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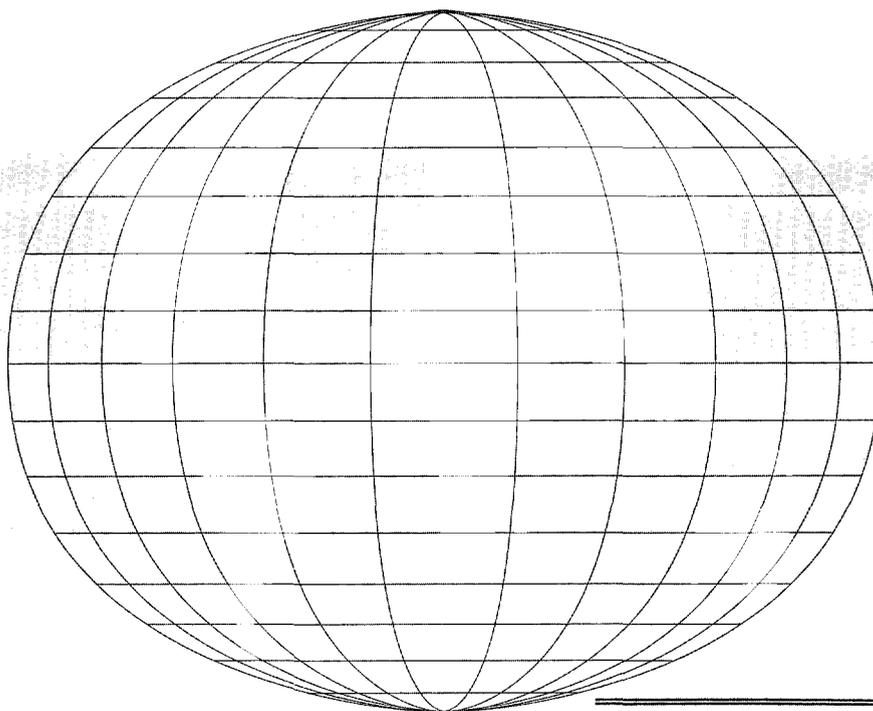
# Report of Audit

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**Financial Audit of the Small Enterprise  
Development Association of Port Said,  
Costs Incurred Under Cooperative Agreement No.  
263-0212-A-00-4047-00**

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**Report No. 6-263-98-023-N  
April 15, 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**

**USAID**



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

CAIRO, EGYPT

Report No. 6-263-98-023-N  
April 15, 1998

**MEMORANDUM**

TO : DIRECTOR USAID/Egypt, John R. Westley

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

SUBJECT: Financial Audit of the Small Enterprise Development Association of Port Said, Costs Incurred Under Cooperative Agreement No. 263-0212-A-00-4047-00

The attached report, transmitted on January 11, 1998, by Allied Accountants, presents the results of a financial audit of the Small Enterprise Development Association of Port Said (the Association). The report covers costs incurred by the Association during the period January 1, 1996 through December 31, 1996 under Cooperative Agreement No. 263-0212-A-00-4047-00 of USAID/Egypt's Small and Micro Enterprise Development Project No. 263-0212. The purpose of the cooperative agreement is to provide loans to small and micro enterprises located in the Port Said Metropolitan area through a loan fund administered by the Association. The cooperative agreement also provides funds for operating expenses, equipment, project facilities, training, special projects, international travel, and vehicles.

We engaged Allied Accountants to perform a financial audit of \$69,201 in USAID/Egypt funds reimbursed to the Association during the audit period. 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 did not identify any questioned costs or material weaknesses in the Association's internal control structure. However, the auditors did identify one matter of material noncompliance with applicable regulations (commingling of funds).

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A

In response to the draft report, Association officials indicated that they had opened a separate bank account and transferred USAID funds to it. Allied Accountants reviewed the Association's response to the draft report and acknowledged that the Association had agreed with the draft finding and had taken corrective action after the period covered by the audit (see Appendices A and B).

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

**Recommendation No. 1: We recommend that USAID/Egypt obtain evidence that the Small Enterprise Development Association of Port Said has addressed the material noncompliance issue (commingling of funds) detailed on page 15 of the Allied Accountants report.**

In response to Recommendation No. 1, USAID/Egypt officials obtained evidence that the Association had established a separate bank account for USAID funds and that the proper fund balance had been deposited into that account. Based on this management decision and final action, we consider Recommendation No. 1 closed upon 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

B

**Small Enterprise Development Association of Port Said**

Audit of Local Expenditures Incurred Under the  
Small and Micro Enterprise Development Project  
Grant Agreement No. 263-0212

Cooperative Agreement No. 263-0212-A-00-4047-00

**Fund Accountability Statements**  
For the Period January 1, 1996 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.**

C

**Small Enterprise Development Association of Port Said**

**Audit of Local Expenditures Incurred Under the  
Small and Micro Enterprise Development Project  
Grant Agreement No. 263-0212**

**Cooperative Agreement No. 263-0212-A-00-4047-00**

**Fund Accountability Statements  
For the Period January 1, 1996 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 التضامنون

رافغب ، اسطنبولى والكيلانى

مراسلو آرثر أندرسن وشركاه

محاسبون قانونيون وخبراء تنظيم وإدارة

زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

January 11, 1998

Mr. Lou Mundy  
Regional Inspector General/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 Small Enterprise Development Association of Port Said (SEDAP) under the Small and Micro Enterprise (SME) Development Project, USAID Cooperative Agreement No. 263-0212-A-00-4047 (the "Agreement"). We were engaged to perform an audit of the local expenditures incurred and reimbursed for the period January 1, 1996 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 Grant Agreement remains in effect until September 30, 1998.

The Cooperative Agreement was signed between SEDAP and USAID/Egypt on June 12, 1994. The purpose of the Agreement is to provide loans to small and micro enterprises located in the Port Said Metropolitan area through a loan fund administered by SEDAP. The Agreement also provides funds for operating expenses, equipment, project facilities, training, special projects, international travel, and audits.

Through the Agreement, SEDAP was appointed as a trustee for the SME Loan Fund. This Loan Fund was used to establish time deposits that serve as collateral for overdraft bank accounts, used for the provision of credit to small and micro entrepreneurs.

## Audit Objectives, Scope, and Methodology

The objective of this engagement was to conduct a financial audit of USAID/Egypt resources, excluding the collateral funds, managed by SEDAP for the SME Development Project (the "Project"), pursuant to the Agreement for the period January 1, 1996 through December 31, 1996.

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 Cooperative Agreement are in fact allowable, allocable, and reasonable in accordance with the terms of Agreement;

3. Evaluate and obtain a sufficient understanding of the internal control structure of SEDAP, as it relates to the Project, to assess control risk; and identify reportable conditions, including material internal control weakness;
4. Perform tests to determine whether SEDAP complied, in all material respects, with the Agreement terms, and applicable laws and regulations; and
5. Determine if SEDAP 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 income and the collateral funds), and the Project expenditures incurred under the Agreement for the period January 1, 1996 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 SEDAP's compliance with the Agreement terms, and applicable laws and regulations.

Our testing included a 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 (LE) (Equivalent in US \$)	224,389 65,997	224,389 65,997	100
Funds provided by USAID/Egypt, US \$ Budget	21,600	21,600	100
Expenditures, LE Budget (LE) (Equivalent in US \$)	162,203 47,707	48,936 14,393	30
Expenditures, US \$ Budget	21,494	21,494	100

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 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.
3. A review of the general ledgers and 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 and to the general ledgers.
4. A review of procurement procedures to determine whether sound commercial practices, including competitive bids, were used, reasonable prices were obtained, and there were adequate controls on qualities and quantities received.
5. A review of travel and transportation charges to determine whether they were adequately supported, approved, and in accordance with the Project's implementation plans.

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 SEDAP'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 SEDAP's Project Officer, SEDAP's officials, and our audit team. At the end of the fieldwork we held a meeting with SEDAP's Project management staff to discuss unresolved findings identified during our fieldwork.

The Agreement and its 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 Arthur Andersen 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 offices.

### Results of Audit

#### Fund Accountability Statements

Our audit did not identify any questioned costs.

#### Internal Control Structure

Our evaluation of the internal controls 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 relating to the commingling of USAID funds with other SEDAP controlled funds. Detail of this noncompliance is presented in the Compliance with Applicable Laws and Regulations - Audit Findings Section of this report.

Follow-up on Prior Audit Recommendations

SEDAP was audited under USAID/Egypt's Non-federal Audit Program for costs incurred for the period June 12, 1994 through December 31, 1995. The fieldwork for the prior audit was completed on March 14, 1996 and the final report was submitted to SEDAP on April 23, 1996. The report contained one recommendation in the Internal Control Structure report and four recommendations in the Compliance with Applicable Laws and Regulations report. Our review indicated that all recommendations contained in the prior audit report have been implemented.

Management Comments

SEDAP has provided comments on the results of our audit. The entire management response is included as Appendix A. We provided a response to management's comments in Appendix B.

*Allied Accountants*

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محاسبون قانونيون وخبراء تنظيم وإدارة

زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

Mr. Lou Mundy  
Regional Inspector General/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 Small Enterprise Development Association of Port Said 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-00-4047-00, for the period January 1, 1996 through December 31, 1996. These fund accountability statements are the responsibility of the management of the Small Enterprise Development Association of Port Said. 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 Arthur Andersen 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 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 Small Enterprise Development Association of Port Said 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-00-4047-00, for the period January 1, 1996 through December 31, 1996, in conformity with the cash basis of accounting as described in Note 2.

This report is intended for the information of the management and others within the Small Enterprise Development Association of Port Said 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.

November 6, 1997  
Allied Accountants

*Allied Accountants*

**Small Enterprise Development Association of Port Said**

Audit of Local Expenditures Incurred Under the  
Small and Micro Enterprise Development Project  
Grant Agreement No. 263-0212

Cooperative Agreement No. 263-0212-A-00-4047-00

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

LE Budget expressed in \$

<u>Budget Elements</u>	<u>Budget</u> \$ (Note 4)	<u>Actual</u> \$	<u>Questioned Costs (Note 6)</u>	
			<u>Ineligible</u> \$	<u>Unsupported</u> \$
Source of funds:				
Beginning cash balance		65,475		
Funds provided by USAID/Egypt		<u>65,997</u>		
Total funds available		131,472		
Expenditures:				
Office operational costs	213,178	40,228		
Equipment and assets	116,191	3,435		
Training	34,186	4,044		
Special projects	<u>264,706</u>	<u>-</u>		
Total expenditures	<u>628,261</u>	<u>47,707</u>		
Balance (Note 5)		<u>83,765</u>		

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

**Small Enterprise Development Association of Port Said**

Audit of Local Expenditures Incurred Under the  
Small and Micro Enterprise Development Project  
Grant Agreement No. 263-0212

Cooperative Agreement No. 263-0212-A-00-4047-00

**Fund Accountability Statement**

For the Period January 1, 1996 through December 31, 1996

\$ Budget

<u>Budget Elements</u>	Budget \$ (Note 4)	Actual \$	<u>Questioned Costs (Note 6)</u>	
			Ineligible \$	Unsupported \$
Source of funds:				
Beginning cash balance		-		
Funds provided by USAID/Egypt		<u>21,600</u>		
Total funds available				
Expenditures:				
Audits	25,000	21,494		
International travel	<u>43,000</u>	<u>-</u>		
Total expenditures	<u>68,000</u>	<u>21,494</u>		
Balance (Note 5)		<u>106</u>		

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

**Small Enterprise Development Association of Port Said**

Audit of Local Expenditures Incurred Under the  
Small and Micro Enterprise Development Project  
Grant Agreement No. 263-0212

Cooperative Agreement No. 263-0212-A-00-4047-00

**Fund Accountability Statements**

For the Period January 1, 1996 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-00-4047-00 was signed between the Small Enterprise Development Association of Port Said (SEDAP) and USAID/Egypt on June 12, 1994. The purpose of the Cooperative Agreement is to provide loans to small and micro enterprises located in the Port Said Metropolitan area through a loan fund administered by SEDAP. The Agreement also provides funds for operating expenses, equipment, project facilities, training, special projects, international travel, and vehicles related to the administration of the Project.

Through the Cooperative Agreement, SEDAP was appointed as a trustee for the Small and Micro Enterprise Loan Fund. This Loan Fund was used to establish time deposits that serve as collateral for overdraft bank accounts, used for the provision of credit to small and micro entrepreneurs.

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 into US Dollars (\$) at an exchange rate of LE 3.40 to \$1.

Note 4: Budget

The budget for each currency, as presented in the fund accountability statement, is the budget available for the expenses incurred during the audit period. It has been calculated, for reporting purposes only, by deducting from the total budget approved as of December 31, 1996 the expenditures incurred as of December 31, 1995, as follows:

	Approved Budget As of 12/31/96	Expenditures As of 12/31/95	Available Budget
LE Budget	\$ 1,202,725	\$ 574,464	\$ 628,261
\$ Budget	\$ 68,000	None	\$ 68,000

Note 5: Balance

The fund balance for the LE budget has been commingled with other SEDAP controlled resources in a current account at the Port Said National Bank for Development. The fund balance for the \$ has been kept in separate bank account also at the Port Said National Bank for Development. The fund balance shown in the fund accountability statements represents the differences between advances received and expenditures incurred. The total fund balance is as follows:

	<u>\$</u>	<u>LE</u>
LE budget	83,765	284,800
\$ budget	<u>106</u>	<u>360</u>
Total fund balance	<u>83,871</u>	<u>285,160</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 program, 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 did not identify any questioned costs.

# ALLIED ACCOUNTANTS

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زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

Mr. Lou Mundy  
Regional Inspector General/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 Small Enterprise Development Association of Port Said 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-00-4047-00, for the period January 1, 1996 through December 31, 1996, and have issued our report thereon dated November 6, 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. 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 Arthur Andersen 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 offices.

In planning and performing our audit, we considered the Small Enterprise Development Association of Port Said's internal control structure as it relates to the Small and Micro Enterprise Development Project, Cooperative Agreement No. 263-0212-A-00-4047-00, 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 Small Enterprise Development Association of Port Said 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 properly recorded to permit the preparation of the fund accountability statements referred to above 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 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 structure categories listed, 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. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended for the information of the management and others within the Small Enterprise Development Association of Port Said 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.

November 6, 1997  
Allied Accountants

*Allied Accountants*

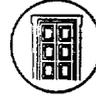
# ALLIED ACCOUNTANTS

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محاسبون قانونيون وخبراء تنظيم وإدارة  
زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

## Report of Independent Public Accountants On Compliance with Applicable Laws and Regulations

We have audited the accompanying fund accountability statements of the Small Enterprise Development Association of Port Said 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-00-4047-00, for the period January 1, 1996 through December 31, 1996, and have issued our report thereon dated November 6, 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. 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 Arthur Andersen 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 offices.

Compliance with laws, regulations, contracts and grants applicable to the Small and Micro Enterprise Development Project is the responsibility of the Small Enterprise Development Association of Port Said's management. As part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatement, we performed tests of the Small Enterprise Development Association of Port Said'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 noncompliance that is required to be reported herein under Government Auditing Standards. This matter relates to commingling of USAID/Egypt funds with other Small Enterprise Development Association of Port Said resources and is described in the 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 Small Enterprise Development Association of Port Said'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 November 6, 1997, on the fund accountability statements.

Except as described above, the results of our tests of compliance indicate that with respect to items tested, the Small Enterprise Development Association of Port Said complied, in all material respects, with the provisions referred to in the fourth paragraph of this report, and with respect to items not tested, nothing came to our attention that caused to believe that the Egyptian Small Enterprise Development Foundation had not complied, in all material respects, with those provisions.

This report is intended for the information of the management and others within the Small Enterprise Development Association of Port Said 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.

November 6, 1997  
Allied Accountants

*Allied Accountants*

**Small Enterprise Development Association of Port Said**

Audit of Local Expenditures Incurred Under the  
Small and Micro Enterprise Development Project  
Grant Agreement No. 263-0212

Cooperative Agreement No. 263-0212-A-00-4047-00

**Fund Accountability Statements**

For the Period January 1, 1994 through December 31, 1996

Compliance with Applicable Laws and Regulations Findings

Finding No. 1: Commingling of Funds

SEDAP maintains one bank account in LE which includes receipts from USAID/Egypt and transfers from SEADP's generated revenues. Per the Cooperative Agreement, Standard Provisions, Section 1.0 Paragraph (a), "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". SEDAP management indicated that they originally did not find it necessary to have separate bank accounts. However, to comply with USAID's requirements, they did open a separate bank account for USAID funds during 1997 (after the period covered by this audit).

**RECOMMENDATION:**

We recommend that SEADP comply with the terms of the agreement and maintain a separate bank account for USAID funds.

## Small Enterprise Development Association of Port Said

Audit of Local Expenditures Incurred Under the  
Small and Micro Enterprise Development Project  
Grant Agreement No. 263-0212

Cooperative Agreement No. 263-0212-A-00-4047-00

Fund Accountability Statements  
For the Period January 1, 1994 through December 31, 1996

Management Comments

TO: FROM: SEDAP TO: 023600813 P. 01



جمعية تنمية المشروعات الصغيرة ببورسعيد  
Small Enterprise Development Association of Port Said  
مشروع تنمية المنشآت الصغيرة والحرفية  
Small & Micro Enterprises Project

March 15th., 1998

No. of pages : 1

Mr. Nabil Hedmy  
Audit Manager  
Allied Accountants

Dear Mr. Hedmy,

Kindly informed that SEDAP has opened a separate bank account No. 13971/2 on October 2nd., 1997, showing USAID Egyptian Pounds balance of 140,824.15 LE. ( Only One Hundred Forty thousand, eight hundred twenty four and 15/100 Egyptian Pounds), and please note that we already transferred a balance of 227,257.20 LE. ( Only two hundred twenty seven thousand, two hundred fifty seven and 20/100 Egyptian pounds ) to the AID Acc. dated 8/3/1998 .

If you need any further information, Please do not hesitate to call us, Thanking you for your kind Cooperation with us .

Sincerely,

Said El Essawy  
Executive director  
Port Said Foundation ( SEDAP )

**Appendix B**

**Small Enterprise Development Association of Port Said**

Audit of Local Expenditures Incurred Under the  
Small and Micro Enterprise Development Project  
Grant Agreement No. 263-0212

Cooperative Agreement No. 263-0212-A-00-4047-00

**Fund Accountability Statements**

For the Period January 1, 1994 through December 31, 1996

Auditors' Response to Management Comments

Our comments below address the responses of the Small Enterprise Development Association of Port Said (SEDAP) 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, 1996 through December 31, 1996 under Cooperative Agreement No. 263-0212-A-00-4047-00.

*Compliance with Applicable Laws and Regulations*

Finding No. 1: Commingling of Funds

SEDAP indicated that a separate bank account was opened for USAID funds during 1997, and that additional USAID funds were deposited in this account on March 8, 1998. So in effect SEDAP agreed with the finding and indicated that corrective action was taken after the period covered by the audit. Accordingly, the finding remains unchanged.

**Small Enterprise Development Association of Port Said**

Audit of Local Expenditures Incurred Under the  
Small and Micro Enterprise Development Project  
Grant Agreement No. 263-0212

Cooperative Agreement No. 263-0212-A-00-4047-00

**Fund Accountability Statements**

For the Period January 1, 1994 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 :** April 12, 1998  
**To :** Lou Mundy, RIG/A/C  
**From :** Shirley Hunter, Division Chief, FM/FA  
**Subject:** Financial Audit of the Small Enterprise Development Association of Port Said (SEDAP), Costs Incurred Under Cooperative Agreement No. 263-0212-A-00-4047-00, Final Draft Audit Report dated March 24, 1998

A handwritten signature or set of initials, possibly 'SH', written in dark ink.

Following are the actions taken by the Mission to address the audit recommendation:

Recommendation No. 1:

We recommend that USAID/Egypt obtain evidence that the Small Enterprise Development Association of Port Said has addressed the material noncompliance issue (commingling of funds) detailed on page 15 of the Allied Accountants report.

Mission response:

In response to the finding, SEDAP took the necessary actions to establish a separate bank account for USAID funds. Further, SEDAP provided evidence that the balance transferred to the bank account agrees with the Certified Fiscal Report of February 1998, and with Mission Accounting and Control System (MACS) balance after deducting the expenditures of January 1998, (see attached).

Therefore, Mission requests closure of this recommendation, and ask you to issue the report in final.

Thank you for your cooperation.

CC:

M. Khalil, PF/EG