

Regional Inspector General for Audit
Cairo, Egypt

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**Audit of the Society for the Care of the
Handicapped in the Gaza Strip (Cooperative
Agreement No. HNE-0159-A-00-3049-00 and
Grant No. ANE-0159-G-SS-9046-00)**

**Report No. 6-294-96-006-N
November 28, 1995**



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REPORT MAY BE PRIVILEGED. THE RESTRICTIONS
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ANY INFORMATION IS RELEASED TO THE PUBLIC.**

USAID



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

CAIRO, EGYPT

November 28, 1995

MEMORANDUM

TO: DIRECTOR USAID West Bank/Gaza, Christopher D. Crowley

FROM: RIG/A/C, Lou Mundy *Lou Mundy*

SUBJECT: Audit of the Society for the Care of the Handicapped in the Gaza Strip (Cooperative Agreement No. HNE-0159-A-00-3049-00 and Grant No. ANE-0159-G-SS-9046-00)

The attached report transmitted on September 3, 1995 by Arthur Andersen presents the results of a financial audit of expenditures incurred by the Society for the Care of the Handicapped in the Gaza Strip (the Society), under Cooperative Agreement No. HNE-0159-A-00-3049-00 and Grant No. ANE-0159-G-SS-9046-00. USAID funding is used by the Society to provide for the Mother's Home Care/Home Based Early Intervention Programs for Handicapped and Non-Handicapped at Risk Children, a speech and hearing center, and personnel training in Gaza in conjunction with Lamar University.

We engaged Arthur Andersen to perform a financial audit of the Society's incurred expenditures of \$9,110,283 (equivalent to IS27,330,849) as of January 31, 1995 for the Cooperative Agreement and April 30, 1993 for the Grant. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Arthur Andersen also evaluated the Society's internal controls and compliance with applicable laws, regulations and grant and cooperative agreement terms as necessary in forming an opinion regarding the Society's Fund Accountability Statement.

Arthur Andersen questioned \$1,521,005 (\$723,441 of costs funded by the Cooperative Agreement and \$797,564 funded by the Grant) in costs billed to USAID by the Society. The questioned costs related primarily to salaries, travel, equipment and furnishings,

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overhead, research, and other direct costs determined by the auditors to be ineligible or unsupported. Additionally, the auditors noted one material weakness and three reportable conditions in the Society's internal control structure, as well as three instances of material noncompliance with agreement terms and/or applicable laws and regulations.

Responsible Society officials provided comments to the draft report (see Appendix A). Arthur Andersen reviewed the Society's comments but made no adjustments to their report as the Society's comments appear to address tentative findings presented to them at the end of fieldwork rather than the draft report findings. As a result, comments provided by the Society do not address the report's findings (see Appendix B). USAID West Bank/Gaza officials acknowledged the serious nature of the findings but had no additional comments to the report at this time (see Appendix C).

The following recommendations are included in the Office of the Inspector General's recommendation follow-up system.

Recommendation No. 1: We recommend that USAID West Bank/Gaza resolve the questioned costs of \$1,521,005 (ineligible costs of \$1,202,435 and unsupported costs of \$318,570) detailed on pages 21 to 28 of the Arthur Andersen audit report, and recover from the Society for the Care of the Handicapped in the Gaza Strip the amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID West Bank/Gaza obtain evidence that the Society for the Care of the Handicapped in the Gaza Strip has addressed the material internal control weakness (management override of internal controls) detailed on pages 32 and 33 of the Arthur Andersen audit report.

Recommendation No. 3: We recommend that USAID West Bank/Gaza obtain evidence that the Society for the Care of the Handicapped in the Gaza Strip has addressed the three material noncompliance issues (failure to report other donors and revenues, general noncompliance, and commingling of funds) detailed on pages 37 and 38 of the Arthur Andersen audit report.

Recommendation No. 1 is unresolved and will be considered resolved upon the Mission's determination of the amount of recovery; it will be considered closed upon the recovery of funds, offset of funds, or issuance of a bill for collection. Recommendations No. 2 and 3 are unresolved and will be considered resolved upon the Mission's presentation of an acceptable plan of action which addresses the reported deficiencies; it will be considered closed when the Mission presents acceptable evidence that the required actions have been taken.

The three reportable conditions identified by the auditor's review of the Society's internal control structure should be handled directly by USAID West Bank/Gaza and Society officials.

Please advise this office within 30 days of any action planned or taken to close the recommendations. Thank you for the cooperation and assistance extended to the audit staff on this engagement and your continued support of the financial audit program in the West Bank and Gaza.

Attachment: a/s

**Society for the Care of the Handicapped
in the Gaza Strip**

Audit of Expenditures Incurred Under
Cooperative Agreement No. HNE-0159-A-00-3049-00
(April 1, 1993 through January 31, 1995)
and

Grant No. ANE-0159-G-SS-9046-00
(October 1, 1989 through April 30, 1993)

Fund Accountability Statements and Overhead Rate Schedules

**Society for the Care of the Handicapped
in the Gaza Strip**

Audit of Expenditures Incurred Under
Cooperative Agreement No. HNE-0159-A-00-3049-00
(April 1, 1993 through January 31, 1995)
and
Grant No. ANE-0159-G-SS-9046-00
(October 1, 1989 through April 30, 1993)

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September 3, 1995

Mr. Lou Mundy
Regional Inspector General
for Audit/Cairo
United States Agency for
International Development
Cairo, Egypt

Dear Mr. Mundy:

This report presents the results of our financial related audit of expenditures incurred by the Society for the Care of the Handicapped in the Gaza Strip funded by the United States Agency for International Development (USAID) under Cooperative Agreement No. HNE-0159-A-00-3049-00 (Cooperative Agreement) for the period from April 1, 1993 through January 31, 1995, and Grant No. ANE-0159-G-SS-9046-00 (Grant) for the period from October 1, 1989 through April 30, 1993.

Background

The Society for the Care of the Handicapped in the Gaza Strip (SCH) was founded by Dr. Hatem Abu-Ghazaleh in 1975. SCH is an indigenous Private Voluntary Organization (PVO) providing services to over 3,000 clients in need in Gaza, a region that was recently relinquished to the Palestinian Authority from the State of Israel. SCH provides the following programs under the current Cooperative Agreement: Mother's Home Care/Home Based Early Intervention Programs for Handicapped and Non Handicapped At Risk Children, Speech and Hearing Center, and Personnel Training in Gaza with Lamar University; and under the Grant: Mother's Home Care/Home Based Early Intervention Programs and Personnel Training.

SCH has been the recipient of three USAID grants and is currently operating with the assistance of a direct USAID cooperative agreement of which USAID/Tel Aviv/Jerusalem has monitoring and management responsibilities since September 1994. Previously, the Cooperative Agreement and Grant were administered by the Assistant Administrator, Bureau for Europe and Near East, assisted by the USAID Representative in the US Embassy in Tel Aviv.

The Cooperative Agreement was effective on April 1, 1993 with an estimated completion date of June 30, 1996. The total estimated amount of the Cooperative Agreement is \$ 9,685,000. USAID initially obligated \$ 3,500,000 as partial funding and through a subsequent amendment provided an additional \$ 1,100,000 of funding.

The Grant was effective October 1, 1989 and was completed on April 30, 1993. USAID provided \$ 4,628,601 of funds under the Grant.

Audit Objectives, Scope and Methodology

The objective of this engagement was to conduct a financial audit of USAID resources managed by SCH under Cooperative Agreement No. HNE-0159-A-00-3049-00 for the period from April 1, 1993 through January 31, 1995, and Grant No. ANE-0159-G-SS-9046-00 for the period from October 1, 1989 through April 30, 1993 (collectively known as the "Program"). The specific objectives of our engagement were to:

1. Express an opinion on whether the fund accountability statements for the USAID financed Program of SCH present fairly, in all material respects, funds received and costs incurred for the periods under audit in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including the cash receipts and disbursements basis and modifications of the cash basis;
2. Determine if the costs reported as incurred under the Cooperative Agreement and the Grant are allowable, allocable, and reasonable in accordance with the terms of the Cooperative Agreement and the Grant;
3. Evaluate and obtain a sufficient understanding of the internal control structure of SCH as it relates to its management of USAID funds, assess control risk, and identify reportable conditions, including material internal control weaknesses; and
4. Perform tests to determine whether SCH complied, in all material respects, with the applicable laws and regulations as included in the provisions of the Cooperative Agreement and the Grant.

The scope of our financial cost-incurred audit was all the expenditures remitted by SCH under Cooperative Agreement No. HNE-0159-A-00-3049-00 for the period from April 1, 1993 through January 31, 1995, and Grant No. ANE-0159-G-SS-9046-00 for the period from October 1, 1989 through April 30, 1993

The methodology of the audit consisted of an internal control evaluation, testing of expenditures remitted under the Cooperative Agreement and the Grant and testing compliance with the specific provisions/requirements of the Cooperative Agreement and Grant, and applicable regulations and laws as identified below.

Our testing included a selection of costs incurred for each budget line item and a review of the overhead rate as disclosed in the fund accountability statements. We tested costs as follows:

<u>Agreement</u>	<u>Total Cost</u>	<u>Tested Amt.</u>	<u>Percent</u>
Cooperative Agreement (A-00-3049)	\$ 4,357,135	\$ 1,485,961	34 %
Grant (G-SS-9046)	\$ 4,753,148	\$ 1,050,373	22 %

Initial planning began with an entrance conference attended by the audit team RIG/A/Cairo personnel, the USAID Project Officer and SCH management staff. At the end of our fieldwork which was conducted in Gaza, we had a meeting with the Chairman of SCH, and USAID officials from Tel Aviv, Jerusalem and Amman, Jordan to discuss preliminary findings identified during our fieldwork.

Except as discussed in the following paragraph, 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 required that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements and overhead rate schedules are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 33 of Chapter 3 of Government Auditing Standards (1994 revision) since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

Results of Audit

General

We believe that SCH management should have maintained tighter control on amounts charged as direct costs to USAID and had overridden established internal controls as discussed in our report on Internal Control Structure. We identified numerous questioned costs which were either unsupported, related to contributions and donations, or for services provided by SCH that should not have been directly charged to USAID. Considering the program objectives, which are noble, more responsible cash management, in accordance with the established internal control structure, may have been achieved in directing such cash to meet the program objectives.

Fund Accountability Statements

The engagement identified US \$1,521,005 in aggregate questioned costs, consisting of US \$ 318,570 in unsupported costs and US\$ 1,202,435 in ineligible costs. The details of costs questioned by respective agreement were provided to USAID and SCH management through separate supplemental schedules.

Overhead Rate Schedules

During our audit, we identified the following actual overhead rates as compared to the provisional overhead rates as allowed in the Cooperative Agreement and the Grant:

	<u>Provisional</u>	<u>Audit</u>
<i>Cooperative Agreement:</i>	60%	49%
<i>Grant:</i>	71%	44%

Internal Control

In our evaluation of internal control, we identified four reportable conditions, three of which we do not believe are material weaknesses. One matter relating to the override of established internal controls by top management was considered as a material weakness. We identified certain other matters that we will bring to the attention of SCH management and USAID through a separate letter.

The reportable condition surrounding the use of in-house generated invoices was mentioned in our audit report on the fund accountability statements and overhead rate schedules for emphasis, since we were not able to determine the effect, if any, of the use of these in-house generated invoices.

Compliance with Agreement Terms and Applicable Laws and Regulations

In performing our audit, we identified three matters of material noncompliance. Generally, we believe that SCH did not have a full understanding of the terms of the Cooperative Agreement and Grant based on the types of questionable matters that we identified during our audit.

Management Comments

We were provided with the management responses of the Society of the Care of the Handicapped in the Gaza Strip (SCH). The responses are presented in their entirety in Appendix A. The responses do not address the internal control or compliance findings. It appears that the responses provided by SCH do not address the audit findings identified in the draft report provided to SCH in the exit conference held at the United States Agency for International Development's office in Tel Aviv. The responses appear to address the draft findings (which were not in report form) provided to SCH management at the end of the fieldwork. SCH management was informed at that time that these finding summaries were provided as information only, subject to change, and that the actual findings would be provided at the exit conference through a draft report which would have been technically reviewed by USAID/Egypt. As a result, the responses provided by SCH management in Appendix A do not match the finding number order nor necessarily address the actual findings in the report (i.e., some of the findings were altered/modified/dropped based on the technical review by USAID/Egypt).

Based on the SCH management responses, none of the audit findings have changed.

Arthur Andersen Egypt / Amal Amal

Mr. Lou Mundy
Regional Inspector General
for Audit/Cairo
United States Agency for
International Development
Cairo, Egypt

Report of Independent Public Accountants

We have audited the accompanying fund accountability statements and overhead rate schedules of the Society for the Care of the Handicapped in the Gaza Strip relating to funds received and expenses incurred under Cooperative Agreement No. HNE-0159-A-00-3049-00 for the period from April 1, 1993 through January 31, 1995 (Cooperative Agreement), and Grant No. ANE-0159-G-SS-9046-00 for the period from October 1, 1989 through April 30, 1993 (Grant), financed by the United States Agency for International Development. These fund accountability statements and overhead rate schedules are the responsibility of the management of the Society for the Care of the Handicapped. Our responsibility is to express an opinion on these fund accountability statements and overhead rate schedules based on our audit.

Except as discussed in the following paragraph, 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 fund accountability statements and overhead rate schedules are free of material misstatement. Our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements and overhead rate schedules. Our audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall presentation of the fund accountability statements and overhead rate schedules. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 33 of Chapter 3 of Government Auditing Standards (1994 revision) since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

As described in Note 2, the accompanying fund accountability statements and overhead rate schedules have been prepared on the cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently, revenues and expenditures are recognized when received or paid rather than when earned or incurred. Accordingly, the accompanying fund accountability statements and overhead rate schedules are not intended to present results in accordance with generally accepted accounting principles.

Our testing identified the following aggregate questioned cost as detailed in the accompanying fund accountability statements for the Cooperative Agreement and the Grant i) US\$ 1,202,435 in costs that are ineligible because they are not program related, unreasonable or prohibited by the terms of the Cooperative Agreement and/or Grant; and ii) US\$ 318,570 that are not supported with adequate documentation or did not have the required prior approvals or authorizations. The basis for questioning costs are set forth in the Fund Accountability Statements and Overhead Rate Schedules - Audit Findings section of this report.

Our testing identified the following aggregate questioned cost affecting the overhead rate as detailed in the accompanying overhead rate schedules for the Cooperative Agreement and the Grant i) US\$ 372,642 in costs that are ineligible because they are not program related, unreasonable or prohibited by the terms of the Cooperative Agreement and/or Grant; and ii) US\$ 545,840 that are not supported with adequate documentation or did not have the required prior approvals or authorizations. The basis for questioning costs are set forth in the Fund Accountability Statements and Overhead Rate Schedules - Audit Findings section of this report.

In our opinion, except for the questioned costs of US\$ 1,521,005 the fund accountability statements referred to above present fairly, in all material respects, the funds received and costs incurred by the Society for the Care of the Handicapped under Cooperative Agreement No. HNE-0159-A-00-3049-00 for the period from April 1, 1993 through January 31, 1995, and Grant No. ANE-0159-G-SS-9046-00 for the period from October 1, 1989 through April 30, 1993, in conformity with the cash basis of accounting described in Note 2.

In our opinion, except for the questioned costs of US\$ 918,482, the overhead rate schedules referred to above present fairly, in all material respects, the applicable overhead rate of the Society for the Care of the Handicapped under Cooperative Agreement No. HNE-0159-A-00-3049-00 for the period from April 1, 1993 through January 31, 1995, and Grant No. ANE-0159-G-SS-9046-00 for the period from October 1, 1989 through April 30, 1993, in conformity with the cash basis of accounting described in Note 2.

As described in Finding No. 2 in the Report on Internal Control Structure - Audit Findings section, the Society for the Care of the Handicapped documents significant amounts of cash purchase transactions in Gaza with in-house generated invoices. We identified no significant discrepancies, nor significantly unreasonable costs of our selected testing of

these invoices. We were not able to determine the effect, if any, of any over or understatement of Gaza incurred expenditures supported by in-house generated invoices.

This report is intended for the information of the management and others within the Society for the Care of the Handicapped and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

June 1, 1995

Arthur Andersen Egypt / Ahmed Hassan

**Society for the Care of the Handicapped
in the Gaza Strip**

Audit of Expenditures Incurred Under
Cooperative Agreement No. HNE-0159-A-00-3049-00
(April 1, 1993 through January 31, 1995)

Fund Accountability Statement (Note 2)

<u>Budget Elements</u>	<u>Budget</u> <u>US \$</u>	<u>Actual</u> <u>US \$</u>	<u>Questioned Cost (Note 5)</u>	
			<u>Ineligible</u> <u>US \$</u>	<u>Unsupported</u> <u>US\$</u>
Receipts:				
USAID		4,640,000		
Expenditures:				
Salaries	3,309,600	1,604,143	6,668	-
Employee Insurance	319,880	3,624	-	-
Travel	1,057,800	278,798	101,344	15,782
Equipment & Furnishings	920,871	692,871	104,482	15,809
Consultants	1,131,360	400,976	49,689	-
O.D.C	959,729	415,211	36,302	45,635
Overhead	1,985,760	936,276	153,513	-
Research		25,236	-	-
Other			194,217	-
	-----	-----	-----	-----
Total Expenditures	<u>9,685,000</u>	<u>4,357,135</u>	<u>646,215</u>	<u>77,226</u>
Net Balance		<u>US\$ 282,865</u>	<u>US\$ 723,441</u>	

The accompanying notes are an integral part of this statement.

**Society for the Care of the Handicapped
in the Gaza Strip**

Audit of Expenditures Incurred Under
Cooperative Agreement No. HNE-0159-A-00-3049-00
(April 1, 1993 through January 31, 1995)

Overhead Rate Schedule

<u>Description</u>	<u>Expenses</u> <u>US \$</u> (Note 5)	<u>Questioned Cost (Note 5)</u>		<u>Net</u> <u>Balance</u> <u>US\$</u>	<u>Findings</u>
		<u>Unallowable</u> <u>US \$</u>	<u>Unsupported</u> <u>US \$</u>		
Salaries	703,986	14,300	-	689,686	8
Telephone and Postage	67,177	35,797	-	31,380	7,8
Insurance and Licensing of Vehicles	68,010	4,188	-	63,822	7
Vehicle Maintenance	78,504	891	5,658	71,955	3,7
Vehicle Fuel	85,819	-	-	85,819	
Travel and International Conferences	32,957	-	32,682	275	7
Rent	58,446	41,508	6,000	10,938	3,7
Stationary	23,631	-	-	23,631	
Equipment Maintenance	16,385	-	-	16,385	
Photocopying Supplies	10,817	-	-	10,817	
Building Maintenance	8,012	-	-	8,012	
Medical Charges	55,795	40,680	-	15,115	7
Miscellaneous Charges	6,670	6,100	-	570	3,7,8
Cleaning Materials	7,349	1,320	-	6,029	7
Audit Fees	6,400	-	-	6,400	
Water and Electricity	4,142	1,345	-	2,797	7
Domestic Appliances	2,034	-	-	2,034	
Bank Service Charges	1,211	-	-	1,211	
Domestic Fuel	1,563	-	-	1,563	
Newspapers and Publication	6,172	-	-	6,172	
Total Indirect Expenses	<u>1,245,080</u>	<u>146,138</u>	<u>44,340</u>	<u>1,054,602</u>	
Total Salaries	2,866,270			2,866,270	
Less Indirect Employee Salaries	(703,986)			(703,986)	
Total Direct Salaries	<u>2,162,284</u>			<u>2,162,284</u>	
Overhead Rate (Indirect Expenses/Direct Salaries)	<u>57%</u>			<u>49%</u>	

The accompanying notes are an integral part of this statement.

**Society for the Care of the Handicapped
in the Gaza Strip**

Audit of Expenditures Incurred Under
Grant No. ANE-0159-G-SS-9046-00
(October 1, 1989 through April 30, 1993)

Fund Accountability Statement (Note 2)

<u>Budget Elements</u>	<u>Budget</u> <u>US \$</u>	<u>Actual</u> <u>US \$</u>	<u>Questioned Cost (Note 5)</u>	
			<u>Ineligible</u> <u>US \$</u>	<u>Unsupported</u> <u>US\$</u>
Receipts:				
USAID		4,628,601	-	-
Expenditures:				
Salaries	1,832,870	1,624,473	-	18,000
Insurance	92,794	6,601	-	-
Travel	31,944	67,161	-	-
Equipment	916,133	1,392,913	28,898	182,802
Consultants	144,798	109,636	5,443	-
O.D.C.	230,479	297,347	37,884	40,542
Overhead	1,303,091	1,171,899	465,051	-
Research	140,876	83,118	10,844	-
Other	-	-	8,100	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total Expenditures	<u>4,692,985</u>	<u>4,753,148</u>	<u>556,220</u>	<u>241,344</u>
Net Balance		<u>US\$ (124,547)</u>	<u>US\$ 797,564</u>	

The accompanying notes are an integral part of this statement.

**Society for the Care of the Handicapped
in the Gaza Strip**

Audit of Expenditures Incurred Under
Grant No. ANE-0159-G-SS-9046-00
(October 1, 1989 through April 30, 1993)

Overhead Rate Schedule

<u>Description</u>	<u>Expenses</u> <u>US \$</u>	<u>Questioned Cost (Note 5)</u>		<u>Net</u> <u>Balance</u> <u>US\$</u>	<u>Findings</u>
		<u>Unallowable</u> <u>US \$</u>	<u>Unsupported</u> <u>US \$</u>		
Salaries	1,034,550	-	-	1,034,550	
Travel	308,944	130,052	-	178,892	6,811
Vehicle Maintenance	139,752	1,184	-	138,568	7
Insurance and Licensing of Vehicles	99,932	-	-	99,932	
Vehicle Fuel	90,565	-	-	90,565	
Rent	86,895	51,876	-	35,019	7
Telephone and Postage	81,992	29,324	-	52,668	7
Depreciation	39,935	-	-	39,935	
Stationary	34,644	-	-	34,644	
Building Maintenance	33,476	-	-	33,476	
Photocopying Supplies	25,819	-	-	25,819	
Medical Supplies	22,618	11,309	-	11,309	7
Equipment Maintenance	19,849	-	-	19,849	
Audit Fees	14,808	-	-	14,808	
Miscellaneous Charges	13,766	1,317	-	12,449	11
Cleaning Materials	9,572	-	-	9,572	
Water and Electricity	3,266	1,442	-	1,824	11
Domestic Fuel	2,684	-	-	2,684	
Work Accident Insurance	2,376	-	-	2,376	
Educational Supplies	2,159	-	-	2,159	
Domestic Appliances	1,500	-	-	1,500	
Bank Service Charges	1,174	-	-	1,174	
Newspapers and Publications	1,122	-	-	1,122	
Other	-	-	501,500	(501,500)	1
Total Indirect Expenses	<u>2,071,398</u>	<u>226,504</u>	<u>501,500</u>	<u>1,343,394</u>	
Total Salaries	4,110,340			4,110,340	
Less Indirect Employee Salaries	(1,034,550)			(1,034,550)	
Total Direct Salaries	<u>3,075,790</u>			<u>3,075,790</u>	
Overhead Rate (Indirect Expenses/Direct Salaries)	<u>67%</u>			<u>44%</u>	

The accompanying notes are an integral part of this statement.

**Society for the Care of the Handicapped
in the Gaza Strip**

Audit of Expenditures Incurred Under
Cooperative Agreement No. HNE-0159-A-00-3049-00
(April 1, 1993 through January 31, 1995)
and
Grant No. ANE-0159-G-SS-9046-00
(October 1, 1989 through April 30, 1993)

**Notes to the Fund Accountability Statements
and Overhead Rate Schedules**

Note 1: Program Activities

The Society for the Care of the Handicapped in the Gaza Strip (SCH) was founded by Dr. Hatem Abu-Ghazaleh in 1975. SCH is an indigenous Private Voluntary Organization (PVO) providing services to over 3,000 clients in need in Gaza, a region that was recently relinquished to the Palestinian Authority from the State of Israel. SCH provides the following programs under the current Cooperative Agreement: Mother's Home Care/Home Based Early Intervention Programs for Handicapped and Non Handicapped At Risk Children, Speech and Hearing Center, and Personnel Training in Gaza with Lamar University; and under the Grant: Mother's Home Care/Home Based Early Intervention Programs and Personnel Training.

SCH has been the recipient of three USAID grants which includes Grant No. ANE-0159-G-SS-9046-00 and is currently operating under Cooperative Agreement No. HNE-0159-A-00-3049-00 of which USAID/Tel Aviv/Jerusalem has monitoring and management responsibilities since September 1994. Previously, the Cooperative Agreement and Grant were administered by the Assistant Administrator, Bureau for Europe and Near East, assisted by the USAID Representative in the US Embassy in Tel Aviv.

Note 2: Basis of Presentation

The fund accountability statements and overhead rate schedules have been prepared on the cash basis. Consequently, receipts and expenditures are recognized when received or paid rather than when earned or incurred. The overhead rate schedules for the Cooperative Agreement reflect the indirect cost accounts for calendar year 1993 and 1994. These fiscal year periods were the basis in determining the applicable overhead rates. The overhead rate schedules for the Grant reflect the indirect cost accounts for the entire period of the Grant.

Note 3: Net Balance

The net balance related to Grant No. ANE-0159-G-SS-9046-00 represents expenses incurred by SCH that were in excess of the amounts reimbursed by USAID. The net balance related to Cooperative Agreement No. HNE-0159-A-00-3049-00 includes an

advance requested from USAID by SCH of US\$ 140,000. The amount is also reflected in the US\$ 4,640,000 revenues from USAID. The advance was received after January 31, 1995.

Note 4: Exchange Rate

SCH maintains dual currency accounting records. Expenditures incurred in local currency (Israeli Shekels) have been converted into US dollars at the applicable exchange rate of the date of the transaction. For information purposes, the average exchange rate during the period of our audit is IS 3.00 to US\$ 1.

Note 5: Questioned Cost

Incurred questioned costs are presented in the fund accountability statements and overhead rate schedules in two categories: ineligible and unsupported costs. Questioned costs are expenditures that we have determined to be not in accordance with the Program Agreements and other applicable USAID regulations or are not supported by adequate documentation. "Ineligible" costs are deemed to be unallowable because they are prohibited by the agreement or applicable laws and regulations. "Unsupported costs" are expenditures which are not supported by adequate documentation or did not have the required prior approvals or authorizations.

Our audit identified US\$ 1,521,005 in aggregate questioned costs, US\$ 1,202,435 as ineligible costs and US\$ 318,570 as unsupported costs. In addition, we identified the applicable overhead rates for the Cooperative Agreement and Grant. The questioned costs include findings relating to the amount of unallowable overhead that was charged to USAID. The summary of questioned costs follows and the bases or reasons for questioning specific costs are set forth in the "Audit Findings" section of this report.

**Society for the Care of the Handicapped
in the Gaza Strip**

Audit of Expenditures Incurred Under
Cooperative Agreement No. HNE-0159-A-00-3049-00
(April 1, 1993 through January 31, 1995)

**Summary of Audit Findings
Affecting the Fund Accountability Statement**

<u>Budget Elements</u>	<u>Questioned Cost (Note 5)</u>	
	<u>Ineligible US \$</u>	<u>Unsupported US\$</u>
<i>Salaries</i>		
Finding No. 1	6,668	
<i>Travel</i>		
Finding No. 1	59,844	
Finding No. 2	41,500	
Finding No. 3		15,782
	<u>101,344</u>	
<i>Equipment & Furnishings</i>		
Finding No. 4	80,099	
Finding No. 3		15,809
Finding No. 5	<u>24,383</u>	-
	<u>104,482</u>	
<i>Consultants</i>		
Finding No. 1	6,000	-
Finding No. 2	14,349	-
Finding No. 6	<u>29,340</u>	-
	<u>49,689</u>	
<i>O.D.C</i>		
Finding No. 1	24,000	-
Finding No. 3	-	45,635
Finding No. 6	<u>12,302</u>	-
	<u>36,302</u>	
<i>Other</i>		
Finding No. 9	181,281	-
Finding No. 10	<u>12,936</u>	-
	<u>194,217</u>	
<i>Overhead</i>		
Finding No. 11	153,513	-
Subtotal	<u>646,215</u>	<u>77,226</u>
Total Questioned Cost	<u><u>723,441</u></u>	

**Society for the Care of the Handicapped
in the Gaza Strip**

Audit of Expenditures Incurred Under
Cooperative Agreement No. HNE-0159-A-00-3049-00
(April 1, 1993 through January 31, 1995)

**Summary of Audit Findings
Affecting the Overhead Rate Schedule**

<u>Budget Elements</u>	<u>Questioned Cost (Note 5)</u>	
	<u>Ineligible US \$</u>	<u>Unsupported US\$</u>
<i>Overhead</i>		
Finding No. 3		44,340
Finding No. 7	124,585	-
Finding No. 8	21,553	-
Subtotal	<u>146,138</u>	<u>44,340</u>
Total Questioned Costs of the Overhead		<u><u>190,478</u></u>

**Society for the Care of the Handicapped
in the Gaza Strip**

Audit of Expenditures Incurred Under
Grant No. ANE-0159-G-SS-9046-00
(October 1, 1989 through April 30, 1993)

**Summary of Audit Findings
Affecting the Fund Accountability Statement**

<u>Budget Elements</u>	<u>Questioned Cost (Note 5)</u>	
	<u>Ineligible US \$</u>	<u>Unsupported US\$</u>
<i>Salaries</i>		
Finding No. 1	-	18,000
<i>Equipment</i>		
Finding No. 1	-	182,802
Finding No. 2	28,898	-
<i>Consultants</i>		
Finding No. 4	3,000	-
Finding No. 5	<u>2,443</u>	-
	<u>5,443</u>	
<i>O.D.C.</i>		
Finding No. 3	37,884	-
Finding No. 1	-	40,542
<i>Research</i>		
Finding No. 11	1,444	-
Finding No. 4	<u>9,400</u>	-
	<u>10,844</u>	
<i>Other</i>		
Finding No. 9	8,100	-
<i>Overhead</i>		
Finding No. 10	465,051	-
Subtotal	<u>556,220</u>	<u>241,344</u>
Total Questioned Cost	<u><u>797,564</u></u>	

**Society for the Care of the Handicapped
in the Gaza Strip**

Audit of Expenditures Incurred Under
Grant No. ANE-0159-G-SS-9046-00
(October 1, 1989 through April 30, 1993)

**Summary of Audit Findings
Affecting the Overhead Rate Schedule**

<u>Budget Elements</u>	<u>Questioned Cost (Note 5)</u>	
	<u>Ineligible US \$</u>	<u>Unsupported US\$</u>
<i>Overhead</i>		
Finding No. 1		501,500
Finding No. 6	59,950	-
Finding No. 7	96,452	-
Finding No. 8	68,780	-
Finding No. 11	1,322	-
	_____	_____
Subtotal	226,504	501,500
	_____	_____
Total Questioned Costs of the Overhead		728,004
		=====

**Society for the Care of the Handicapped
in the Gaza Strip**

Audit of Expenditures Incurred Under
Cooperative Agreement No. HNE-0159-A-00-3049-00
(April 1, 1993 through January 31, 1995)

**Fund Accountability Statement
and Overhead Rate Schedule
Audit Findings**

Finding No. 1: Ineligible Direct Costs

During the course of our testing, we identified certain direct costs charged to USAID which did not meet eligibility requirements.

We identified charges under Salaries for a program funded by the University of Calgary, Canada. In addition, we identified the use of business class travel in a period subsequent to the release of a USAID notice stating that all such travel is ineligible (Contractor's notice 94-008, dated January 23, 1994, effective February 1, 1994). Further, we identified the use of a short-term Canadian consultant, contrary to the Cooperative Agreement which identifies that SCH is to procure goods or services from the United States, Gaza or Israel. Canada was not specifically allowed nor could we identify a waiver allowing the services of a Canadian consultant. We identified that SCH charged rent for space in its main building that was built using USAID funds from an earlier grant.

USAID was billed an ineligible amount of US\$ 96,512 (US\$ 6,668 under Salaries, US\$ 59,844 under Travel, US\$ 6,000 under Consultants, and US\$ 24,000 under Other Direct Costs).

Finding No. 2: Per Diem Donations

We identified that SCH charged USAID directly for amounts relating to US\$100/day per diems for consultants and US\$1,000 per course for teachers for food and lodging costs provided by SCH to the various consultants and teachers visiting the facilities in Gaza. The related costs incurred by SCH, in providing these services, are reflected in the records as indirect costs and, therefore, are also included in the overhead charge to USAID. In addition, we identified that SCH also charged USAID for amounts collected from long-term Expat Program individuals for lodging costs in facilities built from funds previously provided by USAID under an earlier grant. We were informed that SCH charged these amounts as direct costs since these per diems were allowed in the approved Program budget. These charges are ineligible since the related expenses were not incurred directly by SCH.

USAID was billed ineligible costs of US\$55,849 (US\$41,500 recorded under Travel, US\$14,349 recorded under Consultants).

Finding No. 3: Unsupported Direct Costs

During our review of the various direct and overhead accounts, we identified certain transactions that were not supported by any form of document or relevant information supporting the expense. The specific matters or transactions were identified through supplemental schedules provided to SCH management, and USAID Project, Contractor and RIG personnel.

As stated in USAID Handbook 13, Grantees shall maintain books, records, documents, and other evidence relating to the USAID-sponsored project and program in accordance with generally accepted accounting principles formally prescribed by the US, the cooperating country, or the International Accounting Standards Committee. Accounting records that are supported by documentation will, as a minimum, be adequate to show all costs incurred under the grant, the costs of the program supplied from other sources, and the overall progress of the program. The grantee records and subgrantee records which pertain to this grant shall be retained for a period of three years from the date of expiration of this grant and may be audited by USAID and/or its representatives.

USAID was billed unsupported costs of US\$ 77,226 (US\$ 15,782 under Travel, US\$ 15,809 under Equipment, and US\$ 45,635 under Other Direct Costs). In addition, the overhead rate schedule reflects unsupported vehicle and building maintenance, travel and rent of US\$ 44,340.

Finding No. 4: Unapproved Equipment Purchases

We identified that SCH purchased various fixed assets which were not included in the approved Cooperative Agreement, as identified in Attachment 6. Although we were able to physically inspect such equipment, we noted that some of the related equipment appeared to be non-essential to the Program. In addition, as stated in the Cooperative Agreement in section 11.4 "Equipment Purchases", SCH is required to obtain Cooperative Agreement officer approval for the purchase of general purpose equipment having a useful life of more than two years and an acquisition cost of US\$ 500 or more per unit. We questioned any unapproved purchases meeting these criteria.

USAID was billed ineligible expenses of US\$ 80,099.

Finding No. 5: In-house Furniture

We determined that USAID was charged the budgeted amount in the Cooperative Agreement for furniture built in-house by SCH, rather than the actual costs. The related costs for the manufacture of this furniture was incurred as indirect costs and therefore included in the overhead rate charged to USAID.

USAID was billed ineligible costs of US\$ 24,383.

Finding No. 6: Donated Services

We identified that certain consultants who visited SCH to provide specified services did not take all of their consulting fees and returned portions of their consulting fees by designating these amounts as donations to the Program. USAID was charged for the total of the consulting fees by SCH. In addition, we identified donated rent charges for a program.

Donations are not eligible for USAID reimbursement. As stated in OMB Circular No. A-122, donated or volunteered services or goods may be furnished to an organization by individuals. However, the value of these services or goods are not reimbursable as direct or indirect costs.

USAID was billed ineligible costs of US\$41,642 (US\$29,340 under Consultants and US\$12,302 under Other Direct Costs).

Finding No. 7: Expenses Incurred in the US

We identified during our review of the overhead accounts, that SCH incurred costs in the United States for an office (actually an apartment near Arlington, Virginia) including rent (US\$ 41,508), significant telephone charges (US\$ 32,464), security system fees (US\$ 526), cable TV (US\$ 462), various utilities (US\$ 1,354), and household cleaning (US\$ 1,320); for vehicle costs including car insurance (US\$ 4,188), parking violations (US\$ 200), traffic fines (US\$ 451), car registration (US\$ 541) and car maintenance (US\$ 891) and for direct medical costs and supplies for the Chairman's family (US\$ 40,680) during the period of the Cooperative Agreement subject to our audit.

We are raising this Finding in order to bring it to the attention of USAID. We were informed from the Chairman that SCH, as a non-US PVO, needs an office in the US. We understand that the US office provides the Chairman with a location as to where he can do further fund raising. Circular No. A-122 specifically prohibits the reimbursement of fund raising regardless if direct or indirect costs. Furthermore, these costs could be construed as lobbying costs which again are not allowable under Circular No. A-122.

Other costs, such as US vehicle maintenance and traffic fines, are not proper allowable charges. We identified that the Chairman maintains a medical insurance policy in Gaza. We contacted the company in Gaza and were verbally informed that no amounts were paid to the Chairman for the related medical costs incurred in the US. USAID does not allow charges for specific medical bills by i.e., chief of parties, nor their families unless such expenses are included in the agreement.

The overhead rate schedule reflects ineligible costs of US\$ 124,585.

Finding No. 8: Ineligible Costs in the Overhead

During our review of the overhead accounts, we identified unallowable costs incurred in Gaza such as i) an amount relating to the purchase of a gun used by the Chairman's bodyguard (US\$ 3,920), ii) a salary for a bodyguard for the Chairman of US\$ 650/month

for the 22 month period of the Cooperative Agreement, and iii) costs for telephone lines in the Chairman's house (US\$ 3,333).

Although these costs may be necessary considering the political situation in Gaza, such costs are not allowable under the Foreign Assistance Act and under the Mandatory Standard Provisions as identified in Handbook 13 regarding the costs relating to law enforcement activities.

The overhead rate schedules reflect US\$ 21,553 of ineligible costs.

Finding No. 9: Program Revenues

We identified that SCH charged certain fees, such as hearing test and tuition fees, for the programs funded by USAID, as identified through the supplemental schedules provided to SCH management, and USAID Project, Contractor and RIG personnel. As discussed in the "Audit Findings" section of our Report on Compliance, SCH is required to report such activity based on the Cooperative Agreement. In addition, as cited in Circular No. A-122, "Applicable Credits", such income should be used to offset or reduce related expenses.

We have reflected this questioned ineligible amount of US\$ 181,281 against the "Other" line item in the Fund Accountability Statement.

Finding No. 10: Interest Charges

SCH has earned interest income on its USAID bank accounts during 1994 which it has not yet remitted to USAID. We identified that related interest during 1993 was remitted to USAID. This interest relates to SCH's USAID checking account at First Union, account number 3-446-2476.

SCH should return US\$ 12,936 to USAID relating to interest earned on its USAID bank account used under the Cooperative Agreement. This ineligible amount is reflected against the "Other" line item in the Fund Accountability Statement.

Finding No. 11: Overhead

Based on our review of the overhead accounts and resultant questioned costs affecting the provisional overhead rate used by SCH on billings submitted to USAID, we calculated an applicable overhead rate for the period under the Cooperative Agreement of 49 % as identified in the Overhead Rate Schedule. SCH includes in its billings to USAID an amount for overhead based on a provisional overhead rate multiplied against total Program direct salaries as allowed in the Cooperative Agreement. The provisional overhead rate is subject to audit, and as stated in the Cooperative Agreement under 1H.2., the US Government shall pay the lower overhead in the event the final rates are lower.

For the purposes of identifying the questioned costs relating to overhead, we first subtracted from the Program salaries, the amount identified as ineligible per Finding No. 1. We then took the resultant amount and multiplied it against our calculated overhead rate (49 %), and questioned the difference between our calculated amount and the amount of overhead charged by SCH.

USAID was billed ineligible costs of US\$ 153,513.

**Society for the Care of the Handicapped
in the Gaza Strip**

Audit of Expenditures Incurred Under
Grant No. ANE-0159-G-SS-9046-00
(October 1, 1989 through April 30, 1993)

**Fund Accountability Statement
and Overhead Rate Schedule
Audit Findings**

Finding No. 1: Unsupported Costs

During our review of the various direct and overhead accounts, we identified certain transactions that were not supported by any form of document or relevant information supporting the expense or transfer. The specific matters or transactions were identified through supplemental schedules provided to SCH management, and USAID Project, Contractor and RIG personnel. These matters include transfers made out of SCH general bank accounts for unsupported petty cash transfers.

As stated in USAID Handbook 13, Grantees shall maintain books, records, documents, and other evidence relating to the USAID-sponsored project and program in accordance with generally accepted accounting principles formally prescribed by the US, the cooperating country, or the International Accounting Standards Committee. Accounting records that are supported by documentation will, as a minimum, be adequate to show all costs incurred under the grant, the costs of the program supplied from other sources, and the overall progress of the program. The grantee records and subgrantee records, which pertain to this grant, shall be retained for a period of three years from the date of expiration of this grant and may be audited by USAID and/or its representatives.

USAID was billed unsupported costs of US\$ 241,344 (US\$ 18,000 under Salaries, US\$ 182,802 under Equipment, US\$ 40,542 under Other Direct Costs). In addition, the overhead rate schedule reflects unsupported cash transfers of US\$ 501,500 which are reflected against the "Other" line item.

Finding No. 2: Purchase of Non-Program Vehicle

We identified that SCH purchased a Honda Civic which we understand is not included in the equipment budget of the Grant. The amount was charged to the equipment account funded by USAID. Although the car is of Japanese trademark, it was manufactured in the US. However, the vehicle is not used for Program purposes.

USAID was billed ineligible costs of US\$ 28,898.

Finding No. 3: Donated Services

During our testing, we identified that SCH obtained donated services and goods for building maintenance (US\$ 4,022), educational supplies (US\$ 23,462) and rent (US\$ 10,400) which were charged in the other direct cost accounts billed to USAID. As stated in Circular No. A-122, donated services or goods are not reimbursable as either direct or indirect costs.

USAID was billed ineligible costs of US\$ 37,884 as Other Direct Costs.

Finding No. 4: Consultant and Research Per Diems

Consistent with Finding No. 2 under the Cooperative Agreement, SCH charged USAID directly for per diem amounts allowable to a consultant and researchers under the Grant for which SCH provided the lodging and food. The related costs incurred by SCH were reflected in the overhead accounts. As a result, food and lodging costs were charged to the Grant twice.

USAID was billed ineligible costs of US\$ 12,400 (US\$ 3,000 charged under Consultants and US\$ 9,400 charged under Research).

Finding No. 5: Travel Costs for Spouse of Consultant

We identified during our review of travel costs for one of the consultants that a ticket was purchased for his spouse and was also charged as a direct cost. The travel was round trip between the US and Tel Aviv. We were informed by the Chairman that the spouse of the consultant is also an expert in the related field and provided her services to SCH for free during her stay with her husband. We believe that her intentions, therefore, were to donate her services all along and, therefore, any related costs should be treated as such.

USAID was billed ineligible costs of US\$ 2,443, charged under Consultants.

Finding No. 6: US Per Diems Recorded in the Overhead

During our testing of the travel recorded in the related overhead account, we identified that SCH remitted US\$ 150 or US\$ 200/day per diems to the Chairman of SCH for travel to the US. We were not able to find any justification for these amounts, considering that we identified, as discussed below, that SCH maintained an apartment in the US which it considered an office. As we were generally informed by the Chairman, his trips to the US were primarily to raise funds for SCH. In addition, the supporting documents were signed cash receipts which did not detail the related travel dates. We were informed that the per diem amounts were to pay for food and transportation costs, not lodging. The amounts do not appear reasonable, when compared to allowable per diems for Washington DC, during the period which averaged US\$ 34/day for meals and incidentals. Regardless, we construe that the amounts are ineligible since fund raising is ineligible for reimbursement in accordance with Circular No. A-122.

The overhead rate schedule reflects ineligible costs of US\$ 59,950.

Finding No. 7: Expenses Incurred in the US

We identified during our review of the overhead accounts, that SCH incurred costs in the United States for an office (actually an apartment near Arlington, Virginia) including rent (US\$ 51,876), significant telephone charges (US\$ 29,324), security system fees (US\$ 329), cable TV (US\$ 126), various utilities (US\$ 1,442), and rental insurance (US\$ 263); for vehicle costs including car registration (US\$ 599) and car maintenance (US\$ 1,184) and for direct medical costs and supplies for the Chairman's family (US\$ 11,309) during the period of the Grant subject to our audit.

We are raising this Finding in order to bring it to the attention of USAID. We were informed from the Chairman that SCH, as a non-US PVO, needs an office in the US. We understand that the US office provides the Chairman with a location as to where he can do further fund raising. Circular No. A-122 specifically prohibits the reimbursement of fund raising regardless if direct or indirect costs. Furthermore, these costs could be construed as lobbying costs which again are not allowable under Circular No. A-122.

Other costs, such as US vehicle maintenance are not proper allowable charges. We identified that the Chairman maintains a medical insurance policy in Gaza. We contacted the company in Gaza and were verbally informed that no amounts were paid to the Chairman for the related medical costs incurred in the US. USAID does not allow charges for specific medical bills by i.e., chief of parties, nor their families, unless such expenses are included in the agreement.

The overhead rate schedule reflects ineligible costs of US\$ 96,452.

Finding No. 8: Unallowable Travel

During our review of the overhead accounts, we identified frequent travel between the US and Gaza for the Chairman and his wife, the General Supervisor. We were generally informed by the Chairman of SCH that he frequents the US for fund raising purposes. As specifically mentioned in Circular No. A-122, fund raising activity is unallowable and not reimbursable as either direct or indirect costs. We questioned the total of trips during the period of January 1990 through December 1992, since we understand that the only reason for the trips is for fund raising. We understand that there may have been one or two trips that would have been reasonably expected relating to visits by the Chairman to similar US programs that would assist SCH in meeting its Program objectives.

The overhead rate schedules reflect ineligible costs of US\$ 68,780.

Finding No. 9: Interest Charges

SCH has earned interest income on its USAID bank accounts during 1991 which it has not yet remitted to USAID. SCH should return US\$ 8,100 to USAID relating to interest earned on its USAID bank account (1st American, account number 3-446-247) used under the Grant. The amount of US\$ 8,100 is reflected against the "Other" line item in the Fund Accountability Statement.

Finding No. 10: Overhead

Based on our review of the overhead accounts and resultant questioned costs affecting the provisional overhead rate used by SCH on billings submitted to USAID, we calculated an applicable overhead rate for the period under the Grant of 44 % as identified in the Overhead Rate Schedule. SCH includes in its billings to USAID an amount for overhead based on a provisional overhead rate multiplied against total Program direct salaries as allowed in the Grant.

For the purposes of identifying the questioned costs relating to overhead, we first subtracted from the Program salaries, the amount identified as unsupported per Finding No. 1. We then took the resultant amount and multiplied it against our calculated overhead rate (44 %), and questioned the difference between our calculated amount and the amount of overhead charged by SCH.

USAID was billed ineligible costs of US\$ 465,051.

Finding No. 11: Ineligible Airline Carrier

We identified the use of a non-US carrier for travel incurred by a researcher.

USAID was billed ineligible costs of US\$ 1,444 under Research. In addition, the overhead rate schedule reflects US\$ 1,322 in ineligible costs related to the use of non-US carrier.

Mr. Lou Mundy
Regional Inspector General
for Audit/Cairo
United States Agency for
International Development
Cairo, Egypt

Independent Public Accountant's Report
on Internal Control Structure

We have audited the accompanying fund accountability statements and overhead rate schedules of the Society for the Care of the Handicapped in the Gaza Strip relating to funds received and expenses incurred under Cooperative Agreement No. HNE-0159-A-00-3049-00 for the period from April 1, 1993 through January 31, 1995, and Grant No. ANE-0159-G-SS-9046-00 for the period from October 1, 1989 through April 30, 1993, financed by the United States Agency for International Development and we have issued our reports thereon dated June 1, 1995.

Except as discussed in the following paragraph, 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 fund accountability statement and the indirect cost and fringe benefits schedules are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 33 of Chapter 3 of Government Auditing Standards (1994 revision) since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

In planning and performing our audit of the Society for the Care of the Handicapped, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statements and the indirect expense schedules and not to provide assurance on the internal control structure.

The management of the Society for the Care of the Handicapped is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. Among 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 fund accountability statements and the indirect expense schedules in accordance with the cash basis of accounting described in Note 2 to the Fund Accountability Statements and the indirect expense schedules. 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 as being: cash receipts, cash disbursements, payroll, travel, use of consultants, allowability and allocation of indirect expenses, financial reporting and procurement. For 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 judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Refer to Finding Nos. 2 through 4 in the "Audit Findings" section of this report regarding the identification of reportable conditions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statements and overhead rate schedules being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit disclosed a matter which we believe is a material weakness as defined above. Refer to Finding No. 1 in the "Audit Findings" section of this report for a discussion of this matter.

However, we noted certain other matters involving the internal control structure and its operation that we have reported to the management of the Society for the Care of the Handicapped and the United States Agency for International Development in a separate letter dated June 5, 1995.

This report is intended for the information of the management and others within the Society for the Care of the Handicapped and the US Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

June 1, 1995

Arthur Andersen Egypt / Ahmed Awad

**Society for the Care of the Handicapped
in the Gaza Strip**

Audit of Expenditures Incurred Under
Cooperative Agreement No. HNE-0159-A-00-3049-00
(April 1, 1993 through January 31, 1995)
and
Grant No. ANE-0159-G-SS-9046-00
(October 1, 1989 through April 30, 1993)

**Internal Control Report
Audit Findings**

Material Weakness

Finding No. 1: Management Override of Established Internal Controls

The Society for the Care of the Handicapped (SCH) has established internal control policies as identified in its Finance Manual dated January 1990. Although management of SCH properly performed its responsibility of establishing an internal control structure to provide reasonable assurance that specific entity objectives will be achieved, an integral part of management's responsibility is to maintain a properly functioning internal control structure. Considering the organizational set up of SCH, employees have been assigned specific duties to ensure that proper controls and safeguards are functioning.

However, it appears that certain unsupported transactions have resulted based on certain business transactions entered into by the Chairman of SCH which in essence have overridden certain controls and assigned employee functions as previously established. Specifically, SCH has entered into certain related party rent contracts, hired a related party to perform research services and obtained services and goods in the United States based on decisions by the Chairman. Regarding the use of the Chairman's personal funds used to procure services and goods in the United States, refer to Finding No. 3 below. In addition, certain procurements were made without proper competitive bids as required in the Finance Manual but, as we understood, based on decisions by the Chairman. Furthermore, we understood that assets were relocated to various programs and locations, and that unsupported cash transfers were made based on decisions of the Chairman.

We understand that SCH is managed by a highly energetic and charismatic Chairman who is excited in achieving the goals of the organization, but a proper functioning internal control system requires the proper segregation of duties to reduce the opportunities to both perpetrate and conceal errors or irregularities in the normal course of duties of all individuals and allow the use of adequate documents and records to help ensure the proper recording of transactions and events. All related questioned costs surrounding these unsupported transactions are identified in the Fund Accountability Statements and Overhead Rate Schedules - "Audit Findings" section of this report.

Recommendation No. 1

Management of SCH should continue to adhere to the internal control structure and accounting system that it put into place. All individuals of the organization should be subject to these controls and adhere to the accounting system in order to ensure that the organization's objectives are achieved.

Reportable Conditions

Finding No. 2: Use of In-house Generated Invoices

During our audit of the SCH records which support expenditures financed under USAID cooperative agreements or grants, we identified that there were numerous expenditures incurred in Gaza supported by invoices generated by SCH. We understood that due to the political situation in Gaza, previously an occupied territory under Israeli rule, many Palestinian vendors would not provide invoices for cash sales. As a result, SCH management implemented procedures where such expenditures are to be documented by in-house generated invoices.

During our testing, we found significant amounts of such supporting documents underlying the accounting records. Considering the environment in which SCH operates, we understand the sensitivities of these vendors. However, we believe SCH could have at least required such vendors to provide signatures on or stamp such invoices.

During our review, we tested such invoices, particularly in the fixed assets area, where we used such invoices as support for the assets we physically inspected. We identified no significant discrepancies, nor significantly unreasonable costs. Although we identified no questioned costs relating to this matter, such invoices do not provide adequate support under international or US accepted auditing standards, and considering that these expenditures were remitted in cash, we have identified this matter in our audit report of the fund accountability statements for emphasis. We believe this is adequate treatment as we are not able to determine the effect of any over or understatement of Gaza incurred expenditures supported by in-house invoices, if any.

Recommendation No. 2

SCH should attempt to obtain third party invoices from vendors in Gaza, consistent with its use of US and Israeli vendors. At a minimum, SCH should require such vendors to sign or rubber stamp the SCH generated invoices to provide additional support for purchases from these vendors. We believe this practice, if necessary, considering the recent change of control of Gaza to the Palestinian Authority, would not put such vendors in vulnerable situations and yet provide supporting documents meeting accepted auditing standards.

Finding No. 3: Use of Chairman's Funds

During our testing, we identified that numerous expenditures incurred in the United States were paid by the Chairman of SCH using personal credit cards or checks. Although analogous to incurring expenses under employee advances, such practice should be related to specific expenditures, i.e., Chairman travel or stay in hotels. However, we identified that such practice was used in purchasing airline tickets for consultants, software, certain technical items, medical charges and other related types of expenditures. We reviewed an account maintained in SCH records which specifically identifies such activity. However, we found that the Chairman was not necessarily reimbursed in total but through SCH incurring personal costs on behalf of the Chairman. We understood that the Chairman used personal financing means to expedite the purchase of these services for SCH.

Although, based on our review, we identified that such activities could be reconciled (i.e., Chairman remitting expenditures on behalf of SCH and vice versa equaled at the end of each reporting period), we do not believe that this is a prudent business practice and utilizes the time of the accounting department on personal matters for the Chairman.

Recommendation No. 3

We recommend that this current practice stop and that SCH attempt to utilize its bank accounts in the US to remit for expenditures that occur in the US. SCH could, if necessary, obtain a corporate credit card to expedite certain purchases.

Finding No. 4: Fixed Asset Identification

According to the SCH Finance Manual, SCH is to maintain fixed asset cards for purchases of durable goods in excess of \$ 300. The cards are to identify, amongst other things, the location and relevant identifying information of the assets. This policy appears appropriate considering the assets of SCH are spread over numerous locations in the Gaza Strip.

In the performance of our inventory observations, we were not able to utilize these cards as we were not able to identify any except for a list of assets by program, resulting in a time-consuming inventory observation requiring the full-time attention of the Director General during the process. Although we did not identify any questionable matters during our observation procedures, we support the intentions of the Finance Manual, especially considering the significant amount of fixed asset expenditures by SCH exceeding \$ 300.

Recommendation No. 4

We recommend that SCH implement the procedures denoted in its Finance Manual regarding the identification of its fixed assets

Mr. Lou Mundy
Regional Inspector General
for Audit/Cairo
United States Agency for
International Development
Cairo, Egypt

Independent Public Accountant's Report
on Compliance with Agreement Terms
and Applicable Laws and Regulations

We have audited the accompanying fund accountability statements and overhead rate schedules of the Society for the Care of the Handicapped in the Gaza Strip relating to funds received and expenses incurred under Cooperative Agreement No. HNE-0159-A-00-3049-00 for the period from April 1, 1993 through January 31, 1995, and Grant No. ANE-0159-G-SS-9046-00 for the period from October 1, 1989 through April 30, 1993, financed by the United States Agency for International Development and we have issued our reports thereon dated June 1, 1995.

Except as discussed in the following paragraph, 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 fund accountability statement and the indirect cost and fringe benefits schedules are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 33 of Chapter 3 of Government Auditing Standards (1994 revision) since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

Compliance with laws, regulations, contracts, and binding policies and procedures applicable to the Society for the Care of the Handicapped is the responsibility of its management. As part of obtaining reasonable assurance about whether the fund accountability statements and overhead rate schedules are free of material misstatement, we performed tests of the Society for the Care of the Handicapped's compliance with

certain provisions of laws, regulations, contracts, and binding policies and procedures. However, our objective was not to provide an opinion on compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of misstatements resulting from those failures or violations could be material to the fund accountability statements and overhead rate schedules. The effect of Finding Nos. 1 through 3, as identified in the Audit Findings section of this report, are included as questioned costs in the fund accountability statements and overhead rate schedules referred to above.

We considered these material instances of noncompliance in forming our opinion on whether the Society for Care of the Handicapped's fund accountability statements and overhead rate schedules are presented fairly, in all material respects, in conformity with the basis of accounting described in Note 2 to the fund accountability statements and overhead rate schedules, and this report does not affect our report on the fund accountability statements and overhead rate schedules dated June 1, 1995.

Except as described above, the results of our tests of compliance indicate that with respect to the items tested, the Society for the Care of the Handicapped complied, in all material respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, the extent of noncompliance noted in our testing indicates, that with respect to the transactions that occurred in the administration of the Program that were not tested by us, there is more than a relatively low risk that the Society for the Care of the Handicapped in the Gaza Strip may not have complied with applicable agreements, laws and regulations.

This report is intended for the information of management and other within the Society for the Care of the Handicapped and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

June 1, 1995

Arthur Andersen Egypt / Ahmed Amr

**Society for the Care of the Handicapped
in the Gaza Strip**

Audit of Expenditures Incurred Under
Cooperative Agreement No. HNE-0159-A-00-3049-00
(April 1, 1993 through January 31, 1995)
and
Grant No. ANE-0159-G-SS-9046-00
(October 1, 1989 through April 30, 1993)

**Report on Compliance with Agreement Terms
and Applicable Laws and Regulations
Audit Findings**

Finding No. 1: Reporting of Other Donors

Through our review of the Program history and related correspondence files, USAID desires to get the Program to a self-sustained basis and has been encouraging the Program to obtain funds from other sources and/or to charge for its services. Such activity was to be reported to USAID in order for it to make a continuing assessment of its commitment to SCH. We have identified amounts charged to clients by SCH for certain programs financed by USAID. SCH has received approximately US\$ 180,000 for these services during the period under the Cooperative Agreement. In addition, we identified cash donations from various sources, including Saudi Arabia and Kuwait. We found a total of donations of about US\$ 400,000 during the Cooperative Agreement period and for over US\$ 600,000 during the period of the Grant.

We were not able to identify any formal reporting by SCH to USAID for the amounts collected through Program services and from these other sources.

Recommendation No. 1

SCH should formally report to USAID its sources of other donations and its revenues from Program services as required under the Cooperative Agreement.

Finding No. 2: Lack of General Compliance

Based on our review of SCH's compliance with the Grant and the Cooperative Agreement and numerous findings relating to issues of noncompliance, we strongly believe SCH does not have a clear understanding of its commitment to comply with the various USAID agreements. We understand that SCH focused only on its approved budget under the Cooperative Agreement and the Grant as the basis for expending funds provided by USAID.

Although the Cooperative Agreement and the Grant stand alone as contractual documents identifying the terms of business for SCH in its dealings with USAID, there were many matters which were not clearly defined to SCH or, at a minimum, verbally explained, by USAID as we were informed by the Chairman of SCH. Yet, this does not absolve SCH

from requesting a better understanding of the terms of its relationship with USAID or performing as required under the agreements.

Findings Nos. 1,2,4,5,6,7,8,9,10 and 11 under the Cooperative Agreement and Findings Nos. 2,3,4,5,6,7,8,9,10 and 11 under the Grant represent questioned costs, including proper overhead allowances, that may have been reduced or eliminated had SCH understood the compliance matters surrounding its agreements with USAID.

Recommendation No. 2

We recommend that prior to continuing its relationship with USAID that SCH obtain a better understanding of its commitment to comply with the applicable terms of its contract with USAID. SCH should consider the identification of a firm or individual to critically review its contract terms with USAID and ensure its continuing compliance.

Finding No. 3: Commingling of Funds

We identified that SCH transferred cash amounts out of its USAID bank accounts to its general bank accounts, both in the United States and Gaza. These transfers were supported by documentation that this cash was for overhead purposes. As per Handbook 13, USAID funds shall not be commingled with other grantee owned or controlled funds. The grantee shall deposit all USAID cash advances in a separate bank account and shall make all disbursements for goods and services from this account.

Recommendation No. 3

SCH should stop the current practice of transferring cash to its general accounts out of its USAID accounts in order to comply with this regulation.

**Society for the Care of the Handicapped
in the Gaza Strip**

Audit of Expenditures Incurred Under
Cooperative Agreement No. HNE-0159-A-00-3049-00
(April 1, 1993 through January 31, 1995)
and

Grant No. ANE-0159-G-SS-9046-00
(October 1, 1989 through April 30, 1993)

Management Comments

- 1- Stipends for university of Calgary rehabilitation students were paid with the approval of AID in Washington. The monthly request was made in separate line item explaining the use of advances from AID.
- 2- None of these expenses were charged to the overhead pool. It was directly charged to the Sun Day Care Center account. Lodgings were in Society owned property for which the Society has every right to charge rent.
- 3- This was a mistake that has been corrected \$4912 has been credited to the Aid account. The adjustment voucher is attached.
- 4- The first class on the ticket was a mistake by the travel agent. The cost incurred by SCM as appeared on the ticket was a business class fare but since Dr Abu Ghazaleh was a frequent traveler holding the Royal Ambassador card he was upgraded by TWA at no extra cost to first class. The travel agent on issuing the business class ticket was mistakenly put an F on the class.
TWA and the travel agent eventually reconciled their differences at no extra cost to SCM.
- 5- This is an ineligible finding, what we have in the budget as is well known, it is an estimate and what we have here is the actual cost.

When you pay a business class fare in the States you are upgraded to first class
- 6- These consultants were staying at Society owned property for which the Society has every right to charge rent.
- 7- Equipment in the budget was prepared to the best of our

knowledge. Equipment is much less than the approval amount and the total amount for equipment was never exceeded. All equipment bought was deemed necessary for the efficient running of the programs.

- 8- The materials bought were never charged to the O.H. costs were charged to the Vocational Training Program which was not funded by AID.
- 9- That is true but it is property of the Society and we have every right to charge rent as we have been doing all the time and this was apparent to the previous auditors and was not objected to.

This is for Mahfouz Agha with whom we have a rent contract. Abu Ghazaleh has nothing to do with it.

- The amount of \$1000 per month is for 4 apartment at \$250 per apartment.

You are right they are not arm length transactions when compared with other rentals as they are at half price. An apartment in a prime location in Gaza for \$250 is much cheaper than what the Society rents in Khanyounis which is for 350\$.

Dr Abu Ghazaleh could easily rent each one of them for \$600 a month total \$2400. He charges the Society \$1000.

- 12- We are the only Palestinian organization registered with AID. All comparable US. NGO's maintain their headquarters in United States. We had to have this apartment primarily to do necessary business in the U.S.. Related charges such as Cable T.V., Security System and all others expenditure items were necessary for proper functioning. Cable T.V. was needed because only CNN produced quick and detailed accounts of what

was happening in the occupied territories.

Medical expenses for Dr Abu-Ghazaleh are approved by a resolution of the board of directors of SCH.

- 13- The salary of the general supervisor was approved by the board of directors of SCH in recognition of the importance of her work.
- 15- We had to buy this for the need of the protection of the chairman of the society after taking decisions that were in the best interests of SCH programs and entailing the dismissal of employees that were disrupting the AID programs. The General in command of Preventive Security came to the society and officially advised to procure security equipment and security guard who was eventually trained by Preventive Security.

The need for this protection is directly related to AID programs since the dismissed employees were drivers of AID operated vehicles. The cost was, however, charged to overhead.

You identified wrong the one body guard (Khab Malahi) who was hired during the period from October 5, 1994 to May 29, 1995 and his salary was \$350 we consider this inclusion in the OH very legitimate.

- 17- A report of income from these programs is attached. Funds were spent according to the agreement with Aid to support programs consistent with the purposes of the grant. They were used to partially cover expenses of the Sun Day Care Center and Faded Lababidi center which served mentally handicapped students over the age served in the home based AID funded programs.
- 5- Kawthar Abu Ghazaleh came as a consultant to AID programs.

She is a Palestinian holding a Jordanian Passport was not allowed to use Israeli Airports during that time.

- 8- This vehicle was made in U.S and was imported by the Honda dealer in Israel from U.S.
- 12- The spouse was a consultant.

**Society for the Care of the Handicapped
in the Gaza Strip**

**Audit of Expenditures Incurred Under
Cooperative Agreement No. HNE-0159-A-00-3049-00
(April 1, 1993 through January 31, 1995)
and
Grant No. ANE-0159-G-SS-9046-00
(October 1, 1989 through April 30, 1993)**

Auditor's Comments to Management Responses

The management of the Society for the Care of the Handicapped in the Gaza Strip (SCH) provided their responses to us through a facsimile. The responses are presented in their entirety in Appendix A. The responses do not address the internal control or compliance findings. It appears that the responses provided by SCH do not address the audit findings identified in the draft report provided to SCH in the exit conference held at the United States Agency for International Development's office in Tel Aviv. The responses appear to address the draft findings (which were not in report form) provided to SCH management at the end of the fieldwork. SCH management was informed at that time that these finding summaries were provided as information only, subject to change, and that the actual findings would be provided at the exit conference through a draft report which would have been technically reviewed by USAID/Egypt. As a result, the responses provided by SCH management in Appendix A do not match the finding number order nor necessarily address the actual findings in the report (i.e., some of the findings were altered/modified/dropped based on the technical review by USAID/Egypt).

We read the responses provided by SCH management which did not include any supporting documents or copies of letters/memorandums that would address ineligible costs. The responses provided were only the narrative as identified in Appendix A. We, therefore, have not specifically addressed each of the responses since our reading of the narrative has not altered our findings.

Based on the SCH management responses, none of the audit findings have changed.

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USAID WEST BANK/GAZA

FAX:972-3-5255549

P. 002



West Bank and Gaza Mission
United States Agency for International Development
American Embassy, 71 Hayarkon St. , Tel Aviv, Israel
Tel: 972-3-5255414 Fax: 972-3-5255549

Nov. 16, 1995

TO : Lou Mundy, RIG/A/C

FROM : Christopher ^{CB}Crowley, Director

SUBJECT : Audit of the Society of the Handicapped in the
Gaza Strip (SCH) expenditures incurred under
Cooperative Agreement No. HNE-0159-A-00-3049-00
and Grant No. ANE-0159-G-00-S-9046-00

We have read the draft financial audit report and acknowledge the serious nature of the findings. As the grantee has not responded to the issues raised by the audit, we are unable to provide any substantive comments. We request that the report be issued as quickly as possible so that we may take action to resolve and close the recommendations.