

Regional Inspector General for Audit  
Cairo, Egypt

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Audit of Alexandria Businessmen Association Small  
and Micro Enterprise Development Project  
Cooperative Agreement No.263-0212-A-00-9055-00  
Project No. 263-0212

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Report No. 6-263-92-08-N  
January 26, 1992



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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

January 26, 1992

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford  
FROM : RIG/A/C, *Philippe L. Darcy*  
SUBJECT: Audit of Alexandria Businessmen  
Association Small and Micro  
Enterprise Development Project  
Cooperative Agreement No. 263-0212-  
A-00-9055-00 (Project No. 263-0212)

The attached report dated September 25, 1991 by Price Waterhouse presents the results of a financial audit of Alexandria Businessmen Association's (ABA's) expenditures under Cooperative Agreement No. 263-0212-A-00-9055-00. ABA provides technical assistance directly to Small and Micro Enterprises (SMEs) as well as training to facilitate credit delivery to SMEs through the use of a fund in a local bank to meet lender collateral requirements.

We engaged Price Waterhouse to perform a financial audit of ABA's expenditures totaling \$213,762 for the period April 15, 1989 to December 31, 1990. The purpose of the audit was to evaluate the propriety of costs incurred in this period. In performing the audit, Price Waterhouse evaluated ABA's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Price Waterhouse questioned \$5,281 of ABA's claimed costs (including \$4,722 in unsupported costs). Questioned items include proceeds from the sale of A.I.D.-financed property, which were not credited to A.I.D. and unsupported international travel. Price Waterhouse also noted that ABA was not reconciling its billings to USAID/Egypt to its general ledger, however, the auditors did not consider this to be a material weakness. Finally, Price Waterhouse reported a number of compliance violations including an absence of written approval for international travel, the uncertified use of foreign flag carriers and a provision in ABA's cooperative agreement which contradicts OMB Circular A-122 (Cost Principles for Non-Profit Institutions).

ABA management acknowledged that a sale of fixtures from an A.I.D.-financed apartment had occurred and that ABA had considered the proceeds to be revenue. Both ABA management and the A.I.D. Project Officer confirmed that the unsupported international travel had transpired and made a commitment to locate appropriate supporting documentation.

In addressing Price Waterhouse's internal control finding, ABA management asserted that although previous accounting procedures had not included reconciling billings to the general ledger, such reconciliations are currently performed. Management also acknowledged the auditor's compliance findings.

**Recommendation No. 1:** We recommend that USAID/Egypt resolve the questioned and unsupported costs of \$559 and \$4,722 appearing on page 10 of the audit report.

This recommendation will be included in the Inspector General's audit recommendation follow-up system. Until we are advised of USAID/Egypt's determination regarding the questioned and unsupported costs, Recommendation No. 1 is considered unresolved. This recommendation can be resolved when we receive the Mission's formal determination as to the amounts sustained or not sustained and can be closed when any amounts determined to be owed to A.I.D. are paid by ABA.

**Recommendation No. 2:** We recommend that USAID/Egypt resolve the conflict between the cooperative agreement and OMB Circular A-122.

This recommendation will be included in the Inspector General's audit recommendation follow-up system. This recommendation can be resolved when the Mission informs our office of its plan to resolve the conflict between the cooperative agreement and OMB Circular A-122. This recommendation can be closed when documentation is furnished that permits us to conclude the cooperative agreement no longer contradicts OMB Circular A-133.

Please advise this office within 30 days of any actions planned or taken to close the recommendations. We appreciate the courtesies extended to the staff of Price Waterhouse and to our office.

AUDIT OF  
ALEXANDRIA BUSINESSMEN ASSOCIATION  
SMALL AND MICRO ENTERPRISE DEVELOPMENT PROJECT  
COOPERATIVE AGREEMENT NUMBER 263-0212-A-00-9055-00  
DECEMBER 31, 1990

**AUDIT OF**  
**ALEXANDRIA BUSINESSMEN ASSOCIATION**  
**SMALL AND MICRO ENTERPRISE DEVELOPMENT PROJECT**  
**COOPERATIVE AGREEMENT NUMBER 263-0212-A-00-9055-00**  
**DECEMBER 31, 1990**

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## *Price Waterhouse*



September 25, 1991

Mr. Philippe Darcy  
Regional Inspector General for Audit  
United States Agency for  
International Development  
Mission to Egypt  
Cairo, Egypt

Dear Mr. Darcy:

This report presents the results of our financial and compliance cost-incurred audit of Alexandria Businessmen Association (ABA) Cooperative Agreement No. 263-0212-A-00-9055-00 under USAID/Egypt's Small and Micro Enterprise Development (SME) Project No. 263-0212. The audit encompassed all local expenditures for the period from April 15, 1989 through December 31, 1990.

### Background

The goal of the SME Development Project is to expand the economic output of the small and micro enterprise sector of the economy and to increase employment and earnings among low income residents of Alexandria. The Project's purpose is to support a private, self-sustaining Businessmen's Association which will provide technical assistance to SME's and training to facilitate credit delivery to small and micro enterprises through the use of a fund in a local bank that will supplant the bank's



perceived need for collateral. This Project provided funds for lease of office space, office equipment, and operational support until the Project is self-sustaining. Special projects in support of SME's have also been funded.

The Cooperative Agreement provides for reimbursement of direct costs only. No indirect costs are reimbursable under this Cooperative Agreement.

#### Audit Objectives and Scope

The objective of this engagement was to perform a financial and compliance cost-incurred audit of A.I.D. funds provided to ABA pursuant to Cooperative Agreement No. 263-0212-A-00-9055-00 under USAID/Egypt's SME Development Project No. 263-0212. The audit encompassed all local expenditures for the period from April 15, 1989 through December 31, 1990. Specific objectives were to determine whether:

1. the fund accountability statement for ABA presents fairly, in all material respects, project revenues and costs incurred and reimbursed for this Agreement in conformity with the applicable accounting principles;
2. the costs reported as incurred under the Agreement are in fact allowable, allocable, and reasonable in accordance with the terms of the agreement and A.I.D. Handbook 13, Chapters 1 and 4 as well as OMB Circular A-110/122;



3. the internal controls, accounting systems and management practices of ABA are adequate for USAID/Egypt Agreements; and
4. ABA is in compliance with the Agreement terms (including standard agreement provisions) which may have affected the costs incurred under the Agreement.

Preliminary planning and review procedures were started in January, 1991 and consisted of discussions with RIG/A/C personnel, USAID project officers, ABA officials and review of the Cooperative Agreement. Fieldwork commenced in June 1991 and was completed in September 1991.

Our selection of disbursements to be tested was made on a judgmental basis and was structured to test a majority of local expenditures. We tested local expenditures incurred in LE of 569,096 out of total LE expenditures of 661,922 and U.S. dollars of 11,757 out of total U.S. dollar expenditures of 13,786.

Our tests of expenditures included, but were not limited to, the following:

1. Reconciling ABA's accounting records to invoices issued to USAID, and testing of costs for allowability, allocability, reasonableness, and appropriate support;



2. Determining that personnel costs were appropriate and conformed with the terms of the Agreement and relevant regulations;
3. Determining that travel and transportation charges are adequately supported and approved;
4. Establishing the adequacy of ABA's control over project equipment; and
5. Ascertaining that loan funds were given only to eligible borrowers according to the terms of the contract and that borrowers are repaying timely.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse



worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

As part of our examination we made a study and evaluation of relevant internal controls and reviewed ABA's compliance with applicable laws and regulations.

#### Results of Audit

##### Fund accountability statement:

Our examination identified LE 1,850 and \$ 4,722 in questionable costs.

##### Internal control structure:

We recommended that billings to USAID be reconciled to the accounting system on a timely basis.

##### Compliance with Agreement terms and applicable laws and regulations:

Three items of noncompliance were noted - two related to travel and transportation and one related to rental costs.



### Management Comments

Management has accepted the fact situation relating to our findings. Their main concern is how to account for the rental costs associated with their flat leased in Alexandria. OMB Circular No. A-122, Section 42, "Rental Costs", states that "rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the organization" (e.g. depreciation, taxes, insurance, etc).

ABA contends that because the flat is used by two interrelated entities, ABA and the ABA Foundation, it is not possible to use the normal costs of ownership as a basis for rental charges. Additionally, ABA asserts that the rent charged is reasonable.

This report is intended solely for use by the United States Agency for International Development and may not be suitable for any other purpose.

*page 4 continuation*

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*Price Waterhouse*



September 25, 1991

Mr. Philippe Darcy  
Regional Inspector General for Audit  
United States Agency for  
International Development  
Mission to Egypt  
RIG/A/C Office  
Cairo, Egypt

**FUND ACCOUNTABILITY STATEMENT**  
**REPORT OF INDEPENDENT ACCOUNTANTS**

We have audited the accompanying fund accountability statement of Alexandria Businessmen Association (ABA) for the period from April 15, 1989 through December 31, 1990 relating to Cooperative Agreement No. 263-0212-A-00-9055-00 between USAID and ABA for the Small and Micro Enterprise (SME) Development Project. This financial statement is the responsibility of ABA's management. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement. An audit also includes assessing the accounting principles used and significant estimates made

by management, as well as evaluating the overall statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

As described in Note 2, the accompanying financial statement has been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred. In addition, the accompanying financial statement has been prepared in accordance with the cost principles set forth in A.I.D. Handbook 13 and OMB Circular No. A-122. Accordingly, the accompanying financial statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.



In our opinion, the financial statement referred to above presents fairly, in all material respects, ABA's reimbursable costs for the period from April 15, 1989 through December 31, 1990 in conformity with the basis of accounting described in Note 2.

*page continued*

AUDIT OF  
ALEXANDRIA BUSINESSMEN ASSOCIATION  
SMALL AND MICRO ENTERPRISE DEVELOPMENT PROJECT  
COOPERATIVE AGREEMENT NUMBER 263-0212-A-00-9055-00  
FUND ACCOUNTABILITY STATEMENT  
FOR THE PERIOD FROM APRIL 15, 1989 THROUGH DECEMBER 31, 1990

	Fund		<u>Questioned Costs</u>		Reimbursable Costs (Note 7)	Audit Findings Reference
	Accountability Statement (Note 1)	Reclassification (Note 5)	Ineligible (Note 6)	Unsupported (Note 6)		
<b>I. <u>Egyptian Pound Expenditures:</u></b>						
Office operational costs	292,425	(62,647)	-	-	229,778	
Equipment	139,810		-	-	139,810	Page 13
Training	3,480		-	-	3,480	
Special projects (Note 4)	<u>226,207</u>	<u>62,647</u>	<u>(1,850)</u>	<u>-</u>	<u>287,004</u>	
Total	<u>661,922</u>	<u>-</u>	<u>(1,850)</u>	<u>-</u>	<u>660,072</u>	
U.S. dollar equivalent at exchange rate of LE 3.31/\$ 1 U.S.	\$ <u>199,976</u>		<u>(\$ 559)</u>		\$ <u>199,417</u>	
<b>II. <u>U.S. Dollar Expenditures:</u></b>						
International travel /per diem	\$ <u>13,786</u>	<u>-</u>	<u>-</u>	<u>(\$4,722)</u>	\$ <u>9,064</u>	

See accompanying notes to the fund accountability statement

AUDIT OF  
ALEXANDRIA BUSINESSMEN ASSOCIATION  
SMALL AND MICRO ENTERPRISE DEVELOPMENT PROJECT  
COOPERATIVE AGREEMENT NUMBER 263-0212-A-00-9055-00  
NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SOURCE OF DATA:

The first column, labeled "Fund Accountability Statement", is the responsibility of Alexandria Businessmen Association (ABA) and represents the cumulative charges billed and reimbursed from A.I.D. for the period from April 15, 1989 through December 31, 1990. The other columns have been developed for the purpose of this report based on our audit of those figures.

NOTE 2 - BASIS OF ACCOUNTING:

The fund accountability statement has been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred. Additionally the statement has been prepared in accordance with the cost principles set forth in A.I.D. Handbook 13, Chapters 1 and 4 as well as OMB Circular No. A-122, which prescribes the nature and treatment of reimbursable costs not specifically defined in the Cooperative Agreement.

NOTE 3 - DESCRIPTION OF THE COOPERATIVE AGREEMENT:

The Cooperative Agreement is a direct cost-reimbursable agreement between USAID and ABA. No indirect costs are reimbursed and there is no provision for an overhead rate in the Agreement.

NOTE 4 - SPECIAL PROJECTS:

The Cooperative Agreement provides for a separate budget item that allows for USAID financing of innovative projects which address constraints faced by the small and micro entrepreneurs.

NOTE 5 - RECLASSIFICATION:

Certain office operational costs have been reclassified to special projects to reflect the proper classification of these amounts.

NOTE 6 - QUESTIONED COSTS:

Questioned costs are presented in two separate categories - ineligible and unsupported costs - and consist of audit findings proposed on the basis of the terms of the Cooperative Agreement and the accounting principles described in Note 2. Costs in the column labeled "Ineligible Costs" are supported by vouchers or other documentation but are ineligible for reimbursement because they are not program related, are unreasonable, or prohibited by the Agreement or applicable laws and regulations. Costs in the column labeled "Unsupported Costs" are also formally included in the classification of "questioned costs" and relate to costs that are not supported with adequate documentation or did not have the required prior approvals or authorizations. All questioned costs are detailed in the "Fund Accountability Statement - Audit Findings" section of this report.

NOTE 7 - REIMBURSABLE COSTS:

Reimbursable costs consist of the contract costs paid, expressed in the first column, net of the reclassification and questioned costs.

**AUDIT OF**  
**ALEXANDRIA BUSINESSMEN ASSOCIATION**  
**SMALL AND MICRO ENTERPRISE DEVELOPMENT PROJECT**  
**COOPERATIVE AGREEMENT NUMBER 263-0212-A-00-9055-00**  
**FUND ACCOUNTABILITY STATEMENT**  
**AUDIT FINDINGS**

Our audit procedures identified the following costs billed to the contract that are ineligible or not supported:

<u>Egyptian Pound Expenditure:</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<b>A. SPECIAL PROJECT</b>		
<b>Sale of scrap</b>		
A.I.D. financed property was sold to third parties and the sales proceeds were not credited as a reduction to USAID/Egypt billings.	1,850	<u>-</u>
Total	LE 1,850	<u>-</u>
Grand total of Egyptian pound questioned costs	LE 1,850	
 <u>U.S. Dollar expenditure:</u>		
<b>B. International Travel</b>		
Supporting documentation for lodging and per diem costs incurred during travels to U.S.A., Germany and Indonesia were not provided.	_____	\$ 4,722
Total	<u>-</u>	<u>4,722</u>
Grand total of U.S. dollar questioned costs	\$	<u>4,722</u>

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*Price Waterhouse*



September 25, 1991

Mr. Philippe Darcy  
Regional Inspector General  
United States Agency for  
International Development  
Mission to Egypt  
RIG/A/C Office  
Cairo, Egypt

**REPORT ON INTERNAL CONTROL STRUCTURE**  
**REPORT OF INDEPENDENT ACCOUNTANTS**

We have audited the fund accountability statement of Alexandria Businessmen Association (ABA) for the period from April 15, 1989 through December 31, 1990 relating to Cooperative Agreement No. 263-0212-A-00-9055-00 between USAID and ABA for the Small and Micro Enterprise (SME) Development Project, and have issued our report thereon dated September 25, 1991.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.



We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

In planning and performing our audit of ABA we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of ABA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial reports and to maintain accountability over the entity's assets.



Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we determined the significant internal control structure policies and procedures to be in the categories of billings, general ledger operations and credit granting operations. For these internal control structure categories cited, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted a matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement.

A circular logo with a stylized 'I' and 'A' inside, representing the International Auditing and Taxation Association.

**REPORTABLE CONDITION**

1. USAID billings should be reconciled to the general ledger.

Discussion

Although billings are made from the general ledger, we encountered difficulties in reconciling the general ledger to the billing records. This was mainly attributable to:

- The general ledger being maintained in Egyptian pounds while certain expenses were originated and billed in U.S. dollars; and
- The general ledger was maintained on the accrual basis while billings to A.I.D. were done on a cash basis.

Consequently, differences did arise between the general ledger and the billing system which were not adequately reconciled by management. Our audit disclosed several examples of inaccurate billings.

Recommendation

The general ledger should be reconciled periodically to the billing system by an individual independent of the two systems. Variances, if any, should be identified and corrected on a timely basis.



A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable condition described above is not a material weakness.

We also noted other matters involving the internal control structure and its operation that we reported to the management of ABA in a separate communication dated September 25, 1991.

This report is intended for the information of ABA's management and others within the organization and the United States Agency for International Development. The restriction is not intended to limit the distribution of this report which is a matter of public record.

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*Price Waterhouse*



September 25, 1991

Mr. Philippe Darcy  
Regional Inspector General  
United States Agency for  
International Development  
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Cairo, Egypt

**REPORT OF COMPLIANCE WITH AGREEMENT TERMS**  
**AND APPLICABLE LAWS AND REGULATIONS**  
**REPORT OF INDEPENDENT ACCOUNTANTS**

We have audited the fund accountability statement of Alexandria Businessmen Association ABA for the period from April 15, 1989 through December 31, 1990 relating to Cooperative Agreement No. 263-0212-A-00-9055-00 between USAID and ABA for the Small and Micro Enterprise (SME) Development Project, and have issued our report thereon dated September 25, 1991.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.



We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

Compliance with laws, regulations, contracts, grants, and binding policies and procedures applicable to ABA is the responsibility of ABA's management. As part of our audit we performed tests of ABA's compliance with certain provisions of laws, regulations, contracts, grants and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Our testing of transactions and records disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found are identified in the accompanying "Report on Compliance-Audit Findings" section of this report.



The result of our tests indicate that with respect to the items tested ABA complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that ABA had not complied, in all material respects, with those provisions.

This report is intended for the information of ABA's management and others within the organization and the United States Agency for International Development. The restriction is not intended to limit the distribution of this report which is a matter of public record.

*James W. [unclear]*

AUDIT OF  
ALEXANDRIA BUSINESSMEN ASSOCIATION  
SMALL AND MICRO ENTERPRISE DEVELOPMENT PROJECT  
COOPERATIVE AGREEMENT NUMBER 263-0212-A-00-9055-00  
REPORT ON COMPLIANCE  
AUDIT FINDINGS

The following instances of noncompliance with laws and regulations and the Agreement came to our attention during the audit:

1. Written approval from the project officer should be obtained for international travel.

Discussion

Standard Provision 3, "Air Travel and Transportation", requires ABA "to present to the project officer for written approval an itinerary for each planned international trip financed by this grant which shows the name of the traveler, purpose of the trip, origin/destination (and intervening stops), and dates of travel as far in advance of the proposed travel as possible, but in no event less than three weeks before travel is planned to commence."

ABA did not comply with this provision because project officer written approval was not obtained for international travel.

Recommendation

We recommend that ABA comply with the Air Travel and Transportation provision in the Agreement.

2. A "Certification of Unavailability of U.S. Flag Air Carrier" should be submitted with the claim for reimbursement when a non U.S. flag air carrier is used for international transportation.

#### Discussion

In accordance with Standard Provision 3(K) of the Agreement, "where U.S. government funds are used to reimburse the grantee's use of other than U.S. Flag Air Carriers for international transportation, the grantee will include a certification" of unavailability of U.S. Flag Air Carriers on the voucher. The certification should state the reason(s) why a U.S. Flag Air Carrier was not used.

ABA did not comply with this Standard Provision for international transportation when they used the services of a non U.S. Flag Air Carrier.

#### Recommendation

We recommend that a "Certificate Of Unavailability Of U.S. Flag Air Carrier" be properly completed when a non U.S. Air Flag Carrier is used.

3. Rental costs of the flat leased in Alexandria should not exceed the normal costs of ownership.

#### Discussion

ABA owns the flat in which the SME Development Project is based and leases the flat to the Project. We reviewed a signed lease agreement between ABA and the SME project managers. The flat was leased for LE 2,500 per month for

the twelve month period ending August 31, 1990 and increased to LE 2,875 per month for the year ending August 31, 1991. Total rent paid during the period of our audit was LE 64,500.

The lease terms and conditions have been agreed to by a USAID grant officer. This agreement, however, is in conflict with OMB Circular No. A-122, Section 42, "Rental Costs", which states that "rental costs under less-than-arms-length leases are allowable only up to the amount that would be allowed had title to the property vested in the organization. For this purpose, a less-than-arms-length lease is one under which one party to the agreement is able to control or substantially influence the actions of the other."

To comply with this provision of OMB Circular No. A-122, ABA rent charges should not exceed the normal costs of ownership, such as depreciation, taxes, and insurance, provided that no part of such costs duplicate any other allowed cost.

#### Recommendation

We recommend that the actual ownership costs of the flat leased in Alexandria be used as the basis of reimbursement and not the signed lease agreement between ABA and the SME project managers.

AUDIT OF  
ALEXANDRIA BUSINESSMEN ASSOCIATION  
SMALL AND MICRO ENTERPRISE DEVELOPMENT PROJECT  
COOPERATIVE AGREEMENT NUMBER 263-0212-A-00-9055-00  
DECEMBER 31, 1990

Appendix A: Auditees' response to findings.

**1. Note 6 - LE 4,800 questioned costs - ineligible.**

This amount represents two components as follows:

A. Promotional costs

Logo - ABA	LE	750
Brochure design		300
Printing		<u>1,900</u>
	LE	<u>2,950</u>

These costs were recorded and billed to USAID as advertisement and promotional expenses, while they are actually promotional costs not newspaper advertisement and are considered direct project costs and therefore billable to USAID.

B. Sale of scrap - special projects

The amount of LE 1,850 represents proceeds of sale of scrap (wood) sold to third party and was not credited to USAID as reduction of special projects costs. Amount will be deducted in the October 1991 financial report.

**2. Note 6 - \$ 4,722 questioned costs - unsupported.**

This amount represents lodging and per diem costs incurred by the Executive Director during his travels to the U.S.A., Germany and Indonesia in 1989. During the audit, we were

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unable to provide the supporting documents. Documents were located afterwards and are available for review. Auditor was also supplied with airfare tickets representing part of the same trip expenses. In addition, the ABA Executive Director was accompanying USAID officers and by reviewing their related invoices, the ABA Executive Director's expenses and per diem can be ascertained.

**3. Reconciliation of billings to USAID.**

The financial report is prepared using the cash basis of accounting in accordance with USAID recommendations, AID Handbook 13, chapters 1 and 4 as well as OMB circular A-110/122 and special USAID report format provided while the accrual basis of accounting is used to record and report our accounting transactions in accordance with law 32 of 1964 of the Organization of Social Affairs by which we are inspected periodically. Our accounting records are also reviewed weekly by Dr. Zakaria El Sadek Accounting Firm, our External auditor. The auditors' recommendation that billings to USAID be reconciled to the accounting records periodically was due to the normal process of having to convert some transactions from the accrual to the cash basis.

**4. Note 5 - Reclassification**

Due to lack of office space, a number of extension officers, their operational manager and their office support personnel were relocated to the ASB Center which is funded under "special projects". Therefore, operational costs were increased to include the costs of office space and overheads. Special projects were reduced by the same amount. USAID's approval was obtained prior to the reclassification of these costs.

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Presently, the ABA is in the process of acquiring new office space to meet the SME's staff expansion needs.

**5. International Travel and Use of U.S. Flag Air Carrier.**

In the past, only verbal approval for international travel was obtained from AID (since the ABA Executive Director travels usually with AID personnel). In the future, ABA will obtain written approvals and will comply with both standard provision 3 and 3(k).

**6. Rental Costs.**

Since the Alexandria Businessmen Association owns the flat rented to the SME project, and since they are two separate entities, it is not possible to use the normal costs of ownership as basis for the rental charges.

The total space occupied by the SME project is 175 square meters while the ABA occupies 225 square meters for a total space of 400 square meters. The project also uses the ABA conference room at least twice a month to meet with new borrowers and from three to five times a month to meet with repeat borrowers.

The rental fee charged is considered very moderate compared to the prevailing prices in the same area.

Due to inflation and the inavailability of furnished flats, the 15% rent increases in 1990 is reasonable.

**AUDIT OF**  
**ALEXANDRIA BUSINESSMEN ASSOCIATION**  
**SMALL AND MICRO ENTERPRISE DEVELOPMENT PROJECT**  
**COOPERATIVE AGREEMENT NUMBER 263-0212-A-00-9055-00**  
**DECEMBER 31, 1990**

Appendix B: Auditors' comments.

Our response to ABA's comments as contained in "Appendix A: Auditees' response to findings" are as follows:

**1.A. Promotional/Advertising costs**

Based upon the additional information and analysis supplied by ABA, we concur with ABA that these costs are valid cost items. Accordingly, LE 2,950 of "questioned costs-ineligible" from our preliminary draft have been excluded from the final report.

**1.B. Sale of scrap - special projects**

Auditee agrees with our finding.

**2. Note 6 - 4,722 questioned costs unsupported**

We requested the auditee to provide the supporting documentation for our review. However, we did not receive the documentation prior to the time this report was issued.

**3. Reconciliation of billings to USAID**

Auditee agrees with our internal control structure recommendation.

**4. Note 5 - Reclassification**

The reclassification entry from office operational costs to special projects relates to costs incurred in

purchasing and equipping a flat to be used for ABA's special project.

ABA reallocated a certain portion of these costs to office operational costs as certain personnel outside the scope of the special project work were utilizing the facilities.

We disagree with the allocation method used by ABA and believe that 100% of the costs incurred in purchasing and equipping the flat to be used as the special projects office space should be charged to special projects. Additionally, we were not able to verify USAID's approval of the allocation method as it was not in writing.

5. **International Travel and Use of U.S. Flag Air Carrier**  
Auditee agrees with our findings.
  
6. **Rental Costs**  
Notwithstanding ABA's comments, we believe that the rental costs for the flat leased in Alexandria should comply with OMB Circular No. A-122.



CAIRO, EGYPT

Appendix C  
UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

PM 1/8  
RECEIVED  
DEC 31 1991

MEMORANDUM

TO: Philippe L. Darcy, RIG/A/C

FROM: Beth Paige, DIR/CS *Beth Paige*

DATE: December 30, 1991

SUBJECT: Status of Audit Actions

Following is a summary of the status of the following audit actions:

1. NCBA Audit No. 6-253-92-06-N

A copy of the final audit report has been forwarded to the Contractor. I have requested that the Contractor supply me with supporting documentation for all questioned and unsupported costs no later than January 26, 1992. (See attached)

2. Draft Audit of Alexandria Businessmen's Association Small and Micro Enterprise Development Project - Cooperative Agreement Number 263-0212-A-00-9055-00 (Project No. 0212).

I have not comments on the subject draft audit at this time.

If you have any questions concerning this above, please contact me at x3257. Thank you.

**APPENDIX D****Report Distribution**

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