, 2008, USAID/Egypt had obligated \$143 million and expended \$85 million for these activities (pages 2–4).

The mission acknowledges the restrictive political environment in which it operates. USAID/Egypt's Office of Democracy and Governance has achieved limited results for 13 judgmentally selected awards in the three program areas. Based on audit results, the office achieved 52 percent of planned results for the 13 awards and successfully completed 65 percent of its activities during FY 2008 (page 5).

The impact of USAID/Egypt's democracy and governance activities has been limited based on the programs reviewed. In published reports, independent nongovernmental organizations ranked Egypt unfavorably in indexes of media freedom, corruption, civil liberties, political rights, and democracy. Egypt's ranking remained unchanged or declined for the past 2 years, and the impact of USAID/Egypt's democracy and governance programs was unnoticeable in indexes describing the country's democratic environment (page 5).

The Government of Egypt signed a bilateral agreement to support democracy and governance activities (page 5), but it has shown reluctance to support many of USAID's democracy and governance programs and has impeded implementers' activities. Despite the spirit with which the U.S. Congress espoused the civil society direct grants program, the Government of Egypt's lack of cooperation hindered implementers' efforts to begin projects and activities through delays and cancellations (pages 10–11).

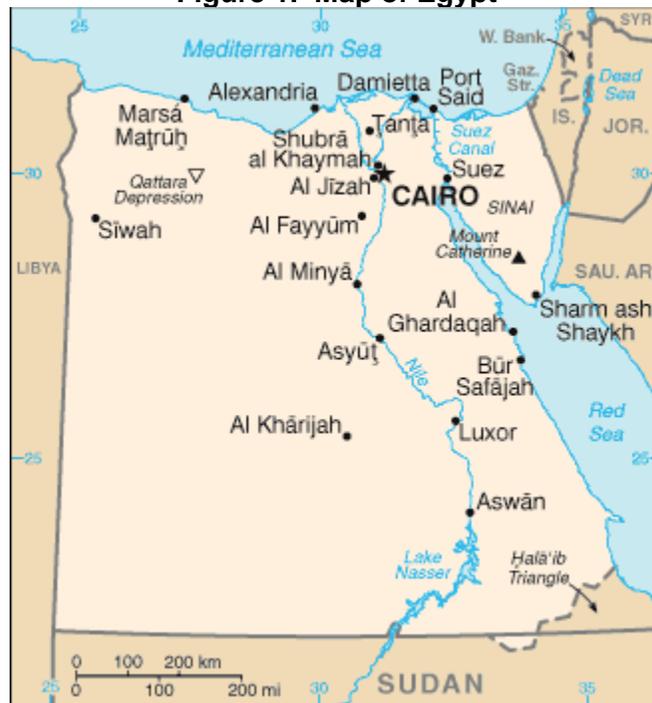
USAID/Egypt's Office of Democracy and Governance achieved some results during FY 2008, but the audit concluded that it should improve management controls to strengthen management oversight (page 14), ensure that antiterrorism measures are conducted (page 16), verify reported data (page 18), monitor cost share contributions (page 20), obtain waivers for participant training (page 22), evaluate options for unused equipment (page 24), and meet technical representative requirements (page 26).

USAID/Egypt generally agreed with all 10 recommendations. USAID/Egypt's Democracy and Governance Director agreed with the spirit and intent, but not the wording, of two recommendations. Management decisions have been made for all 10 recommendations, and the mission has taken final action on 9 recommendations. The mission reached a management decision on recommendation no. 8, but final action will not be taken until USAID/Egypt issues a mission order to address participant training issues (pages 28–29). Management comments are included in appendix II.

BACKGROUND

The U.S. Government has worked strategically with the Arab Republic of Egypt (Government of Egypt) to promote peace and regional stability, counter extremism and terrorism, and create a conducive environment for economic reforms. For the past 20 years, USAID has invested more than \$800 million in local government and decentralization projects in Egypt. However, Egypt has been governed under a centralized system that has led to limited democracy. For nearly 28 years, the same president has governed Egypt, which boasts the largest population in the Middle East and North Africa, with nearly 75 million people. Although Egypt has made efforts toward greater democracy, Egyptian citizens have not had much influence in governance because of restricted freedoms of expression and a media sector that is largely government owned. Egypt possesses some of the characteristics of a functioning democracy, but its constitutional, legal, and institutional framework are designed to ensure almost complete domination and control of all branches and activities of government by the president, thereby limiting efforts for general democratic reform.

Figure 1. Map of Egypt



Source: USAID/Egypt.

USAID/Egypt has used two types of instruments to administer its democracy and governance activities: a bilateral agreement and a direct grants program. USAID's Office of Democracy and Governance and the Government of Egypt implemented programs in the three major areas of rule of law and human rights, good governance, and civil society programs. Using the direct grants program, USAID/Egypt has awarded grants and cooperative agreements to nongovernmental organizations (NGOs) and other civil society organizations without prior approval from the Egyptian government.

In fiscal year (FY) 2008, U.S. foreign economic assistance to Egypt was valued at \$415 million, which included specific programs to promote democracy (valued at \$55 million). On average, for the 10 years since 1999, USAID/Egypt has provided \$24 million to implementers to conduct democracy and governance programs. Although the mission's funding for democracy and governance programs averaged \$24 million annually, USAID/Egypt's funding spiraled upward as much as 97 percent in 2004, with a drastic increase in FYs 2006–2008. Since FY 2004, USAID/Egypt has designed democracy and governance programs valued at \$181 million to be conducted until the end of FY 2012.

Mission Funding and Portfolio

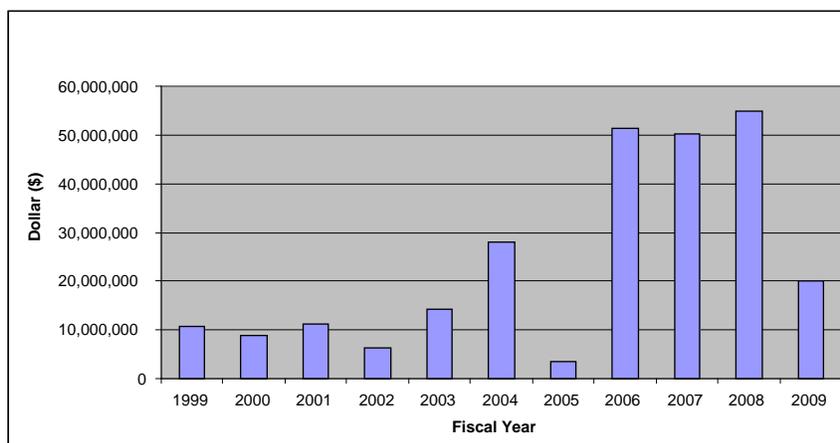
In late 2004, Congress redirected the funding for democracy programs in Egypt. Since no mechanisms existed to ensure that the Government of Egypt used U.S. Government funds for democracy promotion, an amendment¹ to the Foreign Operations Fiscal Year 2005 Appropriations bill² directed USAID to program democracy and governance activities and removed the Egyptian government's power to decide the fate and funding of democracy programs inside Egypt. According to the deputy mission director, the congressional earmark for democracy and governance activities was intended to show the U.S. Government's commitment to achieving democracy and governance in Egypt. The amendment gave USAID the authority to provide funding to NGOs and other segments of civil society that were not officially recognized by the Government of Egypt. With new congressional authority, USAID/Egypt initiated a direct grants program in 2005 and experienced dramatic funding increases, specifically for the direct grants program. Figure 2 illustrates the mission's funding levels from FYs 1999 to 2009.

Historically, USAID/Egypt has designed democracy and governance programs to respond to opportunities for specific and broad political liberalization reforms in Egypt. In FYs 2000–2005, USAID/Egypt's democracy and governance programming focused on increasing the availability of effective legal services, strengthening NGOs, increasing local government service delivery, and enhancing citizen participation. During this period, Congress provided USAID/Egypt with relatively stable funding at approximately \$12 million annually. In FY 2005, in response to increasingly active and more open political discourse, an increased number of notable governmental and nongovernmental initiatives, and rising interest and willingness of governmental and nongovernmental entities to receive assistance, USAID/Egypt expanded its democracy and governance program to include significant assistance in new areas such as the development of more competitive political processes, media, family and criminal justice, and decentralization. Many of these democracy and governance initiatives were funded directly through Egyptian NGOs for the first time since USAID assistance began in the 1980s.

¹ Conference Report 108–792 (2004), page 993. U.S. Senator Sam Brownback introduced the amendment as an effort to make the Government of Egypt more accountable for the way it treated its citizens and presented itself to the world.

² Public Law 108-447 (2004).

Figure 2. Democracy and Governance Funding Levels (1999–2009)*



Source: USAID/Egypt.

Note: * Unaudited dollar values.

At the end of FY 2005, USAID/Egypt's Office of Democracy and Governance had funded one contract and seven grants with a budget of \$3.5 million. However, by FY 2006, the U.S. Government had increased funding for USAID/Egypt's democracy and governance program to \$51 million, making it the third largest democracy and governance program in the Near East. The drastic funding increase of 1,366 percent from FY 2005 to FY 2006 required the mission to rapidly develop new programs in the democracy and governance portfolio, although the mission did not request increased funding most often and has not been able to expend much of the funds in a timely manner. Over the next 3 years, the funding increased USAID/Egypt's democracy and governance program value and more than doubled the number of democracy and governance programs, from one contract and 7 grants valued at \$36 million in FY 2005 to six contracts, 73 grants, and eight cooperative agreements valued at \$181 million by the end of FY 2008.

As of September 30, 2008, USAID/Egypt's Office of Democracy and Governance had awarded \$181 million, which included \$122 million in a bilateral agreement to fund six contracts and a grant agreement. The mission committed the remaining \$59 million for its direct grants program to fund 80 grants and cooperative agreements for initiatives in human rights, anticorruption and transparency, elections and political processes, civic participation, and civic education. Of the \$181 million available for democracy and governance activities, USAID/Egypt has obligated \$143 million and expended \$85 million during FYs 2005–2008. The democracy and governance contracts are expected to expire in 2012, and the future of the civil society direct grants program is uncertain.

AUDIT OBJECTIVE

As part of its FY 2008 annual plan, the Regional Inspector General/Cairo audited USAID/Egypt's democracy and governance activities. The audit was designed to answer the following questions:

- Have USAID/Egypt's democracy and governance activities achieved their intended results, and what has been the impact?

The audit's scope and methodology are described in appendix I.

AUDIT FINDINGS

Despite USAID/Egypt awarding more than \$181 million for program activities since 2004 and the mission's acknowledgment of the restrictive political environment in which it conducts programs, the Office of Democracy and Governance has achieved limited results for 13 judgmentally selected awards. Valued at \$62.3 million, the programs support rule of law and human rights, good governance, and civil society. Based on the audit results, USAID/Egypt's Office of Democracy and Governance achieved only 52 percent of its planned results for the 13 awards and successfully completed only 65 percent of its activities during fiscal year (FY) 2008.

Based on the programs reviewed, the impact of USAID/Egypt's democracy and governance activities was limited in strengthening democracy and governance in Egypt. Furthermore, in separate recently published reports, independent nongovernmental organizations (NGOs) ranked Egypt unfavorably in indexes of media freedom, corruption, civil liberties, political rights, and democracy. Egypt's ranking in these indexes remained unchanged or declined for the past 2 years. The overall impact of USAID/Egypt's programs in democracy and governance was unnoticeable in indexes describing the country's democratic environment.

A major contributing factor to the limited achievements for some of these programs resulted from a lack of support from the Government of Egypt. According to a mission official, the Government of Egypt has resisted USAID/Egypt's democracy and governance program and has suspended the activities of many U.S. NGOs because Egyptian officials thought these organizations were too aggressive. Notwithstanding the Egyptian government's negative actions, U.S. decisionmakers did not terminate the democracy and government program.

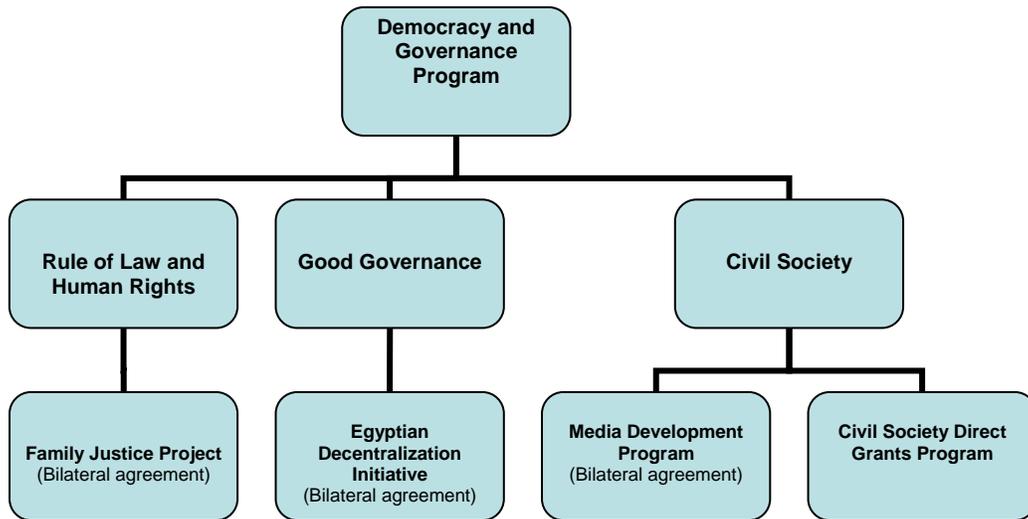
USAID/Egypt has used two types of instruments to administer its democracy and governance activities: a bilateral agreement and a direct grants program. Under the bilateral agreement, USAID and the Government of Egypt agreed to implement programs in the three major areas of rule of law and human rights, good governance, and civil society programs (Figure 3). Using the direct grants program, USAID/Egypt has awarded grants and cooperative agreements to NGOs and other civil society organizations without prior approval from the Egyptian government.

USAID/Egypt's Office of Democracy and Governance developed programs with the objective of strengthening democracy and governance in rule of law and human rights, good governance, and civil society. Activities within the three major areas reviewed include commodities, technical assistance, training, or resource transfers designed to contribute to achieving the following objectives:

- Rule of Law and Human Rights – strengthen the administration of justice and access to justice for women and disadvantaged groups.
- Good Governance – promote a more accountable and responsive local government.
- Civil Society – promote greater independence and professionalism in media and strengthen the organizational capabilities of civil society organizations while directly supporting their programs in areas such as political reform, elections monitoring, and civic education.

In the past, USAID/Egypt used a bilateral program with the Government of Egypt to conduct its democracy and governance programs. However, the mission modified its approach in 2005 to add a direct grants program after Congress allowed USAID/Egypt to have more control over its funding.

Figure 3. Organizational Structure of the Reviewed Democracy and Governance Program



Of the seven awards under the bilateral program, USAID/Egypt awarded three contracts valued at a total of \$55 million to Management Sciences for Development, Incorporated, for the Family Justice Project; to AECOM International Development for the Egyptian Decentralization Initiative; and to Management Systems International, Incorporated, for the Media Development Program, to conduct activities in rule of law and human rights, good governance, and civil society, respectively. In FYs 2005–2008, USAID/Egypt’s Office of Democracy and Governance also awarded 80 grants and cooperative agreements valued at \$59 million under its civil society direct grants program to expand and strengthen civil society organizations’ activities in human rights, anticorruption and transparency, elections and political processes, civic participation, and civic education.

The 13 awards judgmentally selected include contracts, grants, and one cooperative agreement, and represent 34 percent of the total democracy and governance portfolio. These awards include three contracts valued at \$55 million, nine grants valued at \$6.8 million, and one cooperative agreement valued at \$589,000. The three contracts represent 45 percent of the total value of awards under the bilateral program, and 10 of the 80 civil society grants and cooperative agreements reviewed represent 13 percent of the total value of awards under the direct grants program funded for USAID/Egypt’s Office of Democracy and Governance activities during FY 2008.

The major program areas for USAID/Egypt’s democracy and governance program include 25 performance indicators for FY 2008 and at least 182 specific activities that implementers should conduct to achieve desired results toward a program objective. Although USAID/Egypt developed programs to strengthen democracy and governance, in December 2008, USAID/Egypt reported in the interagency State and USAID’s FY 2008 Egypt Full Performance Plan and Report that its Office of Democracy and

Governance achieved only about half of its planned results. The report also indicated that the mission did not achieve 28 percent of its planned results, and either dropped or did not establish targets for 20 percent of the democracy and governance indicators. Despite an unfavorable report on program achievement, USAID/Egypt has not had much time to make any changes to its program. Appendix IV illustrates the program's FY 2008 results, and table 1 summarizes the FY 2008 performance indicator results by program area.

Table 1. USAID/Egypt's Democracy and Governance Program Results for FY 2008 Indicators

Democracy and Governance Program Component	No. of Indicators	Achieved	Not Achieved	Dropped	No Target/ Results
Rule of Law and Human Rights	8	3	3	1	1
Good Governance	8	5	1	0	2
Civil Society	9	5	3	1	0
Total	25	13	7	2	3
Percentage		52%	28%	8%	12%

The performance indicators include a quantitative summary of the numbers of positive changes to legislation, professional people trained, and recipients such as local NGOs and civil society organizations assisted. Mission officials believe these performance indicators to be critical to the success of its projects for rule of law and human rights, good governance, and civil society programs. According to the technical representatives managing the selected programs, it is difficult to characterize any indicator as more important than the others since all indicators complement each other. Additionally, the performance indicators for the direct grants program measure different aspects of the results of the activities that may be not mutually exclusive in terms of quantifiable contributions to the promotion of democracy, since the contributions for one direct grant program could be related to the results of more than one grant.

Although the democracy and governance program achieved only about half of its planned results for 25 performance indicators, it was more successful in achieving results for its planned activities. During FY 2008, the implementers successfully achieved 119 of 182 (65 percent) of their activities for both the bilateral and direct grants program activities designed to strengthen the administration of justice, promote a more accountable local government, promote greater independence and professionalism in the media, and strengthen the organizational capabilities of civil society organizations. Summary information for the planned activities is shown in table 2.

Table 2. USAID/Egypt’s Democracy and Governance Program Results for FY 2008 Activities

Democracy and Governance Program Component	Planned Activities	Achieved	Percentage Achieved
Rule of Law and Human Rights			
Family Justice Project	43	30	70%
Good Governance			
Egyptian Decentralization Initiative	22	7	32%
Civil Society			
Media Development Program	26	9	35%
Civil Society Direct Grants Program	91	73	80%
Total	182	119	65%

Within the three program areas, USAID/Egypt achieved its highest percentage of results for its civil society direct grants program activities. The following sections describe the achievements of the selected USAID/Egypt programs in these three areas.

Rule of Law and Human Rights

USAID/Egypt, in coordination with the Egyptian Ministry of Justice and National Council of Childhood and Motherhood, implemented the Family Justice Project. The contract, which is managed by Management Sciences for Development, is valued at \$17 million. The project was designed with two main components:

- Train family court judges and mediators, repair family courts, and provide media support for the Ministry of Justice.
- Provide grants to NGOs to promote awareness on child rights, family courts, and women’s rights, and to provide economic assistance for families facing disputes.

Although the Family Justice Project planned at least 43 activities, during FY 2008, the implementer completed 30 activities and did not complete 13 activities as planned. Under the first component, the implementer, Management Sciences for Development, successfully trained 562 family court judges in more than 20 governorates and completed infrastructure repairs in 23 family court mediation offices in the Minya and Giza governorates. However, the implementer did not provide media support for the Ministry of Justice that included developing a database for the ministry’s press office, organizing media events for mediation offices, and developing a documentary film about the process of infrastructure repairs for all the project sites. Under the second component, the implementer succeeded in awarding new grants and providing technical support to the grantees. However, the project achieved mixed results in promoting counseling for children and raising community awareness on the existence of counseling centers throughout the governorates of Minya, Giza, and Port Said.

Good Governance

Working in coordination with the Egyptian Ministry of State for Local Development, Ministry of State for Administrative Development, Ministry of Finance, and other ministries, USAID/Egypt funded the Egyptian Decentralization Initiative to support local

government and decentralization managed by AECOM International Development in a contract valued at \$22 million. The three main components of the initiative were to (1) improve the capacity of local government to respond to citizen priorities by increasing revenue, (2) enhance participatory mechanisms to manage resources, and (3) strengthen management.

Although the Egyptian Decentralization Initiative planned at least 22 activities, during FY 2008, the implementer completed only 7 activities and did not complete 15 activities. Under the first component, the implementer successfully assisted districts in enhancing automation systems in at least four service centers and in preparing an annual fiscal profile of governorate, district, and village revenues and expenditures to strengthen financial management capabilities. However, the project did not implement a collection fee system for public cleaning services in its six pilot districts because the decision to automate the system was delayed, and ultimately the scope was changed to allow the system to be developed only in the El Beheira governorate. Under the second component, the implementer successfully assisted in developing plans to allocate local revenues for six districts. Under the third component, the implementer achieved some results to help propose specific revisions to the current local administration law. However, the implementer was not successful in developing functional maps for key sectors showing decentralization opportunities because the Government of Egypt was hesitant to act.

Civil Society

USAID/Egypt worked in cooperation with the Egyptian Ministry of International Cooperation to build the training capacity of Egyptian institutions, improve the management of media, strengthen the organizational capacity of local media, and improve the media environment. In a contract valued at \$16 million, the program implementer, Management Systems International, planned at least 26 activities. The implementer completed 9 activities but did not complete 17 activities for FY 2008.

The project had mixed results in each of its four components. Although the project assisted in broadening English language skills among some Egyptian media professionals and trained journalists in local media, the implementer did not perform customized market research or provide baseline advertising data to assist its partners' ability to increase revenues, as scheduled.

Civil Society Direct Grants Program

USAID/Egypt's Office of Democracy and Governance achieved its greatest success in its civil society direct grants program, which provided grants and cooperative agreements valued from \$192,000 to \$1.4 million during FY 2008. Implementers successfully completed 73 of 91 planned activities (80 percent) during FY 2008 and achieved major successes in increasing dialogue among civil society organizations, decisionmakers, religious leaders, and the local community; organizing discussions about democracy within the media sector; and monitoring a national midterm election. Using this program, USAID/Egypt was not required to receive approval from the Egyptian government about its partnership with the organizations working throughout Egypt. The civil society direct grants program included program activities for initiatives in human rights, anticorruption and transparency, elections and political processes, civic participation, and civic education.

Although the percentage of the civil society direct grants program shows that the implementers conducted many planned activities, the numbers alone do not adequately reflect the impact of the activities in the civil society sector. To illustrate, Al-Nakib Center for Training and Democracy received \$618,000 to enhance the integrity of the Egyptian electoral process by training 2,100 individuals to monitor the 2007 Shura Council elections. However, the recipient reported that only 840 (40 percent) of the individuals were given identification cards to monitor the elections. Moreover, local Egyptian governorates did not recognize many of the identification cards as legitimate. Consequently, many of the monitors were denied entrance into the polling stations, limiting the impact of this activity.

Furthermore, numerous obstacles delayed completion of planned activities for both USAID/Egypt's bilateral program and civil society direct grants program because of the Government of Egypt's resistance to activities, delays in government approvals, and changes in agreed-upon activities. Three contractors under the bilateral program described some of the difficulties they experienced in implementing activities:

- One contractor noted a lack of transparency that negatively affected efforts to evaluate training activities because two ministries with which the contractor worked would not share information about the numbers of legal specialists, social workers, and psychologists employed by the ministries.
- Another contractor described a biased selection of training participants. The contractor stated that the chairman of a steering committee nominated favored individuals for study tours abroad, which resulted in repetitive participants attending study tours. In particular, one professor from Cairo University went on two study tours conducted in Germany and the United States.
- In another incident, a contractor cited a lack of agreement for decentralization at the national level with creating a challenge in changing legislation as well as causing delays in selecting governorates in which the implementer could work. At the local level, the success of a project was largely dependent on the support of the governor. In one example, a project was making positive changes with a supportive governor in the Qena governorate. However, after a new governor assumed duties, decentralization projects collapsed because of a lack of support.

Implementers under the direct grants program also described some of the obstacles encountered in working with the Government of Egypt in implementing activities:

- A U.S.-based NGO endured 18 months of delays in attempting to partner with a local NGO that was approved by the Government of Egypt.
- Another grantee endured lengthy delays in project activities after the Egyptian government suspended the distribution of civic education reading materials and returned more than 60,000 children's books to the implementer. Consequently, the grantee had to find alternative means to distribute the books to schoolchildren.
- One grantee endured a 6-month delay in beginning activities because the Ministry of Social Solidarity did not approve the project's activities with other civil society organizations.
- The Egyptian government cancelled a grantee's training event without providing any reasons for the decision. The grantee had planned training events focused

on anticorruption and political reform activities. As a result, the grantee had to find alternative ways to continue its activities.

Despite the spirit with which Congress espoused the civil grants program, the Government of Egypt's lack of cooperation hindered some implementers' efforts to begin projects and activities.

Although USAID/Egypt's Office of Democracy and Governance program encountered many difficulties in working with the Government of Egypt, insufficient management controls amplified some of the problems the mission experienced in conducting the program. When funding increased substantially for the democracy and governance program portfolio in 2006, the office did not strengthen its management controls to mitigate increased risks and the management burden. In particular, the office did not increase its oversight of activities in reviewing the progress of activities, ensuring physical control of vulnerable assets, and ensuring accurate and appropriate documentation of events.

USAID/Egypt's Democracy and Governance Projects Achieved Limited Impact

The accomplishment of activities for the three bilateral contracts and 10 assistance agreements for FY 2008 indicate that the mission has had limited success in strengthening democracy and governance in Egypt. On average, the projects met 65 percent of their planned activities for FY 2008. Nevertheless, USAID/Egypt's democracy and governance programs achieved some successes in rule of law and human rights, good governance, and civil society.

In one rule of law and human rights project, the Family Justice Project achieved some successes in:

- Developing a mediation training manual that was provided to all trainees.
- Providing \$2,005,000 in funding to 34 Egyptian NGOs that will provide support services to families, including legal aid, psychological counseling, mediation services, and economic empowerment.



Photograph of handicrafts made by women under the Family Justice Project in Giza, Egypt. (Regional Inspector General/Cairo, December 22, 2008.)

Although some rule of law and human rights activities were accomplished, their impact has been limited. To illustrate, one of the major activities in the contract is to provide specialized training for family mediators in selected governorates. However, some unresolved issues limited the lasting impact of the project:

- The project provided training to 960 specialists working in mediation offices. However, 126 psychologists and 317 social workers (46 percent of the specialists) are employed by other ministries and may not use the training as intended.
- The implementer also reported that the project provided training to 767 specialists who were not employed by the Ministry of Justice. They represented 48 percent of 1,582 specialists trained since the beginning of the project.
- In another example, the implementer reported training 562 family court judges. However, some time after the training, the Egyptian government transferred about 15 to 20 percent of the trained family court judges to other courts.

USAID/Egypt's good governance project, the Egyptian Decentralization Initiative, also achieved some successes, such as the following:

- Developing preliminary plans for 40 villages and six towns in the initiative's three pilot governorates.
- Assisting in establishing four of six automated citizen service centers, which were designed to improve citizen satisfaction with local governance, reduce waiting times at the service centers, and reduce public sector corruption.



**Photograph of an automated citizen service center in Asuit, Egypt.
(Regional Inspector General/Cairo, January 21, 2009.)**

However, the implementers did not complete many of their activities as planned during FY 2008. Uncompleted activities include the following:

- Support for the automation of collection of property taxes in selected districts was not completed because the Government of Egypt nationalized or centralized property taxation. This action eliminated a local governance function that would have improved the governorates' capacity to finance local priority needs through improved property tax collection rates.
- After a governorate did not provide the necessary equipment specifications, complete building construction, or hire staff to operate geographic information

systems equipment for a data management and urban planning center, the implementer delayed the completion of the activity until the following fiscal year.

Both programs under the civil society achieved some planned activities in FY 2008, as follows:

- The Media Development Program implementer signed a memorandum of understanding with the Egyptian Press Syndicate to help train 6,000 journalist members and their institutions. In addition, the program provided consultation on the use of local advertising markets to boost circulation and ad revenue. The activity resulted in the first local supplement for Alexandria, Egypt's second-largest city.



Photograph of USAID-funded computers at Akhbar El-Yom Training Center in Cairo, Egypt. (Regional Inspector General/Cairo, February 2, 2009.)

Although some activities were accomplished, the program did not achieve some of its planned activities, including a program to train 60 Egyptian State Information Service press officers in the governorates, targeting both higher management and younger press officers. The implementer reported that the project was unable to complete the activity because the State Information Service was uncooperative. In another example, the implementer planned to introduce voice services, such as text to speech and interactive voice response, to the Middle East News Agency as a first step in a local news exchange. However, this activity was not conducted because the technology to be used was not compatible with the Arabic language.

Although the Civil Society Direct Grants Program achieved its greatest success in conducting democracy and governance activities, the program had a limited impact on strengthening democracy and governance in Egypt. While the grantee programs reviewed achieved more than half of their planned activities, the impact of these activities was limited because of political circumstances, government resistance, and the grantees' lack of experience. Some examples include the following:

- A grantee received \$1.2 million, in part to provide training on principles of democratic governance and civic participation to at least 600 teachers and 30,000 middle, high school, and university students in four regions of Egypt. However, the grantee managed to train only 330 teachers and about 2,000 students, less than 8 percent of the target.

- Another grantee received more than \$950,000 to publish and distribute a children's book on civic education. Although the grantee provided 40,000 copies to an Egyptian ministry for distribution to schoolchildren, the grantee could not verify that any schoolchildren actually received the books.
- After USAID/Egypt paid a grantee \$271,000 to provide training and 1 year of practical experience in working with civil society associations to 100 lawyers, only 16 of the trainees continued to work with the grantee for the entire year.
- USAID/Egypt provided a grantee \$192,000 to issue 2,000 identification and voting cards in a village within the Qalioubiya Governorate. However, the grantee issued only 330 (17 percent) of the cards in time for the citizens to vote in an April 2007 election.

USAID/Egypt had the authority to take corrective action when an implementer was not achieving its results. But in some instances the mission did not take appropriate action, because the staff was unaware of problems due to weak management controls.

Although USAID/Egypt's Office of Democracy and Governance Program had limited success in strengthening democracy and governance in Egypt, the mission's program could be more beneficial with strengthened management controls regarding reviews of administrative and programmatic activities and documentation. This section discusses these matters and provides recommendations that should help USAID/Egypt strengthen the following management controls:

- Antiterrorism measures
- Verification of reported data
- Implementers' cost share contributions
- Participant training waivers
- Options for unused equipment

USAID/Egypt Should Increase Management Oversight

Summary: Automated Directives System 303, *Grants and Cooperative Agreements to Nongovernmental Organizations*, states that technical representatives should review and analyze reports, monitor reporting requirements, and ensure the recipient's compliance with numerous terms and conditions of an award. In at least three instances, a USAID/Egypt democracy and governance agreement officer's technical representative did not ensure that a cooperative agreement was signed, that the primary recipient had a written agreement with its sole subrecipient, and that progress reports were made available in English. According to the technical representatives involved, democracy and governance staff encountered numerous problems managing the program activities because of competing management priorities and grantee inexperience. Consequently, USAID/Egypt cannot be assured that its democracy and governance recipients comply with legally binding terms and conditions that could help the mission achieve intended program results.

USAID has developed extensive guidelines on the management of assistance awards and requirements for implementers that require agreement with the terms of an award and mandatory standard provisions. USAID's Automated Directives System (ADS) 303,

Grants and Cooperative Agreements to Nongovernmental Organizations, states that technical representatives should review and analyze reports, monitor reporting requirements, and ensure the recipient's compliance with numerous terms and conditions of an award. Some of these mandatory standard provisions for non-U.S., nongovernmental recipients require that subagreements shall contain provisions about financial audit requirements, termination or suspension of awards, antiterrorism financing responsibilities, and branding and marking responsibilities.

Furthermore, ADS 621.3.4, *Types of Obligations and Documentary Evidence*, states that only a USAID signature is required for an assistance award unless major issues are unresolved between USAID and the grantee, in which case both parties must sign the award. However, ADS 303.3.13, *The Award Process and Elements of an Award*, states that recipients are required to agree to the terms of the agreements, which are legally binding. Moreover, USAID/Egypt's director of procurement stated that all grants and cooperative agreements must be signed and kept on file. Without the signed copy, recipients can terminate the agreement. As a result, it would be impossible to determine whether USAID had a binding relationship with the grantee.

Although the 13 implementers' and grantees' activities had successfully completed some activities, in three notable examples, the agreement officer's technical representative did not ensure that agreements were monitored effectively, that some of the implementers complied with USAID rules and regulations, or that the terms and conditions of the agreements and documents were made available for effective supervisory review. In one case, in February 2007, Environmental Quality International did not sign a cooperative agreement with USAID/Egypt that was valued at \$588,650. Furthermore, the same organization never entered into a written agreement with its sole subrecipient. According to Environmental Quality International's project manager, as the prime recipient, the organization did not have a written agreement with its only subrecipient because it did not believe the agreement was necessary.

In another case, the Arab Penal Reform Organization did not submit progress reports to USAID/Egypt in English for nearly 2 years because the Office of Democracy and Governance did not require it to do so. Because the office did not require progress reports to be documented in English, the agreement officer's technical representative needed the assistance of a native Arabic speaker to translate the reports verbally, hindering timely supervisory review and approval.

According to the technical representatives involved, democracy and governance staff encountered numerous problems managing the program activities because of competing management priorities and grantee inexperience. First, each of the eight contracting and agreement officers' technical representatives oversaw multiple agreements with varying levels of management oversight for contracts and grant agreements. Second, USAID/Egypt selected several nongovernmental civil society organizations and civil companies that were inexperienced or were identified with high-risk areas in preaward assessments. Increasing the workload and complicating matters further in FY 2008, the democracy and governance staff was also responsible for evaluating more than 200 new proposals for the direct grants program because of increased program funding.

Management oversight ensures that implementers, grantees, and subrecipients are aware of their financial and programmatic responsibilities. Compliance with these agreements is essential since the terms and conditions of an agreement include

references to U.S. laws and regulations, which if not adhered to could result in suspension or termination of an award. Adequate oversight of awards is essential to ensure that USAID programs are conducted as planned so that they have the potential to achieve the best possible results. When implementers are not aware of or reminded of fiscal and fiduciary responsibilities, risks to program achievements increase. Consequently, this audit makes the following recommendations:

Recommendation No. 1: We recommend that USAID/Egypt develop and document a training plan for assistance recipients to explain USAID rules, regulations, and expectations, prior to beginning activities.

Recommendation No. 2: We recommend that USAID/Egypt develop and document a training plan to provide its democracy and governance staff refresher training on how to effectively manage programs including contracting and financial management responsibilities.

In May 2009, USAID/Egypt's Office of Democracy and Governance stated that a Grants Management Support Services (GMSS) contract was in place to help the office immediately address many of this audit's management recommendations. GMSS is expected to strengthen the office's monitoring and evaluation of Egyptian recipients, as well as build the capacity of these organizations to implement and sustain grant activities.

USAID/Egypt Award Recipients Should Ensure That Antiterrorism Measures Are Conducted

Summary: USAID mandatory standard provisions and an acquisition and assistance policy directive establish the legal responsibility for USAID recipients to include antiterrorism clauses in all subawards and comply with a certification regarding terrorist financing. Despite the requirements, four USAID/Egypt implementers did not include mandatory clauses in agreements with subrecipients, and one implementer did not sign the antiterrorism certification. This occurred because technical representatives did not periodically verify the implementers' antiterrorism measures to ensure that required actions had been taken. As a result, USAID/Egypt has little assurance that its programs do not inadvertently provide material support to entities or individuals associated with terrorism.

Mandatory Standard Provisions for Non-U.S., Nongovernmental Recipients, a mandatory reference for ADS 303, *Grants and Cooperative Agreements to Nongovernmental Organizations*, and Acquisition and Assistance Policy Directive 04-14, *Certification Regarding Terrorist Financing Implementing E.O. 13224*, issued on September 24, 2004, implemented Executive Order 13224 on Terrorist Financing. The directives establish the legal responsibility for recipients of USAID funds to comply with the order and other laws. USAID/Egypt implements the executive order using two of three antiterrorism measures: certification and mandatory clauses. Some USAID missions implement Executive Order 13224 using three specific requirements:

- Mandatory Clauses – require mandatory provision to be included in all solicitations and awards for contracts, grants, cooperative agreements, subcontracts, and subawards indicating that a recipient will comply with antiterrorism guidance.
- Certification – requires all U.S. and non-U.S. entities to certify that they do not provide material support or resources for terrorism.
- Vetting – requires inquiries from individuals and searches of special databases for background information on contractors and subcontractors who receive in excess of \$25,000, as well as recipients of assistance instruments regardless of the dollar amount.

Additionally, ADS 303.2, *Primary Responsibilities*, requires agreement officers' technical representatives to be responsible for prudently managing assistance awards by monitoring to ensure recipients' compliance with legally binding award terms and conditions. However, USAID/Egypt's Office of Democracy and Governance did not monitor its implementers to ensure that they understood or complied with USAID's requirements to implement the Executive order.

Some implementers did not include the antiterrorism clause in their subawards. At least one implementer and three primary recipients did not include the antiterrorism clause in four subcontracts and awards for subrecipients. USAID/Egypt made awards to three primary recipients, who made 105 awards to subrecipients. Of these 105 awards, a sample of the three reviewed showed that some did not include the antiterrorism clause in their subawards.

- (1) The contractor for USAID/Egypt's Egyptian Decentralization Initiative, AECOM International Development, did not include the antiterrorism clause in at least four subcontracts with Egyptian NGOs.
- (2) At least 3 of 10 assistance recipients did not include the antiterrorism clause in some of the subawards reviewed:
 - International Center for Journalists had subawards with participants who trained outside of the country.
 - The Coptic Evangelical Organization for Social Services had subagreements with community service organizations.
 - New Horizon Association for Social Development's had subagreements with community service organizations.

Furthermore, the International Center for Journalists did not sign some of the required documentation, including the antiterrorism certification that attests that the organization did not provide material support or resources for terrorism.³ Despite having received the appropriate forms, the U.S. NGO did not sign or return the certification. USAID/Egypt made the award, and neither the agreement officer's technical representative nor the agreement officer reviewed documentation for the appropriate certifications.

Although the information on antiterrorism was in all of the awards, the prime recipients

³ ADS 303.3.8, *Pre-Award Certifications, Assurances, and Other Statements of the Recipient*, states that an agreement officer must obtain specific certifications as required by U.S. regulations. This includes a "Certification Regarding Terrorist Funding."

did not require their subrecipients to comply with the order regarding antiterrorism measures. Moreover, at least three contracting and agreement officers' technical representatives did not monitor or instruct the prime recipients to include the antiterrorism clause in their subawards. Technical representatives stated that they had too many agreements to oversee and were therefore overextended in monitoring their agreements. In addition, one technical representative stated that monitoring the subawards for clauses was not a specific staff responsibility.

Conceivable risks abound that USAID funds may inadvertently be provided to terrorists or organizations associated with terrorism. Without ongoing communication about specific antiterrorism requirements and periodic verification of procedures and compliance, USAID/Egypt has little assurance that its programs do not inadvertently support entities or individuals associated with terrorism. Consequently, this audit makes the following recommendations:

Recommendation No. 3: We recommend that USAID/Egypt document a review of its programs to determine whether a mission-wide order on antiterrorism measures would help to mitigate the mission's risk of inadvertently providing financing to terrorist organizations or individuals associated with terrorism.

Recommendation No. 4: We recommend that USAID/Egypt document and provide training to the democracy and governance implementers on USAID's antiterrorism measures.

USAID/Egypt Should Verify Reported Data

Summary: Automated Directives System 303.2, *Primary Responsibilities*, states that technical representatives should review and analyze reports and monitor reporting requirements, as well as conduct site visits to allow for a more effective review. The technical representative's designation letter also requires staff to request action from the agreement officer when an implementer submits information that is inadequate or indicates a problem. However, seven of eight technical staff did not verify implementer data or conduct site visits for at least 6 of the 10 direct grants program recipients and two of three contractors. Although democracy and governance technical representatives stated that this occurred because of political sensitivities, workload, and lack of cooperation from implementers, staff did not elevate these matters to the agreement officer for resolution. Consequently, unreliable data provided to managers and stakeholders could be used to make financial and programmatic decisions.

ADS 303.2, *Primary Responsibilities*, states that technical representatives should review and analyze reports, verify timely performance, monitor reporting requirements, and maintain contact, including site visits, which allow for a more effective review of the project. USAID's *Guidebook for Managers and Cognizant Technical Officers (CTOs) on USAID Acquisition and Assistance* further states that these site visits may include checking actual contractor performance against scheduled and reported performance or determining whether the recipient is using its best efforts to achieve the purpose of the grant or agreement. In addition, as required by the technical representative's

designation letter, staff is authorized to request that the agreement officer take necessary action when a recipient does not submit performance reports or when information about implementation activities is inadequate or indicates a problem.

Although USAID guidelines state the importance of site visits, seven of eight technical staff did not conduct site visits or verify implementer data for at least 6 of the 10 direct grants program recipients and two of three contractors reviewed. In one case, a technical representative made no visits during an entire year of activities. Moreover, when a technical representative visited an implementer, the staff person verified few to no reported data and did not review the implementer's data on activities. As a result, the technical representatives relied heavily on progress reports and verbal confirmation, which were not always reliable. In several instances, USAID/Egypt did not perform accurate and timely verification of data to ensure that relevant information reported to stakeholders was correct, as indicated in the following examples:

- A contractor operated two field offices in different governorates that used different methods to report results of people trained. One office counted a participant as trained only if the participant attended all of the training sessions. In contrast, the other office counted a participant as trained when the participant attended one of the multiple training sessions.
- A contractor relied on verbal confirmation for numbers of participants trained, with no supporting documentation. Moreover, if documentation was available, it was often incomplete, resulting in the contractor reporting unreliable data to USAID/Egypt.
- Assistance recipients ignored reporting requirements in the agreements. Although USAID agreements explicitly stated that progress reports must compare planned versus actual results, all 10 direct grants program recipients often did not report on some planned activities in the progress reports to USAID/Egypt's Office of Democracy and Governance.
- Four of 10 assistance recipients could not produce supporting documentation including attendance sheets, distribution lists, and inventory logs for many of their planned activities. For example, USAID/Egypt awarded two grants to one recipient to publish books about civic education. Since the activities were similar and the timing for the two grants overlapped, the recipient could not determine the number of books published and distributed under each award.

Although USAID/Egypt's Office of Democracy and Governance technical representatives were aware of weak management controls and encountered uncooperative implementers, the staff did not take any corrective action or elevate any matters for resolution to the agreement officer. The democracy and governance technical representatives stated that some of these deficiencies occurred for numerous reasons, including political sensitivities, workload, and lack of cooperation from an implementer. Specifically, one technical representative stated that political sensitivities prevented management oversight because of fear that a USAID presence would disrupt the recipient's activities. The same technical representative stated that managing 12 agreements valued at approximately \$50 million prevented the verification of reported data and visits to grantees. Another technical representative stated that the workload limited site visits to observe recipient activities or validate reported data. Moreover, in one case, a technical representative stated that she asked the grantee to revise its final report, but the grantee provided little or no response to requests for clarifications or

updated information. One technical representative attributed the lack of adequate supporting documentation to a recipient's being unaware that USAID/Egypt's Office of Democracy and Governance required separate reports on two grants, despite having had a risk assessment 5 months prior that noted the commingling of financial data of its accounts.

As a management control and a prudent management practice, managers should perform observations and conduct visits to review program activities. Since program deliverables are quantifiable or observable, managers should ensure that information is accurate, reliable, and reasonable. As a result of observations and adequate management review, concerns about noncompliance issues can be elevated to appropriate levels of management and resolved by an agreement officer who can change or even terminate the award if necessary. Since both managers and stakeholders rely on reported information to make management and budget decisions, it is imperative that the data are accurate to determine whether a program is on target to achieve intended results and make funding decisions, as warranted. Consequently, this audit makes the following recommendation:

Recommendation No. 5: We recommend that USAID/Egypt develop a standardized checklist to document management reviews as a part of democracy and governance program assessments.

USAID/Egypt Should Monitor Cost Share Contributions

Summary: Automated Directives System 303.3.10.4, *Meeting Cost Sharing Requirements*, requires technical representatives to monitor recipients' financial reports to ensure cost share contributions are met and to elevate any issues to the agreement officer for resolution. However, USAID/Egypt's Office of Democracy and Governance did not periodically review financial reports to ensure that recipients made appropriate cost share contributions. This occurred because technical representatives were not aware of their responsibility to monitor financial reports for cost share contributions. Consequently, four of the nine direct grants program recipients did not report about \$148,000 in cost share contributions, and three recipients did not meet their cost share requirements of an estimated \$8,493 before the projects ended. As a result, USAID/Egypt's Democracy and Governance program was not able to increase resources that could have increased funding for the project.

ADS 303.3.10.4, *Meeting Cost Sharing Requirements*, states that a technical representative should monitor the recipient's financial reports to ensure that contributions are being met and should elevate any issues to the agreement officer for resolution. Cost share contributions are the resources a recipient contributes to the total cost of an agreement, which may include in-kind contributions, such as volunteer time, valuation of donated supplies, equipment, and other property. Furthermore, guidance authorizes an agreement officer to reduce the amount of the agreement or request recipients to refund the difference.

USAID/Egypt's Office of Democracy and Governance did not periodically review financial reports that included information on the cost share contributions valued over

\$280,000 for 9 of the 10 direct grants program recipients. The remaining recipient did not have a cost share requirement. As of February 2009, four of the nine recipients did not report on \$148,000 in cost share contributions in USAID financial reports, as required. Additionally, three of the nine recipients did not provide adequate cost share contributions before the projects ended. Although USAID/Egypt's Office of Democracy and Governance expected the recipients to contribute nearly \$99,000 in cost share, the three recipients did not meet cost share requirements valued at an estimated \$8,493, as shown in table 3.

Table 3. Questioned Costs on Cost Share Contributions

Recipient	Completion Date	Reported Cost Share Requirement ⁴	Questioned Cost Share (estimated)
Egyptian Association for Human Environmental Development	Sept. 2008	\$49,785	\$4,644
New Horizon Association for Social Development	Oct. 2008	\$2,320	\$2,320
Al-Nakib Center for Training and Democracy	Dec. 2007	\$46,465	\$1,529
TOTAL		\$98,549	\$8,493

None of the seven technical representatives monitored the recipient's financial reports to ensure that the recipient was making progress toward meeting the cost share contributions. Agreement officer's technical representatives for several of the recipients stated that they were unaware of their responsibility in this regard. Consequently, some of the democracy and governance implementers did not remit the agreed-upon cost share contribution because USAID/Egypt did not review cost share information in the financial reports, request adequate payment, or request that the implementers provide this data for review. Furthermore, one recipient stated that its organization was unaware of its cost share requirement even though the recipient signed an agreement modification acknowledging the obligation.

Cost share contributions provide a mechanism by which USAID implementers can contribute funding directly to specific projects, which increases funding available for their projects. In addition, nonfinancial cost share contributions help recipients build their organizational capacities in mobilizing resources, fundraising, improving sustainability, and providing a financial stake in the success of the programs. This funding, if not provided, may hinder the achievement of program goals and activities. To address this issue, this audit makes the following recommendations:

Recommendation No. 6: We recommend that USAID/Egypt make a management decision on the questioned cost sharing and recover estimated cost share contributions of \$8,493 identified for amounts deemed payable.

Recommendation No. 7: We recommend that USAID/Egypt document a review

⁴ For Egyptian Association for Human Environmental Development and Al-Nakib Center for Training & Democracy, the estimates are based on an exchange rate of 5.75 Egyptian pounds to 1 U.S. dollar, as stated in the agreements. For New Horizon Association for Social Development, the estimate is based on an exchange rate of 5.7 Egyptian pounds to 1 U.S. dollar as of the date of the agreement modification establishing the cost share requirement.

of the democracy and governance agreements' financial information to determine if appropriate cost share contributions have been made and document a plan to recover any outstanding contributions.

USAID/Egypt Should Obtain Waivers for Participant Training

Summary: Automated Directives System 253, *Training for Development*, documents the requirements for USAID-sponsored training activities conducted outside the United States. USAID/Egypt's Mission Order 103-4, *Clearances and Delegation of Authority*, establishes a clearance and approval process for waivers. USAID/Egypt's Office of Democracy and Governance did not obtain appropriate approvals for waivers for 40 Egyptian participants to attend USAID-sponsored training events. The technical representative did not forward the waiver for proper approval because the representative did not follow guidance and the instruction from the training division. As a result, USAID/Egypt could not ensure the participants' commitment to the \$1.4 million program or enforce obligatory repayment of training funds if trainees did not return to Egypt.

ADS 253, *Training for Development*, documents the requirements for USAID-sponsored learning activities, including those conducted outside the United States. Requirements include an agreement among participants, the mission, and other parties describing specific responsibilities for achieving USAID training objectives. In addition, USAID/Egypt's Mission Order 103-4, *Clearances and Delegation of Authority*, requires a technical officer to make waiver requests that should be cleared by several USAID offices and approved by the mission director. As such, the technical office director, program office director, legal adviser, and deputy director are responsible for clearing the document, while the mission director is responsible for approving the document.

USAID/Egypt's Office of Democracy and Governance provided training to foreign nationals to acquire knowledge, skills, or information for their professional or technical enhancement that included a program designed to integrate international standards of investigative reporting customized and practiced in the Arab world. According to managers for the International Center for Journalists, participants refused to sign USAID training forms when the implementer paid for 40 Egyptian journalists to attend two mentor training programs. According to the grantee, the participants refused to sign the training forms because they believed that signing the forms would bind them contractually to the U.S. Government.

As a condition to attend two training sessions held for 5 days and 3 days, respectively, in Amman, Jordan, USAID/Egypt required each of the training participants to sign agreements that documented the mission's expectation and the participants' agreement to attend postevaluation training meetings. However, neither the agreement officer's technical representative nor the implementer acquired the critical USAID/Egypt prerequisite training documents. More important, and without proper authorization, the technical representative did not require the participants to sign training agreements for personal commitment to the program or to actively participate in any organized postevaluation activities. Rather, the agreement officer's technical representative prepared an internal memo to request a waiver of the requirements 1 day before the

participants traveled to Jordan for the first training session. However, the technical representative did not submit the waiver requests for approval to any mission officials for clearance or approval.

For the second training event, even though the technical representative had more than 2 weeks to obtain approval, the representative did not comply with mission waiver guidelines. The technical representative prepared a waiver request memo for the second training session. Although the staff person maintained a copy of the memo in the grant files, the staff person never forwarded the memo to obtain appropriate mission clearance and approval.

The staff person stated that the Office of Democracy and Governance sought guidance for requests to waive requirements related to third-country training. The training director stated that they did not have the authority to waive these requirements. Furthermore, on multiple occasions, the training division requested that democracy and governance participants complete the paperwork. This resulted in much communication between the democracy and governance technical representative and the training director about why their participants could not complete or should not complete the paperwork. Moreover, the training director stated that the division emphasized that the memo was documentation only for the democracy and governance files that would record the reasons their participants could not complete the paperwork. However, the training director stated that the division emphasized that this paperwork was documentation only and would not be a waiver in and of itself. Despite the guidance given, the technical representative prepared the waivers but never submitted them for clearance and approval.

The sensitivities of world events in the Middle East require training journalists to have a broad view to investigate and report on unbiased, factual, and relevant information. To address this requirement, USAID/Egypt has demonstrated an obligatory commitment of \$1.4 million to provide resources to improve the organizational capabilities of civil society organizations and to directly support media reform programs, a commitment that should be reciprocated by the participants to whom it provides these valuable training resources. Furthermore, for FY 2008, 9 of 25 USAID/Egypt performance indicators were for training. Since many of the democracy and governance activities include training components, it is conceivable that much of the training may be provided outside of Egypt, given the Egyptian government's reluctance to support the program. As a result, USAID/Egypt could not ensure the participants' commitment to the \$1.4 million program or enforce obligatory repayment of training funds if trainees did not return to Egypt. Consequently, this audit makes the following recommendation:

Recommendation No. 8: We recommend that USAID/Egypt develop a written plan to require its technical representatives to provide certifications about training participants' noncompliance with documentation requirements, which would be reported to the mission director immediately to limit potential governmental liabilities.

USAID/Egypt Should Evaluate Options for Unused Equipment

Summary: Automated Directives System 324.5.4b, *Post Procurement, Arrival and Disposition Records*, requires missions to verify that commodities financed by the agency are used effectively. In one contract, the technical representative was aware that the contractor had purchased training equipment; however, the technical representative did not verify what equipment the contractor purchased and reported to USAID/Egypt. Consequently, training equipment valued at nearly \$19,000 sat idle in an unfinished facility in poor storage conditions for more than 15 months. This occurred because the technical representative's monitoring was weak. When beneficiaries do not use equipment provided for its intended purposes, this inaction results in waste and abuse of resources that could be put to better use elsewhere.

ADS 324.5.4b, *Post Procurement, Arrival and Disposition Records*, requires missions to verify that commodities financed by USAID are being effectively used in an activity, and if not, that the commodities are transferred to other activities.

In one contract, USAID/Egypt did not verify that commodities were being used effectively for one of its activities. Specifically, USAID/Egypt's contractor, Management Sciences International, entered into an agreement with an Egyptian newspaper, Dar Akhbar El-Yom, in May 2007 to provide technical training to develop its media training center as well as to provide for media equipment and commodities. This assistance included financial assistance for purchasing equipment, software, and training and instructional materials, which would be discussed and approved by both parties in the implementation phase with USAID review and approval.



Photographs of stored media lab equipment (a stored precision balance and a porosity tester) sitting idle in poor storage conditions. (Regional Inspector General/Cairo, February 2, 2009.)

Although the contractor provided about \$19,000 in media equipment for a training center, the newspaper company did not use the equipment. A contractor provided the equipment to the company for a media lab that was to be used to train media professionals using new technologies. In fact, the company placed the equipment in opened boxes for more than 15 months in a training room that was under construction. The unfinished room was planned to be a media training room that would be completed after other resources became available. In spite of the value of the equipment stored, the company did not have an access log to provide minimal protection and safeguard the contents of the room. As

illustrated in table 4, the commodities included state-of-the-art technical equipment to improve newsprint quality that was to be used by engineers and technical staff.

Table 4. Equipment Not Being Used by the Media Training Center

Item	Unit Price	Quantity	Total
Porosity Tester for Paper	\$4,605	1	\$4,605
Copier	\$3,637	1	\$3,637
Semi-Pro Camera	\$3,290	1	\$3,290
Reporter Camera	\$486	5	\$2,430
Portable Electronic Precision Balance	\$1,995	1	\$1,995
Lens	\$1,370	1	\$1,370
TV (34")	\$1,000	1	\$1,000
DVD Player Recorder	\$387	1	\$387
Scanner	\$90	1	\$90
TOTAL			\$18,804



Photographs of five digital cameras sitting idle in a storage room under construction. (Regional Inspector General/Cairo, February 2, 2009.)

The contractor provided this equipment based on a subcontractor's needs assessment for a specialized training room. However, the contractor stated that it did not necessarily mean that the subrecipient knew how to use the specialized equipment. Consequently, the equipment was not being used for its intended training purposes, unbeknownst to the USAID/Egypt technical representative responsible for overseeing the project.

This occurred because the technical representative's monitoring of contractor's activities was weak. Although the technical representative was aware that the contractor had purchased the equipment, the staff person did not verify the use of equipment at the training center with what the contractor had reported to USAID/Egypt. The technical representative stated that managing numerous grants and this contract as well as reviewing technical evaluations for new grants under the civil society direct grants program limited the staff person from conducting site visits to observe activities or validate reported data. As a result, the technical representative did not take any corrective action as thousands of dollars worth of media equipment sat idle.

USAID/Egypt spends thousands of dollars to purchase equipment to be used for training and to upgrade outdated equipment in activities that its contractors and grantees

conduct. However, when beneficiaries do not use equipment provided for its intended purposes, this inaction results in waste and abuse of resources that could be put to better use elsewhere. Consequently, recommendation no. 2 addresses the technical representative's weak monitoring. This audit also makes the following recommendation to ensure that USAID funds are put to better use.

Recommendation No. 9: We recommend that USAID/Egypt explore and document possibilities to recover the unused equipment and put it to immediate and better use within 15 days.

USAID/Egypt Should Ensure Technical Representative Requirements Are Met

Summary: Automated Directives System 458.3.5.5, *Federal Acquisition Certification Programs*, requires technical staff to complete mandatory acquisition and assistance courses for certification within 6 months of being appointed as a technical representative. In addition, Automated Directives System 303.3.14, *Designation of the Agreement Officer's Technical Representative*, states that agreement officers must use a designation letter to authorize technical and administrative oversight of an award. Although USAID provides clear guidance on technical representative responsibilities, the Democracy and Governance Office director did not receive the mandatory acquisition and assistance certification to be a technical representative. In addition, from June to December 2007, neither the office director nor another democracy and governance staff person had designation letters authorizing management of a USAID award. This occurred because staff training and staff designations were not management priorities. As a result, some technical representatives exercised unauthorized administrative approvals to expend USAID funds.

USAID has documented requirements for its technical representatives in guidance in two ADS sections. ADS 458.3.5.5, *Federal Acquisition Certification Programs*, requires a technical representative to complete mandatory acquisition and assistance courses for certification within 6 months of being appointed as a technical representative. In addition, ADS 303.3.14, *Designation of the Agreement Officer's Technical Representative*, requires the agreement officer to use a designation letter to define the scope of the technical representative's responsibilities. The designation letters authorize technical and administrative oversight of an award that includes monitoring, verifying, and recommending changes to the agreement, as well as administratively approving financial payments of USAID funds, if required. If a technical representative cannot fulfill his or her responsibilities, the representative should notify the agreement officer to ensure the timely designation of a successor.

Of the seven technical representatives managing the 10 direct grants program agreements reviewed, one did not receive the mandatory acquisition and assistance training to be certified. In fact, from June to December 2007, the office director, as a technical representative, was not certified by or given a designation letter from the agreement officer, although one of the office director's responsibilities is to manage grants and oversee the entire democracy and governance portfolio. Another democracy

and governance staff member also did not have a designation letter from June to December 2007 to authorize their management of an award valued at \$618,000.

According to the director of USAID/Egypt's Office of Democracy and Governance, management oversight for certification did not occur because the staff person did not see the importance of personal certification. Moreover, the director stated that the office requested the agreement officer to delegate a replacement technical representative after the prior technical representative departed post. However, the Democracy and Governance Office did not follow up and did not retain any documentation of formal requests for a replacement designee. Consequently, the office director and another democracy and governance staff member managed the award together without proper delegation of authority for about 7 months. The democracy and governance management did not provide formal written guidance for circumstances that would warrant notifying the agreement officer of changes in staff and redelegation of authority over a specific agreement.

Without proper training, technical representatives lack the knowledge about some of the requirements for overseeing the implementation of a USAID agreement. Furthermore, in the absence of a binding designation letter, a USAID technical representative may exercise unauthorized administrative approval of payments, and technically does not have the authority to monitor activities or to request revisions to agreements. This unauthorized approval exposes the agency to increased risks of both serious disputes and legal action that compete for limited Agency resources, which otherwise would be put to better use. Consequently, this audit makes the following recommendation:

Recommendation No. 10: We recommend that USAID/Egypt document a review of authorizing designation letters for its technical representatives to ensure that staff have appropriate authority to manage agreements and administratively approve financial payments.

EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft report, USAID/Egypt's Democracy and Governance Director generally agreed with all 10 recommendations. However, for two of the recommendations, USAID/Egypt Mission officials did not agree with the wording of the recommendations, but agreed with the spirit and intent of the corrective actions. Management decisions have been made on the 10 recommendations in this report, and the mission has taken final action on 9 of the recommendations. Although the mission has reached a management decision on recommendation no. 8, final action will not be taken until USAID/Egypt publishes a mission order to address participant training issues. An evaluation of the management comments for each recommendation is discussed below.

In response to recommendation nos. 1 and 5, USAID/Egypt's Office of Democracy and Governance agreed with the recommendations to develop and document training plans for assistance recipients and to develop a checklist to document management reviews. In May 2009, USAID/Egypt awarded a contract to Save the Children Federation, Inc., to provide grant management support services, and to specifically provide additional technical assistance and training to the democracy and governance civil society grantees and develop a standardized checklist to assist mission staff in monitoring program activities and progress.

To address recommendation no. 2, USAID/Egypt's Office of Democracy and Governance generally agreed with the recommendation and used the draft audit report as a review tool to facilitate discussions about staff responsibilities as agreement or contracting officer's technical representatives. Although the mission did not agree with the wording of the recommendation to retrain its staff, the democracy and governance office director reallocated office responsibilities to ensure that grant and contract management was equitably divided among staff. Although inadequate oversight may have been the result of workload for some staff, several of the technical representatives stated they were unaware of some of their primary responsibilities such as monitoring antiterrorism measures and cost share requirements. By reviewing and dividing some of the democracy and governance staff responsibilities, mission officials believe that these actions will reduce management vulnerabilities.

In response to recommendation no. 3, USAID/Egypt agreed with the recommendation to review its programs to determine whether a mission order on antiterrorism measures would mitigate mission risks. Consequently, on July 1, 2009, USAID/Egypt issued a mission order on antiterrorism procedures. The mission order provides guidance on conducting risk assessments to reduce the risk of the mission's assistance inadvertently benefiting terrorist groups.

To address recommendation no. 4, USAID/Egypt generally agreed with the recommendation to document and provide training to implementers on USAID's antiterrorism measures. USAID/Egypt's democracy and governance officials developed a plan to provide specific written notification to its implementers about USAID

requirements to fulfill antiterrorism measures. Moreover, the office plans to host either an in-house workshop on USAID's antiterrorism measures or use periodic meetings to discuss issues to ensure that implementers comply with requirements designed to prevent terrorist financing. As an ongoing effort documented in the office's contract for grant management support services, the contractor will review many of the grantees' actions to comply with specific USAID antiterrorism measures.

In response to recommendation no. 6, USAID/Egypt's democracy and governance and procurement officials agreed with the recommendation and reviewed the questioned cost share contributions identified in the report. However, mission officials chose not to recover any of the questioned costs because the officials believed that any recoveries would not contribute to achieving program results and would be inconsistent with agreement terms. Although mission officials believed that recovery of cost sharing would be inconsistent with agreement terms, there are no provisions or clauses in any of the three agreements that would prevent the mission from recovering the differences in budgeted and actual cost share. In accordance with the audit recommendation and Agency guidance, USAID and recipients should resolve issues regarding cost share requirements. If these issues are not resolved satisfactorily, USAID may request refunds for differences to cost share contribution requirements, even if an award has expired or was terminated. However, the mission addressed the recommendation by reviewing the questioned cost share contributions.

To address recommendation no. 7, USAID/Egypt's democracy and governance officials agreed with the recommendation and developed a plan to review implementers' cost share contributions on a monthly or quarterly basis, when financial reports are submitted. In addition, the officials plan to require awardees to include a report on cost share contributions in monthly financial reports. As part of their review, the office plans to elevate any differences in cost share amounts to the attention of the mission's procurement office for resolution.

Regarding recommendation no. 8, USAID/Egypt agreed with the recommendation to develop a written plan to certify that documentation requirements for participant training are fulfilled. Democracy and governance officials expect the mission's training staff to finalize and issue a mission order on participant training within 6 months.

In response to recommendation no. 9, democracy and governance officials agreed with the recommendation to explore and document opportunities to put unused equipment to immediate and better use. As a result, staff visited the subimplementer on two occasions in March and May 2009 to ensure that equipment was properly installed in training rooms and used during training sessions.

To address recommendation no. 10, USAID/Egypt's democracy and governance staff agreed with the recommendation to review staff authorizations to manage agreements and administratively approve financial payments. Based on this review, the mission's democracy and governance officials made adjustments to employees' assignments and ensured its technical representatives are properly designated.

SCOPE AND METHODOLOGY

The Regional Inspector General/Cairo conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on an audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The purpose of this audit was to determine whether USAID/Egypt's democracy and governance activities achieved their intended results and to evaluate the impact. We conducted the audit at USAID/Egypt located in Cairo, Egypt, and visited implementing partners and direct grants program recipients in Cairo, Helwan, Asuit, Minya, Bani Suef, Qalioubiya, and Giza from October 16, 2008, through May 12, 2009.

The audit covered the period from October 1, 2007, through September 30, 2008. In planning and performing the audit, we assessed management controls related to management review of performance measures, indicators, and activities. Specifically, we obtained an understanding of and evaluated USAID/Egypt's 2008 Federal Managers' Financial Integrity Act of 1982 assessment, Egypt's 2008 Full Performance Plan and Report, the oversight performed by contracting officer's technical representatives and agreement officer's technical representatives, and data quality assessments.

We reviewed an evaluation and an independent assessment of the program and a prior performance audit⁵ related to this review. However, none of the findings from the prior performance audit affected the areas we reviewed.

Our recommendations are based on systemic problems identified throughout our samples, which were managed by 8 of 10 technical representatives working in USAID/Egypt's Democracy and Governance Office.

Methodology

To answer the audit objective, we met with and interviewed USAID/Egypt staff in the mission's Democracy and Governance Office to gain an understanding of the program history and status and to determine the risks associated with the program. We also interviewed implementing partners Management Sciences for Development, Inc., AECOM International Development, and Management Systems International, Inc.; and 10 grant recipients, subcontractors, subgrantees, beneficiaries, and Egyptian government officials. We reviewed applicable laws and regulations and USAID policies and procedures. Additionally, to determine progress toward the achievement of planned goals, we reviewed documentation provided by the implementers and the mission, including the 2008 work plans; implementers' quarterly and annual reports; contracts, cooperative agreements, grants, and subsequent modifications; performance management plans; operational plans; site visit reports; contracting officer's technical representative and agreement officer's technical representative files; and supporting documentation, such as attendance sheets and published materials.

⁵ USAID's Office of Inspector General, *Audit of USAID-Financed Democracy and Governance Activities in Egypt* (Audit Report No. 6-263-04-006-P), July 12, 2004.

Specifically, we compared fiscal year (FY) 2007 targets for indicators outlined in the agency's performance report with actual figures reported for FY 2008. We also compared the planned work outlined in the implementing partners' contracts with the FY 2008 work plans to ensure consistency. We compared the work accomplished as reported in the implementers' quarterly and annual reports to a random sample of FY 2008 work plan activities. We also compared selected planned activities in the nine grants and one cooperative agreement with the implementers' and grantees' final and progress reports. We verified the activities by examining supporting records, such as deliverables, attendance sheets, and subawards, for evidence that the activity had achieved intended results.

Based on our assessment of the project's risks and management controls, we reviewed 13 agreements valued at \$62 million. Under the bilateral agreement between USAID/Egypt and the Government of Egypt, we reviewed three contracts valued at \$55 million that were active in FY 2008. With assistance from the director of USAID/Egypt's Office of Democracy and Governance Program, we judgmentally selected three of the seven contracts, representing 45 percent of the dollar value of the agreements under the bilateral program. One contract was selected from each of the three democracy and governance program areas (rule of law and human rights, good governance, and civil society).

We also judgmentally selected 10 of 80 awards (13 percent) valued at more than \$7 million out of the total dollar value of the agreements in the direct grants program of \$59 million. The 10 selected awards were either active or closed during FY 2008. We based our selection on entity type: U.S. or international organizations, Egyptian nongovernmental organizations (NGOs), and Egyptian civil companies. Accordingly, we selected our sample based on the following criteria:

- Two grants more than \$1 million each that were awarded to multiple grantees from U.S. or international companies.
- Three grants more than \$500,000 each awarded to multiple-grantee Egyptian NGOs.
- One grant less than \$500,000 that was closed in FY 2008 awarded to a single-grantee Egyptian NGO.
- One grant less than \$500,000 that was closed in FY 2008 awarded to a single-grantee Egyptian civil company.
- One grant more than \$500,000 awarded to an Egyptian civil company.
- Two grants awarded to Egyptian civil companies that have received more than one grant from the program.

The 10 selected awards ranged from nearly \$200,000 to \$1.35 million. We also audited the cost share contributions of \$283,361 for the 10 assistance awards.

In answering the audit objective, we set specific thresholds for the democracy and governance performance indicators, the bilateral program activities, and direct grants program activities. For the performance indicators, we considered the planned target "achieved" if it was met by at least 80 percent or exceeded. Indicators were judged to have been "not achieved" if the mission met 79 percent or less of the planned target (see appendix IV).

For the bilateral program, we chose activities that were expected to be completed in FY 2008; for the direct grants program, we reviewed activities for the life of the grant. We judged activities to have been “achieved” if they were completed on time as planned, completed later than planned but within the fiscal year, or were subject to minor scope adjustments during the fiscal year. We judged activities to have been “not achieved” if they were started but not completed within the fiscal year or if the implementer did not start activities in the fiscal year. For activities or deliverables that were quantifiable, we established a materiality threshold of 80 percent. If the implementer completed at least 80 percent, we concluded that the implementer “achieved” the activity. For activities that had completed less than 80 percent, we concluded that the implementer had “not achieved” its intended results (see appendix V).

The completion of activities directly correlates to desired results and subsequently to impact. When measuring impact, the audit considered the achievement of results measured by performance indicators. For the bilateral agreement activities and direct grants program, the audit considered activities “achieved” during FY 2008. Specifically, the audit determined the progress of each project toward the achievement of planned activities. Furthermore, the audit assessed the impact of management controls on USAID/Egypt’s management of the democracy and governance portfolio and decisionmaking.



MANAGEMENT COMMENTS

Memorandum

Date: September 30, 2009

To: RIG/Cairo, Jacqueline Bell

Thru: USAID/Egypt Mission Director Hilda Arellano /s/

From: USAID/Egypt Democracy and Governance (DG) Office Director, Kim Delaney

Subject: Audit of USAID/Egypt's Democracy and Governance Activities – Draft Audit Report No. 6-263-09-006-P Dated September 13, 2009

USAID/Egypt has reviewed the subject report and following are the Mission's comments on the report ten audit recommendations subsequently.

Audit Finding: USAID/Egypt Should Increase Management Oversight

- ***Recommendation No. 1: We recommend that USAID/Egypt develop and document a training plan for assistance recipients to explain USAID rules, regulations, and expectations, prior to beginning activities.***

USAID/Egypt agrees with this recommendation, as it reflects current practice. USAID/Egypt uses a number of mechanisms to ensure that assistance recipients understand USAID rules, regulations and expectations both prior to beginning activities as recommended by the RIG as well as during the course of award implementation.

Immediately following award of new assistance agreements, USAID/Egypt conducts a post-award conference including representatives of the awardee, the Procurement Office, the Financial Management Office, the Training Office and the Democracy and Governance (DG) Office. The post-award conference is used to explain USAID rules, regulations and expectations prior to beginning activities. Since July 2009, this conference also includes a representative from the Grant Management Support Services (GMSS) contract. The GMSS contract was awarded in May 2009 to provide technical assistance and training to Egyptian civil society grantees receiving awards as part of the DG program. A copy of the GMSS is available in the DG office and has been provided to the RIG.

In addition to the post-award conference, DG grantees are also provided targeted technical assistance and training from the GMSS contract based on an individualized assessment of needs. DG AOTRs – in conjunction with Mission staff from the Financial Management, Regional Legal Advisor, Training, Program and Procurement Offices as

appropriate – also provide ongoing support to awardees in complying with USAID rules, regulations and expectations. DG AOTRs are in touch with awardees on a regular basis to ensure that any questions about the award are addressed.

In addition to the post-award conference and ongoing AOTR assistance, during the last two years, the Financial Management and Procurement Offices have been teaching a FAST course to the DG assistance recipients to help further train them on managing their awards, dealing with terrorism certifications, and other certifications and representations. This course also covers the Standard Provisions, along with other financial and procurement issues and lessons learned from the previous years. Documentation on this course including the course agenda and an attendance list has been provided to the RIG.

If the DG office identifies a need for additional training or technical assistance to awardees during implementation, we will ensure that this need is met either through an in-house course such as FAST or through another mechanism.

For the specific examples cited in this section of the audit report, the agreement with Environmental Quality International has been closed⁶, and the Arab Penal Reform Organization is now submitting quarterly progress reports in English rather than in Arabic. Copies of the quarterly reports are available in the DG office and have been provided to the RIG.

In view of the above, the Mission believes that a management decision has been made and fully implemented, and therefore requests closure of Recommendation 1.

- ***Recommendation No. 2: We recommend that USAID/Egypt develop and document a training plan to provide its democracy and governance staff with refresher training on how to effectively manage programs including contracting and financial management responsibilities.***

While USAID/Egypt does not agree with the wording of this recommendation, since it implies that the main reason that there was inadequate management oversight of DG activities was because DG staff were not properly trained, we agree with its spirit and have taken a number of actions to reduce management vulnerabilities in the office.

As noted in the draft audit report, management vulnerabilities in the office were caused by excessive workload and competing priorities in the office. Specifically, the draft audit report states: “democracy and governance staff encountered numerous problems managing the program activities because of competing management priorities...each of

⁶ This awardee did not countersign the agreement as requested by USAID, nor did it enter into a written agreement with its subrecipient.

the eight contracting and agreement officers' technical representatives oversaw multiple agreements...Increasing the workload and complicating matters further in FY 2008, the democracy and governance staff was also responsible for evaluating more than 200 new proposals for the direct grants program because of increased program funding.”

In addition, in the May 20, 2009 response to the Statement of Facts, the DG office informed the RIG that “since the inception of the direct grant program in 2005 the need to dedicate additional management resources, whether by hiring more staff or contracting with an intermediary organization to provide day-to-day management and monitoring of the APS grants was identified as a medium risk in the annual Federal Managers’ Financial Integrity Act (FMFIA) and raised by the team as an implementation issue in numerous Portfolio Reviews”.

The issue faced by the DG office in managing its portfolio related to the significant increase in management units (from eight in FY 2005 to 87 in FY 2008 as noted in the draft audit report), but without a concomitant increase in staffing. The number of grants and contracts now managed by DG office has been reduced by more than 50%, resulting in a much more reasonable workload. The allocation of responsibilities in the office was reviewed in June 2009 as well to ensure that grant and contract management was equitably divided among staff.

Although the issues surrounding program management that were identified in the audit were not primarily related to staff understanding of their responsibilities as COTRs or AOTRs, the DG office has used its review of the audit report to ensure that all staff are fully aware of their roles and to ensure that the number of staff is adequate for proper management oversight.

The DG office will also formally review management arrangements on at least a quarterly basis so that any concerns related to workload or oversight can be immediately addressed. In addition, if the DG office identifies a specific need for staff training in any area to ensure effective program management, the DG office will support staff in receiving that training. These actions were discussed with DG staff in a meeting on September 17th, and documented in a message to all staff on October 16th. A copy of this message has been shared with the RIG.

In view of the above, the Mission believes that a management decision has been made and fully implemented, thus, requests closure of Recommendation 2 upon final report issuance.

Audit Finding: USAID/Egypt award recipients should ensure antiterrorism measures are conducted.

- ***Recommendation No. 3: We recommend that USAID/Egypt document a review of its programs to determine whether a mission-wide order on antiterrorism measures would help to mitigate the mission's risk of inadvertently providing financing to terrorist organizations or individuals associated with terrorism.***

USAID/Egypt agrees with this recommendation, as it is consistent with the Agency-wide approach to this issue.

On July 1, 2009, USAID/Egypt issued a Mission Order on Anti-Terrorism Procedures, adopting interim guidance to reduce the risk of the Mission assistance inadvertently benefitting terrorist groups. A copy of the Mission Order has been provided to the RIG. This Mission Order was consistent with guidance provided to all Asia and Middle East operating units on conducting risk assessments to reduce the risk of USAID assistance inadvertently benefitting terrorist groups, their members, and/or supporters. This guidance is applicable to all funds managed by the Mission.

Consistent with this guidance, the Mission conducted a review of each active program in July 2009 to assess the risk of USAID financing benefitting terrorist organizations or individuals associated with terrorism. The results of this assessment confirmed that USAID/Egypt activities were all at low risk of benefitting terrorist organizations. Copies of these risk assessments are on file and a sample has been provided to the RIG.

As a result of the issuance of the Mission Order and the procedures in place to periodically review all ongoing and new awards for the risk of providing financing to terrorists, Recommendation No. 3 should be closed upon final report issuance.

- ***Recommendation No. 4: We recommend that USAID/Egypt document and provide training to the democracy and governance implementers on USAID's antiterrorism measures.***

While USAID/Egypt does not agree with the specific wording of this recommendation since it implies that training would be sufficient to ensure that implementers complied with antiterrorism measures, we do agree with its spirit and have put in place a comprehensive approach to ensure that implementers both understand and continually comply with USAID requirements in this area.

Specifically, an assessment of the risk of financing being provided to terrorists was conducted for each active democracy and governance award in July 2009. Based on this

review, the democracy and governance implementers were not considered to be at any higher risk than any other implementer for the provision of financing to terrorist organizations or individuals. As noted above, all USAID/Egypt programs were assessed to be at low risk for this to occur, primarily based on systems that the Government of Egypt has in place.

In addition, as part of ongoing grant and contract management, USAID staff will ensure that contractors and grantees are aware of and complying with antiterrorism measures contained in their awards. USAID staff will inform the Procurement Office immediately of any cases of noncompliance. If it appears that grantees need additional support to understand USAID requirements in this area, we will consider other measures of informing them, including but not limited to sending a specific written notification of USAID expectations, hosting an in-house workshop on this issue or using periodic meetings of USAID democracy and governance implementers to discuss it.

To provide additional support, under the GMSS contract described above, GMSS staff will review overall award compliance with Egyptian DG grantees, including that related to antiterrorism measures. GMSS has developed a checklist for compliance with grant provisions on terrorist financing, which has been provided to the RIG.

For the specific cases outlined in the audit report, the Egyptian Decentralization Initiative is now including the antiterrorism clause in its subcontracts with Egyptian NGOs. Copies of these subcontracts are available and have been provided to the RIG. The other three awards which were cited in the audit report have all been closed.

Based on the Mission's assessment of risk in this area as well as the other preventive measures that are being taken, the Mission believes that Recommendation 4 has been addressed and requests closure upon final report issuance.

Audit Finding: USAID/Egypt should verify reported data

- ***Recommendation No. 5: We recommend that USAID/Egypt develop a standardized checklist to document management reviews as a part of democracy and governance program assessments.***

USAID/Egypt agrees with this recommendation. As part of the GMSS contract, a standardized checklist has been developed to assess Egyptian grantee capacity to monitor and report on program progress. The GMSS contractor will provide tailored technical assistance to each grantee to improve their capacity to consistently and accurately report information to USAID. In addition to the monitoring and evaluation checklist, GMSS has developed an

organizational assessment tool to review overall organizational capacity as well as a branding and marking checklist. Copies of GMSS documents have been provided to the RIG.

The GMSS contractor is also developing a monitoring system to collect and report information from all active Egyptian and U.S. civil society program awardees to USAID. This system will allow USAID to more easily review and verify program progress against planned activities and indicators. The GMSS contractor will also conduct periodic site visits of Egyptian grantees to supplement site visits made by USAID staff.

In addition to the work of the GMSS contractor, USAID staff also monitor program performance on a regular basis as part of their AOTR / COTR responsibilities. In those cases where grantees or contractors are not adequately performing, the DG office will consult with the Procurement Office on any corrective actions to be taken. Mission-wide semi-annual program implementation reviews are also conducted to identify and address any significant management concerns.

Based on the above mentioned corrective measures, the Mission believes that Recommendation 5 has been addressed and requests closure upon final report issuance.

Audit Finding: USAID/Egypt should monitor cost share contributions

- ***Recommendation No. 6: We recommend that USAID/Egypt make a management decision on the questioned cost sharing and recover estimated cost share contributions of \$8,493 identified.***

USAID/Egypt DG and Procurement offices agree with this recommendation, and have already made a management decision on the questioned cost sharing identified in the RIG audit report. The management decision is that the cost share contributions of \$8,493 should not be recovered.

Recovering the estimated missing cost share contribution would not contribute to achieving program results, nor would it be consistent with the agreement terms. In the case of in-kind contributions of equipment use, it would be impossible to recover cost share. Under the cited agreements with the Egyptian Association for Human Environmental Development and the Al-Nakib Center for Training and Democracy, grantees were responsible for providing a cost share that would mainly cover customs, sales tax and social insurance contributions for their employees which were directly related to the program objectives. The cost share in the award with New Horizon Association for Social Development was an in-kind contribution of equipment. The agreements with these three organizations did not specify the source of the cost share. All cost share amounts were estimates and denominated in Egyptian pounds.

When these agreements were completed, all three organizations had covered all cash or in-kind contributions required for the implementation of all planned activities. The variations cited in the audit report were due to exchange rate fluctuations and/or changes in employee salary amounts for those cost share items that were pegged to a percentage of employee salaries, such as social insurance. This variance in specific cost share amount did not affect program implementation or the achievement of results.

Therefore, USAID/Egypt determined not recover these estimated cost share amounts; thus, the Mission believes that Recommendation 6 should be closed upon final report issuance.

- ***Recommendation No. 7: We recommend that USAID/Egypt document a review of the democracy and governance agreements' financial information to determine if appropriate cost share contributions have been made and document a plan to recover any outstanding contributions.***

USAID/Egypt agrees with this recommendation. Following issuance of the Statement of Facts, USAID/Egypt has begun to require awardees to include information in their monthly financial reports on cost share contributions. As noted above, cost share contributions from Egyptian grantees mainly are comprised of the payment of social insurance for grantee staff, thus, does not have direct impact on achieving the grant activities. This is now being monitored on a monthly or quarterly basis when financial reports are submitted. A sample of regular grantee financial reports that show the cost share contribution have been provided to the RIG.

If any variations from the original cost share amount are found that are not accounted for through exchange rate fluctuations and/or variation in the amount paid to grantee staff, USAID/Egypt will bring this to the attention of the Procurement Office, which can take any corrective actions it deems appropriate. A separate plan to recover outstanding contributions is therefore unnecessary at this time, but will be prepared if determined necessary by the Procurement Office on a case by case basis.

Based on these actions, Recommendation 7 should be closed upon final report issuance.

Audit Finding: USAID/Egypt should obtain waivers for participant training

- ***Recommendation No. 8: We recommend that USAID/Egypt develop a written plan to require its technical representatives to provide certifications about training participants'***

noncompliance with documentation requirements, which would be reported to the mission director immediately to limit potential governmental liabilities.

USAID/Egypt agrees with this recommendation. The Training Office plans to issue a new Mission Order once ADS 253 is reissued which will include third country training regulations. This is expected to happen within the next six months.

For the specific example cited in the audit report where 40 Egyptian journalists did not sign Mission specific training forms before participating in eight days of training in Jordan, the award under which this occurred has closed. While ADS 253 does not require the completion of all cited forms for third country training, they were provided internally by the Mission as a safeguard to ensure that participants would adhere to their program, and to control problems which might occur while they are in training status.

Although the DG office conducts an extensive amount of training (with over 11,000 participants in FY 2008), we are unaware of any similar cases where this occurred.

In light of the facts relayed above, this recommendation should be closed.

Audit Finding USAID/Egypt should evaluate options for unused equipment

- *Recommendation No. 9: We recommend that USAID/Egypt explore and document possibilities to recover the unused equipment and put it to immediate and better use within 15 days.*

USAID/Egypt agrees with this recommendation, since it reflects actions that were taken more than four months ago.

In the May 20, 2009 DG office response to the summary statement of audit findings on the DG Office performance audit, the following information was provided:

“The CTO paid two site visits to the Akbar Training Center (March 3 and May 13, 2009) and ensured that the subject equipment is being used for training purposes. All cameras identified in the SOF on page 25 are being used to train photo journalists and are put back into their boxes as a precautionary measure to protect them. (Additional supporting documents including photos are available in the official files and has been provided to the RIG). The scanner and copier are now in use (photos are available in the official files and have been provided to the RIG) and the TV and DVD player are now installed in the training room. Porosity tester and precision balance has been utilized in training and Akhbar stated that the training they offer using this unique piece of equipment is earning them additional income. El Akhbar also shared supporting documents, including an invitation to a training course on May 24, 2009 using the subject equipment. (Supporting documentation available in official files and has been provided to the RIG.) During the site visit, CTO ensured that the

training center, which houses USAID funded equipment, has 24 hour security for the building. Moreover, the training room containing the computers, camera and the porosity tester, and precision balance is locked. After the site visit, the CTO sent an email to the director of the Akhbar training center to reiterate the importance of ensuring the equipment is utilized by the recipient for training and that it is properly stored and secured when not in use.”

Based on this information, this recommendation should be closed upon final report issuance.

Audit Finding: USAID/Egypt should ensure technical representative requirements are met

- ***Recommendation No. 10: We recommend that USAID/Egypt document a review of authorizing designation letters for its technical representatives to ensure that staff has appropriate authority to manage agreements and administratively approve financial payments.***

USAID/Egypt agrees with this recommendation. In June 2009, the DG office reviewed the assignment of COTR, AOTR, alternate COTR and alternate AOTR responsibilities in the office. A chart showing the assignment of COTR, AOTR and alternates that was completed in June was provided to the RIG. Based on this review, the DG office provided recommendations to the Procurement Office for adjusting the assignment of responsibilities. All current AOTRs, COTRs, and alternates have been formally designated by the Procurement Office through written designation letters. These letters form part of the official files and have been provided to the RIG.

Any changes in designations will be made through a formal request to the Procurement Office.

Based on these actions, this recommendation should be closed upon final audit report issuance.

Bilateral and Direct Grants Program Implementers

Bilateral Implementers

Project	Contractor	Contract No.	Start Date	End Date	Cost
Rule of Law and Human Rights Family Justice Project	Management Sciences for Development, Inc.	PFD-I-00-04-00175-00	Nov 05	Jul 10	\$17,452,598
Good Governance Egyptian Decentralization Initiative	AECOM International Development	263-I-00-06-00015-00	Apr 06	Apr 11	\$21,973,546
Civil Society Media Development Program	Management Systems International, Inc.	263-I-00-06-00008-00	Apr 06	Apr 11	\$15,536,071
				TOTAL	\$54,962,215

Civil Society Direct Grants Recipients

Direct Grants Recipient	Registration	Agreement No.	Start Date	End Date	Total Obligations*
International Center for Journalists	No agreement with Ministry of Foreign Affairs	263-G-00-06-00071-00	Aug 07	Jan 09	\$1,350,061
Internews Network	Agreement with Ministry of Foreign Affairs	263-G-00-06-00030-00	May 06	Apr 08	\$1,200,000
Environmental Quality International	Civil company	263-A-00-07-00011-00	Feb 07	Aug 08	\$588,650
Arab Penal Reform Organization	Civil company	263-G-00-07-00079-00	Aug 07	Aug 09	\$957,588
The United Group	Civil company	263-G-00-06-00047-00	Jul 06	Jul 08	\$271,320
The Coptic Evangelical Organization for Social Services	Nongovernmental organization	263-G-00-05-00060	Oct 05	Dec 08	\$1,003,940
Al-Nakib Center for Training and Democracy	Nongovernmental organization	263-G-00-07-00020-00	Feb 07	Dec 07	\$618,145
New Horizon Association for Social Development	Nongovernmental organization	263-G-00-05-00061-00	Oct 05	Sep 08	\$839,185
The Arab Office for Law	Civil company	263-G-00-06-00093-00	Sep 06	Sep 08	\$350,912
Egyptian Association for Human and Environmental Development	Nongovernmental organization	263-G-00-06-00095-00	Sep 06	Sep 08	\$192,171
				TOTAL	\$7,371,972

* Unaudited data provided by USAID/Egypt's Democracy and Governance Office.

Planned vs. Actual Indicators for Fiscal Year 2008

No.	Indicator	Target	Actual	Audit Assessment
Rule of Law and Human Rights				
1	Number of U.S. Government-assisted courts with improved case management	22	16	Not Achieved
2	Number of justice sector personnel who received U.S. Government training	2650	4605	Achieved
3	Number of legal institutions and associations supported by U.S. Government	167	247	Achieved
4	Number of people visiting U.S. Government-supported legal services centers serving low-income and marginalized communities	0	88,980	Achieved
5	Annual number of positive modifications to legislation, regulations, or institutional policies to improve justice system made through U.S. Government assistance	5	3	Not Achieved
6	Number of public advocacy campaigns on human rights supported by U.S. Government	4	3	Not Achieved
7	Number of key governmental and nongovernmental stakeholders trained in activities related to violence against women	0	0	Dropped
8	Number of local NGOs receiving U.S. Government assistance to address violence against women or children	0	0	No Target
Good Governance				
9	Number of subnational government entities receiving U.S. Government assistance to increase their annual own-source revenues	104	55	Not Achieved
10	Number of subnational government entities receiving U.S. Government assistance to improve their performance	84	117	Achieved
11	Number of individuals who received U.S. Government-assisted training, including management skills and fiscal management, to strengthen local government and/or decentralization	5427	4,471	Achieved
12	Number of women	666	646	Achieved
13	Number of men	4761	3825	Achieved
14	Number of laws or amendments promoting decentralization drafted with U.S. Government assistance	0	0	No Target
15	Number of people affiliated with NGOs receiving U.S. Government-supported anticorruption training	0	706	Achieved
16	Number of U.S. Government-supported anticorruption measures implemented	0	0	No Target
Civil Society				
17	Number of civil society organizations using U.S. Government assistance to promote political participation	50	63	Achieved

	Indicator	Target	Actual	Audit Assessment
18	Number of civil society organizations using U.S. Government assistance to improve internal organizational capacity	61	69	Achieved
19	Number of civil society organization advocacy campaigns supported by the U.S. Government	15	0	Dropped
20	Number of positive modifications to enabling legislation/regulation for civil society accomplished with U.S. Government assistance	1	0	Not Achieved
21	Number of U.S. Government-assisted civil society organizations that engage in advocacy and watchdog functions	45	62	Achieved
22	Number of media outlets that received U.S. Government-supported training to promote financial sustainability	18	12	Not Achieved
23	Number of journalists trained with U.S. Government assistance	950	1293	Achieved
24	Number of media professionals (non-content providers, including media management personnel) trained with U.S. Government assistance	323	140	Not Achieved
25	Number of private and public media outlets that received U.S. Government-supported training to promote financial sustainability	0	20	Achieved

Source: USAID/Egypt's Fiscal Year 2008 Full Performance Plan and Report

Planned Activities for Fiscal Year 2008

Democracy and Governance Program Component	Planned Activities	Achieved	Percentage Achieved	Not Achieved	Percentage Not Achieved	Dropped	Percentage Dropped
Rule of Law and Human Rights							
Family Justice Project	43	30	70%	11	25%	2	5%
Good Governance							
Egyptian Decentralization Initiative	22	7	32%	15	68%	0	0%
Civil Society							
Media Development Program	26	9	35%	17	65%	0	0%
Civil Society Direct Grants Program	91	73	80%	18	20%	0	0%
Total	182	119	65%	61	34%	2	1%

Civil Society Direct Grants Program Planned Activities for Fiscal Year 2008

Recipient	Planned Activities	Achieved	Percentage Achieved	Not Achieved	Percentage Not Achieved
Al-Nakib Center for Training and Democracy	7	6	86%	1	14%
Egyptian Association for Human and Environmental Development	7	4	57%	3	43%
The Coptic Evangelical Organization for Social Services	13	10	77%	3	23%
New Horizon Association for Social Development	22	20	91%	2	9%
Environmental Quality International	8	8	100%	0	0%
Internews Network	7	5	71%	2	29%
The United Group	11	8	73%	3	27%
Arab Penal Reform Organization ⁷	4	3	75%	1	25%
The Arab Office for Law	6	4	67%	2	33%
International Center for Journalists ⁸	6	5	83%	1	17%
Total	91	73	80%	18	20%

⁷ Activities were ongoing.

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