



# OFFICE OF INSPECTOR GENERAL

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## AUDIT OF USAID/EGYPT'S TRANSITION SUPPORT GRANTS PROGRAM

AUDIT REPORT NO. 6-263-13-002-P  
OCTOBER 22, 2012

CAIRO, EGYPT



*Office of Inspector General*

October 22, 2012

**MEMORANDUM**

**TO:** USAID/Egypt Mission Director, Walter North

**FROM:** Regional Inspector General/Cairo, Catherine Trujillo /s/

**SUBJECT:** Audit of USAID/Egypt's Transition Support Grants Program  
(Report No. 6-263-13-002-P)

This memorandum transmits our final report on the subject audit. We have considered carefully your comments on the draft report and have included them in their entirety in Appendix II.

The final report includes six recommendations to improve the management and oversight of USAID/Egypt's Transition Support Grants Program. On the basis of actions that the mission took, we determined that final action has been taken on Recommendations 1 and 2.

A management decision was reached on Recommendations 3, 4, 5, and 6. Please provide the Audit Performance and Compliance Division in the USAID Office of the Chief Financial Officer with the necessary documentation to achieve final action.

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

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**Abbreviations**

The following abbreviations appear in this report:

ADS	Automated Directives System
AOR	agreement officer’s representative
EGP	Egyptian pound
FAA	Foreign Appropriations Act
FOG	fixed obligation grant
FY	fiscal year
IRI	International Republican Institute
MFA	Ministry of Foreign Affairs
MoSS	Ministry of Social Solidarity
NDI	National Democratic Institute
NGO	nongovernmental organization
RIG	Regional Inspector General/Cairo

# SUMMARY OF RESULTS

The fiscal year (FY) 2005 Consolidated Appropriations Act included an amendment that stated, "With respect to the provision of assistance for Egypt for democracy and governance activities, the organizations implementing such assistance and the specific nature of that assistance shall not be subject to the prior approval by the Government of Egypt."<sup>1</sup> 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. USAID/Egypt initiated a direct grants program in 2005 and experienced funding increases, specifically for the direct grants program.

Since the program began in 2005, the Egyptian Government has asked USAID to stop funding Egyptian organizations that are not registered with Ministry of Social Solidarity (MoSS) as required by Egypt's law on nongovernmental organizations. The government has also asked USAID to stop funding U.S. organizations that do not have a standing agreement with the Ministry of Foreign Affairs (MFA) or are otherwise not legally able to operate in Egypt.

After the citizen-led massive protests against the government that led to the resignation of President Hosni Mubarak, USAID/Egypt increased its support of democracy and governance programs. Starting in March 2011, the mission implemented the Transition Support Grants Program, designed to help develop democracy by increasing public participation in elections and political processes, expanding access to justice and attention to human rights problems, and promoting transparency and accountability. This resulted in the mission working with a wider range of civil society and labor organizations, youths, political party representatives, and others.

To fund this program, USAID/Egypt reprogrammed \$65 million for democracy and governance activities; \$32 million came from no-year funds (which do not expire) and \$33 million from the FY 2010 Economic Support Fund.<sup>2</sup> Between April and September 2011, the mission awarded and obligated more than \$45 million to 16 Egyptian and 8 U.S. grantees. USAID/Egypt transferred the remaining \$20 million to the U.S. Department of State's Middle East Partnership Initiative and Bureau of Democracy, Human Rights, and Labor.

As of November 30, 2011, USAID/Egypt had disbursed \$9 million to grantees. For the Transition Support Grants Program, the mission used cooperative agreements, grants, and fixed obligation grants (FOGs),<sup>3</sup> based on the type of work being performed by the respective grantees and the level of USAID/Egypt involvement. (Appendix III compares the funding instruments.)

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<sup>1</sup> Although the provision originally was specific to Egypt, a version of this provision for worldwide application has been included in the appropriations legislation every year since its introduction.

<sup>2</sup> Congress established this fund to promote the economic and political foreign policy interests of the United States by (1) providing assistance to allies and countries making the transition to democracy, (2) supporting the Middle East peace negotiations, and (3) financing economic stabilization programs, frequently in a multidonor context. USAID, with overall foreign policy guidance from the State Department, implements most programs paid for with this fund.

<sup>3</sup> Unlike USAID grants that reimburse incurred costs, fixed obligation grants provide payments when specific tasks have been accomplished or milestones have been reached.

The Regional Inspector General/Cairo (RIG/Cairo) conducted this audit to determine whether (1) USAID/Egypt selected and awarded the grants in accordance with U.S. regulations and (2) grants under the program were on track to achieve their goals to support democratic development.

USAID/Egypt's democracy and governance technical evaluation committees, which review applications, and agreement officers appropriately selected and awarded grants in accordance with criteria described in the grant solicitation announcement, Agency policies, and federal regulations (page 4).

As of March 2012, 12 of the 24 NGOs—with activities worth \$28.5 million—were not on track to achieve their goals under the Transition Support Grants Program. Although the program began in April 2011, 11 of the 24 NGOs had not received MoSS's approval to receive foreign funding, as required by Article 17 of the law on nongovernmental organizations. On December 29, 2011, the government raided NGO offices and began investigating NGOs that were not registered in accordance with Article 6 of the same law—further delaying progress. The audit team determined that USAID/Egypt did not make timely decisions to modify grant agreements in reaction to the delays (page 4).

The team also determined that the program's intended results will be further affected by USAID/Egypt's decision to use appropriated grant funds to pay bail costs for several employees working for two of the U.S. grantees, International Republican Institute (IRI) and National Democratic Institute (NDI) (page 6). After the raids, the employees were charged with operating without a license, receiving unauthorized foreign funds for activities, and engaging in political activities; they were banned from leaving Egypt pending a trial scheduled for February 26, 2012. On February 26, 2012, judges adjourned the trial until April 26, 2012, and the Court of Appeal set bail at about \$332,000 (2 million Egyptian pounds or EGP) per defendant. To cover the legal costs for NGO employees at the request of the NGOs,<sup>4</sup> USAID's Acting Chief Financial Officer authorized the use of Economic Support Funds intended for implementing the transitional support grants. To make the payment, on February 29, 2012, USAID/Egypt withdrew \$4.6 million (EGP 28 million) in non-appropriated local currency funds held in a trust fund account for USAID/Egypt's administrative expenses with the understanding that the relevant grants affected would reimburse the account. Trust funds are local currency provided by the Government of Egypt to support the administrative and program costs of the economic assistance program to Egypt. The Government of Egypt owns the funds and USAID/Egypt controls and administers them. During March and April 2012, the mission deposited the \$4.6 million back into the account of which \$2.5 million came from obligated funds intended for the Transition Support Grants Program.

Additionally, the audit team determined that the mission's oversight of one of the grantees was weak. The grantee had a \$721,945 cooperative agreement and did not comply with its accounting, audit, and records clause. The grantee did not provide any documentation to substantiate expenditures or the overall progress of the activities. Nor did USAID/Egypt monitor two advances it paid the grantee (page 7).

To address these findings, we recommend that USAID/Egypt:

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<sup>4</sup> The 14 NGO workers were employed under grants awarded by USAID, the State Department, and Germany.

1. Review and identify delayed projects in the Transition Support Grants Program and send a written list to USAID/Egypt's Procurement Office for action (page 6).
2. Make a written determination to revise, suspend, or terminate transition grants (page 6).
3. Conduct and document an assessment of the IRI and NDI grants made under the Transition Support Grants Program to determine whether the current funding is sufficient to complete program activities and cover anticipated costs (page 7).
4. Determine the validity of the reported results for democracy and governance activities under the cooperative agreement and document its review (page 9).
5. Perform and document an independent financial review of the grantee's expenditures, and use supporting documentation to liquidate advances (page 9).
6. Determine the allowability of \$526,204 in unsupported questioned costs for expenses incurred by a grantee and recover any amounts determined to be unallowable (page 9).

Detailed findings follow. The audit scope and methodology are described in Appendix I. USAID/Egypt's management comments are included in their entirety in Appendix II, and our evaluation of mission comments is included on page 10 of the report.

# AUDIT FINDINGS

## **USAID/Egypt Met Minimum Requirements in Awarding Grants**

Mission officials identified four main criteria for evaluating the grant applications. Applicants needed to (1) possess the requisite capability to implement the activities efficiently and effectively, (2) propose a program that directly responded to the areas of interest, (3) propose activities that would lead to anticipated results and expected impacts, and (4) propose a realistic budget that was consistent with proposed activities and results, which were objective, quantifiable, and measurable.

The mission was required to comply with applicable Agency policies and federal regulations throughout the selection and award process. The Automated Directives System (ADS) contains the rules employees must follow when reviewing and evaluating applications, conducting preaward surveys, and reviewing preaward certifications, assurances, and other statements from U.S. and non-U.S. organizations before making an award.

USAID/Egypt awarded 12 grants, 10 FOGs, and 2 cooperative agreements with a cumulative value of more than \$45 million to support its Transition Support Grants Program. (Appendix III explains the different funding instruments.) The mission gave \$37.7 million to 8 U.S. grantees and \$7.4 million to 16 Egyptian grantees to conduct democracy and governance activities.

After reviewing committee memos and interviewing mission officials, the audit team determined that USAID/Egypt's democracy and governance technical evaluation committees and agreement officers had selected and awarded the grants in accordance with the criteria described in the grant solicitation announcement and with Agency policies and federal regulations. The documents showed that the agreement officers obtained the appropriate preaward certifications for all but one grantee, whose certification the mission collected during the audit.

USAID/Egypt's standardized procedures contributed to its adherence to the solicitation criteria and USAID policies and regulations. Committee members applied consistent proposal review procedures. The technical evaluation document included the collective evaluation input from each member, which the democracy and governance office reviewed, and the agreement officers documented the results of their preaward determinations within the negotiation memos.

We conclude that grants awarded under USAID/Egypt's Transition Support Grants Program met the minimum requirements set forth by federal guidance and Agency policy.

## **USAID/Egypt Did Not Modify Agreements Promptly**

According to Egypt's Minister of Planning and International Cooperation, the government has been protesting a "unilateral" U.S. measure to direct part of its economic aid to human rights and prodemocracy groups since 2004 in violation of Egyptian law. The Egyptian Government

contended that some NGOs did not comply with Article 6 on NGO registration requirements or Article 17 on approval requirements for accepting funds from foreign sources for activities.

When the U.S. Government decided in early 2011 that USAID would work directly with a wide range of civil society and labor organizations, youths, political party representatives, and others, the Agency knew that NGOs could encounter problems if they did not comply strictly with Egypt's law on nongovernmental organizations.

Tensions were heightened after December 29, 2011, when Egyptian security forces raided the offices of foreign and Egyptian NGOs, including some that were working under the Transition Support Grants Program. Appendix IV outlines the status of all grantees before and after the raids.

Some examples of the repercussions that the delays have had on the program are listed below.

- A grantee 7 months into its 24-month, \$207,000 award held \$23,000 in advances that it could not use because it had suspended its operations.
- A grantee 9 months into its 12-month, \$352,000 award had not started any of its planned activities.
- A grantee 8 months into its 24-month, \$328,000 award had not started its project.
- Two grantees 11 months into their 24-month, \$10 million awards suspended their operations.
- A grantee 10 months into its 24-month, \$2 million award had not started its planned activities.

In accordance with ADS 202.3.6, "Monitoring Quality and Timeliness of Key Outputs," USAID is required to monitor the quality and timeliness of its grantees' outputs. Delays in completing outputs or problems with output quality provide an early warning that results may not be achieved as planned. Therefore, reacting early to problems is essential when managing for results. When problems arise indicating that results may not be achieved, ADS 202.3.6.3, "Making Necessary Adjustments," requires missions to adjust tactics; adjustments could include a variety of scenarios, such as developing an entirely new project or activity and simply modifying and changing existing ones. Regardless of the tactic, USAID needs to mitigate the risks of committing funds to grantees that do not seem able to complete outputs on time.

Aside from the delays that NGOs faced from the onset of their grants, the December 2011 raids served as warning to USAID that the 24 grantees might not achieve their Transition Support Grants Program goals. However, USAID/Egypt's procurement office did not make program adjustments. As of April 2012, mission officials had not modified, suspended, or terminated grants with time-sensitive components, significant delays, or other problems.

Mission officials said they initially believed that it was premature to determine whether the delays would adversely affect the grantees' ability to achieve the goals. However the mission's decision not to make programmatic adjustments for grantees that had implementation problems from the beginning did not conform to USAID policy.

As a result, half of the 24 grants—worth \$28.5 million—were encountering problems that affected their ability to implement the activities and ultimately deliver the expected outputs on

time. Although the problems that caused the delays were beyond USAID/Egypt's control, we make the following recommendations.

**Recommendation 1.** *We recommend that the USAID/Egypt's Democracy and Governance Office review and identify delayed projects in the Transition Support Grants Program and send a written list to USAID/Egypt's Procurement Office for action.*

**Recommendation 2.** *We recommend that USAID/Egypt's Procurement Office, in coordination with USAID/Egypt's Democracy and Governance Office, make a written determination to revise, suspend, or terminate transition grants.*

## **Funds Obligated to Support Democracy and Governance Goals Were Not Used as Intended**

Under the Transition Support Grants Program, the mission awarded and obligated more than \$45 million to 16 Egyptian and 8 U.S. grantees between April and September 2011 to implement democracy and governance activities. Through the provision of technical assistance, the activities were intended to build the capacity of political parties, civil society organizations, and other groups so they could take part in Egypt's political reform process.

The program, however, will not benefit from the full amount intended to achieve the goals because two grantees had to use some of their grant funds for legal costs. NDI and IRI used about \$2.5 million from their \$10 million grants to cover bail and legal fees for several of their employees. The mission's grant to IRI was designed to allow it to support organizations in implementing targeted voter education campaigns throughout Egypt and build capacity of these groups to serve as watchdogs that would hold Egypt's emerging government accountable and the NDI grant was designed to allow it to strengthen democratic institutions and processes.

After the December 29, 2011, raids, several NGO employees were charged with operating without a license, receiving unauthorized foreign funds for activities, and engaging in political activities. They were not allowed to leave Egypt pending a trial scheduled for February 26, 2012. On February 26, 2012, judges adjourned the trial until April 26, 2012, and the appellate court set bail at about \$332,000 (EGP 2 million) per defendant. On February 29, 2012, the bail was paid and the travel restriction lifted.

To pay the bail costs, USAID/Egypt submitted a request to USAID's Acting Chief Financial Officer and Assistant Administrator for the Middle East Bureau to use its authority under the Foreign Appropriations Act (FAA), Section 636(b) to pay for legal costs and bail for the NGOs facing criminal proceedings in Egypt. In the mission's request, it stated that Section 636(b) of the FAA provides USAID with special authority to make extraordinary payments for expenses incurred in carrying out its foreign assistance activities when certain conditions are met.

USAID's General Counsel interpreted the section 636(b) to mean that the Agency could exercise this authority when the following three requirements were met: (1) the expenditure arises or occurs outside the United States, (2) the expenditure is necessary to accomplish the purposes of the act, and (3) the expenditure does not cover compensation to U.S. Government personnel. USAID's General Counsel also stated that although not required by statute, it recommended that equity and fairness also be considered when evaluating whether Section

636(b) authority is appropriate where it can be established that the U.S. Government has a moral obligation to provide relief or a special hardship would result.

USAID's General Counsel determined that these three requirements were met. The circumstances causing need for legal costs arose in Egypt with the majority of the payments, including those for Egyptian counsel and bail costs were expended in Egypt. The expenditure was necessary to accomplish the purposes of the FAA and considered integrally linked to the purposes of the FAA. The expenditure did not compensate U.S. Government personnel; it covered legal and court fees, bail, and other associated expenses related to legal proceedings in Egypt. Lastly, USAID's General Counsel determined that moral or equitable considerations in this situation, justified the expenditure on behalf of USAID's partners who put themselves at risk while implementing programs, particularly in unstable political environments.

Responding to USAID/Egypt's request, the Acting Chief Financial Officer authorized the use of Economic Support Fund money intended for implementing the NDI and IRI grants to pay the associated legal costs. As a result, NDI spent \$1,643,400 in obligated funds and IRI spent \$830,000 that it intended to use to achieve the goals under USAID's Transition Support Grants Program.

Therefore in order for USAID/Egypt to adjust its plans and to reassess the expected outcomes of its Transition Support Grants Program, we make the following recommendation.

***Recommendation 3.*** *We recommend that USAID/Egypt's Office of Democracy and Governance conduct and document an assessment of the International Republican Institute and National Democratic Institute grants made under the Transition Support Grants Program to determine whether the current funding is sufficient to complete program activities and cover anticipated costs.*

## **USAID/Egypt's Oversight of a Grantee Was Weak**

Organizations receiving federal funds under a grant are required to comply with the grant's accounting, audit, and records clause, which requires the recipient to maintain financial records, supporting documents, and all other records pertinent to the award in accordance with generally accepted accounting principles. At a minimum, the grantee should maintain documentation regarding the procurement and use of goods and services, the costs of the program, and overall progress.

USAID is responsible for monitoring any advances it pays to grantees. ADS 636.3.3.2, "Excessive Advances/Periodic Review of Requirements," states that mission controllers must be sure that grantees' requests for advances are reasonable and not excessive for immediate disbursement needs. They should also review outstanding advances at least quarterly to verify that advances do not exceed immediate needs. For advances worth more than \$10,000, the grantee must return any funds over and above immediate disbursement needs to USAID unless the excess funds will be disbursed within 7 days.

ADS 303.2.f, "Primary Responsibilities," requires the agreement officer's representative (AOR) to be sure that USAID exercises prudent management over its awarded assistance by monitoring the recipient and its performance during the award. The Government Accountability

Office's *Standards for Internal Control in the Federal Government* states that all transactions and other significant events need to be documented clearly and that the documentation should be readily available for examination.

The audit team determined that Human Development Association, a grantee with a \$721,945 cooperative agreement to provide services that would contribute to fairer, democratic, genuine and competitive elections, did not comply with the grant's accounting, audit, and records clause. It did not maintain any documentation to substantiate expenditures or the overall progress of the activities. Therefore the audit team could not determine whether this grantee was on track to achieve its goals under the Transition Support Grants Program.

During an interview, the managing director of Human Development Association said it paid 3 consultants to provide workshops to 30 trainers. In addition, the grantee paid 4,000 people to (1) conduct door-to-door campaigning, (2) monitor the voter registration process and media coverage, and (3) monitor the external and internal environment at polling stations. He said the grantee paid all charges related to the program activities, including payments of \$25 (EGP 150) to each of the 4,000 people who monitored polling stations. The grantee also paid \$0.83 (EGP 5) to each person for the door-to-door campaign for a total of \$103,333 (EGP 620,000).

However, he could not provide evidence to support these payments. Later in the same interview, he said his organization had not paid the individuals \$25 each for monitoring activities, but planned to pay them each \$17 (EGP 100) when it received an advance from USAID/Egypt.

When asked about the 3 consultants, the managing director could not provide any contact information for them, nor did he have copies of their contracts. He said he could not remember where the workshops took place, and he did not have attendance lists, sign-in sheets, or training agendas.

USAID/Egypt's financial management office gave Human Development Association two advances—\$347,239 in October 2011 and \$178,965 in November 2011.

During the audit, the managing director did not provide adequate records to support how grant funds were used. The grantee manually recorded expenditures in a ledger but did not maintain the records sufficiently. As a result, there were material deficiencies in the accounting internal control procedures.

USAID/Egypt considered Human Development Association a high risk during the preaward risk assessment but intended to mitigate its risks with a hired contractor to review expenses and supporting documents before the mission liquidated the advances. However, these mitigating factors did not include appropriate initial actions, like providing adequate technical assistance to build the grantee's capacity before disbursing the first advance.

During the audit, the mission's agreement officer took corrective action on January 10, 2012, and notified the grantee that subsequent advances would be suspended until the grantee liquidated the first two.

To decrease the likelihood of financial loss, USAID can provide timely oversight of operations to verify that funds are accounted for. With a high-risk grantee, managers can increase the

likelihood of a program's success by providing sufficient technical assistance up front in documenting critical events, maintaining documentation of transactions, and liquidating funds properly.

To determine the allowability of this grantee's costs, we make the following recommendations.

***Recommendation 4.*** We recommend that USAID/Egypt's Democracy and Governance Office determine the validity of the reported results for democracy and governance activities under the cooperative agreement and document its review.

***Recommendation 5.*** We recommend that USAID/Egypt's Financial Management Office perform and document an independent financial review of the grantee's expenditures, and use supporting documentation to liquidate advances.

***Recommendation 6.*** We recommend that USAID/Egypt's Procurement Office determine the allowability of \$526,204 in unsupported questioned costs<sup>5</sup> for expenses incurred by the grantee and recover any amounts determined to be unallowable.

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<sup>5</sup> These include costs incurred and liquidated by USAID/Egypt and costs incurred but pending liquidation by the mission.

# EVALUATION OF MANAGEMENT COMMENTS

In its response to the draft audit report, USAID/Egypt agreed with the six recommendations. Summarized below are the comments and the audit team's evaluation of them.

**Recommendation 1.** The mission agreed to review and identify delayed projects and send a written list to the procurement office for action.

**Recommendation 2.** The mission agreed to make a written determination to revise, suspend, or terminate transition grants.

In response to Recommendations 1 and 2, the mission stated that on May 14, 2012, it formally reviewed and documented the Transition Support Program grants to determine the adequacy of funding for completion of program activities and anticipated costs, performance, etc. The mission provided the documented analysis and decisions that it intends to take with each of the 24 grantees. The mission's action adequately addresses both recommendations. Accordingly, Recommendations 1 and 2 will be closed on issuance of this report.

**Recommendation 3.** The mission agreed to conduct and document an assessment of the IRI and NDI grants to determine whether the current funding is sufficient to complete program activities and cover anticipated costs. It plans to review their program activities, costs, and funding in light of obligated funds available and the ongoing constraints that IRI and NDI are operating under. The target date for completion is November 30, 2012. Based on the mission's described actions, a management decision has been reached.

**Recommendation 4.** The mission agreed to determine the validity of the reported results for the Human Development Association cooperative agreement and document its review by November 30, 2012. Based on the mission's described actions, a management decision has been reached.

**Recommendation 5.** The mission made repeated requests of the Human Development Association to provide supporting documentation to liquidate outstanding advances. Because the grantee did not provide sufficient support, the mission issued a bill of collection for the full amount of the outstanding advances as of May 17, 2012. Mission officials said they would take final action by November 30, 2012, upon the grantee submitting a reimbursement voucher with adequate supporting documentation or return of the advancement. Based on the mission's described actions, a management decision has been reached.

**Recommendation 6.** The mission concurred and on May 17, 2012, it issued a bill for collection for \$526,204 for the unliquidated advances. The mission's target date for final action is November 30, 2012, when it will either liquidate the advance pending receipt of adequate support or settle the bill of collection. Based on the mission's described actions, a management decision has been reached.

# SCOPE AND METHODOLOGY

## Scope

RIG/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 in accordance with our audit objective. We believe the evidence obtained provides that reasonable basis.

The audit objective was to determine whether USAID/Egypt selected and awarded the Egyptian transition support grants in accordance with regulations and whether projects under the program were on track to achieve their goals to support democratic development.

Between April and September 2011, the mission awarded and obligated more than \$45 million to 24 democracy and governance grantees—16 Egyptian and 8 U.S. grantees. Grants to U.S.-based grantees were worth \$38 million (or 84 percent of the total funding), and the Egyptian ones were worth \$7 million (or 16 percent). As of November 30, 2011, USAID/Egypt had fully obligated \$45 million for democracy and governance program activities and disbursed \$9 million to grantees.

We conducted audit fieldwork at USAID/Egypt and grantee offices from November 30, 2011, to April 5, 2012, and covered activities implemented by all 24 grantees for the period April 1 to November 30, 2011, with updates through May 6, 2012. Interviews were conducted at the offices of the Arab Office of Law, Arab Penal Reform Organization, Arab Program for Human Rights Activists, Coptic Evangelical Organization for Social Services, Coptic Orphans Support Association, Creative Associates International, Forum for Development and Human Rights Dialogue, Hand in Hand for Egypt Organization, Horizon Interactive Studios, Human Development Association, International Foundation for Electoral Systems, International Republican Institute, Internews Network, Little Angel Association, National Democratic Institute, New Horizon Association for Social Development, One World Foundation, People Marketing Campaign, Relief International Consortium, Research Triangle Institute International's subpartner's office Environmental Quality International, SAED Association for Development & Human Rights, and United Group. Telephone interviews were conducted with the Assiut Business Association and the South Egypt Development Association in Qena.

In planning and performing the audit, we assessed specific management controls including verifying reported program and financial data to source documents, reporting of program results, conducting management reviews at the functional and activity levels, and selection and awarding of agreements. The audit team also reviewed significant management controls that include USAID/Egypt's monitoring of project activities. We conducted the review using questionnaires and interviews with members of the mission and implementers' staff, and reviewing reports and files that the mission provided as part of its project monitoring activities. We obtained an understanding of and evaluated the following: cooperative agreements, grants, and FOGs with grant recipients; modifications to awards; annual work plans; milestones documented in FOGs; the mission's FY 2011 Federal Managers' Financial Integrity Act assessment; and the oversight performed by the AOR.

During audit testing, one grantee was not able to provide any documents to support program results or financial expenditures. Therefore, the audit determined that the results for this grantee were not reliable.

## Methodology

To answer the audit objective, we identified the program's main goals and significant program risks. We met with key personnel from USAID/Egypt and interviewed all 24 grantees under the program. We contacted the previous mission director, deputy mission director, and Democracy and Governance Office director; and current USAID Middle East Bureau officials, who made the major decisions for the Transition Support Grants Program. We also reviewed documentation provided by USAID/Egypt and the implementers, including grants, cooperative agreements, and annual work plans. To assess whether projects were on track to achieve the program's goals and objectives, we selected and reviewed milestones and achievements as of November 30, 2011, for projects that had started. The audit team considered a program on track if the grant recipient finished activities by planned completion dates. For FOG milestones, the audit team considered a program on track if the grant recipient completed milestones within established time frames. The audit team also considered subsequent activities from November 2011 to March 2012 to determine any changes in the grantees' results.

We validated stated and reported results with numerous techniques including (1) reviewing a judgmental sample of awarded and nonawarded preaward technical evaluation committee documents, (2) reviewing negotiation memorandums, award justifications and memorandums, and preaward certificates for grants that were awarded, (3) tracing results to supporting documentation (e.g., attendance sheets, training manuals, deliverables, subcontracts, invoices, receipts, photographs), and (4) interviewing mission personnel and grant recipient staff members. In addition, we also reviewed how much the AOR monitored the grantees' and USAID/Egypt officials' site visit reports.

Furthermore, we reviewed applicable laws and regulations and USAID policies and procedures regarding USAID/Egypt's Transition Support Grants Program. Our review included the Foreign Assistance Act of 1961, as amended; Public Laws 108-447 and 111-117; grants, cooperative agreements, and modifications; U.S. Government Accountability Office's *Standards for Internal Control in the Federal Government*; and ADS Chapters 202, 303, 596, 602, 627, and 636.

# MANAGEMENT COMMENTS



## Memorandum

**To:** Catherine Trujillo, Regional Inspector General/Cairo

**From:** Walter North, Mission Director, USAID/Egypt /s/

**Subject:** Management Response to the Audit Report Recommendations 1 through 6 - Audit of USAID/Egypt's Transition Support Grants Program (Report No. 6-263-12-007-P) Final Draft.

**Date:** October 21, 2012

Thank you for your report.

In early 2011, a historic revolution swept Egypt. On February 11, President Obama signaled that the United States would provide assistance to help Egyptians “pursue a credible transition to a democracy.” Consistent with U.S. foreign policy direction, USAID quickly mobilized to work with emerging champions of democracy to help advance that transition. The Transition Supports Grants Program was the centerpiece of the response.

The program respected the aspirations of the Egyptian people by eschewing a traditional blue print approach to program development. Rather, it recognized the important role that civil society would need to play in a new Egypt. It encouraged organizations to come forward with their own ideas. The response was overwhelming. Thousands of Egyptians wanted to learn about the program and more than 200 applications were received, ultimately leading to 24 awards. The Agency quickly mobilized financial and human resources to stand up the award process. Recognizing that working with new partners would entail financial and accountability risks, significant mitigating measures were taken. Day to day monitoring of the grants has been intensive and constant.

In the early days following the revolution, it was expected that the spirit of the revolution would inform the transitional Egyptian Government policy towards civil society. Regrettably, this was

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT / EGYPT

**USAID**  
1A Nady El Etisalat Street  
off El-Laselki Street – New Maadi  
Cairo - Egypt

**IN-COUNTRY MAIL:**  
P.O. Box 32, Maadi  
Cairo - Egypt  
Postal Code: 11435

Tel: (202) 522 7000  
Fax: (202) 516 4628  
(202) 516 4659

not to be the case. Although fully informed of the program, the authorities vigorously frustrated the process.

During the time period of this audit, the transitional Egyptian Government applied a restrictive NGO law and registration requirements for external non-governmental actors as tools to prevent progress. Ultimately, they initiated criminal proceedings against several American and other international NGOs. They raided the premises of those organizations and prevented many programs from becoming operational.

Because significant and sufficient risk mitigation measures were in place, USAID has been able to act proactively to recognize and to correct issues within USAID's control as they arose. Despite the aggressive push back from certain elements of the previous Government of Egypt, and with the prospect that things may finally change with the advent of a post-transitional Government, USAID has respected the wishes of its NGO partners and stood by them in looking towards a better climate for more robust program implementation.

Based on mission review of the subject report, the following is the mission response for your consideration.

**Recommendation 1.** We recommend that the USAID/Egypt's Democracy and Governance Office review and identify delayed projects in the Transition Support Grants Program and send a written list to USAID/Egypt's Procurement Office for action.

**Recommendation 2.** We recommend that USAID/Egypt's Procurement Office, in coordination with USAID/Egypt's Democracy and Governance Office, make a written determination to revise, suspend, or terminate transition grants.

### **Mission Response to Recommendations Nos. 1 and 2**

USAID/Egypt concurs with RIG/Cairo's Recommendation No. 1 and 2.

On May 14, 2012 building on ongoing day to day monitoring, the Mission formally reviewed the Transition Support Program APS activities managed by the Office of Democracy and Governance during which each grant was assessed to determine the adequacy of funding for completion of program activities and anticipated costs, performance, etc. Like a Performance Interim Review (PIR), this inter-office assessment, including resulting recommendations, has been documented. USAID/Egypt also conducts formal PIRs twice a year, the purpose of which is to review programs and spot issues such as those noted above. The last PIR occurred in June 2012 and documented the outcome of the review and resulting recommendations. The Office of Democracy and Governance also conducts weekly APS grant reviews and reports any significant new issues to the Program Office.

Given the above steps, final action has occurred, upon provision of a summary of the topics covered, methodology used for the review of grants, a general summary of the outcome of the May 14 meeting, the reporting document held by the program office, as well as the recommendations resulting from the PIR review. **(Refer to Attachment 1).**

*In view of the above, USAID/Egypt considers that a management decision and final action have been achieved on Recommendations Nos. 1 and 2 and requests RIG/Cairo to close the recommendation upon final report issuance.*

**Recommendation 3.** We recommend that USAID/Egypt's Office of Democracy and Governance conduct and document an assessment of the International Republican Institute and National Democratic Institute grants made under the Transition Support Grants Program to determine whether the current funding is sufficient to complete program activities and cover anticipated costs.

### **Mission Response to Recommendation No. 3**

USAID/Egypt concurs with RIG/Cairo's Recommendation Number 3.

The USAID/Egypt's Office of Democracy and Governance will work with the International Republican Institute and the National Democratic Institute to review their program activities, costs and current funding under their grant agreements in light of their current pipelines and the ongoing constraints in the operating environment. The target date for providing a management decision is November 30, 2012.

*In view of the above, USAID/Egypt considers that a management decision has been made on Recommendation No. 3 and that final action will occur by November 30, 2012.*

**Recommendation 4.** We recommend that USAID/Egypt's Democracy and Governance Office determine the validity of the reported results for democracy and governance activities under the cooperative agreement and document its review.

### **Mission Response to Recommendation No. 4**

USAID/Egypt concurs with RIG/Cairo's Recommendation No. 4.

However, we note for clarification that the findings associated with Recommendation No. 4 refer to and highlight the financial and organizational deficiencies of the grantee rather than any presumed deficiencies of the Mission. USAID took appropriate pre-award precautionary measures and, having observed specific weaknesses during grant oversight, took necessary, appropriate and timely corrective measures. These steps were taken either before and/or concurrent with the RIG/Cairo's own audit work, rather than because of it.

Still it is a reasonable and valid assumption that the grantee's organizational and financial weaknesses could indicate similar deficiencies related to their reported results. It is for that reason that USAID periodically conducts validity tests to ensure that reported results are accurate. Despite the financial and accountability challenges encountered with this grantee, the organization did in fact produce informative reporting of their observations of the parliamentary elections. These reports proved highly useful and informative to the Egyptian people (i.e. through public release of results), the international donor community and policy-makers in the

U.S. Government. Although the grantee's elections reporting generally tracked consistently with those of other observer groups, the accuracy of this grantee's reporting and the methodology used to develop it should be assessed. USAID is prepared to conduct an internal verification of results achieved under this cooperative agreement to determine their validity.

*In view of the above, USAID/Egypt considers that a management decision has been made on Recommendation No. 4 and that final action will occur by November 30, 2012.*

**Recommendation 5.** We recommend that USAID/Egypt's Financial Management Office perform and document an independent financial review of the grantee's expenditures, and use supporting documentation to liquidate advances.

#### **Mission Response to Recommendation No. 5**

USAID/Egypt concurs with Recommendation No. 5.

Based on site visit reports by USAID's pre-payment validation contractor indicating a lack of good internal controls and supporting documents, the Agreement Officer Representative (AOR) determined not to administratively approve liquidation vouchers (actual expenditures) submitted by the awardee. After numerous requests for documentation properly supporting the liquidation of submitted vouchers and for evidence of steps taken to strengthen the internal controls of the recipient, USAID/Egypt received little substantive documentation. A review of the grantee's controls was also conducted by USAID/Egypt's pre-payment validation contractor. The Office of Financial Management (OFM) considered the minimal information provided or available and determined that insufficient information was available to liquidate the vouchers. As such, OFM issued a bill of collection (BOC) for the full amount of the outstanding advances on May 17, 2012.

*In view of the above, USAID/Egypt considers that a management decision has been made. Final action will occur by November 30, 2012 upon the grantee submitting a reimbursement voucher with adequate supporting documentation or settlement of the BOC.*

**Recommendation 6.** We recommend that USAID/Egypt's Procurement Office determine the allowability of \$526,204 in unsupported questioned costs for expenses incurred by the grantee and recover any amounts determined to be unallowable.

#### **Mission Response to Recommendation No. 6**

USAID/Egypt concurs with RIG/Cairo's Recommendation No. 6.

As stated in the response to Recommendation No. 5, OFM issued a BOC for \$526,204 on May 17, 2012 for unliquidated advances. If the grantee subsequently indicates to the AOR that they have their financial documentation in place to support a reimbursement voucher, OFM will send staff to review the documentation and determine how much of the claimed costs should be reimbursed.

*In view of the above, the Mission believes that a management decision has been made by issuing the BOC requiring repayment of the outstanding advances. Final action will occur by November 30, 2012 upon the grantee submitting a reimbursement voucher with adequate supporting documentation or settlement of the BOC.*

### Comparison of USAID Assistance Instruments\*

Topic	Grants and Cooperative Agreements	Fixed Obligation Grants (FOGs) <sup>†</sup>
<b>Purpose</b>	To financially support the recipient's accomplishment of a public purpose authorized by federal statute	To financially support the recipient's accomplishment of a public purpose authorized by Federal statute
<b>Relationship</b>	Recipient/grantee	Recipient/Grantee
<b>USAID's Role</b>	Donor/funding agency	Donor/funding agency
<b>Implementer's Role</b>	Implement assistance program	Implement assistance program with defined milestones
<b>Legal and Policy Framework</b>	22 CFR 226, ADS 303	22 CFR 226, ADS 303.3.25
<b>Competition</b>	Encouraged by policy, exceptions to competition in ADS 303.3.6.5	Encouraged by policy, exceptions to competition in ADS 303.3.6.5
<b>Preaward Audits, Risk Assessments, and Surveys</b>	The mission may conduct an audit, risk assessment, or survey if the AO or activity manager is uncertain about the prospective recipient's capacity to perform financially or technically; the prospective recipient has never had a USAID award or contract; the prospective recipient has not received an award from any other federal agency within the past five years; the AO has knowledge of deficiencies in the applicant's A-133 audit; or the AO determines it to be in the best interest of the U.S. Government.	The AO uses the FOG Entity Eligibility Checklist to assess capacity and capabilities for accomplishing the milestones.
<b>Standard Provisions</b>	Included	Not included. However, special provisions on termination, records retention, and certification at final payment must be included, and other provisions may be required, depending on the activity.
<b>General Restrictions on the Award</b>	A grant or cooperative agreement may not exceed 5 years. Other restrictions may apply.	The amount for each year of the FOG must not exceed \$500,000, and the overall length of time must not exceed 3 years. The FOG must not include any infrastructure or construction projects. The AO must document the rationale for selecting this mechanism. Other restrictions may apply.

Topic	Grants and Cooperative Agreements	Fixed Obligation Grants (FOGs) <sup>†</sup>
<b>Property and Equipment</b>	Allowed. Source, origin, and nationality rules or appropriate waivers apply.	Not allowed. If the recipient must get equipment or property other than real property, then the milestone must authorize the recipient to get identified equipment and property, state that the property belongs to the recipient, and include disposition instructions.
<b>Administrative Authority</b>	Limited by regulation to selected essential aspects in cooperative agreement; AOR delegated by AO.	The FOG allows performance without monitoring the actual costs incurred by the recipient; AOR delegated by AO.
<b>Basis of Payment</b>	Costs	Predetermined negotiated amount based on a reasonable estimate of expected actual costs. Differences in costs and the negotiated amount cannot be used to adjust the fixed price.
<b>Timing of Payment</b>	Normally, funds can be advanced for allowable, reasonable, and allocable costs before they're incurred.	Payments based on the AO/AOR/third-party verifier's independent verification and documentation of achievement of milestone. Funds can be advanced if an initial financing milestone is not sufficient to meet implementation requirements, provided the recipient has the capacity to manage advances per ADS 636. Advances will be liquidated based on completed milestones.
<b>Changes After Award</b>	Modifications	The AO may amend milestones or increase milestone payments during the period of the grant if the original milestones are no longer feasible or appropriate because of circumstances beyond the recipient's control and if the amended milestones are compatible with and satisfy the grant's original purpose.

Topic	Grants and Cooperative Agreements	Fixed Obligation Grants (FOGs) <sup>†</sup>
<b>Monitoring</b>	The Agency's substantial involvement in awards is limited to cooperative agreements. For all assistance awards, the AOR monitors the recipient's progress toward achieving the objectives of the program description in the subject award and verifies that the recipient's activities being funded by USAID under the referenced award conform to the terms and conditions of that award.	Monitoring is based on milestones and not incurred costs; therefore, the AO/AOR is encouraged to conduct site visits frequently to make sure the program is progressing and that milestones are being met.
<b>Termination Rights</b>	For cause, changed circumstances, or upon mutual agreement.	For recipient insolvency, material failure to comply with terms and conditions of the grant, or if continuation of the grant would not be in the national interest of the United States.

\* Sources include ADS 303 and 310, and 22 CFR 226.

<sup>†</sup> Although USAID updated ADS on March 12, 2012, the criteria were applicable when USAID awarded the grants.

Program Status as of November 2011 (Audited)<sup>6</sup>

Grantee Number	Award Type	Value of Project (\$)	Start Date	End Date	Entity Type	Registration Status in * Egypt	Status	Months Delayed as of November 2011	March 2012 Status Update (Unaudited)
1	FOG	111,828	8/2/2011	8/1/2012	Egyptian company	Registered	On track	No delay	On track. Minor delays due to the political situation
2	FOG	104,659	4/28/2011	4/27/2012	Egyptian company	Registered	On track	No delay	On track. No major obstacles.
3	FOG	352,498	7/1/2011	6/30/2012	Egyptian NGO	Registered	Not on track. Grantee suspended activities because it had not yet received MoSS approval to implement activities funded by USAID.	5	Not on track. No MoSS approval. Major activities have been suspended.
4	FOG	328,067	7/21/2011	7/31/2013	Egyptian NGO	Registered	Not on track. Grantee suspended activities because it had not yet received MoSS approval to implement activities funded by USAID.	4	Not on track. No MoSS approval. Major activities have been suspended.
5	Grant	607,641	5/20/2011	5/20/2014	Egyptian NGO	Registered	Not on track. Grantee did not start activities because it had not yet received MoSS approval to implement activities funded by USAID.	6	Not on track. No MoSS approval. Major activities have not started.

<sup>6</sup> OIG collected the March 2012 status information through an email inquiry to each of the grantees

Grantee Number	Award Type	Value of Project (\$)	Start Date	End Date	Entity Type	Registration Status in * Egypt	Status	Months Delayed as of November 2011	March 2012 Status Update (Unaudited)
6	Grant	1,098,335	9/1/2011	8/31/2013	U.S. NGO	Pending	On track	No delay	On track. No major problems except some local NGO partners have dropped out.
7	Grant	1,940,795	6/15/2011	6/14/2012	U.S. company	The U.S. company established a registered Egyptian-based company.	On track	No delay	On track. Minor obstacles regarding MoSS approvals of subgrantees. Grantee used a work-around.
8	FOG	199,656	9/19/2011	3/17/2013	Egyptian NGO	Registered	On track	No delay	On track. No major obstacles.
9	Grant	873,355	6/1/2011	6/3/2012	Egyptian company	Registered	On track	No delay	On track. No major obstacles.
10	Grant	776,925	7/27/2011	7/26/2012	Egyptian company	Registered	On track	No delay	On track. No major obstacles.
11	Cooperative Agreement	721,945	9/27/2011	6/26/2012	Egyptian NGO	Registered	Not verifiable. Grantee could not provide any evidence of program activities completed.	No support	Not verifiable. Grantee reporting not reliable.
12	Cooperative Agreement	8,657,886	4/1/2011	12/31/2011	U.S. NGO	Update to registration letter pending	On track	No delay	On track. Subpartners are not being paid because of MoSS instructions.

Grantee Number	Award Type	Value of Project (\$)	Start Date	End Date	Entity Type	Registration Status in * Egypt	Status	Months Delayed as of November 2011	March 2012 Status Update (Unaudited)
13	Grant	10,000,000	5/1/2011	4/30/2013	U.S. NGO	Pending	On track	No delay	Not on track. December 2011 raids and subsequent trial hindered activities.
14	Grant	1,999,655	6/15/2011	6/14/2013	U.S. NGO	Registered	Not on track. Grantee did not start activities because it had not yet received MoSS approval to implement activities funded by USAID.	6	Not on track. The grantee received approval from MoSS but not Ministry of Education. No major activities have started
15	FOG	92,413	6/13/2011	6/12/2012	Egyptian NGO	Registered	On track	No delay	Not on track. No MoSS approval. Activities were suspended in January 2012.
16	Grant	10,000,000	5/1/2011	4/30/2013	U.S. NGO	Pending	On track	No delay	Not on track. December 2011 raids and subsequent trial have hurt activities.
17	FOG	732,581	4/28/2011	4/30/2014	Egyptian NGO	Registered	Not on track. Grantee did not start activities because it had not yet received MoSS approval to implement activities funded by USAID.	7	Not on track. No MoSS approval, and activities have not started.
18	Grant	1,328,390	6/20/2011	4/19/2012	Egyptian company	Registered	On track	No delay	On track, despite political situation.

Grantee Number	Award Type	Value of Project (\$)	Start Date	End Date	Entity Type	Registration Status in * Egypt	Status	Months Delayed as of November 2011	March 2012 Status Update (Unaudited)
19	FOG	409,446	7/1/2011	6/30/2012	Egyptian company	Registered	On track	No delay	On track. No problems reported.
20	Grant	3,267,643	7/1/2011	2/28/2013	U.S. NGO	Had not applied as of March 2012	Not on track. Grantee did not start activities because of internal delays.	5	Not on track. Implementation started after internal start-up delays, but registration with MFA not yet submitted.
21	Grant	775,011	8/1/2011	4/30/2012	U.S. NGO	Had not applied as of March 2012	On track	No delay	Not on track. Activities were suspended in January 2012 because the grantee was not registered; application to MFA for registration not yet submitted.
22	FOG	184,199	10/2/2011	9/28/2012	Egyptian NGO	Registered	Not on track. Grantee did not start activities because it had not yet received MoSS approval to implement activities funded by USAID.	2	Not on track. MoSS rejected the approval in February 2012 to implement activities funded by USAID.

Grantee Number	Award Type	Value of Project (\$)	Start Date	End Date	Entity Type	Registration Status in Egypt *	Status	Months Delayed as of November 2011	March 2012 Status Update (Unaudited)
23	Grant	207,004	9/7/2011	9/6/2013	Egyptian NGO	Registered	Not on track. Grantee suspended activities because it had not yet received MoSS approval to implement activities funded by USAID.	3	Not on track. Some activities are being conducted, but no MoSS approval yet. Anticipates requesting a no-cost extension.
24	FOG	366,547	6/12/2011	6/11/2012	Egyptian company	Registered	On track	No delay	On track. Minor programmatic changes approved by USAID.
	<b>Total</b>	<b>45,136,479</b>					<b>15 on track</b> <b>8 not on track</b> <b>1 not verifiable</b>		<b>11 on track</b> <b>12 not on track</b> <b>1 not verifiable</b>

\* Pending indicates that the organization applied for registration but had not received an explicit approval or notice of disapproval from MFA.

**U.S. Agency for International Development**  
**Office of Inspector General**  
1300 Pennsylvania Avenue, NW  
Washington, DC 20523  
Tel: 202-712-1150  
Fax: 202-216-3047  
[www.usaid.gov/oig](http://www.usaid.gov/oig)