

Financial Audits

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Audit of  
**AMERICAN NEAR EAST REFUGEE AID**  
A.I.D. Grant No. NEB-0162-A-OO-4012-00  
A.I.D. Grant No. ANE-0159-G-SS-9048-00

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Report No. 0-000-92-07-N  
May 29, 1992



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INFORMATION IS RELEASED TO THE PUBLIC."**



Agency for International Development

Washington, D.C. 20523

Assistant Inspector General  
for Audit

May 29, 1992

MEMORANDUM FOR: AA/NE, Reginald J. Brown  
FA/OP/PS/OCC, James J. Deery

FROM: *J.P.C.* AIG/A, John P. Competello *P. B. G. Thaler*

SUBJECT: Audit of American Near East Refugee Aid Under the  
Agency's West Bank/Gaza Program

The accounting firm of Price Waterhouse performed a financial-related audit of two grants for American Near East Refugee Aid (ANERA) under A.I.D.'s West Bank/Gaza Program. Two copies of the report are enclosed for your action.

ANERA's mission is to strengthen Palestinian organizations such as cooperative, municipality, charitable, health, and educational institutions. To carry out this mission, ANERA, with assistance from A.I.D., provides financial and technical support to these institutions. Over the past two decades, A.I.D. has provided about \$25 million to ANERA under the West Bank/Gaza Program.

The scope of the audit covered two grants for the period of October 1, 1987 through August 28, 1990 (NEB-0162-A-00-4012-00); and September 30, 1989 through September 30, 1990 (ANE-0159-G-SS-9048-00). Disbursements for each grant during the audit periods totalled about \$6 and \$1.7 million, respectively.

This audit is part of an audit of the entire A.I.D. West Bank/Gaza Program. The audit was requested by the Agency's former Bureau for Asia, Near East and Europe. This is the third of six financial-related audit reports to be issued on private voluntary organizations operating in the West Bank/Gaza territory.

The objectives of this audit were to determine whether the Schedules of Financial Assistance were presented fairly in accordance with generally accepted accounting principles, the internal control structure was adequate and ANERA had complied with applicable laws, regulations, and grant terms.

Price Waterhouse determined that the Schedules of Financial Assistance present fairly in all material respects, ANERA's letter of credit drawdowns and expenditures for the two grants. However, there were questioned costs amounting to \$248,078 as shown by the schedules on pages III-1 and III-2 of the audit report. The questioned costs represented \$64,041 of potentially unallowable costs and \$184,037 in unsupported costs.

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**Recommendation No. 1:** We recommend that the Agency's Office of Procurement (FA/OP) resolve the \$248,078 in questioned costs (\$184,037 unsupported and \$64,041 ineligible) identified in the audit report (pages III-1 and III-2) and recover from ANERA any costs not allowable under the grants.

In addition to the questioned costs related to the audit period, the audit report also noted certain reportable internal control weaknesses and compliance problems. These conditions were not considered material.

One of the problems may affect every A.I.D.-financed organization operating in the West Bank/ Gaza territory. ANERA has provided \$6 million (out of \$7.8 million disbursements) of direct assistance to sub-grantees. This included funds for the purchase of goods and services. Because the disbursements by sub-grantees are made under their own name, the sub-grantees have not enjoyed the tax and customs exemptions that have been granted to ANERA by the Israeli Government. However, in some instances, ANERA required the sub-grantee to make purchases in ANERA's name to ensure eligibility for tax and customs exemptions.

The value-added-tax (VAT) is about 18 percent and customs duties can be as high as 100 percent. These taxes have generally not been monitored or reimbursed to the project. ANERA had not established a system for applying for or monitoring tax and custom duty refunds to ensure that these funds were used for project purposes.

**Recommendation No. 2:** We recommend that the Agency's Bureau for Near East require A.I.D.-financed organizations in the West Bank/Gaza territory to;

- a) structure sub-grantee assistance in a way that will ensure future eligibility for value-added-tax and custom duty exemptions, and
- b) establish procedures for obtaining reimbursement of taxes and duties so that the recovered funds are used for project purposes.

The auditors also noted on page V-2 that luxury items (totalling \$2,400) were purchased for the Middle East Representative's personal use. These items were charged to the grant. However, because these items were purchased outside the audit period, the auditors did not question these costs.

**Recommendation No. 3:** We recommend that the Agency's Office of Procurement (FA/OP) resolve \$2,400 in costs as described on page V-2 of the audit report and recover any costs from ANERA, which are not deemed allowable.

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The recommendations will be included in the Inspector General's audit recommendation follow up system. The recommendations are currently unresolved. Recommendations Nos. 1 and 3 can be resolved when we receive the contracting officer's determination as to the amounts sustained or not sustained. They can be closed when the amounts determined to be owed to A.I.D. are paid by ANERA. Recommendation No. 2 requires a response by the Bureau for Near East. This recommendation can be closed when the Bureau provides us with evidence that the recommended requirement has been implemented.

ANERA agreed to correct the other internal control weaknesses and compliance problems. We are currently therefore not making any additional recommendations about these matters. However, we will request that ANERA's auditor follows up on these matters during the next OMB Circular A-133 audit. ANERA's response is included in its entirety as Appendix I to this report.

We appreciate the courtesies and cooperation the Bureau, the A.I.D. Representative in Jerusalem and the U.S. Embassy in Tel Aviv extended the auditors and our staff during the course of this audit. Within 30 days, please provide this office with the status of actions planned or taken to resolve and close the recommendations.

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*Price Waterhouse*



**Audit of  
American Near East Refugee Aid**

**A.I.D. Grant No. NEB-0162-A-OO-4012-00  
October 1, 1987 to August 28, 1990**

**A.I.D. Grant No. ANE-0159-G-SS-9048-00  
September 30, 1989 to September 30, 1990**

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**Audit of  
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October 1, 1987 to August 28, 1990**

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September 30, 1989 to September 30, 1990**

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*This report is a financial - related audit of the grant activity reported under  
the Agency for International Development's West Bank/Gaza program.*

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# Audit of American Near East Refugee Aid



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## EXECUTIVE SUMMARY

We audited the grant activity (NEB-0162-A-OO-4012-00 and ANE-0159-G-SS-9048-00) of the American Near East Refugee Aid (ANERA) that is a part of the West Bank/Gaza (WB/G) program of the Agency for International Development's Bureau for Europe and Near East (ENE). In general, the purpose of these grants is to support rural and urban economic, cooperative, municipal and indigenous non-profit institution development. The first grant was operational from August 28, 1980 through August 28, 1990; our audit covers the period of October 1, 1987 through August 28, 1990. The second grant is operational from September 30, 1989 through September 30, 1994; our audit of this grant covers the period of September 30, 1989 through September 30, 1990.

The field work was conducted in June through August 1991 in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and included such tests of the accounting records as we considered appropriate. As a part of our examination, we obtained an understanding of the internal control structure and performed an assessment of control risk as part of the financial-related audit of the grant activity. Further, we reviewed ANERA's compliance with applicable laws and regulations as contained in the grant agreements that have a material effect on the schedules of financial assistance.

The objective of the engagement was to perform a financial-related audit of ANERA's WB/G program grant activity. Specific engagement objectives were to determine whether:

- the schedules of financial assistance are presented fairly in accordance with generally accepted accounting principles
- ANERA's internal control structure provides reasonable assurance of compliance with federal regulations
- ANERA has complied with the applicable laws and regulations that have been included in the provisions of the grant

The scope and methodology for the engagement can be found on page I-8 of the report.

As a result of the audit, we have identified and reported questioned costs, needed improvements to ANERA's internal control structure and immaterial instances of noncompliance with the grant agreements.

### Questioned Costs

As identified and described in detail in Notes 6 and 7 to the schedules of financial assistance, there were \$184,037 of unsupported costs and \$64,041 of ineligible costs. ANERA is currently following up on the unsupported costs and will be working with the Contracting Officer in resolving them. The \$64,041 classified as ineligible, represent what we believe are potentially unallowable costs based on the audit.

## **Internal Control Structure**

We identified certain matters involving the internal control structure and its operation that we consider to be reportable conditions under the standards established by the American Institute of Certified Public Accountants. These conditions are as follows:

- ANERA has reported as a cost of the grant value-added tax paid to the Government of Israel
- ANERA's field office employees do not prepare time sheets
- ANERA has charged ineligible costs to A.I.D. grants
- ANERA does not properly report Living Quarter Allowance payments

## **Compliance Issues**

We performed tests to ensure that ANERA has complied with the grant agreements and the applicable laws and regulations. Our tests of compliance disclosed the following instances of noncompliance:

- ANERA purchased luxury items
- ANERA charged travel expenses in excess of Federal Travel Regulations
- ANERA does not maintain complete and up-to-date A.I.D.-financed property control listings (i.e., Jerusalem & Gaza offices)
- ANERA did not obtain prior written approval from A.I.D.'s grant officer for the purchase of both new and used motor vehicles
- ANERA has not presented an itinerary to A.I.D.'s project officer prior to international travel financed by the grant
- ANERA has not submitted Financial Status Reports (SF-269) and Federal Cash Transaction Reports (SF-272) within the time requirements established by the grant agreement

On August 27, 1991, we discussed preliminary field office findings with ANERA's Middle East Representative in Jerusalem, and on October 3, 1991, we discussed all findings and questioned costs with ANERA in Washington, D.C. Additionally, we discussed the report with several members of ENE Bureau and A.I.D.'s Office of the Inspector General. Their comments on the draft report have been considered in finalizing the report while ANERA's comments have been provided in Appendix A. We wish to thank the individuals at ANERA for their time and cooperation given throughout the engagement.

## **I. Introduction**

The mission of the Agency for International Development (A.I.D.) is to administer social and economic assistance programs that combine an American tradition of international concern and generosity with the active promotion of America's national interests. A.I.D. assists developing countries to realize their full national potential through the development of open and democratic societies and the dynamism of free markets and individual initiative. A.I.D. assists nations throughout the world to improve the quality of human life and to expand the range of individual opportunities by reducing poverty, ignorance and malnutrition.

A.I.D. meets these objectives through a worldwide network of country missions and offices which develop and implement programs guided by six principles:

- support for free markets and broad-based economic growth
- concern for individuals and the development of their economic and social well-being
- support for democracy
- responsible environmental policies and prudent management of natural resources
- support for lasting solutions to transnational problems
- humanitarian assistance to those who suffer from natural or man-made disasters

A.I.D.'s mission as a foreign affairs agency of the U.S. Government is to translate into action the conviction of our nation that continued American economic and moral leadership is vital to a peaceful and prosperous world.<sup>1</sup>

### **A. A.I.D.'s Activities in the West Bank and Gaza**

The West Bank and Gaza (WB/G) program was initiated by Congress in fiscal year 1975 to demonstrate American concern for and to help meet the humanitarian and economic development needs of Palestinians in the occupied territories and to support U.S. efforts to peacefully resolve the Arab-Israeli conflict. The importance of the A.I.D. program has increased as a result of the depressed economy of the WB/G, growing unemployment, inflation, decreased funding from Arab states, the economic and social impact of the ongoing Palestinian Intifada (uprising) since late 1987, and the cancellation of Jordan's WB/G Development Program in July 1988.<sup>2</sup>

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<sup>1</sup> A.I.D. Four Major Initiatives for the 1990's and Mission Statement, December 1990

<sup>2</sup> Congressional Presentation, Fiscal Year 1990, Main Volume (i.e., Introduction)

The WB/G program goals have been defined to:

- develop skills in training, agriculture, rural development and income-generating capabilities
- develop health services including public health
- encourage self-help projects that can build up the physical and social infrastructure
- promote economic growth through facilitating market entry, market access, management and production in the agricultural and manufacturing sectors; stimulating financial market development and community-based income generation
- create a more favorable policy environment for individuals and enterprises
- increase the capacity of public and non-public institutions to support economic activity
- improve social services such as health and education

The following chart illustrates the WB/G program for its 15 years of existence broken down by private voluntary organization, charitable organization, or program. The chart includes financial information through July 30, 1990.

Organization	Life of the Project	Percentage
Agricultural Cooperative Development International	\$9,187,000	6%
American-Mideast Educational and Training Services	32,766,000	21%
American Near East Refugee Aid	24,723,000	15%
Catholic Relief Services	17,822,000	11%
Holy Land Christian Mission	4,394,000	3%
International Executive Service	235,000	.1%
Management Development Program	375,000	.2%
Save the Children Federation	20,888,000	13%
Society for the Care of the Handicapped	3,873,000	2%
Small Projects Fund	592,000	.3%
Sector Studies in Health	412,000	.2%
Project Development and Support	983,000	1%
Food for Peace PL 480 Title II	25,000,000	16%
Jordan West Bank Development	18,500,000	12%
	\$159,750,000	100%

The Assistant Administrator, Bureau for Europe and Near East (AA/ENE), has the monitoring and management responsibilities for the program. However, the program has been implemented without the benefit of A.I.D. day-to-day field supervision and the absence of an A.I.D. office; this function was being performed by the State Department staff in Jerusalem (West Bank) and Tel Aviv (Gaza). To assist AA/ENE, a Working Group was established in 1987 to manage the program. It was the Working Group's responsibility to review proposals submitted by the various PVOs, to determine the merit of each project submitted, and determine whether such a project would be consistent with A.I.D. priorities and U.S. foreign policy concerns. Once approved, A.I.D. would budget funds for the project and the overall coordination of the program was managed from Washington by the Working Group in coordination with the State Department. Field oversight and monitoring of the program was accomplished by staff at the U.S. Consulate General in Jerusalem and the U.S. Embassy in Tel Aviv, with occasional short-term site visits by Working Group staff and project evaluation teams. The Working Group was officially disbanded in 1989, but the need to meet informally and discuss the management of the program persisted and intensified. The field oversight responsibilities remained the same. In September 1991, with the growth and increased visibility of the program and increasing Congressional concern over the lack of A.I.D. representation at the country level, the State Department agreed to the establishment of an "A.I.D. Representative" in Jerusalem in order to monitor and manage the field operations of the programs more closely and effectively.

The "A.I.D. Representative" is to act as a liaison official to the U.S. Consulate in Jerusalem, and on an as requested basis by the U.S. Embassy in Tel Aviv. However, all official relations with the Government of Israel are handled by the U.S. Embassy in Tel Aviv.

## **B. The West Bank/Gaza Environment**

The West Bank is the size of an average U.S. county while Gaza is 28 miles long by 5 miles wide with a population density akin to Hong Kong. The population of the two territories was estimated in 1987 to be 1.7 million, with the West Bank at 1,068,000 residents and Gaza at 633,000. This represents an 83 percent increase in the West Bank and a 62 percent increase in Gaza over the previous census that was taken in 1967. Another important demographic factor is that 46 percent of the West Bank population and 48 percent of Gaza's population are children under the age of 14<sup>3</sup>. These numbers have increased even further due to the influx of large numbers of displaced Palestinians returning home as a result of the Gulf War.

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<sup>3</sup> U.S. Economic Assistance to the West Bank and Gaza: A Positive Contribution to the Palestinian people from the American people, U.S. AID, March 1989.

## **C. American Near East Refugee Aid**

ANERA was founded in 1968 to assist Palestinian refugees after the "Six Day War" between Israel, Egypt, Syria, and Jordan. ANERA's mission is to increase the economic capacity of Palestinian run organizations such as cooperative, municipality, charitable, health, and educational institutions. ANERA, with assistance from A.I.D., provides financial and technical support as a means of enhancing the standard of living and self-sufficiency of Palestinians residing in the WB/G. Over the past two decades, A.I.D. has provided approximately \$25,000,000 in economic assistance to ANERA under the WB/G program.

A.I.D.'s financial assistance to ANERA is in the form of operational grants and is distributed by ANERA through the use of subgrants to local Palestinian institutions and municipalities. Throughout the operation of both A.I.D. grants, the number of subgrants to local Palestinian institutions has totaled approximately 140. Prior to awarding a subgrant, ANERA ensures that the goals of each subgrant are consistent with their organizational mission and are designed to have a positive impact on the Palestinian population. The financial assistance received under the subgrants enables local institutions and municipalities to strengthen or expand existing programs or develop new programs directed toward some of the most impoverished people in the occupied territories.

ANERA fulfills the role of a consultant when dealing with the various institutions and assists in the development, implementation, and evaluation of the subgrant projects. ANERA's policy is to work directly with these institutional groups and not with individuals in order that they may better serve their communities. With a staff of specialists in the fields of law, economics, marketing, credit management, education, veterinary medicine, cooperatives, soil conservation management, and engineering, ANERA is well equipped to instruct institutions and municipalities in the development and management of the programs. In this way, ANERA hopes that when it is gone, the entities will continue to grow and provide services to the people in the WB/G. ANERA's grant objectives and goals are categorized into three types of development activities:

### **Agricultural Cooperative Projects**

ANERA has many subgrant projects with a number of Palestinian cooperatives located in the WB/G. Cooperatives are groups of individuals lead by elected leaders that share common goals and objectives. ANERA works with agricultural cooperatives to develop, implement, and evaluate various types of projects, as illustrated in Table 1 below:

<b>Cooperative Projects</b>		Table 1
• water and irrigation	• agricultural credit	
• agricultural and marketing	• livestock	
• olive oil	• farm mechanization	
• phylloxera		

### **Urban Community Projects**

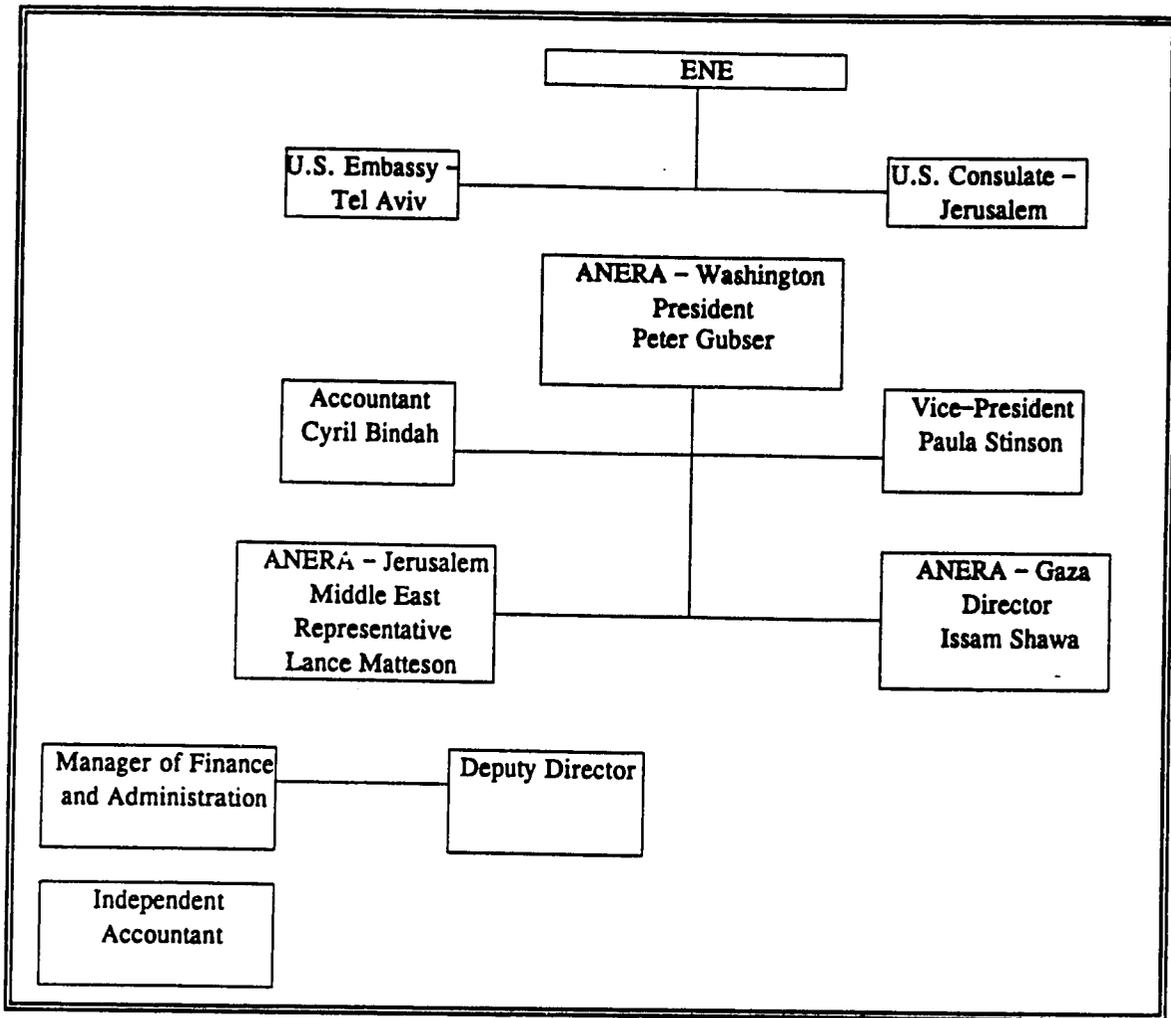
ANERA has provided subgrants to municipalities for development projects throughout the WB/G. These projects focus specifically on local industry and economic infrastructure development. The purpose of these projects are to increase revenues for the municipalities and enhance institutional self-sufficiency. For example, ANERA has provided subgrant assistance to the municipality of Halhul for the construction of a wholesale fruit and vegetable market and an underground refrigeration unit which we visited while in the territories. The market produces income for the municipality by renting space and cold storage units to sellers and provides consumers with a centralized marketplace.

### **Health, Education, and Social Welfare Projects**

ANERA has several subgrant projects with a number of health, education, and charitable organizations throughout the WB/G. The overall objectives of these projects are to improve the public health of Palestinians, to strengthen their knowledge and skills, and to expand their social well being. For example, subgrants were provided to health institutions to establish clinics, purchase new equipment and laboratories, and build a nursing school in the WB/G. Further, ANERA provided subgrant assistance to a university for the purchase of agricultural machinery and laboratory equipment required for developing students' knowledge and training in these areas. Finally, ANERA provided subgrant assistance to over 50 Palestinian charitable organizations and societies that provide care for disabled individuals, patients, and orphans.

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## ANERA Operational Chart



ANERA is headquartered in Washington, D.C. and has offices in Jerusalem and Gaza. Dr. Peter Gubser, has considerable development experience in the Middle East, as ANERA's President for the past 14 years. His duties involve overseeing ANERA's activities, project development management, public information, grant administration, general management and fund raising. Dr. Gubser travels to the WB/G bi-annually to visit project sites and consult with ANERA's field office management and staff. Additionally, Dr. Gubser is responsible for reporting to ANERA's Board of Directors (the Board) the status of the various ANERA projects, future projects, and other ANERA business. ANERA's board is composed of Americans who are concerned about the Palestinian people living in the WB/G. The board is comprised of 36 members that include retired United States Department of State employees, employees of American businesses, and various professionals throughout the country. Dr. Gubser is assisted by Ms. Paula Stinson who is ANERA's Vice-President. Ms. Stinson is responsible for preparing reports and proposals, fund raising activities, data research and writing ANERA newsletters. Cyril Bindah, ANERA's accountant in Washington, D.C., is responsible for maintaining ANERA's general ledger, preparing financial reports, and

corresponding with ANERA's Middle East Representative and ANERA's local independent accountant on financial matters.

ANERA's Jerusalem and Gaza offices are both headed by directors with experience in development activities. With the majority of ANERA's activities taking place in the West Bank, ANERA's overseas operations are headquartered in Jerusalem. The Jerusalem office is administered by ANERA's Middle East Representative, Lance Matteson. Mr. Matteson is a lawyer by trade who has gained valuable development experience while with the Peace Corp and ANERA. Mr. Matteson has successfully applied this experience in his dealings in the WB/G. Ibrahim Matar is ANERA's Deputy Director in the WB/G. Besides assisting the Middle East Representative in effectively discharging his responsibilities, Mr. Matar is ANERA's economist. Mr. Matar establishes the economic feasibility of proposed ANERA subgrant projects as well evaluates subgrant projects once they have been implemented. The director of ANERA's Gaza office, Issam Shawa, has lifetime ties to Gaza and is committed to helping improve the lives of the people residing in Gaza through his work at ANERA. The remaining employees in both field offices are responsible for developing, implementing, and monitoring the WB/G subgrant projects.

In addition to ANERA's direct hires, ANERA contracts with a local independent accounting firm to provide accounting and auditing services for both of their field offices. Mr. Assem Tahhan, ANERA's Manager of Finance and Administration, maintains a working relationship with the accounting firm and is responsible for providing them with all the necessary supporting documentation for ANERA's disbursements. Each month the independent accountants posts the disbursements for the month into ANERA's field office general ledger, summarizes the information by cost categories, and prepares disbursement reports (i.e., quarterly). Once completed, the reports are sent to ANERA's Washington office for review by Dr. Gubser. Finally, the total disbursements are input into ANERA's general ledger for the preparation of A.I.D. financial reports.

#### **D. Objectives**

The objective of the engagement was to perform a financial - related audit of ANERA's WB/G program grant activity during the period of October 1, 1987 through September 30, 1990. A financial - related audit includes determining (1) whether financial reports and related items, such as elements accounts or funds are fairly presented, (2) whether financial information is presented in accordance with established or stated criteria and (3) whether the entity has adhered to specific financial compliance requirements.<sup>4</sup> Specific engagement objectives were to determine whether:

- the schedules of financial assistance were presented fairly in accordance with generally accepted accounting principles

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<sup>4</sup> Government Auditing Standards by the Comptroller General of the United States 1988 Revision.

- ANERA's internal control structure provides reasonable assurance of compliance with federal regulations
- ANERA has complied with the applicable laws and regulations that have been included in the standard and special provisions of the grants

### **E. Scope and Methodology**

The scope of the audit covered two grants for the period of October 1, 1987 through August 28, 1990 (NEB-0162-A-OO-4012-00); and September 30, 1989 through September 30, 1990 (ANE-0159-G-SS-9048-00). The total disbursements for each grant were approximately \$6,081,000 and \$1,710,000, respectively.

The audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and included such tests of the accounting records as we considered appropriate in the circumstances. As a part of our examination, we obtained an understanding of the internal control structure, performed an assessment of control risk, and performed tests of ANERA's internal control structure in monitoring, managing, and reporting the grant activity. Further, we reviewed ANERA's compliance with applicable laws and regulations as included in the grant provisions that have a material effect on the schedules of financial assistance.

During the audit, we traced amounts from ANERA's general ledger and the independent accountant's quarterly reports to the schedules of financial assistance. From the schedules, we were able to test individual disbursement transactions by component. For example, we performed analytical review procedures for salaries and fringe benefits based on our detailed testing on a sample of months selected for each year. We reviewed ANERA's indirect cost pool to determine whether ineligible costs were properly excluded from A.I.D. grants and recalculated and reapplied the rate to direct costs to ensure that billed amounts were properly supported and accurate. Additionally, we used sampling techniques to test whether or not the grant activity disbursements were properly supported and in compliance with grant provisions. Generally, we tested all significant individual disbursements and utilized a judgmental sampling technique for smaller disbursements, thereby, maximizing the dollar coverage of the total grant activity.

The following illustrates the audit coverage we obtained for both grants:

COVERAGE	
GRANT NUMBER	DISBURSEMENTS
NEB-0162-A-OO-4012-00	\$6,080,689
ANE-0159-G-SS-9048-00	1,710,233
	<hr/>
	\$7,790,922
	<hr/>
AUDIT COVERAGE	\$5,289,415
PERCENTAGE	68%

Selected audit procedures performed throughout the engagement included the following:

- review of the grant agreement, A.I.D. Handbook 13, OMB Circulars A-110 and A-122
- review of prior audit reports covering ANERA's activity
- detail tests of transaction activity for allowability, reasonableness, and allocability
- tests of ANERA's internal control structure in monitoring, managing and reporting the grant activity
- detail tests for specific compliance with the grant provisions

Throughout the engagement we have held meetings with ANERA's management, the A.I.D. Office of the Inspector General in Washington, D.C, several members of the Bureau of Europe and Near East and several members of the United States Department of State to discuss the status of the audit and any audit concerns arising. On August 27, 1991, we discussed preliminary field office findings with ANERA's Middle East Representative in Jerusalem, and on October 3 1991, we discussed all findings and questioned costs with ANERA in Washington, D.C.

## F. Organization of the Report

Section II presents the Report of Independent Accountants and Section III presents the Schedules of Financial Assistance. In Section IV is the Report on Internal Controls that describes the work performed as a result of this financial-related audit. Section V of this report presents the Report on Compliance with Laws and Regulations. Appendix A presents ANERA's comments that have been considered and incorporated, to the extent we consider appropriate, in the final report.

*Price Waterhouse*



## **Report of Independent Accountants**

We have audited the accompanying "Schedules of Financial Assistance" of American Near East Refugee Aid (ANERA) for the period October 1, 1987 through September 30, 1990. These schedules are the responsibility of ANERA's management. Our responsibility is to express an opinion on the schedules based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the schedules of financial assistance. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the schedules referred to above present fairly in all material respects, ANERA's letter of credit drawdowns and expenditures for grant numbers NEB-0162-A-OO-4012-00 and ANE-0159-G-SS-9048-00 for the period October 1, 1987 through September 30, 1990 in conformity with the requirements of the grants.

As described in Note 2, Basis of Presentation, the accompanying schedules include only letter of credit drawdowns and expenditures and are not intended to present ANERA's financial position, results of its operations or changes in its fund balance in accordance with generally accepted accounting principles.

*Price Waterhouse*

November 4, 1991

**American Near East Refugee Aid  
Schedule of Financial Assistance  
NEB-0162-A-OO-4012-00  
October 1, 1987 through August 28, 1990**

	<u>ACTUAL</u>	<u>QUESTIONED COSTS (NOTE 6)</u>	
		<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
<b>REVENUE:</b>			
LOC Drawdowns	<u>\$6,041,416</u>		
<b>EXPENDITURES:</b>			
Subgrants	\$4,775,778	\$967 (a)	\$182,827 (d)
Salaries & Fringe	322,321		
Travel	138,313		1,080 (e)
Equipment	78,828	49,665 (b)	
Consultants	250,120		
Occupancy	136,961		
Other Direct Costs	56,563	1,687 (c)	130 (f)
Overhead	321,805		
	<u>\$6,080,689</u>	<u>\$52,319</u>	<u>\$184,037</u>

**See accompanying notes to the schedules.**

**American Near East Refugee Aid  
Schedule of Financial Assistance  
ANE-0159-G-SS-9048-00  
September 30, 1989 through September 30, 1990**

	<u>ACTUAL</u>	<u>QUESTIONED COSTS (NOTE 7)</u>	
		<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
<b>REVENUE:</b>			
LOC Drawdowns	<u>\$2,151,305</u>		<u>\$- 0 -</u> (d)
<b>EXPENDITURES:</b>			
Subgrants	\$1,231,491		
Salaries & Fringe	149,082		
Travel	56,888	\$811 (a)	
Consultants	91,574		
Occupancy	45,260		
Equipment	17,610	10,000 (b)	
Other Direct Costs	33,996	911 (c)	
Overhead	84,332		
	<u>\$1,710,233</u>	<u>\$11,722</u>	<u>\$-0-</u>

**See accompanying notes to the schedules.**

**Agency For International Development  
American Near East Refugee Aid  
Notes To The Schedules**

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### **Note 1 - The Organization**

American Near East Refugee Aid (ANERA) was founded in 1968 in response to the Palestinian refugee crisis that developed after the "Six Day War" between Israel, Egypt, Syria, and Jordan. ANERA is an organization principally concerned with the long-term development of the Palestinian people. ANERA is headquartered in Washington, D.C. and has two field offices, one located in Jerusalem and the other in Gaza. ANERA employs nearly 50 people worldwide.

A.I.D.'s financial assistance to ANERA is dispersed in the form of grants and is further distributed through the use of subgrants. Throughout the term of both grants, 140 subgrants have been provided to organizations in the WB/G. The following subprojects summarized below provides a broad picture of ANERA's development program:

- agricultural cooperative development
- urban community development
- indigenous non-profit institution development

### **Note 2 - Basis of Presentation**

The schedules are not intended to be a presentation of ANERA's financial position, results of its operations or changes in its fund balance in accordance with generally accepted accounting principles. Rather, the schedules present the letter of credit drawdowns and expenditures reported during the audit period and were prepared in accordance with the financial reporting provisions of the grants.

### **Note 3 - Purpose of the Grants**

**NEB-0162-A-OO-4012-00** - the purpose of the grant is to improve and expand selected agricultural, economic and educational institutions and organizations which provide services to West Bank and Gaza residents.

**ANE-0159-G-SS-9048-00** - the purpose of the grant is to support rural and urban economic development, establish a revolving loan fund which will provide production credit for agricultural cooperative members, and to further develop indigenous non-profit institution development.

**Agency For International Development  
American Near East Refugee Aid  
Notes To The Schedules**

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**Note 4 - Objectives of the Grants**

**NEB-0162-A-OO-4012-00** - the objective of the grant is to support activities in the areas of agricultural development, marketing and animal husbandry cooperatives, and vocational training at the polytechnic and university levels.

**ANE-0159-G-SS-9048-00** - the objectives are defined in terms of the creation of new or enhanced functioning units attached to given local institutions, the upgrading of personnel associated with these institutions and subgrants, and the provision of expertise associated with the subgrants.

**Note 5 - Budget**

Under both grants, the budget information for grant disbursements was divided into three categories as follows; subgrants, technical assistance and training, and ANERA administration. However, the budgeted amounts were not further allocated by each fiscal year. Therefore, we were not able to include the budgeted amounts in the respective Schedules of Financial Assistance.

**Note 6 - Questioned Costs (NEB-0162-A-OO-4012-00)**

Under the Inspector General Act Amendments of 1988, questioned costs are defined as an all-inclusive term which includes the following types of costs claimed under Federal grants:

- **Ineligible** - costs that the auditor considers to be potentially unallowable. This category includes amounts for:
  - (1) items that are a violation of a provision of a law, regulation, or grant governing the expenditure of funds
  - (2) items that, although not specifically unallowable, are determined to be unreasonable or unnecessary for the intended purpose (waste or abuse)
- **Unsupported** - costs for which the auditor is unable to gather sufficient, competent, or relevant evidence to determine their allowability.

**Agency For International Development  
American Near East Refugee Aid  
Notes To The Schedules**

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**(a) Subgrants**

In June 1989, ANERA misclassified a \$967 non-A.I.D. subgrant disbursement as an A.I.D. activity in their accounting system and subsequently billed the amount to A.I.D. as a reimbursable disbursement.

**(b) Equipment**

Description	U.S. Currency (\$)
Car purchases *	\$31,081
Payment of customs duties **	6,018
Personnel assets (Chart I)	12,566
	\$49,665

**Car purchases** - The standard provisions of the grant require that all vehicles must be approved prior to purchase. Under this provision, if it is determined that ANERA has purchased ineligible or restricted goods then they should refund these amounts to A.I.D. The amount of \$31,081 was used to purchase vehicles without prior approval and is considered to be an ineligible cost of the grant. These questioned costs are discussed further as Finding 4 in the compliance report.

**\*\* Customs Duties Payment** - ANERA paid the Government of Israel \$6,018 in customs duties to transfer plates of a 1980 Audi from Jerusalem to the West Bank. ANERA's history of the vehicle began in 1986 when ANERA purchased the vehicle in the name of its Middle East Representative to save on taxes. As a foreign resident, the Middle East Representative would only have to pay 25 percent of the normal customs duties and VAT (ANERA was not tax exempt in 1986). In 1990, the vehicle was assigned to an ANERA employee who is a local West Bank resident and, therefore, not allowed to drive a Jerusalem-plated vehicle. In order to transfer the plates of the vehicle from Jerusalem to West Bank, ANERA paid \$6,018 in customs duties. The payment of \$6,018 for custom duties is considered ineligible.

**Agency For International Development  
American Near East Refugee Aid  
Notes To The Schedules**

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Chart I

Date	Journal Voucher #	Description	U.S. Currency (\$)
1/89	150	curtains	\$600
11/89	443	table, chairs, bed,	968
11/89	457	refrigerator, stove	1,925
11/89	465	various living room furniture	2,585
11/89	474	cabinets	863
11/89	477	"new kitchen"	625
11/89	478	wicker furniture	1,350
1/90	545	carpet and armoire	1,200
12/88	120	washing machine and dishwasher	1,850
1/90	545 & 601	custom-made woodshelves	600
			<b>\$12,566</b>

**Personal Assets - Disbursements of \$12,566 were made throughout the period of our audit for ANERA's Middle East Representative's personal residence and are not being utilized for the purposes of the grant. Therefore, these disbursements are considered ineligible. For additional information, see internal control Finding 3.**

**Agency For International Development  
American Near East Refugee Aid  
Notes To The Schedules**

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**(c) Other Direct Costs**

Disbursements totaling \$1,687 were made for items which are ineligible under the provisions of the grant agreement.

Date	Journal Voucher #	Description	U.S. Currency (\$)
10/87	82	traffic violation	\$125
11/87	93 & 99	wedding gifts	60
12/88	112	hospitality	45
7-8/89	308 & 343	charity	1,104
9/89	389	business lunches	203
11/89	9	business lunch	150
			\$1,687

**(d) Subgrants**

In accordance with ANERA's internal policies and procedures, subgrant recipients are advanced monies to purchase goods and services for development projects. Periodically, the subgrant recipients provide ANERA's independent accountant with disbursement documentation to substantiate the purchases and ensure that the disbursements are supported. During our review, we discovered that some subgrant recipients have not provided ANERA with documentation to support their subgrant disbursements.

**Agency For International Development  
American Near East Refugee Aid  
Notes To The Schedules**

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The following subgrant disbursements are unsupported:

Date	Subgrant Recipient	U.S. Currency (\$)
10/87	Patients Friend Society	\$9,490
11/87	Khan Younis Municipality	35,000
12/88	Halhul Municipality	50,000
7/89	Halhul Municipality	58,337
10/89	Khan Younis Municipality	30,000
		\$182,827

**(e) Travel**

In April 1989, a \$1,080 disbursement for travel expenses was supported only by the traveler's handwritten expense report. The original receipts for various car rentals and hotel bills were not available (JV#214).

**(f) Other Direct Costs**

Supporting documentation was not available for a \$130 payment for an advertisement made during December 1987 (JV#136).

**Agency For International Development  
American Near East Refugee Aid  
Notes To The Schedules**

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**Note 7 - Questioned Costs (ANE-0159-G-SS-9048-00)**

**(a) Travel**

In September 1990, ANERA's Middle East Representative attended a seven-day conference in Washington, D.C. While in Washington, the representative lodged at a hotel for \$213 per day; however, the federal per diem rate at the time for lodging was only \$97 per day in Washington, D.C. The excess of per diem charged to A.I.D. is \$811 and considered ineligible.

**(b) Car purchases** - The standard provisions of the grant require that all vehicles must be approved prior to purchase. Under this provision, if it is determined that the grantee has purchased ineligible or restricted goods then the grantee should agree to refund to A.I.D these amounts. The amount of \$10,000 was used to purchase vehicles and is considered to be an ineligible cost of the grant. These questioned costs are discussed further as Finding 4 in the compliance report.

**(c) Other Direct Costs**

Disbursements totaling \$911 were made for items which are ineligible under the provisions of the grant agreement.

Date	Journal Voucher #	Description	U.S. Currency (\$)
6/90	43	business lunches	\$440
7/90	30	business lunch	135
9/90	140	departing employee luncheon	336
			<hr/> \$911

**Agency For International Development  
American Near East Refugee Aid  
Notes To The Schedules**

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**(d) Excess Letter of Credit Drawdowns**

As of September 30, 1990, there was \$441,072 which ANERA had drawn on the letter of credit and not disbursed. Based on a discussion with ANERA's management in Washington, D.C. and a review of supporting documentation, the drawdown was made in late September and was wire transferred to the Jerusalem bank for ANERA's October subgrant disbursements. ANERA's cash management procedures are sufficient to ensure that the time between the transfer of funds and the disbursement of funds is kept to a minimum. Therefore, no amount has been questioned in this report.

*Price Waterhouse*



## **Report on Internal Controls**

We have audited the accompanying "Schedules of Financial Assistance" of American Near East Refugee Aid (ANERA) for the period October 1, 1987 through September 30, 1990 and have issued our report thereon dated November 4, 1991.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in *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 schedules are free of material misstatement and about whether ANERA complied with laws and regulations noncompliance with which would be material to the grants.

In planning and performing our audit of the schedules of financial assistance of ANERA for the audit period, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the schedules of financial assistance and not to provide assurance on the internal control structure.

The management of ANERA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements 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 the schedules of financial assistance in accordance with the requirements of the Agency for International Development's grant numbers NEB-0162-A-OO-4012-00 and ANE-0159-G-SS-9048-00, and that the grants are managed in compliance with applicable laws and regulations. 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 have classified the significant internal control structure policies and procedures in the categories of disbursement and procurement operations and financial reporting. For all the control categories listed above, 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 certain matters involving the internal control structure and its operation that we consider to be reportable conditions 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 judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the schedules of financial assistance or to administer the grants in accordance with applicable laws and regulations. Our audit disclosed four reportable conditions identified on pages IV-3 through IV-8.

A material weakness is a reportable condition in which the design or operation of one or more of the 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 schedules of financial assistance being audited or that noncompliance with laws and regulations that would be material to the grants 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 none of the reportable conditions are material weaknesses.

This report is intended for the information of the Agency for International Development. However, this report is a matter of public record and its distribution is not limited.

*Pricewaterhouse*

November 4, 1991

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**Finding 1 - ANERA has reported value-added taxes and custom duties paid as a cost under the grant.**

This issue is complex and affects every A.I.D.-supported organization operating in the West Bank and Gaza. A.I.D. normally would have worked out refund arrangements with the host country and included them within a bilateral agreement. This issue includes the use of A.I.D. funds for the payment of taxes and custom duties and the requirement that the PVOs obtain approval for development activities undertaken.

During the audit, we discovered that ANERA has paid value-added taxes and custom duties and that ANERA's subgrant recipients (subgrantees) have also paid value-added taxes. Refunds were not requested even though an exemption from such taxes was available. In 1988, the Government of Israel (GOI) approved the exemption of VAT and custom duties for domestic and imported purchases used in A.I.D.-financed development activities. Office of Management and Budget (OMB) Circular A-122 states that any tax for which an exemption is available is "unallowable" for inclusion as a cost of the grant. The cause of this problem can be attributed to several factors such as (1) the way that ANERA has structured its development activities (institutional building), and (2) a lack of procedures in ANERA's field office to track the payment and subsequent receipt of the VAT. The effect, in its simplest terms, is that A.I.D. funds are being used to pay taxes to the GOI. In dealing with this problem, our report is separated into two areas: structure and procedure.

**Structure**

ANERA's development activities are structured to enhance local Palestinian institutions (i.e., municipalities, cooperatives and non-profit organizations) and as such provide a significant amount of assistance to these organizations through direct cash transfers. For example, during the audit period, ANERA provided approximately \$6,000,000 of direct assistance to subgrantees in the WB/G. In the process, ANERA periodically advanced funds to subgrantees for the purchase of goods and services. Disbursements by the subgrantees are made under their name, as opposed to ANERA's. ANERA controls the process by using a Palestinian independent public accountant to verify that the subgrantee has support for these disbursements. However, the problem is that the subgrantees are not afforded the same VAT exemption that ANERA has and, as a result, VAT paid by the subgrantees is lost.

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As a rule, A.I.D. policy prohibits the payment of taxes. The Israeli Customs and VAT divisions issued regulations that exempt all international PVOs from paying VAT on imports and domestic purchases provided the purchases are used for development projects. The procedures are discussed in the December 14, 1988 memorandum to all WB/G PVO representatives from Mr. Jake Wallis and are graphically illustrated in a flow chart. The narrative procedures and flow chart are provided in Exhibit I. The grant agreement states that all grant recipients must comply with OMB Circular A-122, "Cost Principles for Non-Profit Organizations." The OMB Circular states that "the payment of taxes to local governments are allowable, except for taxes from which exemptions are available to the organizations directly or which are available to the organization based on an exemption afforded the Government and when the awarding agency makes available the necessary exemptions."

VAT is approximately 18 percent and customs duties vary but can be as high as 100 percent. By not taking advantage of the exemption by both ANERA and the subgrantee, a significant share of development funds is used for the payment of VAT and not for the advancement of grant objectives. If, for example, subgrantees purchase goods for \$1,000,000, approximately \$180,000 would be used to pay VAT and consequently lost since subgrantees are not tax exempt.

In discussing this issue with members of ANERA it is apparent they have given it some thought. We noted in some instances that they have ensured that subgrantee purchases be placed in ANERA's name or have utilized some mechanism by which the exemption is not lost. However, we can only emphasize that this should be the standard practice used in all subgrantee activities.

### **Procedure**

ANERA does not have an established system for applying for or monitoring VAT refund requests, and therefore, we were unable to determine the amount of VAT paid or the status of VAT refund requests outstanding. Standard procedures for the preparation and subsequent monitoring of VAT refund requests are critical to ensure that VAT refunds are eventually received and utilized for further development activities.

To help in this process we have provided Attachment A which is a suggested tool for reporting to the grant officer the status of VAT payments. The schedule requires ANERA to report VAT paid, reimbursed and days outstanding on a



quarterly basis. The form, we believe, will allow ANERA and A.I.D. to monitor VAT payments and refunds more effectively.

### **Recommendation 1**

**To address this problem, we recommend ANERA perform the following:**

- 1.1 Prepare an analysis of value-added-tax (VAT) and custom duties paid by ANERA and its subgrantees.**
- 1.2 Request a refund from the GOI for VAT and custom duties paid but never refunded, based upon the analysis.**
- 1.3 Establish standard procedures for the preparation and monitoring of refund requests.**
- 1.4 Structure all future purchases made by ANERA's subgrantees to take advantage of the VAT and custom duties exemption.**

**We also recommend that the A.I.D. Grant Officer require ANERA to report quarterly the status of VAT paid and VAT refund requests outstanding (See Attachment A).**

**\* \* \* \* \***

### **Finding 2 - Field office employees do not prepare time sheets.**

**ANERA's field office employees are not required to prepare time sheets at the end of each pay period. The provisions of the grant agreement states that ANERA shall be reimbursed for only those costs incurred in carrying out the grant. The cost principles for non-profit organizations are contained in the Office and Management and Budget Circular A-122. In the circular, Attachment B (6)(1)(1), it states that "charges to grants for salaries and wages must be based on documented payrolls approved by a responsible official."**

**We tested salary and wage disbursements to determine if they were properly supported, allocable, reasonable, and in accordance with the provisions of the grant agreement. In doing so, we selected several payroll disbursements and traced them to authorized pay rates, payroll registers, authorized time sheets, and payment**



vouchers. However, we discovered that ANERA field office employees do not prepare time sheets.

In discussing this issue with ANERA's management in Washington, they believe that all activity in the WB/G field offices are related to A.I.D. activity and that time spent on non-A.I.D. activity was incidental. Therefore, all costs associated with the field office were charged to A.I.D. grants.

However, we noted that ANERA staff members spend time on non-A.I.D. activities. Because time sheets are not prepared, we are not able to quantify the overcharge to A.I.D. for salary and wage expense and allocable fringe benefits related to non-A.I.D. activities. In total, ANERA charged approximately \$475,000 in salary and fringe benefits during the audit period.

## **Recommendation 2**

- 2.1 Field office employees should prepare time sheets that reflect actual time worked for each pay period.**
- 2.2 The field office should develop and implement control procedures to ensure that time sheets are properly reviewed and authorized by a responsible official of the organization.**
- 2.3 We recommend that authorized time sheets be sent to ANERA-Washington for review and approval.**
- 2.4 We recommend that ANERA allocate indirect field office expenses based on time worked on A.I.D. and non-A.I.D. activity as documented on authorized time sheets.**

\* \* \* \* \*

### **Finding 3 - ANERA has charged ineligible costs to A.I.D. grants.**

The costs include disbursements for the purchase of personal property for ANERA's Middle East Representative personal residence and disbursements for business lunches, hospitality, charitable contributions, wedding gifts, and a traffic ticket.



The provision of the grant agreement states that ANERA shall be reimbursed only for those costs incurred in carrying out the grant. These costs must be in accordance with the regulations of OMB Circular A-122, Attachment B, which outlines the types of costs that are eligible under the grant. Reimbursement for the business lunches, hospitality, charitable contributions, gifts, and fines are strictly prohibited.

Additionally, the provisions of the grant agreement state that title to all property financed under the grant shall vest in the grantee, subject to the condition that the grantee agrees to use and maintain the property for the purposes of the grant. In our opinion, personal assets do not fulfill this requirement, and therefore, are considered ineligible.

ANERA contracts a local public accounting firm to perform accounting and auditing services for their field offices in Jerusalem and Gaza. The accounting firm reviews disbursements documentation, classifies and records the disbursements, and prepares audit reports on a quarterly basis. These reports are forwarded to ANERA's Washington accountant for input into the general ledger and to facilitate the preparation of the SF-269s.

Provisions of the grant agreement defines unallowable costs as costs incurred which are not chargeable to A.I.D. grants. We noted that ANERA places strong reliance on their local accounting firm, however, the accounting firm is not familiar with these provisions of OMB Circular A-122 and does not perform audit procedures to ascertain whether expenditures are in accordance with the provisions of the grant agreement.

### **Recommendation 3**

- 3.1 Field office personnel should obtain a working knowledge of the provisions of the grant.**
- 3.2 Promptly identify, account for, and report separately all ineligible costs to ANERA's Washington office.**
- 3.3 Reimburse A.I.D. for ineligible costs previously charge to A.I.D. that are identified in this report.**

\* \* \* \* \*



**Finding 4 - ANERA does not properly report Living Quarter Allowance payments made on behalf of ANERA's Middle East Representative.**

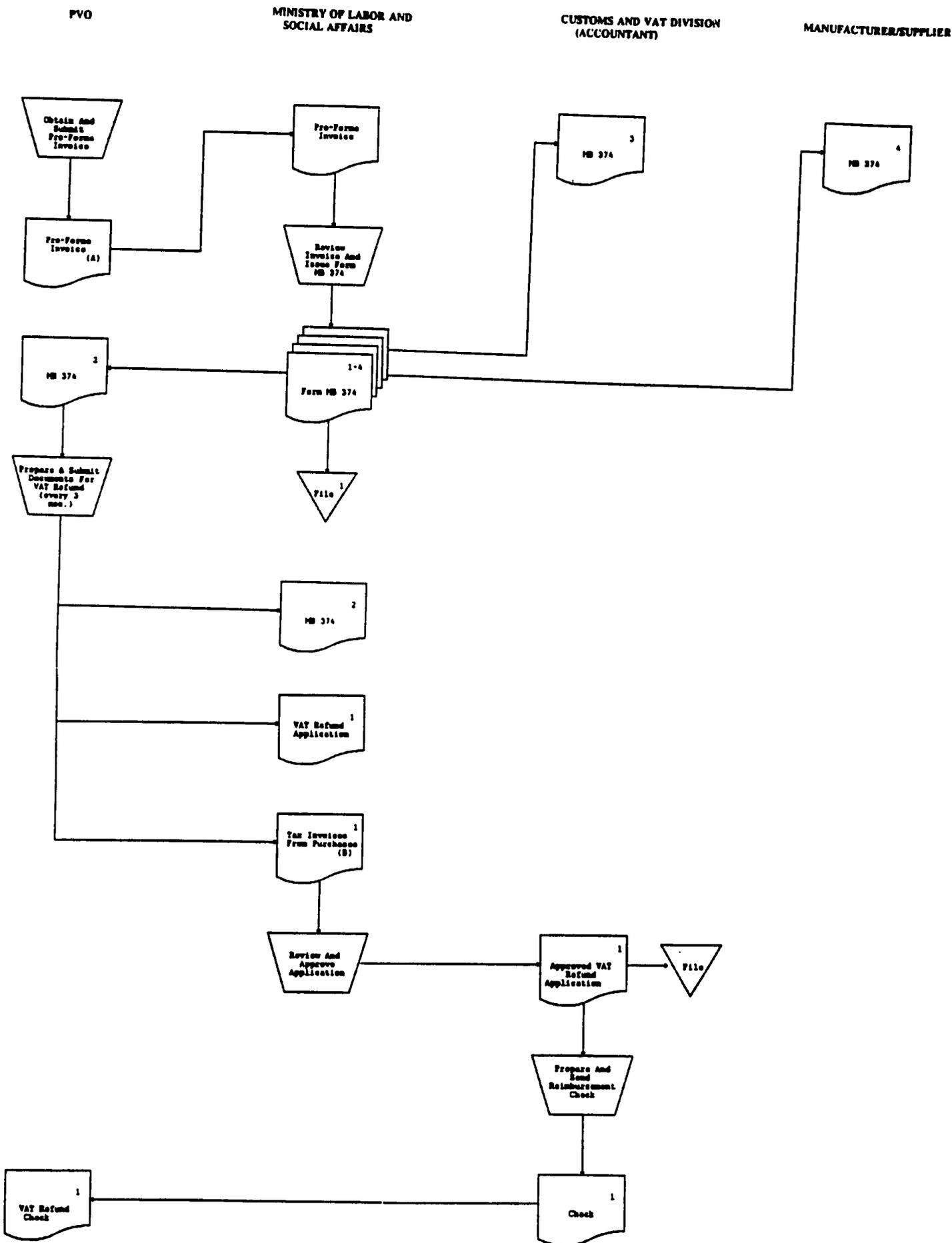
Payments made by ANERA on behalf of their Middle East Representative's (MER) are not accounted for or reported separately from other ANERA administrative expenses. Such allowance payments include: rent, electricity, fuel, water, and basic phone service. Under U.S. Department of State's, Standardized Regulations, chapter 110, "expatriates are entitled to a living quarters allowance whenever government-owned or government rented quarters are not provided." However, the regulations have a maximum allowance rate to be paid annually and payments made in excess of this maximum annual rate are not reimbursable under the grant.

During our field office testing, we reviewed allowance disbursements to ascertain whether ANERA's MER had received allowance payments within the maximum annual rate. As a result, we noted that ANERA's field office accountants do not classify, summarize, or report ANERA's MER allowance disbursements separately from ANERA's field offices. As a result, ANERA's Washington office is unable to monitor the total allowance payments made on behalf of the MER to ensure that the payments do not exceed the maximum allowable rate. Although excessive allowance disbursements were not noted, properly accounted and reported allowance payments would strengthen controls over allowance payments.

**Recommendation 4**

**We recommend that ANERA's local accounting firm be instructed to properly classify, summarize, and report all allowances disbursements as a separate line item categorized as "Living Quarters Allowance" to ensure compliance with the provisions of the grant agreement.**

\* \* \* \* \*



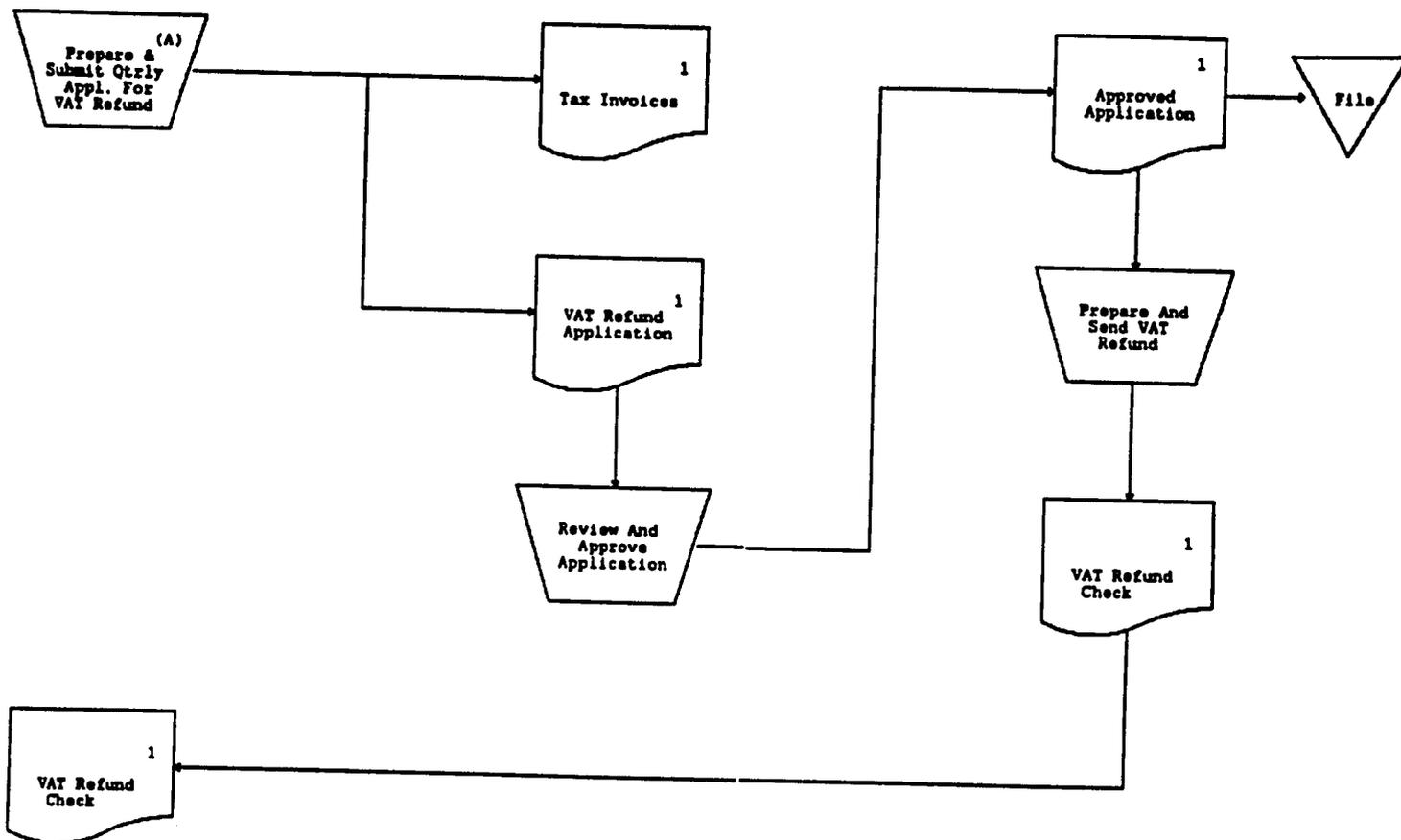
(A) The pre-form invoice is submitted on behalf of the supplier and describes the merchandise to be purchased.  
(B) Applicable only for goods not services.

DOMESTIC PURCHASES OF GOODS  
(WITHOUT FORM MB 374\*)

PVO

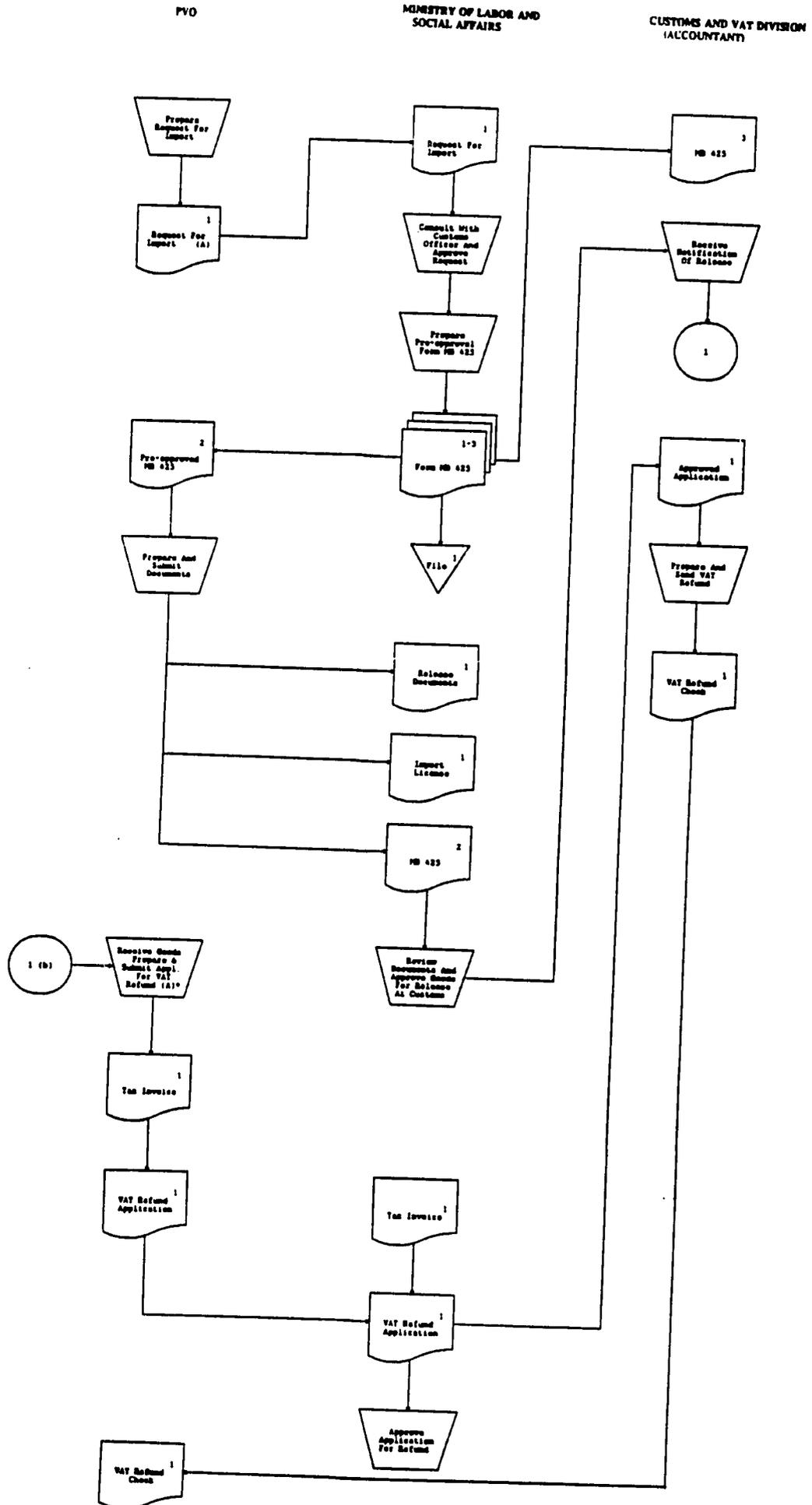
MINISTRY OF LABOR AND  
SOCIAL AFFAIRS

CUSTOMS AND VAT DIVISION  
(ACCOUNTANT)



(A) Applicable only for goods not services.

\* A Form MB 374 is not required for domestic purchases in small amounts.



(A) Request may be written or verbal.

(B) The process as noted here is not explicitly noted in Section 26.213 of the State of Israel VAT Regulations.

*Embassy of the United States of America*



December 14, 1988

MEMORANDUM

TO: WB/G PVO Representatives  
FROM: Jake Walles *JW*  
SUBJECT: PVO Customs and Tax Exemption

The Embassy has obtained copies of regulations issued by the Israeli Customs and VAT Division on October 31, 1988 establishing an exemption from customs duties and taxes for purchases by PVOs related to development projects. The exemption applies both to imports and to domestic purchases. A copy of these regulations, along with an unofficial Embassy translation, is attached for your information. Also attached is a copy of Form MB 425 and an unofficial Embassy translation of it.

Please let me know if you have any questions or encounter any difficulties in obtaining this exemption.

attachments:

as stated

cc: CONGEN Jerusalem - Liane Dorsey

STATE OF ISRAEL  
CUSTOMS AND VAT DIVISION

TO ALL THE DIVISION'S UNITS AND TO THE PUBLIC

IN GAZETTE 496, FOLLOWING SECTION 36.211 (PARAG. 12) IMPORTS:

36.212 - EXEMPTION FOR INTERNATIONAL WELFARE ORGANIZATIONS  
ACCORDING TO ITEM 17 OF THE CUSTOMS TARIFF.

212.1 THIS SECTION DEALS WITH THE PROCEDURE FOR APPROVING  
EXEMPTIONS FOR INTERNATIONAL WELFARE ORGANIZATIONS DETAILED  
HEREAFTER IN THIS SECTION. THE SPECIFIED INTERNATIONAL  
WELFARE ORGANIZATIONS ARE ENTITLED TO EXEMPTION FROM CUSTOMS  
DUTIES ON IMPORTED GOODS AS NOTED IN THE ABOVE ITEM, AS WELL  
AS FROM PURCHASE TAX AND FROM VAT ON IMPORTS AND IN THE  
PURCHASE OF DOMESTIC PRODUCTS.

212.2 THE CONDITIONS FOR THE EXEMPTION ACCORDING TO ITEM 17  
ARE AS FOLLOWS:

A) THE ORGANIZATIONS WERE RECOGNIZED BY THE DIRECTORS  
GENERAL OF THE MINISTRY OF LABOR AND SOCIAL AFFAIRS, THE  
MINISTRY OF FINANCE AND THE MINISTRY OF DEFENSE FOR THE  
PURPOSE OF RELEASING GOODS IN IMPORTS OR FOR DOMESTIC  
PURCHASES.

THE NAMES OF THE ABOVE MENTIONED ORGANIZATIONS ARE DETAILED  
BELOW IN APPENDIX 36/B.

B) THE GOODS AND THEIR QUANTITIES HAVE BEEN APPROVED PRIOR  
TO THE IMPORT OR THE DOMESTIC PURCHASE BY THE AUTHORIZED  
PERSON AT THE MINISTRY OF LABOR AND SOCIAL AFFAIRS (THE LIST  
OF PERSONS AUTHORIZED TO APPROVE THE ABOVE SAID EXEMPTIONS  
IS, HEREWITH, PROVIDED IN APPENDIX 36/C).

C) THE GOODS ARE RELEASED WITHIN THE FRAMEWORK OF A  
CONDITIONAL EXEMPTION.

212.3 PROCEDURE FOR THE RELEASE OF IMPORTED GOODS:

A) FOR THE RELEASE OF IMPORTED GOODS IN CONDITIONAL EXEMPTION, THE ORGANIZATION WILL SUBMIT, IN ADDITION TO THE REGULAR RELEASE DOCUMENTS AND IMPORT LICENSE, A FORM MB 425 APPROVED BY THE AUTHORIZED PERSONS AT THE MINISTRY OF LABOR AND SOCIAL AFFAIRS (APPENDIX 36/C) AS WELL AS BY THE PERSON AUTHORIZED ON BEHALF OF THE COORDINATOR OF OPERATIONS IN THE ADMINISTERED AREAS.

THESE SIGNATURES WILL APPEAR AT THE PLACE DESIGNATED FOR SIGNATURE OF THE CONDITIONAL EXEMPTION UNIT; NEXT TO THE SIGNATURE WILL APPEAR THE STAMP OF THE MINISTRY OF LABOR AND SOCIAL AFFAIRS. (THE CONDITIONAL EXEMPTION UNIT DOES NOT DEAL WITH THE PRIOR APPROVAL).

B) A COPY OF THE APPROVED FORM MB 425 WILL REMAIN AT THE MINISTRY OF LABOR AND SOCIAL AFFAIRS FOR FOLLOW-UP; AN ADDITIONAL COPY WILL BE TRANSFERRED BY THE MINISTRY OF LABOR AND SOCIAL AFFAIRS TO THE CONDITIONAL EXEMPTION UNIT AT THE CUSTOMS HOUSE JERUSALEM FOR FOLLOW-UP AS TO THE USE OF THE GOODS. IN ADDITION, THE IMPORT RECORDINGS WILL BE TRANSFERRED AS CUSTOMARY IN CONDITIONAL EXEMPTION BY THE STATIONS TO THE CUSTOMS HOUSE JERUSALEM.

212.4 VAT ON IMPORTS.

GOODS APPROVED FOR RELEASE UNDER ITEM 17 ARE NOT VAT EXEMPT. THEREFORE, THE CUSTOMS HOUSES WILL HAVE TO SEE TO THE COVERAGE OF THE VAT THROUGH THE DIVISION'S ACCOUNTANT, WHO WILL ALLOCATE FOR THE ISSUE AN ADEQUATE SUM (THERE IS NO NEED TO MENTION IN PARTICULAR ON THE FORM THE MATTER OF THE VAT COVERAGE FROM THE FUND).

212.5 APPROVAL FOR EXEMPTION IN DOMESTIC PRODUCTION (EXCLUDING FUEL).

A) FOR THE PURPOSE OF OBTAINING AN EXEMPTION FROM PURCHASE TAX ON ACQUISITIONS FROM DOMESTIC MANUFACTURE, THE ORGANIZATION CONCERNED WILL SUBMIT TO THE MINISTRY OF LABOR AND SOCIAL AFFAIRS A PRO-FORMA INVOICE ON BEHALF OF THE MANUFACTURER/SUPPLIER DESCRIBING THE MERCHANDISE WHICH THE ORGANIZATION WISHES TO ACQUIRE.

THE MINISTRY OF LABOR AND SOCIAL AFFAIRS WILL ISSUE TO THE ORGANIZATION, UNDER THE SAME PRO-FORMA INVOICE A FORM MB 374 APPROVED BY THOSE AUTHORIZED, SIMILAR TO WHAT IS SAID IN PARAGRAPH 212.3 ABOVE. THIS APPROVAL WILL SERVE AS A REFERENCE TO THE MANUFACTURER FOR THE RECEIPT OF EXEMPTION FROM PURCHASE TAX.

B) COPIES OF THE FORM MB 374 WILL BE CHanneled AS FOLLOWS:

1) ONE COPY WILL STAY AT THE MINISTRY OF LABOR AND SOCIAL AFFAIRS

2) ONE COPY WILL BE HANDED TO THE MANUFACTURER/SUPPLIER

3) ONE COPY WILL BE TRANSFERRED DIRECTLY FROM THE MINISTRY OF LABOR AND SOCIAL AFFAIRS TO THE CONDITIONAL EXEMPTION UNIT AT CUSTOMS HOUSE JERUSALEM.

212.6

A) REIMBURSEMENT OF VAT ON PURCHASE FROM DOMESTIC MANUFACTURE: ONCE EVERY THREE MONTHS, THE APPROVED ORGANIZATIONS WILL SUBMIT TO THE MINISTRY OF LABOR AND WELFARE APPLICATIONS FOR THE REFUND OF VAT PAID BY THEM FOR DOMESTIC PURCHASES APPROVED FOR THEM. THE ABOVE FORM MB 374, AS WELL AS THE TAX INVOICES ON THOSE PURCHASES, SHOULD BE ATTACHED TO THE APPLICATIONS.

B) THE MINISTRY OF LABOR AND WELFARE WILL TRANSFER THE APPLICATIONS, AFTER EXAMINING AND APPROVING THEM, DIRECTLY TO THE DIVISIONS'S ACCOUNTANT FOR REIMBURSEMENT.

IT SHOULD BE NOTED THAT THE APPROVAL FOR VAT REFUND APPLIES TO GOODS, AND NOT TO SERVICES.

212.7 VAT REFUND ON PURCHASES FROM DOMESTIC MANUFACTURE WITHOUT MB 374 FORMS: FOR DOMESTIC PURCHASES IN SMALL AMOUNTS, MADE UNDER PROCEDURE TO BE APPROVED BY THE CUSTOMS AND VAT OFFICER, THE MINISTRY OF LABOR AND SOCIAL AFFAIRS, AND BY THE COORDINATOR OF OPERATIONS IN THE ADMINISTERED AREAS, VAT REIMBURSEMENT CAN BE OBTAINED EVEN IF THE PURCHASE WAS MADE WITHOUT A FORM MB 374.

FOR THIS PURPOSE, THE ORGANIZATION WILL SUBMIT A QUARTERLY APPLICATION FOR VAT REFUND TO BE APPROVED BY THE MINISTRY OF LABOR AND SOCIAL AFFAIRS AND TRANSFERRED DIRECTLY TO THE ACCOUNTANT OF THE CUSTOMS AND VAT DIVISION.

212.8 EXEMPTION FROM TAXES ON FUEL.

THE CONDITIONAL EXEMPTION UNIT AT THE CUSTOMS HOUSE JERUSALEM WILL APPROVE TO THE SPECIFIED ORGANIZATIONS FUEL TAX EXEMPTIONS UNDER FORM MB 374 WHICH BEARS THE RECOMMENDATION OF THE MINISTRY OF LABOR AND SOCIAL AFFAIRS.

212.9 APPROVAL FOR THE ACQUISITION OF A VEHICLE.

APPROVAL FOR THE REPLACEMENT OF AN EXISTING VEHICLE AND/OR THE ADDITION OF VEHICLES TO THE ORGANIZATION'S POOL WILL BE ISSUED AFTER CONSULTATIONS BETWEEN THE CUSTOMS OFFICER, THE MINISTRY OF LABOR AND SOCIAL AFFAIRS AND THE COORDINATOR OF OPERATIONS IN THE ADMINISTERED AREAS.

THE APPROVAL WILL BE ACCORDED ON FORM MB 425 WHICH WILL BE ISSUED BY THE MINISTRY OF LABOR AND SOCIAL AFFAIRS AND WILL BEAR THE SIGNATURE OF THE COORDINATOR OF OPERATIONS IN THE ADMINISTERED AREAS AS DETAILED ABOVE IN PARAGRAPH 212.3.

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THE MINISTRY OF LABOR AND SOCIAL AFFAIRS WILL ISSUE TO THE ORGANIZATION, UNDER THE SAME PRO-FORMA INVOICE A FORM MB 374 APPROVED BY THOSE AUTHORIZED, SIMILAR TO WHAT IS SAID IN PARAGRAPH 212.3 ABOVE. THIS APPROVAL WILL SERVE AS A REFERENCE TO THE MANUFACTURER FOR THE RECEIPT OF EXEMPTION FROM PURCHASE TAX.

B) COPIES OF THE FORM MB 374 WILL BE CHANNELED AS FOLLOWS:

1) ONE COPY WILL STAY AT THE MINISTRY OF LABOR AND SOCIAL AFFAIRS

2) ONE COPY WILL BE HANDED TO THE MANUFACTURER/SUPPLIER

3) ONE COPY WILL BE TRANSFERRED DIRECTLY FROM THE MINISTRY OF LABOR AND SOCIAL AFFAIRS TO THE CONDITIONAL EXEMPTION UNIT AT CUSTOMS HOUSE JERUSALEM.

212.6

A) REIMBURSEMENT OF VAT ON PURCHASE FROM DOMESTIC MANUFACTURE: ONCE EVERY THREE MONTHS, THE APPROVED ORGANIZATIONS WILL SUBMIT TO THE MINISTRY OF LABOR AND WELFARE APPLICATIONS FOR THE REFUND OF VAT PAID BY THEM FOR DOMESTIC PURCHASES APPROVED FOR THEM. THE ABOVE FORM MB 374, AS WELL AS THE TAX INVOICES ON THOSE PURCHASES, SHOULD BE ATTACHED TO THE APPLICATIONS.

B) THE MINISTRY OF LABOR AND WELFARE WILL TRANSFER THE APPLICATIONS, AFTER EXAMINING AND APPROVING THEM, DIRECTLY TO THE DIVISIONS'S ACCOUNTANT FOR REIMBURSEMENT.

IT SHOULD BE NOTED THAT THE APPROVAL FOR VAT REFUND APPLIES TO GOODS, AND NOT TO SERVICES.

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212.10 EXAMINATIONS OF THE USE OF THE GOODS.

THE CUSTOMS OFFICER WILL MAKE SAMPLE CHECKS AS TO THE UTILIZATION OF THE GOODS FOR WHICH THE EXEMPTION WAS APPROVED UNDER THIS SECTION.

THESE CHECKS WILL BE MADE AT THE DEMAND OF THE CONDITIONAL EXEMPTION UNIT AT THE CUSTOMS HOUSE JERUSALEM.

APPENDIX 36/B - LIST OF INTERNATIONAL ORGANIZATIONS ELIGIBLE TO TAX EXEMPTION UNDER ITEM 17.

IMPORTER'S NUMBER	NAME OF ORGANIZATION
598100295	ACDI/COOPERATIVE DEVELOPMENT PROGRAM
598100147	AMERICAN SAVE THE CHILDREN FEDERATION
598100287	AMIDEAST
598100279	ANERA
598100089	CATHOLIC RELIEF SERVICES
598100303	HOSPITAL HOLYLAND CHRISTIAN MISSION/MOUNT DAVID ORTHOPEDIC INTERNATIONAL COMMITTEE OF THE RED CROSS
598100154	LUTHERAN WORLD FEDERATION
598100097	MENNONITE CENTRAL COMMITTEE
598100113	NEAR EAST COUNCIL OF CHURCHES- JERUSALEM/GAZA
598100105	SWEDISH ORGANIZATION FOR INDIVIDUAL RELIEF
598100121	SWEDISH SAVE THE CHILDREN FEDERATION/RADDA BARNA
598100188	

NOTE: UNICEF WILL CONTINUE TO ENJOY THE EXEMPTION UNDER ITEM 4 AND ITS CONDITIONS AS UNDP.

APPENDIX 36/C - NAMES OF REPRESENTATIVES OF MINISTRY OF LABOR AND SOCIAL AFFAIRS AND OF THE MINISTRY OF DEFENSE APPROVED TO SIGN EXEMPTIONS FOR ORGANIZATIONS (DETAILED IN APPENDIX 36/B), AND SAMPLES OF THEIR SIGNATURES.

SIGNATURE	NAME AND TITLE
(-)	MR. ELI TZUR, COORDINATOR OF WELFARE OPERATIONS IN THE ADMINISTERED AREAS.
(-)	MR. AVRAHAM LEVIN, DIRECTOR OF INTERNATIONAL RELATIONS DEPARTMENT.
(-)	MRS. ELIAN HADAD, IN CHARGE OF INTERNATIONAL ORGANIZATIONS IN THE ADMINISTERED AREAS.
(-)	LIEUTENANT-COLONEL AMIT ZEID, CHIEF, BRANCH OF CIVIL SERVICES, CIVIL ADMINISTRATION.
(-)	MAJOR GERY ZAKAI, DEPUTY CHIEF, BRANCH OF CIVIL SERVICES, CIVIL ADMINISTRATION.
(-)	LIEUTENANT ITZIK SARUK, CHIEF OF ECONOMIC BRANCH, COORDINATOR OF OPERATIONS IN THE ADMINISTERED AREAS.

STATE OF ISRAEL / CUSTOMS AND VAT DIVISION

APPLICATION FOR EXEMPTION FROM CUSTOMS DUTIES / PURCHASE TAX ON  
GOODS IMPORTED FOR CONSUMPTION IN ISRAEL

FORM MB 425

TO: CUSTOMS COLLECTOR

1. I HEREBY REQUEST EXEMPTION FROM CUSTOMS DUTIES / PURCHASE TAX ON THE FOLLOWING GOODS:

<u>QUANTITY</u>	<u>DESCRIPTION</u>	<u>VALUE(C.I.F)</u>	<u>CUSTOMS</u> <u>RATE</u>	<u>AMOUNT</u>	<u>PURCHASE TAX</u> <u>RATE</u>	<u>AMOUNT</u>
-----------------	--------------------	---------------------	-------------------------------	---------------	------------------------------------	---------------

2. THE GOODS DETAILED ABOVE WERE OBTAINED: ~~SEE~~  
(A) PER BILL OF LADING NO. \_\_\_\_\_ SHIP \_\_\_\_\_ DATE  
OF ARRIVAL \_\_\_\_\_.  
(B) THROUGH PARCEL POST UNDER DECLARATION NO. \_\_\_\_\_  
DATED \_\_\_\_\_.
3. THE MERCHANDISE WILL SERVE: FOR CHARITABLE ASSISTANCE / AS  
MAIN PART OF THE INSTITUTION'S EQUIPMENT / FOR THE USE OF  
THE INSTITUTION'S BENEFICIARIES / FOR OWN USE ONLY  
/ \_\_\_\_\_
4. I ASK FOR THE CUSTOMS EXEMPTION ON THE BASIS OF ITEM  
NO. \_\_\_\_\_ OF THE CUSTOMS TARIFF AND FOR THE PURCHASE TAX  
EXEMPTION UNDER SECTION \_\_\_\_\_ OF THE PURCHASE TAX  
ORDINANCE (EXEMPTION).
5. I ALSO HEREBY DECLARE THAT \_\_\_\_\_.
6. I UNDERTAKE NOT TO USE THE ABOVE GOODS, EITHER IN THEIR  
PRESENT FORM OR ANY OTHER FORM, FOR A PURPOSE OTHER THAN  
THAT DETAILED IN SECTION 3 OF THIS APPLICATION, WITHOUT  
OBTAINING FIRST THE CONSENT OF THE CUSTOMS AUTHORITY.
7. ATTACHED HEREBY \_\_\_\_\_ DOCUMENTS.

FULL NAME OF THE APPLICANT (OR OF THE INSTITUTION'S  
REPRESENTATIVE) \_\_\_\_\_.

ADDRESS \_\_\_\_\_ SIGNATURE OF APPLICANT \_\_\_\_\_.

DATE \_\_\_\_\_.

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APPROVAL OF THE CONDITIONAL EXEMPTION UNIT

THIS APPLICATION IS APPROVED UNDER ITEM \_\_\_\_\_ OF THE  
CUSTOMS TARIFF.

DATE \_\_\_\_\_.

DATE APPLICATION APPROVED \_\_\_\_\_.

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APPROVAL OF THE CUSTOMS COLLECTOR

THE GOODS DETAILED ABOVE WERE ACCORDED EXEMPTION APPROVAL  
UNDER ITEM \_\_\_\_\_ OF CUSTOMS TARIFF / SECTION \_\_\_\_\_ OF  
THE PURCHASE TAX ORDER (EXEMPTION).

THE ABOVE GOODS WERE RELEASED UNDER IMPORT REGISTRY /  
"PAHAN" / POSTAL DECLARATION \_\_\_\_\_.

NUMBER \_\_\_\_\_ DATED \_\_\_\_\_ AT CUSTOMS HOUSE / PARCEL  
POST OFFICE \_\_\_\_\_.

EXEMPTION REGISTERED AT \_\_\_\_\_.

DATE \_\_\_\_\_ . SIGNATURE \_\_\_\_\_.

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CONTROLLER'S REMARKS:

SENT NO REMARK / CONTROL SHEET NO. \_\_\_\_\_.

DATE \_\_\_\_\_ . SIGNATURE \_\_\_\_\_.

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נספח 36/ב - רשימת הארגונים הכינלאומיים הזכאים לפטור מחסים לפי פרט 17  
(פיסקה 2.212.36)

מספר היבוא

שם הארגון

598100295	ACDI/COOPERATIVE DEVELOPMENT PROGRAMME
598100147	AMERICAN SAVE THE CHILDREN FEDERATION
598100287	AMIDEAST
598100279	ANERA
598100089	CATHOLIC RELIEF SERVICES
598100303	HOSPITAL, HOLYLAND CHRISTIAN MISSION/MOUNT DAVID ORTHOPAEDIC
598100154	INTERNATIONAL COMMITTEE OF THE RED CROSS
598100097	LUTHERAN WORLD FEDERATION
598100113	MENNONITE CENTRAL COMMITTEE
598100105	NEAR EAST COUNCIL OF CHURCHES - JERUSALEM/GA A
598100121	SWEDISH ORGANISATION FOR INDIVIDUAL RELIEF
598100188	SWEDISH SAVE THE CHILDREN FEDERATION/RADDA BARNA

הערה:  
ארגון האו"ם למען הילד UNICEF ימשיך ליהנות מפטור לפי פרט 4 וחנאיו כמו ה-  
.UNDP

U.S. Agency for International Development  
 Quarterly Value-Added Tax Payment Report

Attachment A

Grant Recipient \_\_\_\_\_

Grant Number \_\_\_\_\_

Period of Grant \_\_\_\_\_

Date (Quarter/Year)	Journal Voucher #	Expenditure	VAT Paid	VAT Reimbursed	VAT Recievable	Number of Days O/S
<b>CERTIFICATION:</b> I certify to the best of my knowledge and belief that this report is correct and complete and are for the purposes set forth in the grant agreement.		Signature of Authorization Certifying Official _____ Title			Date Submitted _____ Telephone # _____	

*Price Waterhouse*



## **Report on Compliance**

We have audited the accompanying "Schedules of Financial Assistance" of American Near East Refugee Aid (ANERA) for the period October 1, 1987 through September 30, 1990 and have issued our report thereon dated November 4, 1991.

We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in *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 schedules of financial assistance are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to ANERA is the responsibility of ANERA's management. As part of obtaining reasonable assurance about whether the schedules of financial assistance are free of material misstatement, we performed tests of ANERA's compliance with certain provisions of laws, regulations, contracts, and grants. These tests were of compliance with the special and standard provisions as included in the grant agreements (Numbers NEB-0162-A-OO-4012-00 and ANE-0159-G-SS-9048-00), the applicable sections of A.I.D. Handbook 13 - Grants, and OMB A-122 - Cost Principles for Non-profit Institutions. However, the objective of our audit of the schedules of financial assistance was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests indicate that, with respect to the items tested, ANERA complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that ANERA had not complied, in all material respects, with those provisions. We noted certain immaterial instances of noncompliance which are in Attachment A to this report.

This report is intended for the information of the Agency for International Development. However, this report is a matter of public record and its distribution is not limited.

*Price Waterhouse*

November 4, 1991



**Agency for International Development  
America Near East Refugee Aid  
Immaterial Instances of Noncompliance**

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**Finding 1 - ANERA purchased luxury items.**

During our audit, we noted that ANERA's field office purchased the following items for the Middle East Representative's personal use:

- stereo for \$400
- portable telephone for \$2,000

These purchases were made outside the period subject to our audit and, therefore, are not included in the question costs. However, charging luxury items to the grant is expressly prohibited in the provisions of the grant agreement.

**We recommend that ANERA implement policies and procedures to ensure that luxury goods are not billed to A.I.D. grants in accordance with the provisions of the grant agreement which states that "under no circumstances shall the grantee procure luxury goods".**

**Finding 2 - ANERA charged travel expenses in excess of Federal Travel Regulations.**

In September 1990, ANERA's Middle East Representative attended a seven-day conference in Washington, D.C. While in Washington, the representative incurred lodging expenses of \$213 per day. The provisions of the grant agreement states that travel costs may be charged on an actual basis, on a per diem or mileage basis in lieu of actual costs incurred, or on a combinations of the two, provided the method used results in charges consistent with those normally allowed by the organization in its regular operations. ANERA internal travel policies states that *"when lodging costs are incurred, total reimbursement is not to exceed the amount of \$75 for high cost areas unless authorized by the President"*. Additionally, Federal Travel Regulations state that per diem for lodging in Washington, D.C. is only \$97 per day. The representative was reimbursed for the total amount of lodging expenses and the grant was subsequently charged for excessive travel costs. The excess per diem charged to A.I.D. amounts to \$811 and is considered ineligible.

**We recommend that ANERA incorporate Federal Travel Regulations into ANERA's internal policies and bill travel costs accordingly. Costs for transportation, lodging, meals and incidental expenses may be based on actual costs, or based on other methods, provided the method used results in a reasonable charge. The costs shall be considered to be reasonable and allowable only to the extent that they do not exceed on a daily**



**Agency for International Development  
America Near East Refugee Aid  
Immaterial Instances of Noncompliance**

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**basis the maximum per diem rates as set forth in the Federal Travel Regulations, prescribed by the General Services Administration.**

**Finding 3 - ANERA does not maintain complete and up-to-date A.I.D.-financed property control listings.**

**ANERA's A.I.D.-financed nonexpendable property listing at the field offices is not in compliance with the provisions of the grant agreement and A.I.D. Handbook 13. Specifically, the property listing is deficient in the following ways:**

- **the listing does not indicate whether the title to property vest with the grantee or with the Federal government**
- **the listing does not identify each item by serially controlled identification number**
- **the listing does not provide dates of property acquisition**
- **the listing does not provide the location, use, and condition of property**

**ANERA's field office indicated that they were unaware of the property management requirements of the grant agreement.**

**We recommend that ANERA:**

**Educate the field office employees of the property management requirements set forth in the provisions of the grant agreement and Handbook 13.**

**Maintain the inventory listing in accordance with the requirements.**

**Develop a standard form that is completed each time A.I.D. - financed property is acquired. The form should contain all required information as outlined in A.I.D. Handbook 13.**

**Perform annual physical inventories of A.I.D. - financed property and reconcile the property listing to the physical. Report to A.I.D. all deficiencies.**



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America Near East Refugee Aid  
Immaterial Instances of Noncompliance**

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**Finding 4 - ANERA has not obtained prior written approval from A.I.D.'s grant officer to purchase several new and used motor vehicles.**

During the audit, we identified \$41,081 which was used to purchase several new and used automobiles without obtaining prior written approval from A.I.D.'s grant officer. Specifically, the following purchases were made without obtaining authorization from A.I.D.:

- In June 1989, a used motor vehicle was purchased for \$6,350
- In July 1989, a new motor vehicle was purchased for \$7,860
- In December 1989, a used motor vehicle was purchased for \$10,000
- In December 1989, a new motor vehicle were purchased for \$6,871
- In June 1990, a new motor vehicle was purchased for \$10,000

The standard provisions of the grant agreement state that the grantee shall not procure any of the following goods and services without the prior written authorization of the grant officer: agricultural commodities, motor vehicles, pharmaceuticals, pesticides, rubber compounding chemicals and plasticizers, used equipment, U.S. Government-owned excess property, or fertilizer.

**4.1 We recommend that ANERA obtain prior written approval from A.I.D.'s grant officer for purchases of new or used motor vehicles. Further, as outlined in the Standard Provision entitled *A.I.D. Eligibility Rules for Goods and Services - Ineligible and Restricted Goods and Services* which states that if A.I.D. determines that the grantee has procured any of the restricted or ineligible goods and services specified, ... and has received reimbursement for such purpose without the prior written authorization of the grant officer, the grantee agrees to refund to A.I.D. the entire amount of the reimbursement.**

\* \* \* \* \*

**Finding 5 - ANERA has not presented an itinerary to A.I.D.'s project officer prior to international travel financed by the grant.**

ANERA has not presented an itinerary to A.I.D.'s project officer prior to international travel financed by the grant. The provisions of the grant agreement states that "the grantee is required to present to the project officer for written approval an itinerary for each planned international trip financed by the 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 as



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America Near East Refugee Aid  
Immaterial Instances of Noncompliance**

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possible, but in no event at least three weeks before travel is planned to commence." During our audit, we found no evidence of ANERA preparing and/or submitting the required itineraries to A.I.D.

**We recommend that ANERA submit an itinerary to A.I.D.'s project officer for all planned international travel. The itinerary should be prepared in accordance with the provisions of the grant agreement.**

**Finding 6 - ANERA has not submitted Financial Status Reports (SF-269) and Federal Cash Transaction Reports (SF-272) within the time requirements established by the grant agreement.**

ANERA has not submitted Financial Status Reports (SF-269) and Federal Cash Transaction Reports (SF-272) within the time requirements established by the grant agreement. The provisions of the grant agreement state that SF-269s are to be filed 15 days after quarter end and that SF-272s are to be filed 15 days after month end. Although all of the monthly and quarterly reports were submitted, we noted that only 1 of the 15 SF-269s and 10 of the 36 SF-272s reviewed were submitted within the time requirements.

**We recommend that ANERA prepare and submit the SF-269s and SF-272s within the time requirements established in the grant agreement.**

# ANERA

## AMERICAN NEAR EAST REFUGEE AID

TO: Price Waterhouse  
FROM: Peter Gubser   
DATE: 25 November, 1991  
RE: Your Draft Audit of November 4, 1991

The following are our comments on the specific comments made in your draft audit of 4 November, 1991.

III-4, Note 6 (a) We agree

III-5, Note 6 (b)

### **Personal Assets**

ANERA was operating according to its own employee policy guidelines. These had been submitted to AID and approved by AID. They are referred to, in part, in the most recent AID grant to ANERA. Under these policy guidelines, ANERA is to provide housing and furnishings for its expatriate staff. Thus, from our understanding, especially in light of AID's approval of the guidelines, we in good faith charged the "personal assets" to the grant. Please note that these "assets" remain the property of ANERA/AID. Also please note the expenditures are modest and are under the "allowances" that AID would allow, but are not in ANERA's guidelines.

### **Unreasonable Car Purchase**

Re the \$10,000 for the car, our Jerusalem office adequately justifies it in the following words: "The reason for this amount is very simple. It was a West Bank (blue plate) car, for the usual security reasons. Thus is cost much more for the same car as the tax free Jerusalem cars (yellow plate) cited by the auditors (the 1990 new Jetta and Peugeot). The Military Government, again, would not give us tax free blue plate cars, so if we had bought a Jetta or Peugeot with taxes, instead of the Volvo or other solid used car, we would have paid much more than the \$8,000 to \$10,000 for the new cars. In fact, subsequently, we sold the Volvo for the bulk of its purchase price-- for whatever that's worth."

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**Payment of Customs Duties**

This is a policy issue for the U.S. Government. If we are to provide transportation for our West Bank staff, taxes/duties are unavoidable. In essence, PW describes a "catch-22" situation whereby we can either not operate or have ineligible expenses. Considerations here related to the above item as well.

III-6, Note 6 (c)

First four items, we agree.

**Business Lunches**

These expenses were incurred when Jerusalem staff was travelling for the full day to Gaza. We consider this to be a justified cost.

III-7, Note 6 (d)

We provided the documentation to PW on the subgrant payments. The documentation may have been received by PW after it drafted its report. The material is available for any other reviewer.

III-7, Note 6 (e)

We have the support documentation for the \$1080 disbursement in the Washington office. It is available for inspection.

III-7, Note 6 (g)

The advertisement charge of \$130 was for either a tender or a position we were seeking to fill. We misplaced the voucher.

III-7, Note 7 (a)

The hotel lodging charge of \$213 per day was incurred because the Middle East Representative's wife and children, on return from home leave, joined him in Washington en route back to Jerusalem.

III-8, Note 7 (b)

**Business Lunches**

The note re III-6, Note 6 (c) applies.

**Departing Employee Lunch**

We agree.

III-8, Note 7 (c)

We agree.

- IV-2, Recommendation 1 We agree to 1.1, 1.2, 1.3, We think 1.4 is a policy issue for the U.S. Government.
- IV-3 Please note that the phrase "by not taking advantage of the exemption by both ANERA and the subgrantee..." is not entirely correct. The subgrantee does not have the exemption. Consequently, the logic of PW's argument does not entirely follow. In essence, as we state elsewhere, this is a policy issue for the U.S. Government.
- IV-5, Recommendation 2 We agree.
- IV-6, Recommendation 3 We agree.
- IV-7, Recommendation 4 Please see remarks for III-5, Note 6 (b). If required, we will change the policy guidelines that had AID approval.
- V-2, Finding 1 **Luxury Items**  
Stereo: We agree.  
Portable Telephone: The cost is relatively competitive with obtaining a new phone from the telephone company. The telephone company could not keep the Middle East Representative's telephone working. It was out of order for months. Thus, we consider the portable telephone to be justified.
- V-2, Finding 2 Please see remarks re III-7, Note 7 (a)
- V-3, Finding 3 & Recommendations We agree.
- V-5, Finding 4 In future, we will request separate permission for purchase of vehicles. In good faith, we thought we were obeying the rules. Namely, in our latest proposal, we requested permission to purchase vehicles. After considerable discussion and exchange of paper, the AID grant letter to ANERA states that we, with funds provided in the grant, could purchase project vehicles and spare parts.

Re the "unreasonable" cost, please see remarks re III-5, Note 6 (b).

V-6, Finding 5

We have instituted a regular procedure of informing AID's project officer re international travel.

V-7, Finding 6

We agree. We have improved the time lag, but not yet to the point we desire.

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APPENDIX II

REPORT DISTRIBUTION LIST

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