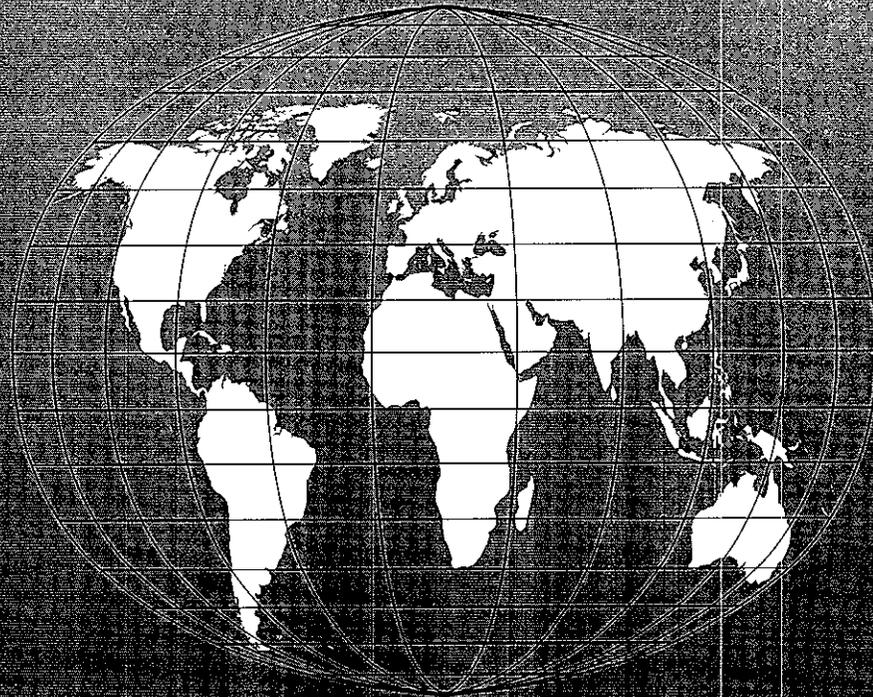


FD-ABT-737

Report of Audit

Financial Audit of the Deposits and Releases of Funds from the Dollar Separate Accounts under USAID/Egypt's Sector Policy Reform Programs

Report No. 6-263-01-005-N
June 25, 2001



FINANCIAL INFORMATION CONTAINED
IN THIS REPORT MAY BE PRIVILEGED
AND RESTRICTION OF USE OF SHOULD
BE CONSIDERED BEFORE ANY INFORMATION
IS RELEASED TO THE PUBLIC.

Cairo, Egypt

OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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

CAIRO, EGYPT

Report No. 6-263-01-005-N
June 25, 2001

MEMORANDUM

TO: USAID/Egypt Director, Willard J. Pearson, Jr.
FROM: RIG/Cairo, Darryl T. Burris *WT Burris*
SUBJECT: Financial Audit of the Deposits and Releases of Funds from the Dollar Separate Accounts under USAID/Egypt's Sector Policy Reform Programs

The attached report transmitted on June 20, 2001, by Allied Accountants, presents the results of a financial audit of the deposits and releases of the Government of Egypt's (GOE) Dollar Separate Accounts under USAID/Egypt's Sector Policy Reform Programs for the period July 1, 1998 through June 30, 1999. The Sector Policy Reform Programs support the GOE in making policy reforms in various sectors important to Egypt's development. When USAID/Egypt determines that the GOE has taken agreed upon actions to reform its policies, the Mission directs the disbursement of an agreed upon amount of dollars to the U.S. Dollar Separate Account. The GOE uses the dollars in the Separate Account to pay for importing American commodities or to pay non-military debt owed to the U.S.

We engaged Allied Accountants to perform a financial audit of the Special Accounts' deposits of \$432,000,000 and releases of \$378,520,205 for the period July 1, 1998 through June 30, 1999. The purpose of the audit was to ensure that the inflow of funds to the Separate Accounts was timely and the funds earned an appropriate interest rate and the release of funds was made in accordance with the grant agreement and program implementation letter terms. The scope of the audit did not include work at GOE ministries or commercial Egyptian banks.

The audit firm's report did not identify any questioned costs.

No response is required from USAID/Egypt since no recommendations were included in USAID's Consolidated Audit Tracking System. 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

U.S. Mailing Address
USAID-RIG Unit 64902
APO AE 09839-4902

Tel. (202) 522-7250
Fax(RIG/A):(202)522-7030
Fax(RIG/D):(202)522-7016

USAID Office Building
Plot 1/A Off El Laselki Str.
New Maadi, Cairo, Egypt

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**Financial Audit of the Deposits and Releases of Funds
from the Dollar Separate Accounts under USAID/Egypt's
Sector Policy Reform Programs**

**Statement of Deposits and Releases of Funds from the
Dollar Separate Accounts**

For the period July 1, 1998 through June 30, 1999

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.

**Financial Audit of the Deposits and Releases of Funds
from the Dollar Separate Accounts under USAID/Egypt's
Sector Policy Reform Programs**

**Statement of Deposits and Releases of Funds from the
Dollar Separate Accounts**
For the period July 1, 1998 through June 30, 1999

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ARTHURANDERSEN

June 20, 2001

Mr. Darryl T. Burris
Regional Inspector General/ Cairo
United States Agency for International Development
Cairo, Egypt

Allied Accountants
Ragheb, Istanbouli & El-Kilany

37 El Ahrar Street
Mobic Tower
P O Box 97 Dokki Giza
Egypt

Tel 202 336 2000
Fax 202 760 0813

Dear Mr. Burris:

This report presents the results of our financial audit of the statement of deposits and releases of the Government of Egypt's Dollar Separate Accounts under USAID/Egypt's Sector Policy Reform Programs for the period from July 1, 1998 through June 30, 1999. The audit of the Dollar Separate Accounts consisted of an examination of the deposits and releases of funds related to USAID/Egypt Grant Agreement Nos. 263-K-628 (A), 263-K-629, 263-K-630, 263-K-631, 263-K-634, 263-K-635, 263-K-637, and 263-K-638.

Background

USAID/Egypt's Sector Policy Reform Programs support the Government of Egypt (GOE) in making policy reforms in various sectors important to Egypt's development. When USAID/Egypt determines that the GOE has taken agreed upon actions to reform its policies, the mission directs the disbursements of the agreed upon amount of dollars to a GOE-owned interest bearing, non commingled Dollar Separate Accounts in a commercial bank in Egypt established pursuant to the agreement. Thereafter, the agreements require that the funds (including interest earnings) be used for agreed upon purposes typically to import from the U.S. commodities needed by public sector entities or to repay non military debt owed to the U.S.

Audit Objectives, Scope, and Methodology

The objective of this engagement was to conduct a financial audit of Government of Egypt's Dollar Separate Accounts for the period from July 1, 1998 through June 30, 1999.

The specific objectives of our engagement were to:

1. Ensure that the inflows of funds to the Dollar Separate Accounts are timely in accordance with agreement terms and that the funds earn an appropriate interest rate.
2. Ensure that the releases of funds are used in accordance with grant agreement and program implementation letter terms.

The scope of the audit did not include work at any GOE ministries or commercial Egyptian banks where Dollar Separate Accounts had been established.

The methodology of the audit consisted of the following.

1. Obtained a listing of all Dollar Separate Accounts that had balances as of the beginning of the audit period. Also, obtained a listing of transactions under the various Dollar Separate Accounts for the audit period.
2. Obtained all grant agreements and program implementation letters for Sector Policy Reform Programs relevant to the deposit and use of dollars.
3. Prepared a financial Statement of Deposits and Releases of Funds using reports obtained from USAID/Egypt officials as disclosed below (amounts expressed in US Dollars).

Deposits of Funds

**Actual
Reported**

Grant No.

Grant No.	263 - K- 628(A)	0
Grant No.	263 - K- 629	5,000,000
Grant No.	263 - K- 630	122,000,000
Grant No.	263 - K- 631	73,000,000
Grant No.	263 - K- 634/637	227,000,000
Grant No.	263 - K- 635	0
Grant No.	263 - K- 638	5,000,000
Total Deposits		432,000,000

**Releases of
Funds**

Grant No.

Grant No.	263 - K- 628(A)	2,609,690
Grant No.	263 - K- 629	66,001,064
Grant No.	263 - K- 630	191,345,358
Grant No.	263 - K- 631	40,621,501
Grant No.	263 - K- 634 / 637	77,942,592
Grant No.	263 - K- 635	0
Grant No.	263 - K- 638	0
Total Releases		378,520,205

Our testing included systematic and judgmental selection of deposits and releases of funds as disclosed below.

1. Deposits of funds to Dollar Separate Account:

We tested all deposits of funds from Grant Agreement Nos. 263-K-628(A), 263-K-629, 263-K-630, 263-K-631, 263-K-634, 263-K-637, and 263-K-638 valued at US \$ 432,000,000 (100% coverage) to determine if the deposits to the Dollar Separate Accounts were timely deposited and in accordance with agreement terms, and that the funds earned an appropriate interest rate.



2. Releases of funds from Dollar Separate Account:

We tested a sample of 19 transactions from Grant Agreement Nos. 263-K-628 (A), 263-K-629, 263-K-630, 263-K-631, 263-K-634, and 263-K-637 valued at US \$ 376,287,023 out of total population valued at US \$ 378,520,205 (99.41% coverage) to determine if the releases from the Dollar Separate Accounts were timely, and in accordance with agreement and program implementation letter terms.

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 statement of deposits and releases 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

Statement of Deposits and Releases of Funds

Our audit did not disclose any questioned costs.

Management Comments

This report is intended for the information of the Agency for International Development. However, this restriction is not intended to limit the distribution of this report, which is a matter of public records.



ARTHURANDERSEN

Allied Accountants
Ragheb, Istambouli & El-Kilany

37 El Ahrar Street
Mobica Tower
P O Box 97 Dokki Giza
Egypt

Tel 202 336 2000
Fax 202 760 0813

Mr. Darryl T. Burris
Regional Inspector General/Cairo
United States Agency for International Development
Cairo, Egypt

Report of Independent Public Accountants

We have audited the accompanying statement of deposits and releases of funds from the Government of Egypt's Dollar Separate Accounts under the United States Agency for International Development Mission to Egypt (USAID/Egypt) Sector Policy Reform Programs, for the period July 1, 1998 through June 30, 1999. The statement of deposits and releases of funds from the Dollar Separate Account is the responsibility of USAID/Egypt. Our responsibility is to express an opinion on this statement based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with US Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of deposits and releases of funds is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of deposits and releases of funds. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of deposits and releases of funds 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 statement of deposits and releases of funds has 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 statement of deposits and releases of funds are not intended to present results in accordance with generally accepted accounting principles.

In our opinion, the statement of deposits and releases of funds referred to above present fairly, in all material respects, deposits and releases of the Government of Egypt's Dollar Separate Account, for the period July 1, 1998 through June 30, 1999, in conformity with the basis of accounting as described in Note 2 to the statement of deposits and releases of funds.



ARTHUR ANDERSEN

This report is intended for the information of the Agency for International Development. However, this restriction is not intended to limit the distribution of this report, which is a matter of public record.

Allied Accountants

April 2, 2001



Financial Audit of the Deposits and Releases of Funds
from the Dollar Separate Accounts under USAID/Egypt's
Sector Policy Reform Programs

Statement of Deposits and Releases of Funds from the
Dollar Separate Accounts

For the period July 1, 1998 through June 30, 1999

Amounts Expressed in US \$

<u>Deposits of Funds</u>	<u>Actual Reported</u>
<u>Grant No.</u>	
Grant No. 263 - K- 628(A)	0
Grant No. 263 - K- 629	5,000,000
Grant No. 263 - K- 630	122,000,000
Grant No. 263 - K- 631	73,000,000
Grant No. 263 - K- 634/637	227,000,000
Grant No. 263 - K- 638	5,000,000
Total Deposits	<u>432,000,000</u>

<u>Releases of Funds</u>	
<u>Grant No.</u>	
Grant No. 263 - K- 628(A)	2,609,690
Grant No. 263 - K- 629	66,001,064
Grant No. 263 - K- 630	191,345,358
Grant No. 263 - K- 631	40,621,501
Grant No. 263 - K- 634 / 637	77,942,592
Grant No. 263 - K- 638	0
Total Releases	<u>378,520,205</u>

The accompanying notes are an integral part of this Statement of Deposits and Releases of Funds



**Financial Audit of the Deposits and Releases of Funds
from the Dollar Separate Accounts under USAID/Egypt's
Sector Policy Reform Programs**

**Statement of Deposits and Releases of Funds from the
Dollar Separate Accounts**
For the period July 1, 1998 through June 30, 1999

Notes to the Statement of Deposits and Releases of Funds

Note 1: Project Activities:

USAID/Egypt's Sector Policy Reform Programs support the Government of Egypt (GOE) in making policy reforms in various sectors important to Egypt's development. When USAID/Egypt determines that the GOE has taken agreed upon actions to reform its policies, the mission directs the disbursements of the agreed upon amount of dollars to a GOE-owned interest bearing, non commingled dollar separate account in a commercial bank in Egypt established pursuant to the agreement. Thereafter, the agreements require that the funds including interest earnings, be used for agreed upon purposes typically to import from the U.S. commodities needed by public sector entities or to repay non military debt owed to the U.S.

Note 2: Basis of Presentation

The Statement of Deposits and Releases of Funds have been prepared on the cash basis. Consequently, Deposits and Releases of Funds are recognized when received or paid, rather than when earned or incurred. Furthermore, the Statement of Deposits and Releases of Funds presents the movement of inflows and releases of funds during the period July 1, 1998 through June 30, 1999 excluding the beginning balance as of July 1, 1998.



ARTHUR ANDERSEN

Appendix A

**Financial Audit of the Deposits and Releases of Funds
from the Dollar Separate Accounts under USAID/Egypt's
Sector Policy Reform Programs**

**Statement of Deposits and Releases of Funds from the
Dollar Separate Accounts**

For the period July 1, 1998 through June 30, 1999

United States Agency for International Development Mission in Egypt
Management Comments

USAID/Egypt had no comments on the audit report.



Appendix B

**Financial Audit of the Deposits and Releases of Funds
from the Dollar Separate Accounts under USAID/Egypt's
Sector Policy Reform Programs**

**Statement of Deposits and Releases of Funds from the
Dollar Separate Accounts**
For the period July 1, 1998 through June 30, 1999

Auditors' Response to Management Comments