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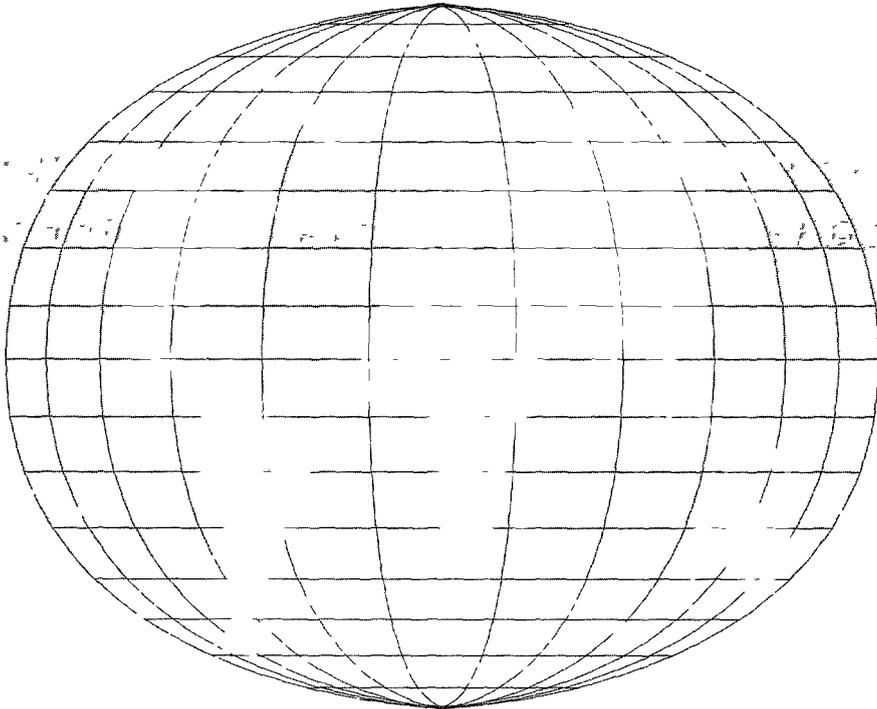
# Report of Audit

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**Financial Audit of the Alexandria Business Association,  
Costs Incurred Under  
USAID/Egypt's Small and Micro Enterprise  
Project No. 263-0212**

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**Report No. 6-263-98-016-N  
February 19, 1998**



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**FINANCIAL INFORMATION CONTAINED  
IN THIS REPORT MAY BE PRIVILEGED.  
THE RESTRICTION OF 18 USC 1905 SHOULD  
BE CONSIDERED BEFORE ANY INFORMATION  
IS RELEASED TO THE PUBLIC.**

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**Regional Inspector General for Audit  
Cairo, Egypt  
OFFICE OF INSPECTOR GENERAL  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



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

**CAIRO, EGYPT**

**Report No. 6-263-98-016-N  
February 19, 1998**

**MEMORANDUM**

**TO** DIRECTOR USAID/Egypt, John R. Westley  
**FROM** A/RIG/A/Cairo, Bruce N Boyer *Bruce N Boyer*  
**SUBJECT** Financial Audit of the Alexandria Business Association, Costs Incurred Under USAID/Egypt's Small and Micro Enterprise Project No 263-0212

The attached report, transmitted on December 21, 1997, by Allied Accountants, presents the results of a financial audit of the Alexandria Business Association (the "Association") related to costs incurred during the period January 1, 1995 through December 31, 1996 under USAID/Egypt's Small and Micro Enterprise Project No. 263-0212. The purpose of the project was to support the Association in providing technical assistance to small and micro enterprises and administering, in cooperation with local banks, a collateral fund to facilitate the provision of credit to small and micro entrepreneurs in the metro Alexandria area. In 1996, the project was expanded to include Kafr El Sheikh Governorate as well. The project provided the Association with funds for operating expenses, equipment, training, special projects, and international travel.

We engaged Allied Accountants to perform a financial audit of \$166,926 (equivalent to LE567,548) in USAID/Egypt funds reimbursed to the Association under the project. The purpose of the audit was to evaluate the propriety of the costs incurred during the audit period. The auditors evaluated the Association's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming their opinion regarding the Fund Accountability Statement.

The auditors questioned costs of \$3,481 (equivalent to LE11,835) related principally to costs reimbursed by USAID/Egypt for international travel using a non-U S flag carrier. The auditors did not report any material weaknesses regarding the Association's internal control structure, but did identify one instance of material noncompliance regarding the commingling of USAID/Egypt funds with other funds owned or controlled by the Association.

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In response to the draft report, Association officials provided additional documentation and explanations to the report findings. Allied Accountants reviewed the Association's response to the findings and, where applicable, made adjustments to the report (see Appendices A and B).

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

**Recommendation No. 1:** We recommend that USAID/Egypt make a management decision on the questioned costs of \$3,481 (ineligible) detailed on pages 11 and 12 of the Allied Accountants audit report, and recover from the Alexandria Business Association any amounts determined to be unallowable.

**Recommendation No. 2:** We recommend that USAID/Egypt obtain evidence that Alexandria Business Association has addressed the material noncompliance issue (commingling of funds) detailed on page 17 of the Allied Accountants report.

In response to Recommendation No. 1, USAID/Egypt collected refunds from the Association for the entire amount of questioned costs. Based on this action, Recommendation No. 1 is closed upon report issuance. In response to Recommendation No. 2, USAID/Egypt obtained the necessary evidence to show that the Association has satisfactorily addressed the material noncompliance issue by opening a separate local currency bank account. Based on this action, Recommendation No. 2 is also closed upon report issuance.

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 Egypt.

Attachment a/s

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**Alexandria Business Association**

Audit of USAID/Egypt Resources Managed by the  
Alexandria Business Association  
Small and Micro Enterprise Project

Cooperative Agreement No 263-0212-A-00-4011-00

**Fund Accountability Statements**  
for the Period January 1, 1995 through December 31, 1996

Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public.

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**Alexandria Business Association**

Audit of USAID/Egypt Resources Managed by the  
Alexandria Business Association  
Small and Micro Enterprise Project

Cooperative Agreement No 263-0212-A-00-4011-00

**Fund Accountability Statements**  
for the Period January 1, 1995 through December 31, 1996

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# ALLIED ACCOUNTANTS

Ragheb, Istambouli & El Kilany

A Member Firm of ARTHUR ANDERSEN & Co. SC

Public Accountants & Business Advisors

Fellows & Members of the Egyptian Society of Accountants & Auditors



## المحاسبون المتضامنون

راعىب ، اسطنبولى والكيلانى

مراسلو آرثر أندرسن وشركاه

محاسبون قامويون وحرارة تنظيم وإدارة

رملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

December 21, 1997

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 the audit of USAID resources managed by the Alexandria Business Association (ABA) under the Small and Micro Enterprise (SME) Project, USAID/Egypt Cooperative Agreement No 263-0212-A-00-4011-00 (the "Agreement") We were engaged to perform an audit of the local expenditures incurred and reimbursed for the period January 1, 1995 through December 31, 1996

### Background

Grant Agreement No 263-0212 between the Arab Republic of Egypt and the United States of America for the Small and Micro Enterprise (SME) Development Project was signed on September 30, 1988 The Agreement remains in effect until September 30, 1998

The Cooperative Agreement was signed between ABA and USAID/Egypt on October 1, 1993 The purpose of the Agreement is to support ABA in providing technical assistance to small and micro enterprises and administering, in cooperation with local banks, a collateral fund to facilitate the provision of credit to small and micro entrepreneurs in the metro Alexandria area The Agreement also provides funds for operating expenses, equipment, training, special projects, and international travel Cooperative Agreement No 263-0212-A-00-4011-00 expires on September 30, 1998

The Agreement was amended on September 23, 1996 The purpose of the amendment was a) to increase the budget by \$1,188,438 to enable ABA to expand the implementation of the SME project to Kafr El Sheikh (KES) Governorate, and b) to extend the completion date of the Cooperative Agreement to September 30, 1998

### Audit Objectives, Scope, and Methodology

The objective of this engagement was to conduct a financial audit of USAID/Egypt resources managed by ABA pursuant to Cooperative Agreement No 263-0212-A-00-4011-00 as it relates to the Small and Micro Enterprise Project (the "Project") The specific objectives of our engagement were to

- 1 Express an opinion on whether the fund accountability statements for the USAID/Egypt financed project present fairly in all material respects, funds received (excluding any program generated income and the collateral funds) and costs incurred for the audit period in conformity with generally accepted accounting principles or another comprehensive basis of accounting.
- 2 Determine if the costs reported as incurred under the Agreement are in fact allowable allocable and reasonable in accordance with the terms of the Agreement,

- 3 Evaluate and obtain a sufficient understanding of the internal control structure of ABA, as it relates to the Project, assess control risk, and identify reportable conditions, including material internal control weaknesses,
- 4 Perform tests to determine whether ABA complied, in all material respects, with the Agreement terms and applicable laws and regulations,
- 5 Determine if ABA has taken corrective action on prior audit report recommendations

The scope of the audit included all funds provided by USAID/Egypt (excluding any program generated revenues and the collateral funds), and the Project expenditures incurred under the Agreement for the period January 1, 1995 through December 31, 1996

The methodology of the audit consisted of an evaluation of the internal control structure, testing of expenditures incurred under the Agreement, and testing of ABA's compliance with the Grant Agreement Cooperative Agreement, and applicable laws and regulations

Our testing included a systematic and judgmental selection of costs incurred for each account disclosed in the fund accountability statements. We tested expenditures as follows

<u>Budget Line Item</u>	<u>Actual</u>	<u>Tested Amount</u>	<u>Percent</u>
Funds provided by USAID/Egypt, LE Budget (Equivalent in \$)	247,492 72,792	247,492 72,792	100%
Funds provided by USAID/Egypt, \$ Budget	6,194	6,194	100%
Funds provided by USAID/Egypt, LE Budget (KES) (Equivalent in \$)	1,089,921 320,565	1,089,921 320,565	100%
Expenditures, LE Budget (Equivalent in \$)	229,784 67,584	79,634 23,422	35%
Expenditures, \$ Budget	10,695	10,171	95%
Expenditures, LE budget (KES) (Equivalent in \$)	301,399 88,647	300,928 88,508	99%

Our testing included, but was not limited to the following procedures

- 1 A review of direct expenditures billed to and reimbursed by USAID/Egypt. Records were reconciled to reports submitted to USAID/Egypt
- 2 A review of the Project's ledgers to determine whether costs reported were properly recorded. A reconciliation of direct costs billed to and reimbursed by USAID/Egypt to the Project's ledgers
- 3 A review of the funds provided by USAID/Egypt to ensure that they were deposited in a separate bank account and that the related transactions were properly recorded. We also performed a review of the procedures used to control cash

- 4 A review of travel and transportation charges to determine whether they were adequately supported, approved, and in accordance with the Project's implementation plans
- 5 A review of procurement procedures to determine whether sound commercial practices, including competitive bids, were used
- 6 A determination of whether advances of funds were justified based on existing documentation, including a reconciliation of funds advanced, disbursed, and available

During our audit planning, we considered ABA's internal control structure as it relates to the Project, to obtain an understanding of the design of relevant control policies and procedures, and whether those policies and procedures have been placed in operation. We obtained a sufficient understanding of the internal control structure to plan the audit and to determine the nature and extent of tests to be performed.

Initial planning began with an entrance conference attended by RIG/A/C, USAID/FM, a representative of ABA's Project Officer, an ABA official, and our audit team. At the end of the field work we held a meeting with ABA's Project management staff to discuss unresolved findings identified during our fieldwork.

The Grant Agreement, Cooperative Agreement, and their amendments were reviewed to gain an understanding of the agreement terms and applicable laws and regulations.

Except as discussed in the following paragraphs, 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 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 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 Andersen 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 Andersen Worldwide offices.

### **Results of Audit**

#### **Fund Accountability Statements**

Our audit identified \$3,481 (LE 11,835) in aggregate ineligible questioned costs related to the local operating expenditures. The questioned costs are broken down as follows:

Ineligible costs, LE Budget, \$306 (LE 1,040).  
Ineligible costs, \$ Budget, \$3,175 (10,795).

The details of the questioned costs are presented in the Fund Accountability Statements - Audit Findings section of this report. We considered the questioned costs in forming our audit opinion on the fund accountability statements.

Internal Control Structure

Our evaluation of the internal control structure did not disclose matters which we believe are material weaknesses or reportable conditions

Compliance with Applicable Laws and Regulations

In performing our engagement, we identified a matter of material noncompliance. This matter relates to commingling of USAID/Egypt funds with other ABA owned or controlled funds. Detail related to this instance of noncompliance is set forth in the Compliance with Applicable Laws and Regulations - Audit Findings Section of this report.

Follow-up of Prior Audit Recommendations

One of the audit objectives was to perform a follow-up of prior audit recommendations. Allied Accountants performed an audit of ABA for the period January 1, 1991 through December 31, 1994 and issued a report on June 6, 1995. The prior report contained one recommendation in the Compliance with Applicable Laws and Regulations report. Our review indicated that the recommendation has been implemented.

Management Comments

The Alexandria Business Association has provided comments on the results of our audit. The entire management response is included as Appendix A. Our response to management's comments is included as Appendix B. We have deleted the findings for which adequate supporting documentation was provided.

Allied Accountants



# ALLIED ACCOUNTANTS

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Fellows & Members of the Egyptian Society of Accountants & Auditors



## المحاسبون المتضامنون

رامسب، اسطيولى والكيلانى  
مراسلو آرثور أندرسن وشركاه  
محاسبون قاسويون وهنراء تنظيم وإدارة  
رملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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 of the Alexandria Business Association relating to funds received (excluding any program generated income and the collateral funds), and costs incurred by the Small and Micro Enterprise Development Project, Grant Agreement No 263-0212, funded by the United States Agency for International Development through Cooperative Agreement No 263-0212-A-00-4011-00, for the period January 1, 1995 through December 31, 1996. These fund accountability statements are the responsibility of the management of the Alexandria Business Association. Our responsibility is to express an opinion on these fund accountability statements based on our audit.

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

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 33 of Chapter 3 of Government Auditing Standards 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 Andersen 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 Andersen Worldwide offices.

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

In our opinion, the fund accountability statements referred to above present fairly, in all material respects, funds received and costs incurred by the Alexandria Business Association under the Small and Micro Enterprise Development Project, Grant Agreement No 263-0212 funded by the United States Agency for International Development through Cooperative Agreement No 263-0212-A-00-4011-00, for the period January 1, 1995 through December 31, 1996, in conformity with the cash basis of accounting as described in Note 2.

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This report is intended for the information of the management and others within the Alexandria Business Association 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.

August 27, 1997  
Allied Accountants

*Allied Accountants*

**Alexandria Business Association**

Audit of USAID/Egypt Resources Managed by the  
Alexandria Business Association  
Small and Micro Enterprise Project

Cooperative Agreement No 263-0212-A-00-4011-00

**Fund Accountability Statement**  
for the Period January 1, 1995 through December 31, 1996

LE Budget expressed in \$

<u>Budget Elements</u>	<u>ABA</u>	<u>ABA</u>	<u>KES</u>	<u>KES</u>	<u>Questioned Costs (Note 6)</u>	
	Budget	Actual	Budget	Actual	Ineligible	Unsupported
	\$	\$	\$	\$	\$	\$
Source of funds						
Beginning cash balance		25,450				
Funds provided by USAID/Egypt		<u>72,792</u>		<u>320,565</u>		
Total funds available		98,242		320,565		
Expenditures						
Office operational costs	-	-	321,221	412		
Equipment	-	-	-	-		
Training of ABA staff	36,487	20,132	-	-	15	
Training of new foundations staff	47,108	10,889	-	-	291	
Special projects	8,259	8,259	162,015	-		
Audits	69,118	28,304	-	-		
Fixed assets			933,471	88,235		
Training			<u>36,765</u>			
Total expenditures	<u>160,972</u>	<u>67,584</u>	<u>1,453,472</u>	<u>88,647</u>	<u>306</u>	<u>0</u>
Fund balance (Note 4)		<u>30,658</u>		<u>231,918</u>		

The accompanying notes are an integral part of this Fund Accountability Statement

**Alexandria Business Association**

Audit of USAID/Egypt Resources Managed by the  
Alexandria Business Association  
Small and Micro Enterprise Project

Cooperative Agreement No 263-0212-A-00-4011-00

**Fund Accountability Statement**  
for the Period January 1, 1995 through December 31, 1996

\$ Budget

<u>Budget Elements</u>	Budget \$	Actual \$	<u>Questioned Costs (Note 6)</u>	
			Ineligible \$	Unsupported \$
Source of funds				
Beginning cash balance	-	5,816		
Funds provided by USAID/Egypt	-	<u>6,194</u>		
Total funds available		12,010		
Expenditures				
International travel	<u>26,509</u>	<u>10,695</u>	<u>3,175</u>	-
Total expenditures	<u>26,509</u>	<u>10,695</u>	<u>3,175</u>	<u>0</u>
Fund balance (Note 4)		<u>1,315</u>		

The accompanying notes are an integral part of this Fund Accountability Statement

**Alexandria Business Association**

Audit of USAID/Egypt Resources Managed by the  
Alexandria Business Association  
Small and Micro Enterprise Project

Cooperative Agreement No 263-0212-A-00-4011-00

**Fund Accountability Statements**  
for the Period January 1, 1995 through December 31, 1996

Notes to the Fund Accountability Statements

Note 1 Project Activities

Grant Agreement No 263-0212 between the Arab Republic of Egypt and the United States of America for the Small and Micro Enterprise (SME) Development Project was signed on September 30, 1988. The Agreement remains in effect until September 30, 1998.

Cooperative Agreement No 263-0212-A-00-4011-00 was signed between ABA and USAID/Egypt on October 1, 1993. The purpose of the Cooperative Agreement is to support ABA in providing technical assistance to small and micro enterprises and administering in cooperation with local banks a collateral fund to facilitate the provision of credit to small and micro entrepreneurs in the metro Alexandria Areas. The Agreement also provides funds for operating expenses, equipment, training, special projects, international travel. Cooperative Agreement No 263-0212-A-00-4011-00 expires on September 30, 1998.

Cooperative Agreement No 263-0212-A-00-4011-00 was amended on September 23, 1996. The purpose of the amendment was, a) to increase the budget by \$1,188,438 to enable ABA to expand the implementation of the SME Project to Kafr El Sheikh (KES) Governorate and b) to extend the completion date of the Cooperative Agreement to September 30, 1998.

Note 2 Basis of Presentation

The fund accountability statements have been prepared on the cash basis. Consequently, revenues and expenditures are recognized when received or paid, rather than when earned or incurred.

Note 3 Exchange Rate

Expenditures incurred in Egyptian Pounds (LE) have been converted to US Dollars (\$) at an average exchange rate of LE 3.40 to \$1.

Note 4 Fund Balance

The fund balance is made up as follows:

	<u>\$</u>	<u>LE</u>
LE budget	30,658	104,237
LE budget (KES)	231,918	788,521
\$ budget	<u>1,315</u>	<u>+471</u>
	<u>263,891</u>	<u>897,229</u>

The fund balance shown in the fund accountability statements represents the difference between advances received and expenditures incurred.

Note 5 Budget

The budget, as presented in the fund accountability statements, represents funds available for the expenses incurred during the audit period. It has been calculated for reporting purposes only by deducting the expenditures reported in the prior audit report as of December 31, 1994 from the total approved budget as of December 31, 1996, as follows:

	<u>ABA (\$ Budget)</u>	<u>ABA (LE Budget)</u>	<u>KES</u>
Approved budget as of December 31, 1996	\$31,142	\$532,300	\$1,453,472
Expenditures per prior audit report as of December 31, 1994	<u>(4,633)</u>	<u>(371,328)</u>	<u>0</u>
Budget available for the audit period	<u>\$26,509</u>	<u>\$160,972</u>	<u>\$1,453,472</u>

Note 6 Questioned Costs

Questioned costs are expenditures that we have determined are not in accordance with the Grant Agreement, Cooperative Agreement, or other applicable USAID regulations and are presented in two separate categories: ineligible and unsupported. "Ineligible" costs are deemed to be unallowable because they are unrelated to the Project, unreasonable, or prohibited by the Grant Agreement, Cooperative Agreement, or applicable laws and regulations. "Unsupported" costs are expenditures that are not supported by adequate documentation.

Our audit identified \$3,481 (LE 11,835) in aggregate ineligible questioned costs related to the local operating expenditures. The questioned costs are broken down as follows:

Ineligible costs, LE Budget: \$306 (LE 1,040)  
Ineligible costs, \$ Budget: \$3,175 (10,795)

The bases for questioning specific costs are set forth in the "Audit Findings" section of this report.

**Alexandria Business Association**

Audit of USAID/Egypt Resources Managed by the  
Alexandria Business Association  
Small and Micro Enterprise Project

Cooperative Agreement No 263-0212-A-00-4011-00

**Fund Accountability Statements**  
for the Period January 1, 1995 through December 31, 1996

Summary of Audit Findings

<u>Budget Element</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u> <u>\$</u>	<u>Unsupported</u> <u>\$</u>
Training of ABA staff Finding No 1	15	
Training of new foundations staff Finding No 1	291	
International travel Finding No 3	<u>3,175</u>	-
	<u>3,481</u>	<u>0</u>

**Alexandria Business Association**

Audit of USAID/Egypt Resources Managed by the  
Alexandria Business Association  
Small and Micro Enterprise Project

Cooperative Agreement No 263-0212-A-00-4011-00

**Fund Accountability Statements**  
for the Period January 1, 1995 through December 31, 1996

Audit Findings

Finding No. 1 Payment of Taxes

Due to an apparent management oversight, ABA paid and was reimbursed by USAID/Egypt \$ 306 (L E 1,040) for taxes Project Grant Standard Provisions, Annex 2, Section B 4 of Grant Agreement No 263-0212 indicates that ABA should not pay any identifiable taxes, duties, or other levies imposed under the laws of Egypt with USAID/Egypt funds These costs are broken as follows

	<u>\$</u>	<u>LE</u>
Training of ABA staff	15	50
Training of new foundations staff	<u>291</u>	<u>990</u>
Total	<u>306</u>	<u>1,040</u>

USAID/Egypt was billed ineligible expenses of \$306 (LE 1,040)

Finding No. 2 Payment of Salaries

Finding deleted

Finding No. 3 International Travel

ABA paid and was reimbursed by USAID/Egypt \$3,175 (L E 10,795) for using a non-US flag carrier for a business trip to Canada on September 26, 1996 Grant Agreement No 263-0212, Standard Provisions for non-US, non-governmental grantees, Section 3 (C) indicates that all air travel and shipments under this grant are to be made on US flag air carrier to the extent service by such carriers is available ABA's accountant indicated that there were no direct flights from Cairo to Toronto by a US flag carrier However, the flight actually taken was not direct since it included a brief stopover in Germany In addition, the airline ticket was issued on August 9, 1996 which indicates that ABA had adequate time to ensure that the trip was made on a US flag carrier

USAID/Egypt was billed ineligible expenses of \$3,175 (LE 10,795)

# ALLIED ACCOUNTANTS

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# المحاسبون المتضامنون

رامعب ، اسطنبولي والكيلاني

مراسلر آرثر آندرسن وشركاه

محاسبون قاسميين وهنراء تنظيم وإدارة

رملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

## Report of Independent Public Accountants On Internal Control Structure

We have audited the accompanying fund accountability statements of the Alexandria Business Association relating to funds received and costs incurred by the Small and Micro Enterprise Development Project, Grant Agreement No 263-0212, funded by the United States Agency for International Development through Cooperative Agreement No 263-0212-A-00-4011-00, for the period January 1, 1995 through December 31, 1996, and have issued our report thereon dated August 27, 1997

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 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 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 Andersen 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 Andersen Worldwide offices

In planning and performing our audit, we considered the Alexandria Business Association's internal control structure as it relates to the Small and Micro Enterprise Development Project, Cooperative Agreement No. 263-0212-A-00-4011-00, to determine our procedures for the purpose of expressing an opinion on the fund accountability statements and not to provide assurance on the internal control structure.

The management of the Alexandria Business Association is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of the 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, transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements, and transactions are recorded properly to permit the preparation of the fund accountability statements in conformity with the basis of accounting described in Note 2 to the fund accountability statements. 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 purposes of this report, we have classified the significant internal control structure policies and procedures in the following categories: cash control, revenue recognition, procurement practices, personnel and payroll, and general accounting records. For the internal 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.

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 the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure and its operations that we consider to be material weaknesses.

This report is intended for the information of the management and others within the Alexandria Business Association 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.

August 27, 1997  
Allied Accountants

*Allied Accountants*

# ALLIED ACCOUNTANTS

Ragheb, Istambouli & El Kilany

A Member Firm of ARTHUR ANDERSEN & Co. SC

Public Accountants & Business Advisors

Fellows & Members of the Egyptian Society of Accountants & Auditors



# المحاسبون المتضامنون

راعىب ، اسطبولى والكيلانى

مراسلو آرثر آندرسن وشركاه

محاسبون قايديون وحبراء تنظيم وإدارة

رملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

## Report of Independent Public Accountants On Compliance With Laws and Regulations

We have audited the accompanying fund accountability statements of the Alexandria Business Association relating to the funds received and costs incurred by the Small and Micro Enterprise Development Project, Grant Agreement No 263-0212, funded by the United States Agency for International Development through Cooperative Agreement No 263-0212-A-00-4011-00, for the period January 1, 1995 through December 31, 1996, and have issued our report thereon dated August 27, 1997

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements 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 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 Andersen 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 Andersen Worldwide offices.

Compliance with laws, regulations, contracts and grants applicable to the Small and Micro Enterprise Development Project is the responsibility of Alexandria Business Association's management. As part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatement, we performed tests of Alexandria Business Association's compliance with certain provisions of laws, regulations, contracts and grants. However, our objective 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 of compliance disclosed an instance of material noncompliance. This instance is described in the Audit Compliance with Applicable Laws and Regulations – Audit Findings Section of this report.

We considered this instance of noncompliance in forming our opinion on whether the Alexandria Business Association's fund accountability statements are presented fairly, in all material respects, in conformity with the basis of accounting described in Note 2 to the fund accountability statements and this report does not affect our report dated August 27, 1997, on these fund accountability statements.

Except as described above, the result of our tests of compliance indicate that with respect to items tested, the Alexandria Business Association complied, in all material respects, with the provisions referred to in the fourth paragraph of this report.

This report is intended for the information of the management and others within the Alexandria Business Association 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.

August 27, 1997  
Allied Accountants

*Allied Accountants*

**Alexandria Business Association**

Audit of USAID/Egypt Resources Managed by the  
Alexandria Business Association  
Small and Micro Enterprise Project

Cooperative Agreement No 263-0212-A-00-4011-00

**Fund Accountability Statements**  
for the Period January 1, 1995 through December 31, 1996

Compliance with Laws and Regulations Findings

Finding No 1 Commingling of Funds

During our audit we noted that ABA maintains one bank account which includes receipts from USAID/Egypt and transfers from ABA s generated revenues Grant Agreement No 263-0212. Standard Provisions, Section 1 0 (a) states that AID funds shall not be commingled with other grantee owned or controlled funds The grantee shall deposit all AID cash advances in a separate bank account and shall make all disbursements for goods and services from this account ABA s accountant indicated that it was not practical for ABA to open a separate bank account for USAID funds since most of the USAID budget has already been spent

Recommendation

We recommend that ABA comply with the terms of the Grant Agreement and open a separate bank account for funds received from USAID/Egypt

Finding No 2 Kafr El Sheikh Offices

Finding deleted

Finding No 3 Program Generated Income (Repeated from the Prior Audit)

Finding deleted

Alexandria Business Association

Audit of USAID/Egypt Resources Managed by the  
Alexandria Business Association  
Small and Micro Enterprise Project

Cooperative Agreement No 263-0212-A-00-4011-00

Fund Accountability Statements  
for the Period January 1, 1995 through December 31, 1996

Management Comments



جمعية رجال أعمال الإسكندرية  
ALEXANDRIA BUSINESS ASSOCIATION  
مصر وه تنمية المنشآت الصغيرة والحرفية  
SMALL & MICRO ENTERPRISE PROJECT

Dec. 18, 1997

Allied Accountants  
37, El Ahrar St.  
Mobic Tower  
Mohandesseen, Dokki Giza  
Egypt

Subject: Auditee's Response to draft audit findings covering the period from January 1 1995 through December 31, 1996 on the Audit of USAID Egypt Resources Managed by the Alexandria Business Association Small and Micro Enterprise Project Cooperative Agreement No 263-0212-A-00-4011-00

The purpose of this letter is to respond to the audit findings contained in your draft report of the subject audit

I. Fund Accountability Statements

Finding No.1. Payment of Taxes.

ABA agree to reimburse USAID / Egypt the amount of L.E. 1 040 00

Finding No.2. Payment of Salaries.

USAID Project Officer prepared written approval pending Contract Office approval Upon receiving this letter, copy will be provided to you prior to finalizing the audit report Therefore this amount ( \$ 13,405) is considered to be eligible and we request to close this finding

Finding No.3. International Travel

ABA agree to reimburse USAID / Egypt the ineligible amount of \$ 3,175 00 for using a non-US Flag Carrier

II. Compliance with applicable Laws and Regulations

Finding No.1. Commingling of Funds.

ABA agree to this finding USAID / Egypt cash on hand balance in Egyptian Pounds has been deposited in separate bank account

Finding No.2. Kafr El-Sheikh Offices

ABA agrees to this finding Action was not taken by ABA to purchase the four office apartments in Kafr El-Sheikh until verbal approval was obtained from the Project Officer who was in the process of obtaining USAID's approval to purchase the apartments prior to the signing of the amendment to the Cooperative Agreement During that time, the Ministry of Endowment (Land- Lord) decided against the sale of the apartments and the funds were returned to ABA

Finding No.3. Program Generated Income

USAID Action - to provide response directly to Auditors

Executive Director

Yabil El Shami

## Appendix B

### Alexandria Business Association

Audit of USAID/Egypt Resources Managed by the  
Alexandria Business Association  
Small and Micro Enterprise Project

Cooperative Agreement No 263-0212-A-00-4011-00

**Fund Accountability Statements**  
for the Period January 1, 1995 through December 31, 1996

#### Auditor's Response to Management Comments

Our comments below address the responses of the Alexandria Business Association (ABA) to the findings on the fund accountability statements in our audit report of the Small and Micro Enterprise Development Project for the costs financed by the United States Agency for International Development, Grant Agreement No 263-0212, for the period January 1 1995 through December 31, 1996 under Cooperative Agreement No 263-0212-A-00-4011-00

#### 1 Fund Accountability Statements

##### Finding No 1 Payment of Taxes

Project Grant Standard Provisions Annex 2 Section B 4 of Grant Agreement No 263-0212 indicates that ABA should not pay any identifiable taxes duties, or other levies imposed under the laws of Egypt with USAID/Egypt funds ABA's management concurred with that criteria and agreed to reimburse USAID/Egypt the questioned amount of \$306 (L E 1 040) The finding remains unchanged

##### Finding No 2 Payment of Salaries

ABA paid and was reimbursed for payment of salaries for new extension officers during their initial training period Cooperative Agreement, Program Description, Training Section states that the Cooperative Agreement will finance USAID direct contract with long and short term US and Egyptian advisors to assist ABA in the early implementation of the project This section of the project provides funds for training of board members, directors, office managers and extension officers on management of loan funds and administration of services Both the Project Officer and the Agreement Officer indicated that ABA's use of the Training budget line item to pay the salaries of provisional employees is consistent with the intended use of this line item and that the recipient is not required to obtain the Agreement Officer's prior approval for such use Therefore the finding has been deleted

##### Finding No 3 International Travel

Grant Agreement No 263-0212 Standard Provisions for non-US non-governmental grantees Section 3 (C) indicates that all air travel and shipments under this grant are to be made on US flag air carrier to the extent service by such carriers is available ABA's management concurred with this criteria and agreed to reimburse USAID Egypt the ineligible amount of \$3,175 for using a non-US flag carrier The finding remains unchanged

2 Compliance With Applicable Laws And Regulations

Finding No 1 Commingling of Funds

Grant Agreement No 263-0212, Standard Provisions, Section 1 0 (a) states that AID funds shall not be commingled with other grantee owned or controlled funds. The grantee shall deposit all AID cash advances in a separate bank account and shall make all disbursements for goods and services from this account. ABA's management concurred with that criteria, and indicated in their response that USAID/Egypt funds have been deposited in a separate bank account (A separate account was established after the period covered by the audit and after the last day of fieldwork). The finding remains unchanged.

Finding No 2 Kafr El Sheikh Offices

Grant Agreement No 263-0212, Standard Provisions, Section C 2 states that no goods or services may be financed under the grant which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of the agreement, except as the parties may otherwise agree in writing. This amount has not been questioned in the fund accountability statements - Audit Findings section of this report because the budget for the expansion into Kafr El Sheikh Governorate had been approved by the end of the period covered by the fund accountability statements. In their response, ABA's management agreed with the finding and indicated that verbal approval had been secured from USAID pending formalizing the approval into an amendment. USAID officials confirmed that verbal approval was given for the above purchase while the written approval was being processed. Since USAID written approval appears to have been in process and was eventually obtained (during the period covered by the audit), the finding has been deleted.

Finding No 3 Program Generated Income (Repeated from the Prior Audit)

When performing our audit, we noted that the agreements do not contain provisions for the use of program income generated under Cooperative Agreement 263-0212A-00-9055 and 263-0212-A-00-4011. USAID/Egypt has provided ABA with money to use as collateral funds at local banks to facilitate the provision of credit to small and micro entrepreneurs. The loans provided through these credit facilities generate income through the interest and service fees charged on these loans. The definition of program generated income per OMB Circular A-110 includes "interest on loans made with award fees".

OMB Circular A-110, Subpart C, Section 24, states that Federal awarding agencies shall require recipient organizations to account for program income related to projects financed with Federal funds. This income shall be retained by the recipient and used in one or more of the following ways:

- 1 Further eligible project or program objectives,
- 2 Finance the non-Federal share of the project or program, or
- 3 Deducted from the total project or program allowable cost in determining the net allowable costs.

The original agreements did not address the disposition of accumulated or future program income. It appears that the disposition of this income was not considered in the original project design. USAID provided us with a copy of Amendment No 5 to the Cooperative Agreement, with an effective date of September 23, 1996. This Amendment satisfies the requirements of OMB Circular A-110. Therefore, the finding has been deleted.

**Alexandria Business Association**

Audit of USAID/Egypt Resources Managed by the  
Alexandria Business Association  
Small and Micro Enterprise Project

Cooperative Agreement No 263-0212-A-00-4011-00

**Fund Accountability Statements**  
for the Period January 1, 1995 through December 31, 1996

United States Agency for International Development  
Mission in Egypt's Response to the Audit Report

**USAID**



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

**M E M O R A N D U M**

Date : February 15, 1998  
To : Bruce Boyer, A/RIG/A/C  
From : Shirley Hunter, DC/FM/FA *SHH*  
Subject : Final Draft Audit Report, Financial Audit of the Alexandria Business Association, Costs Incurred Under USAID/Egypt's Small and Micro Enterprise Project 263-0212

Following are the actions taken by the Mission to resolve/close Recommendation No. 1 and 2 under the subject audit.

**Recommendation No. 1:**

We recommend that USAID/Egypt make a management decision on the questioned costs of \$3,481 (ineligible) detailed on pages 11 and 12 of the Allied Accountants audit report, and recover from the Alexandria Business Association any amounts determined to be unallowable.

**Mission Response:**

Upon issuance of the draft audit report, ABA refunded the entire questioned amount of \$3,481 (LE11,835), by checks No. 978904, and 978903, and USAID receipt No. 207 dated February 2, 1998, (attachment a).

Therefore, Mission requests closure of Recommendation No. 1.

**Recommendation No. 2**

We recommend that USAID/Egypt obtain evidence that Alexandria Business Association has addressed the material noncompliance issue (commingling of funds) detailed on page 17 of the Allied Accountants report.

ABA has opened a separate bank account showing USAID Egyptian Pounds balance as of June 30, 1997, and provided a copy of the Bank Credit Note and the relevant Journal Entry. The balance deposited was found in agreement with the Certified Fiscal Report as of June 30, 1997 processed by the Mission, (attachment b).

Therefore, Mission requests closure of Recommendation No. 2.