



OFFICE OF INSPECTOR GENERAL

AUDIT OF USAID/EGYPT'S NEW SCHOLARSHIP PROGRAM

AUDIT REPORT NO. 6-263-14-008-P
MAY 29, 2014 **[REVISED]**

CAIRO, EGYPT



Office of Inspector General

May 29, 2014

MEMORANDUM

TO: USAID/Egypt Mission Director, Mary Ott

FROM: Acting Regional Inspector General, David Thomanek /s/

SUBJECT: Audit of USAID/Egypt's New Scholarship Program
(Report No. 6-263-14-008-P) **[REVISED]**

This memorandum transmits our final report on the subject audit. We have considered your comments on the draft report and included them, without attachments, in Appendix II.

The final report contains eight recommendations to help USAID/Egypt improve the New Scholarship Program. In its comments on the draft report, USAID/Egypt generally agreed with all eight recommendations. Having evaluated management comments, we acknowledge the mission's management decisions on all eight and final action on Recommendations 1, 6, and 8. Please coordinate final action on Recommendations 2, 3, 4, 5, and 7 with the Audit Performance and Compliance Division in the Office of the Chief Financial Officer.

Thank you for the cooperation and assistance 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
IIE	Institute of International Education
M&E	monitoring and evaluation
NGO	nongovernmental organization
RIG	Regional Inspector General
TOEFL	Test of English as a Foreign Language
TraiNet	Training Results and Information Network

SUMMARY OF RESULTS

According to USAID, “inequitable access, poor quality, and gross inefficiencies” characterize higher education in Egypt.¹ The higher education system “is plagued by its poor reputation for producing graduates lacking in expert thinking and complex communication skills much needed in a knowledge-based economy.” USAID/Egypt has provided significant resources in support of the Egyptian Government’s efforts to reform higher education.

As part of this support, on May 4, 2010, USAID/Egypt awarded a cooperative agreement worth about \$19.1 million to the Institute of International Education (IIE) to implement the New Scholarship Program. The estimated completion date of this cooperative agreement is September 30, 2018; as of September 2013, USAID/Egypt had obligated \$19.1 million; as of June 2013, it had spent \$5.6 million for program activities.

The program was to provide Egypt’s young people with scholarship and leadership opportunities through academic courses, leadership enrichment programs, career development opportunities, and community-based service. IIE established eight objectives² to achieve these goals:

1. 150 disadvantaged youth are enrolled in undergraduate degree studies in Egypt by beginning of academic year 2011.
2. At least 90 percent of graduates are empowered to assume future leadership roles and civic responsibilities.
3. At least 90 percent of graduates are proficient in the English language.
4. 65 students are placed in a study-abroad semester program in the US.
5. At least 90 percent of students demonstrate enhanced employability.
6. At least 100 staff and faculty from partner Egyptian universities receive capacity building training.
7. At least two youths from the majority of Egypt’s governorates are provided access to quality higher education.
8. At least 75 girls/women are provided with access to higher quality education.

The Regional Inspector General/Cairo (RIG/Cairo) conducted this audit to determine whether USAID/Egypt’s New Scholarship Program was achieving its main goal of providing Egypt’s young people with scholarship and leadership opportunities to maximize their potential to contribute to Egypt’s future development.

¹ USAID/Egypt’s New Scholarship Program, Request for Application, 263-10-02-RFA, November 5, 2009.

² The eight objectives are Recruitment, Screening, and Selection of Students, Leadership in Action, English Assessment and Training Study Abroad, Career Development, Capacity-Building of Partner Universities, Wider Access to Quality Higher-Education, and Access to Higher-Quality Education for Women.

The New Scholarship Program had made some progress toward its main goal through activities under each objective. During the first 2 years, the program met its goal to provide scholarships to 150 students with demonstrated financial need who completed public high school in one of the country's 27 governorates. The program was also making progress on implementing its leadership development objective.

Additional successes include the following:

- A survey of 56 students conducted as part of the audit showed the students believed the program was meeting their needs. Approximately 80 percent of the students gave positive responses regarding the quality of the academic instruction, academic instructors, the instructor's commitment, trainings, conferences, and retreats.
- According to IIE records, 62 percent of the 150 students performed very well academically during the 2012 fall semester. On a 4.0 scale, 8 of them earned a grade point average of 4.0, and 85 students had averages between 3.0 and 3.99.
- According to IIE records, 55 students have been selected to study in the United States; 28 had started or completed their study as of September 30, 2013.

Notwithstanding these successes, the audit disclosed some shortfalls. Some were due to circumstances beyond USAID/Egypt's control, such as the deteriorating security situation described on page 7. However, others stemmed from implementation weaknesses. All are discussed below.

- Although women received 54 percent of scholarships, the program did not collect gender-disaggregated data to show how effectively USAID assistance contributed to gender equality, female empowerment, or female employability (page 4).
- IIE inaccurately reported its cost-sharing contributions and made unsupported disbursements (page 5).
- While the program trained students in leadership and gave capacity-building training to partner universities, the program did not evaluate the effectiveness of the training (page 6).
- Internships were delayed (page 7). IIE did not place any students in internships during the first 2 years of the program. The security situation prevented timely implementation of this activity, as did slow approval by the Ministry of Social Solidarity of involvement by an Egyptian nongovernmental organization (NGO).
- The program did not document the entire selection process for university scholarships or for study in the United States (page 8). Selection was thorough and involved numerous steps and actors; nonetheless, the implementer did not document how a panel made the final decision.
- Some program-reported results were unreliable, making it difficult to assess progress (page 9).
- IIE did not enter all required information into the Agency's training database, the Training Results and Information Network (TraiNet) (page 10).

In response to these audit findings, we recommend that USAID/Egypt:

1. Identify gender-sensitive indicators that contribute to the eight objectives of the New Scholarship Program, and require IIE to track and include data on them in its progress reports (page 4).
2. Determine the allowability of \$62,503 in questioned costs (\$19,335 ineligible and \$43,168 unsupported), and recover from IIE any amounts determined to be unallowable (page 6).
3. Conduct a review of IIE's internal controls for meeting and reporting its cost-sharing contribution (page 6).
4. Implement written procedures to measure training effectiveness (page 7).
5. Establish a procedure for documenting the final selection of scholarship recipients and study-abroad participants (page 9).
6. Provide IIE with guidance on the definitions of performance indicators for the program, on collecting and reporting data on the indicators, and on maintaining documentation of reported results (page 10).
7. Implement a plan to verify periodically that IIE is complying with its approved monitoring and evaluation plan (page 10).
8. Define what training information it intends to report for the New Scholarship Program, and enter that information into TraiNet (page 11).

Detailed findings follow. The audit scope and methodology are described in Appendix I. Our evaluation of management comments is included on page 12, and the full text of management comments excluding attachments is included in Appendix II.

AUDIT FINDINGS

Program Did Not Collect Gender-Disaggregated Data

According to ADS 205.1, “USAID adopted several comprehensive and interlinked policies and strategies to reduce gender inequality . . .” For example, in its 2010 Gender Assessment and Analysis, USAID/Egypt recommends monitoring “gender-related outputs and results in all aspects of programming, including analysis of sex-disaggregated indicators to identify gaps, and unexpected results.”

According to the cooperative agreement, USAID/Egypt designed the New Scholarship Program to equip students from disadvantaged backgrounds “to take on leadership roles in areas of high demand that are critical to Egypt’s development and, in turn, help to break the country’s cycle of poverty, create a more open economy, and increase gender equity.” One goal of the program was to provide scholarships to at least 75 women.

Although 54 percent of the students receiving scholarships were women, the program did not specifically track their progress to determine whether they were developing leadership and other skills to further Egypt’s development. IIE reported gender-disaggregated data on only three indicators—the number of female applicants, the number of women admitted to the program, and the number of women who graduated—which its monitoring and evaluation plan required. Therefore, while the program has collected data on the following indicators for all scholarship recipients, it has not reported the percentage or number of women who are or have been:

- Empowered to assume future leadership roles and civic responsibilities
- Proficient in English
- Placed in a study-abroad semester program in the United States
- Achieving skills to enhance employability

USAID/Egypt did not include more disaggregated results in its monitoring and evaluation plan because it did not issue the Gender Assessment and Analysis and recommendations until just after the program started.

Without collecting and monitoring gender-disaggregated data, USAID/Egypt is missing an opportunity to show how progress in the various program activities is furthering women’s ability to contribute to Egypt’s development. Furthermore, without gender-disaggregated data, the mission is not in a position to identify gaps, lessons learned, or unexpected results that could be used to make any changes needed in the program. Promoting gender equality and advancing the status of all women and girls around the world are important U.S. foreign policy and development objectives. We therefore make the following recommendation.

Recommendation 1 *We recommend that USAID/Egypt identify gender-sensitive indicators that contribute to the eight objectives of the New Scholarship Program and require Institute of International Education to track and include data on them in its progress reports.*

Partner Inaccurately Reported Cost-Sharing Contributions and Made Unsupported Disbursements

In accordance with Title 22 of the Code of Federal Regulations, Part 226.23, and with Office of Management and Budget Circular A-110, cost sharing includes contributions, both cash and in-kind, that are necessary and reasonable to achieve program objectives and are made by and verifiable from the implementing partner's (award recipient's) records. The mission official assigned to coordinate with the agreement officer (the agreement officer's representative or AOR) is responsible for monitoring cost-sharing requirements. Specifically, the AOR should monitor the implementing partner's financial reports to ensure that the recipient is making progress toward meeting the required contribution.

The agreement requires IIE to contribute not less than \$3,491,767 toward total activity costs as part of its cost share. As of September 30, 2013, IIE reported cost-share contributions of \$1,118,383. However, this amount included \$19,335, in questioned costs—ineligible contributions. Additionally, IIE reported unsupported costs of \$43,168 to the mission.

IIE reported contributing \$19,335 to cover tuition and fees for 3 of 28 students who studied in the United States. The contributions for the three students (Table 1) were ineligible because IIE's accounting records disclosed that the mission, rather than IIE, paid the tuition and fees.

Table 1. Ineligible Amounts

University	Ineligible Questioned Cost (\$)
American University	8,355
American University	8,355
Marygrove College	2,625
Total	19,335

The universities listed above erroneously charged IIE for the full tuition, accommodation, transportation, and other costs of the three students. The charge was erroneous because the universities, as IIE's program partners, had agreed to cover the portions of the costs shown in Table 1, which IIE in turn would count toward cost sharing. Instead, the universities invoiced IIE for the full amount, and IIE paid it with USAID program funds while still counting the \$19,335 as cost sharing. USAID/Egypt attributed the problem to invoice errors.

IIE also reported disbursements of \$43,168 in tuition and fees for four other students (Table 2). IIE could not provide evidence that it had incurred the costs, making them unsupported.

Table 2. Unsupported Amounts

University	Unsupported Questioned Cost (\$)
Montana University	12,179
Montana University	12,179
Indiana University	10,063
State University of New York at Plattsburgh	8,747
Total	43,168

Regarding the unsupported amounts, IIE had paid them, and the students were attending classes, but as of December 2013, IIE New York had not received the invoices from these universities. As a result, while IIE Cairo reported the amounts recorded by IIE New York, IIE Cairo did not have documentation to support the actual invoiced amounts.

Both problems stem from a lack of internal controls at IIE. In the former case, IIE billed the mission for the amount that it also reported as its cost share. In the latter case, IIE paid fees without an invoice itemizing what it paid for.

The mission did not discover the problem because it did not have sufficient internal controls to monitor the reported amounts. Whereas the mission reviewed IIE's reports of progress toward meeting the cost contribution, USAID/Egypt did not review or request any supporting documentation to verify the reported contribution—even though the mission had concerns that IIE was falling behind on it. Mission officials said they thought that requesting supporting documentation was beyond the scope of the AOR's monitoring requirements. Yet Title 22 of the Code of Federal Regulations, Part 226.53(e), specifically states: "USAID has the right of timely and unrestricted access to any books, documents, papers, or other records of recipients that are pertinent to the award in order to make examinations."

By relying exclusively on reported financial data without reviewing any supporting documentation, the mission has no assurance that data are accurate. Had the mission examined supporting documentation for IIE's reported cost-sharing contributions, it would have discovered IIE's need for internal controls.

A partner's cost-sharing contributions are important to the U.S. Government's international development efforts. If required contributions are not made, the program's activities must be reduced, and its objectives will likely not be met.

Recommendation 2. We recommend that USAID/Egypt determine the allowability of \$62,503 in questioned costs (\$19,335 ineligible and \$43,168 unsupported) and recover any amounts determined to be unallowable from the Institute of International Education.

Recommendation 3. We recommend that USAID/Egypt conduct a review of the Institute of International Education's internal controls for meeting and reporting its cost-sharing contribution requirements to consider if actions need to be taken to strengthen IIE's accounting and reporting of cost sharing.

Program Did Not Evaluate Training's Effectiveness

Automated Directives System (ADS) 253.3.a requires missions to "design, implement, and track the training or program event for results and impact, with the ultimate aim of strengthening institutional or organizational capacity." ADS defines training impact as "improvements in individual job or organizational performance attributable to new skills, knowledge, and attitudes acquired during training and applied at work settings." USAID's Evaluation Policy lists the benefits of evaluation as helping implementers avoid past mistakes and increase the impact of development investments.

Under its leadership in action objective, IIE reported providing 49 days of training. IIE engaged students in orientations, seminars, and workshops to complement the academic and extracurricular activities available through each university.

Under its capacity-building objective, IIE reported 93 days of training for the staff and faculty of partner Egyptian universities. This capacity-building training intended to develop leadership at the individual, team, and institutional levels.

While student surveys we conducted indicated that students found the training useful, IIE had not formally evaluated the effectiveness of the training provided. Although IIE had collected some participants' feedback, IIE officials acknowledged they did not have a documented process for analyzing the student feedback to improve future training. According to IIE representatives, they only filed students' evaluations. The mission agreed that the program has no formal process for evaluating training.

USAID/Egypt and IIE have not formally assessed the effectiveness of the training because USAID did not factor the need for evaluation into the training design.

Nonetheless, USAID policy (ADS 201.3.11) stresses evaluation:

Project design and implementation is at the heart of the program cycle, framed by Agency policies and strategies, strategic planning, and monitoring and evaluation. All program cycle elements (policies, implementation of activities, monitoring and evaluation, learning and resources) should be in place for a project to succeed in achieving results.

* * *

Rigorous evaluation provides evidence as to whether and why our efforts had the intended outcomes, and if not, why not, thereby setting the stage for the next Program Cycle.

Without assessing the effectiveness of training, USAID/Egypt and its partner do not know whether their trainings are having the desired impact or could be better tailored to the needs of the participants. Trainings, workshops, seminars, and retreats provided to the students may fail to deliver the expected benefits. Assessing the effectiveness of training would provide the program better information to meet future training needs. To address this concern, we make the following recommendation.

Recommendation 4. *We recommend that USAID/Egypt work with the Institute of International Education to implement written procedures for measuring the effectiveness of program training.*

Internships Were Delayed

Under the career development objective, IIE, each university partner, and Nahdet el Mahrousa, an Egyptian NGO, were supposed to guarantee internship opportunities. The program seeks to encourage and provide opportunities for students to complete internships and ultimately find or create employment in their communities. The program expected students to spend their summers in their home governorates engaging in social or business enterprises of benefit to the community. Because of these expectations, IIE set targets for increasing the employability of at least 90 percent of students and arranging 80 internships during the first 3 years of the program.

IIE reported, based on surveys and e-mails, that 26 students had internships during the first 2 years of the program. However, IIE did not provide direct support or guidance to these students to find their internships; rather, the students found the internships opportunities by themselves. Moreover, IIE did not validate the internships reported by the students with the employers, as required by its monitoring and evaluation (M&E) plan.

The Ministry of Social Solidarity's approval of Nahdet el Mahrousa's involvement in the New Scholarship Program took longer than expected, delaying implementation. While Nahdet el Mahrousa designed a student internship application to obtain information on students' interests, skills, experience, and availability so that it could match students with appropriate internships, the deteriorating political and security situation from June 28 through August 2013 prevented the NGO from processing applications and establishing internships for the students. Internship application and matching in 2014 were scheduled to take place earlier in the spring semester so that students could begin internships during their summer break.

Because of the delays, the program did not benefit as many students as it could have. For example, 18 students will not have internship opportunities because 2 have graduated and 16 will get their degrees during the summer of 2014. Additionally, 75 students will have only one summer to participate in internships because they expect to graduate in the summer of 2015.

Since IIE planned to ensure that internships would begin during 2014 summer break, we make no recommendations at this time.

Program Did Not Document the Entire Selection Process

For student recruitment and selection, the mission considered collaboration with IIE crucial to ensure the successful implementation of the program. IIE proposed to tailor applications to find youths who wanted to contribute to the development of Egyptian society and had leadership potential. The selection process included review panels that screened and rated all applications using a performance scorecard to ensure transparency and uniformity. Later a final selection was made by a panel to ensure gender equity and representation of all governorates.

IIE clearly communicated the program's application requirements. It documented the use of the selection criteria in initial evaluations of applicants. However, the final selection of students receiving scholarships and study-abroad opportunities was not documented, undermining transparency.

Selection for Scholarships. Two competitive nationwide outreach and recruitment cycles resulted in 1,627 applications. From these, 150 students were selected for scholarships. Selection was based on factors including gender, financial need, governorate, and high school grades; how applicants fared on home visits and a final interview with the selection panel; and available placements. After the initial screening, every candidate received a numerical score from each panel member; however, a high score did not guarantee the applicant a scholarship. The final decision was made by the selection panel that chose primary candidates and alternates. However, there was no record of the discussions or support for the decisions to provide transparency and uniformity in the process.

USAID/Egypt did not hold IIE accountable for disclosing the underlying reasons for its final decisions. Doing so would have made the mission aware that the final selection process was

not documented. USAID/Egypt received only the list of students for final approval and did not request the underlying reason for the final selection of students.

Selection for Study in the United States. Study abroad is an important objective because it “contributes to shaping the development of young leaders so that they are tolerant, able to embrace diversity, open to new experiences, and aware of the world outside of their borders.” As of September 30, 2013, 55 students had been selected, 28 of whom had begun or finished their studies in the United States. The criteria for the selection included a GPA equal to or higher than 2.5, a score not less than 61 on the Test of English as a Foreign Language (TOEFL), six essays to assess the applicant’s writing and thinking, and an interview with a selection panel. The program appeared to have clear criteria for selecting students, but the panel did not document its final selection decisions. Additionally, IIE’s files were missing some evaluation and interview records. Moreover, the mission did not monitor the selection process or request supporting documentation.

The selection of students is a complex process, with multiple empirical criteria and some subjectivity. Only by clearly documenting the basis for the final selection of students for scholarships and study abroad can IIE ensure that the process was transparent.

***Recommendation 5.** We recommend that USAID/Egypt work with the Institute of International Education to establish a procedure for documenting the final selection of scholarship recipients and study-abroad participants.*

Some Program-Reported Results Were Unreliable

ADS 203.3.11.1, “Data Quality Standards,” states that data must meet the five quality standards of validity, integrity, precision, reliability, and timeliness “to be useful for performance monitoring and credible for reporting.” Data that do not meet these standards could lead to bad decision making. Further, ADS 203.3.2.1, “Performance Monitoring Roles and Responsibilities,” states that each USAID mission must “collect, maintain, and review performance data; review targets at least annually and update, if needed.” Finally, the program’s M&E plan requires IIE to maintain source documentation to support reported results.

Some results reported by USAID/Egypt and IIE did not reflect actual performance. Testing of data on 22 of the 51 indicators the mission used to monitor program performance showed:

Significant Deviations. The numbers reported for three indicators deviated significantly from supporting documentation. Two indicators were underreported and one was overreported. For example, for the indicator *Number of Leadership in Action and skill sessions held (training days)*, IIE reported 31 sessions, but its documentation supported 35—an understatement of 13 percent. Further, for the indicator *Number of specialized sessions and meetings for specific purposes*, IIE reported 21 sessions while the supporting documentation reflected 15—a 29 percent overstatement.

Inadequate Supporting Documentation. For two indicators IIE was not able to provide adequate supporting documentation. Specifically, for indicators related to internships, the documents provided were surveys completed by the students instead of certificates of completion as required by the M&E plan. IIE stated that the surveys were only a temporary tool to report on progress. However, IIE should not have reported results until it had employer-provided certificates to confirm the internships. Moreover, IIE should not take credit for these

results since, as discussed in the finding above (page 7), IIE did not contribute to placing the students in the internships.

No Supporting Documentation. For seven indicators IIE was not able to provide supporting documentation. For example, for two indicators, *Percentage of students fully satisfied with Leadership in Action sessions, Nahdet el Mahrousa Enrichment Programs, and student-led workshops* and *Number of person days of training*, no supporting documentation was available. Additionally, for five indicators, IIE provided an Excel spreadsheet to support reported results; however, Institutional Testing Program test scores³ required by the M&E plan were not available to support the entries in the Excel spreadsheet.

The reported results contained inaccuracies because the mission did not have a formal process for collecting and reviewing supporting documentation—to verify that IIE was following its approved M&E plan—or for retaining it. Mission staff relied on IIE for reported results, and while the mission did some data validation, its procedures were not comprehensive enough to verify that supporting documentation complied with the approved M&E plan. The mission contends that it does informal spot checks of IIE’s M&E plan and will continue to do so; however, some inaccuracies in reporting went unnoticed by USAID/Egypt because the spot checks were informal and not systematic. IIE did not consistently collect or retain data because IIE staff were not aware of what the requirements were. Complicating this was turnover of monitoring and evaluation staff.

Without valid, reliable program performance results, mission officials and other interested parties cannot rely on the data to make decisions. Further, the mission is unable to adjust program activities to improve performance or build on lessons learned. Finally, without reliable data, the mission and third parties cannot assess if the program is making progress toward its intended results and overall goals. We therefore make the following recommendations.

Recommendation 6. *We recommend that USAID/Egypt provide the Institute of International Education with guidance on the definitions of performance indicators for the program, on collecting and reporting data on the indicators, and on maintaining documentation of reported results.*

Recommendation 7. *We recommend that USAID/Egypt implement a plan to periodically verify that the Institute of International Education is complying with its approved monitoring and evaluation plan.*

Partner Did Not Enter All Required Information Into the Training Database

ADS 253 requires that information about any participant training that exceeds 2 consecutive days, or 16 hours for in-country training, be entered into TrainNet, USAID’s training management database. That information includes the name of the program, subject of the training, start and end dates, number of participants, and total training cost. This information must be entered within 30 days of the end of the quarter of each federal fiscal year with the exception of the training costs, which must be entered within 30 days of program completion.

³ The Institutional Testing Program (ITP) is part of TOEFL. TOEFL measures the ability to use and understand English at the university level; TOEFL ITP tests are administered by the institution for internal use.

The guidance gives some discretion to missions in determining which in-country training to report:

Sponsoring Units must enter data in TraiNet for any in-country training programs or sub-programs of two consecutive class days or more in duration, or 16 contact hours or more scheduled intermittently. However, Sponsoring Units should report any and all other in-country training events that are critical to their development efforts.

As of January 28, 2014, IIE had included in TraiNet only the number of students selected for scholarships: 44 students the first year and 106 the second. IIE did not include in TraiNet the multiple trainings, conferences, seminars, and workshops that the students received as part of the leadership in action objective, such as English training, and career development that met the criteria. Moreover, IIE did not enter into TraiNet the capacity-building sessions offered to the staff of the partner universities.

Several factors contributed to the underreporting. First, IIE did not receive conclusive guidance on how the in-country reporting rules applied to the program or feedback from the mission that it should have been reporting in-country training in TraiNet. Second, the mission made a management decision not to record all training. According to the mission, it decided not to include the training and conferences that scholarship students attended because it thought doing so would artificially inflate the number of trainings reported in TraiNet. The mission did agree that IIE should have reported the capacity-building training provided to the partner universities. Third, TraiNet duties in the mission have been reassigned repeatedly since the beginning of the program. USAID/Egypt just hired a new employee responsible for TraiNet and has begun providing information to IIE on using the database.

TraiNet is intended to serve as USAID's single repository of data for all training. Lack of complete information limits the Agency's ability to provide accurate information quickly to Congress and other interested parties. Therefore, we make the following recommendation.

Recommendation 8. We recommend that USAID/Egypt define what training information it intends to report for the New Scholarship Program and enter that information into the Training Results and Information Network.

EVALUATION OF MANAGEMENT COMMENTS

In its comments on the draft report, USAID/Egypt generally agreed with all eight recommendations. Having evaluated the comments, we acknowledge management decisions on all eight and final action on Recommendations 1, 6, and 8. The mission also made some suggested wording changes, and where we agreed, we made them. A detailed evaluation of management comments follows.

Recommendation 1. The mission incorporated additional gender-sensitive indicators in the monitoring and evaluation plan and asked IIE to track these indicators in its progress reports. On the basis of the mission's comments and supporting documentation, we acknowledge the mission's management decision and final action on Recommendation 1.

Recommendation 2. The mission determined that the ineligible cost of \$19,335 associated with IIE's cost-sharing contribution was unallowable. Accordingly, on May 7, 2014, the mission asked IIE to refund the questioned cost and gave July 31, 2014, as the target date of collection. The mission determined the amount of unsupported questioned costs totaling \$43,168 was allowable since IIE subsequently submitted supporting documentation. Therefore, we acknowledge the mission's management decision. Final action will be taken when the mission collects the unallowable costs.

Although the mission agreed with the recommendation, it did not agree with our assessment that there was a lack of mission internal controls. The mission believes the systems it has in place are in line with policies and procedures for the administration of assistance awards. The mission also believes that requesting supporting documentation to verify reported cost-sharing contributions contradicts ADS 630.3.2.3. Citing ADS 630.3.2.3, the mission found it inappropriate to request on a routine, recurring basis all of the documentation that supports a recipient's invoice.

RIG/Cairo did not ask the mission to obtain supporting documents for routine, recurring recipient's invoices. Rather, we suggested that once the mission identified problems with IIE's ability to meet its cost share, it should have looked beyond the schedules IIE submitted. It should have requested supporting documentation for the transactions on the cost-share schedules evaluated by the AOR. This type of request would have fallen within the scope of ADS as it was neither a recurring request nor support for an entire invoice. Furthermore, ADS 303.3.10 clearly states that cost share becomes a condition of an award when it is part of the approved award budget. The cost share must be verifiable from the recipient's records and according to Title 22 of the Code of Federal Regulations, Part 226.53(e), USAID has the right of timely and unrestricted access to examine any books, documents, papers, or other records of recipients that are pertinent to the award. Accordingly, the AOR could and should verify the recipient records related to the cost-share schedules provided during their routine spot checks or site visits.

Recommendation 3. On May 7, 2014, the Procurement Office asked the Financial Management Office to conduct a financial audit focusing on IIE's internal controls for meeting and reporting on its cost-share contribution. The mission anticipated completing this review by September 1, 2014. Therefore, we acknowledge the mission's management decision.

Recommendation 4. The mission asked IIE to develop written procedures for measuring the effectiveness of the program training. IIE will provide the written procedures to the mission by June 30, 2014. Therefore, we acknowledge the mission's management decision.

Recommendation 5. The mission is working with IIE to establish procedures to document the final selection of new scholarship recipients and study-abroad participants, with an anticipated completion date of June 30, 2014. On the basis of the mission's comments and supporting documentation, we acknowledge the mission's management decision on this recommendation.

Recommendation 6. The mission submitted guidance to IIE on performance indicators to help it amend the M&E plan to enhance the process of collecting and reporting data. We acknowledge the mission's management decision and final action on Recommendation 6.

Recommendation 7. The mission partially agreed with the recommendation; however, it will begin to conduct formal assessments and spot checks of IIE's compliance with its monitoring and evaluation plan every 6 months starting on May 20, 2015. On the basis of the comments and supporting documentation, we acknowledge the mission's management decision.

Although USAID/Egypt agreed that periodic verification of compliance with the monitoring and evaluation plan is important, management disagreed with the finding text questioning the mission's verification practices. We reviewed the data verification procedures performed by the mission during the audit and noted that they did not follow a formal plan or schedule. Therefore, data inaccuracies were missed.

Recommendation 8. The mission discussed with IIE the training information that it must report in TraiNet for the new scholarship program. IIE then entered all in-country training sessions in TraiNet. Given the evidence IIE provided, we acknowledge the mission's management decision and final action on Recommendation 8.

SCOPE AND METHODOLOGY

Scope

RIG/Cairo conducted this 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 that the evidence obtained provides that reasonable basis.

The purpose of this audit was to determine whether USAID/Egypt's New Scholarship Program was achieving its main goal of providing Egypt's young people with scholarship and leadership opportunities to maximize their potential to contribute to Egypt's future development. The mission awarded IIE an 8-year cooperative agreement worth approximately \$19.1 million. USAID/Egypt had obligated \$19.1 million as of September 2013 and spent \$5.6 million for program activities as of June 2013.

The audit covered the period from May 4, 2010—the program's start—to June 30, 2013. In planning and performing this audit, we assessed the mission's internal controls: documentation, data verification, reporting, supervisory and management review, and establishment and review of performance indicators. We reviewed the internal controls for monitoring program activities. Controls reviewed included data quality assessments, the AOR's files, annual and quarterly reports, and portfolio reviews.

We conducted audit fieldwork at USAID/Egypt in Cairo, in Washington D.C., and at IIE's offices and field locations throughout Egypt. Additionally, we interviewed 56 students in five Egyptian private universities: Modern Sciences & Arts University, Future University of Egypt, British University in Egypt, Ahram Canadian University, and Pharos University in Alexandria. The work took place from September 26, 2013, to February 20, 2014.

Methodology

To answer the audit objective, we interviewed personnel from the mission, IIE, and beneficiaries. We reviewed reports and files that the mission and IIE maintain as part of their program monitoring activities. We obtained an understanding of the program and how USAID/Egypt monitored and measured results by reviewing the cooperative agreement, modifications, the program's performance management plan, IIE's annual implementation plans, and progress reports. We also reviewed the mission's most recent Federal Managers' Financial Integrity Act assessment and the oversight performed by the AOR, including site visit reports, performance measures, and data quality assessments. Furthermore, we reviewed applicable laws and regulations and USAID policies and procedures, including ADS Chapters 203 ("Assessing and Learning") and 303 ("Grants and Cooperative Agreements to Non-Governmental Organizations") and Title 22 of the Code of Federal Regulations, Part 226, "Administration of Assistance Awards to U.S. Non-Governmental Organizations."

To validate performance data, we judgmentally selected 22 of the 51 performance indicators that the mission used to monitor program performance. We selected these indicators for testing based on relevance to the program's main objectives. To test the indicators, we traced results

IIE reported to supporting documentation and records. For tested performance data, we considered an error rate of less than 10 percent acceptable. To verify how IIE managed the candidate selection process we judgmentally selected 130 of 1,854 applications and reviewed the basis for selection and rejection for each candidate. To gauge student satisfaction with the scholarship program we randomly select 56 of 147 students to get their direct feedback on the quality of the scholarship program and their level of satisfaction with the education received.

The results and overall conclusions related to these tests were limited to the items tested and cannot be projected to the entire audit universe. We believe our substantive testing was sufficient to answer the audit objective.

MANAGEMENT COMMENTS



Memorandum

To: Catherine M. Trujillo, Regional Inspector General/Cairo

From: Anne Patterson, Acting Mission Director, USAID/Egypt /s/

Subject: Audit of USAID/Egypt's New Scholarship Program

Date: May 18, 2014

USAID/Egypt believes that the LOTUS program has had great success in providing scholarships to quality universities and leadership training to deserving young Egyptians from disadvantaged background. We are pleased that the audit conducted by the Regional Inspector General (RIG) stated that the program met the goal to provide scholarships to 150 students with demonstrated high financial need. We are also pleased that the audit showed students' academic needs are being met, they are performing well at their respective universities and the program is on track to meeting its goal of providing study opportunities in the United States.

We welcome suggestions the RIG has to improve this program. The very thorough and laborious audit and subsequent draft report found opportunities to improve documentation of program files, decisions and actions to ensure greater transparency. In addition, several program indicators will be improved as a result of the audit, giving the Mission additional tools with which to manage and report on the program's progress.

USAID/Egypt would like to emphasize that several comments in the report suggest that the Mission exercise powers and authorities beyond those recognized as "substantial involvement" under the conditions of the cooperative agreement with the Institute of International Education (IIE). Although these comments do not result in findings or recommendations, USAID/Egypt attempted to address the most expansive comments in the subsequent response.

The following is the Mission response to the above audit recommendations:

***Recommendation 1.** We recommend that USAID/Egypt identify gender-sensitive indicators that contribute to the eight objectives of the New Scholarship Program, and require Institute of International Education to track and include data on them in its progress reports.*

Mission Response

The Mission concurs with this recommendation. Although the Mission's Gender Assessment, Analysis and recommendations, and the updates to ADS 203.3.8 reflecting gender issues in performance indicators were issued after the cooperative agreement was signed in 2010. USAID identified additional gender sensitive indicators and requested IIE to track and include data on these identified indicators in the monitoring and evaluation plan and in the progress reports.

In view of the above, USAID/Egypt believes that a management decision has been made for this recommendation and an action taken on May 8, 11, 13 and 14, 2014 to address this recommendation through formal communication with IIE (please see attachment 1). Therefore, USAID requests that RIG/Cairo close this recommendation upon issuance of the final audit report.

***Recommendation 2.** We recommend that USAID/Egypt determine the allowability of \$62,503 in questioned costs (\$19,335 ineligible and \$43,168 unsupported) and recover any amounts determined to be unallowable from Institute of International Education.*

Mission Response

The Mission concurs with this recommendation and has taken the following steps to close this recommendation:

Part 1 of the recommendation (determining the allowability of \$19,335 ineligible costs): On April 22, 2014, the Procurement Office requested clarification and documentation for the questioned amount. IIE responded with commitments from American University and Marygrove University providing this questioned cost share. IIE also reported that these cost share concerns were the result of invoice errors. On May 7, 2014, PROC requested that IIE refund the questioned cost amount.

Part 2 (determining the allowability of \$43,168 unsupported costs): On April 22, 2014, the Procurement Office requested further supporting documentation from IIE to determine the allowability of \$43,168. The Procurement Office reviewed the additional supporting documentation and determined that the majority of these costs were allowable/eligible. A discrepancy of \$7 between what is reported/documented in the audit report and the supporting documents presented was discovered and will be recovered.

USAID/Egypt notes for clarification that in the discussion section of this audit finding, the report mentioned that "these problems went undetected because the Mission did not have sufficient

internal controls to monitor the reported amounts”. USAID/Egypt objects to this statement and requests that it be deleted. The systems USAID/Egypt has in place are in line with policies and procedures for the administration of assistance awards. If and when risks are noted via appropriate audits, the Mission has, and continues to add, additional controls consistent with the ADS and 22 CFR 226.

The above comment and related comments contradict directives of the ADS and Agency policy on the administration of an assistance award. As per ADS 630.3.2.3 COR’s Requests for Additional Information from Designated Payees:

“The policy of the CFO is to request only the documentation that the payment clause in the contract or grant requires. This policy does not imply that CORs cannot resolve with the contractor or recipient obvious anomalies in the invoice. **It is not appropriate to request on a routine, recurring basis all of the support documentation that backs up a contractor's or recipient's invoice.** Contractors and recipients are subject to annual audits, which provide reasonable assurance that they are claiming for reimbursement only eligible, supported costs. If at any time a COR has reason to believe that a contractor or recipient’s financial reports and/or vouchers do not accurately reflect its expenditures, he or she should discuss the issue with the Contracts or Agreement Officer. The Contracts or Agreement Officer may then decide to request a financial review or audit of the contract or agreement.”

There are no findings in the report that USAID/Egypt is not complying with the requirements of the ADS 303 or 22 CFR 226. It is appropriate that the discrepancies found in the course of this in-depth audit would be identified during the annual audits. It is not practicable or desirable to require more from the AOR, AO, and implementing partner in providing and reviewing extra documentation above and beyond that anticipated by Agency regulation and policy. ADS 303 is clear that the AOR keeps the AO informed of the recipient’s performance, and ensures that the AO receives copies of performance and financial status reports, as appropriate. The AOR's role is to review all performance and financial reports for adequacy and responsiveness. The AOR adhered to the ADS and monitored the recipient’s financial reports since the onset of the program and noticed that IIE was not making sufficient progress toward meeting the required cost share committed amounts (IIE was not meeting its annual projected cost share). Per ADS requirement, the AOR brought this to the attention of the AO. The AO initiated discussions and emails with IIE to allay this concern. Emails documenting this case were shared with the auditors as evidenced by the supporting documentation submitted to the audit team. However, the report seems to imply that AORs conduct financial audits in order to find such discrepancies.

In view of the above, USAID/Egypt believes that a management decision has been made for this recommendation as arrangements to recover \$19,335 (ineligible costs) have been made and PROC reviewed the supporting documentation for the \$43,168 (unsupported costs) and determined that these costs are allowable. The ineligible costs will be recovered by no later than July 31, 2014.

Mission will request closure of this recommendation once ineligible costs are recovered.

Recommendation 3. *We recommend that USAID/Egypt in [sic] conduct a review of the Institute of International Education’s internal controls for meeting and reporting of [sic] its cost*

sharing contribution requirements to consider if actions need to be taken to strengthen IIE's accounting and reporting of cost sharing.

Mission Response

The Mission concurs with this recommendation. IIE will implement processes to improve the tracking, verification and reporting of cost share. IIE will also provide training, as needed, to their staff involved with tracking and reporting cost share. In addition, USAID/Egypt will conduct a financial audit with a limited scope of IIE's internal controls for meeting and reporting of its cost share contribution requirements. USAID will undertake corrective actions to address any internal control weaknesses identified by USAID/Egypt as a result of this review.

In view of the above, the Mission believes that a management decision has been made and action has been taken on this recommendation. On May 7, 2014 the Procurement Office requested FM to initiate a financial audit with a limited scope on LOTUS's cost share contribution requirements as IIE is a U.S. organization. FM is in the process of consulting with the AOR to discuss the scope and duration of this review. The Mission believes the financial review will be completed by September 1, 2014 and will request closure of this recommendation at that time.

Recommendation 4. *We recommend that USAID/Egypt work with the Institute of International Education to implement written procedures for measuring the effectiveness of program training.*

Mission Response

The Mission concurs with this recommendation. On May 5, 2014, USAID/Egypt requested that IIE develop written procedures for measuring the effectiveness of the program training. IIE has agreed to send those written procedures for measuring the effectiveness of training by June 30, 2014.

Please note that the Education Office conducted a survey of LOTUS and LEAD students to solicit feedback about the various components of both scholarship programs, and shared the findings of this survey with the audit team. One of the items surveyed/evaluated was the quality of training sessions delivered by the two programs. Sixty-eight percent of the LOTUS students rated training sessions either excellent or very good. Additionally, and in line with the USAID Evaluation Policy, USAID/Egypt included the LOTUS project in the evaluation plan for FY 2014 submitted to Washington on December 2013 through the FY 2013 Performance Plan and Report. The evaluation is planned to start in September 2014. In light of the above USAID/Egypt requests the removal of an erroneous comment in the discussion section of this recommendation which states that "USAID/Egypt has not formally assessed the effectiveness of the training because USAID did not factor the need for evaluation into the training design."

In view of the above, USAID/Egypt believes that a management decision has been made for this recommendation and the target date for final action is June 30, 2014 (please see attachment 2).

Therefore, USAID requests that RIG/Cairo close this recommendation upon issuance of the final audit report.

Recommendation 5. *We recommend that USAID/Egypt work with the Institute of International Education to establish a procedure for documenting the final selection of scholarship recipients and study-abroad participants.*

Mission Response

The Mission agrees with this recommendation. USAID will work with IIE to establish a procedure to document the final selection of new scholarship recipients and study abroad participants.

USAID/Egypt agrees that more complete documentation summarizing the underlying reasons for the final selection of students improves internal transparency, however we are bound by the agreement with the implementer and the ADS directives. The Mission's role in the selection process was in line with the agreement. To wit:

- a) On. P 17 of the agreement, under selection strategies, it is stated that final selections will be made by a selection panel at each group interview for **approval** by USAID Egypt. IIE will ensure gender equity and geographic distribution targeting students from each governorate.
- b) In modification #3 of the cooperative agreement, under selection strategies states the following: 'final selections will be made by a selection panel that will take into consideration application scores, home visit scores and performance at group interviews. Gender equity, geographic distribution and diversity of experiences and fields of study will also be considered. **The Final list with recommended placements will be sent to USAID Egypt for approval.** Once the list of primary candidates is approved by USAID, students will be informed and sign terms and conditions.'

As per the cooperative agreement, the final list is required for approval by the AOR. Additional documentation summarizing the underlying reasons for selection are not required as there is a matrix summarizing the history/scoring of each student. IIE consistently informed USAID of the decision making process as evidenced by the supporting documentation and email correspondence shared with the audit team. Although there is substantial involvement expected in a cooperative agreement, the Office of Management and Budget policy has stated that agencies "should limit their involvement in assisted activities to the minimum consistent with program requirements." ADS 303.3.11 is specific on what types of substantial involvement is anticipated in cooperative agreements, explicitly stating that there should be sufficient reason for Agency involvement and the involvement should be specifically tailored to support identified elements in the program description.

USAID/Egypt is concerned that the audit report suggests greater involvement in the selection of students than what has been agreed upon in the award, and thus requests the removal of misleading statements in the discussion of recommendation number 5.

In view of the above, USAID/Egypt believes that a management decision has been made for this recommendation and the target date for final action is no later than June 30, 2014 (please see attachment 3). USAID will request closure of this recommendation when procedures to document the final selection process have been finalized.

Recommendation 6. *We recommend that USAID/Egypt provide the Institute of International Education with guidance on the definitions of performance indicators for the program, on collecting and reporting data on the indicators, and on maintaining documentation of reported results.*

Mission Response

The Mission concurs with this recommendation. After consultation with the Program Office, guidance on performance indicators has been given to IIE on the indicators, methodology, and supporting documentation in their M&E plan. IIE is in the process of amending the M&E plan to enhance the process of collecting and reporting data. On May 13, 2014, IIE submitted the amended monitoring plan; the Mission has reviewed it and provided feedback to IIE on May 14, 2014. IIE has submitted an amended monitoring plan on May 14, 2014 and is currently being reviewed by the technical team and Program Office.

In view of the above, USAID/Egypt believes that a management decision has been made for this recommendation as corrective action was taken on May 8, 11, 13 and 14, 2014 to address this issue (please see attachment 1). Therefore, USAID requests that RIG/Cairo close this recommendation upon issuance of the final audit report.

Recommendation 7. *We recommend that USAID/Egypt implement a plan to periodically verify that the Institute of International Education is complying with its approved monitoring and evaluation plan.*

Mission Response

The Mission partially concurs with this recommendation. USAID/Egypt agrees that periodic verification of compliance with the monitoring and evaluation plan is important, which is why the Mission reports on all formal spot checks and the supporting documentation (please see attached sample-attachment 4). USAID/Egypt requests that comments within the report that contradict the Mission's spot check practice be deleted, since reliable program performance results are available and used to make decisions.

The Mission believes that a management decision and final action have been made and the Mission will continue to conduct its formal assessments and spot checks. The assessments and spot checks will be conducted on a semiannual basis. Therefore, Mission requests RIG/Cairo to close this recommendation upon issuance of the final audit report. Please note that the LOTUS project is planned to be externally evaluated in September 2014.

Recommendation 8. We recommend that USAID/Egypt define what training information it intends to report for the New Scholarship Program, and enter that information into the Training Results and Information Network.

Mission Response

The Mission concurs with this recommendation and took the following action:

On November 13, 2013, USAID arranged for a meeting between IIE and the Mission's Participant training Assistant. In this meeting USAID defined what training information should be reported for the new scholarship program (LOTUS). As agreed in the meeting, IIE entered all in-country training sessions in TrainNet.

In view of the above, the Mission believes that final action has been reached for this recommendation (please see attachment 5). Therefore, USAID requests that RIG/Cairo close this recommendation upon issuance of the final audit report.

Attachments:

Attachment 1 (including the revised M&E matrix and explanation for the PMP template)

Attachment 2

Attachment 3

Attachment 4 (sample spot check report)

Attachment 5 (including the TRAINET Report)

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