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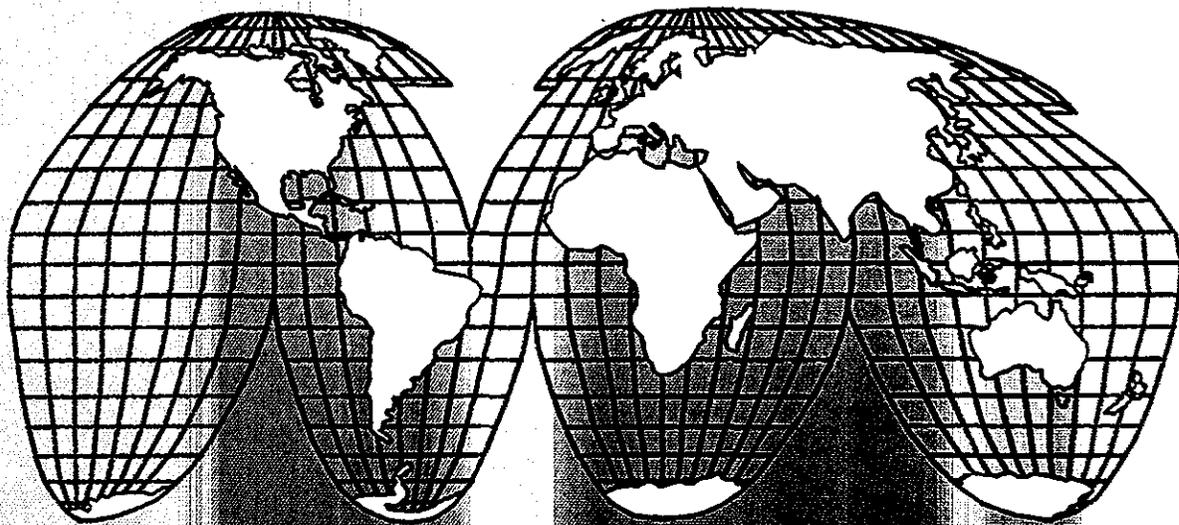
USAID

OFFICE OF INSPECTOR GENERAL

**Audit of Horticulture Exporters Improvement
Association, USAID/Egypt Grant Agreement
No. 263-G-00-99-00010-00 for the Period
December 21, 1998, through September 30, 2000**

Audit Report No. 6-263-02-002-N

March 7, 2002



USAID



Cairo, Egypt

U.S. Agency for International Development



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

CAIRO, EGYPT

Report No. 6-263-02-002-N
March 7, 2002

MEMORANDUM

TO: USAID/Egypt Director, Willard J. Pearson, Jr.

FROM: Acting RIG/Cairo, David H. Pritchard 

SUBJECT: Audit of Horticulture Exporters Improvement Association, USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00 for the Period December 21, 1998, through September 30, 2000

Enclosed please find one copy of the report on the subject audit that was performed to comply with the audit provisions of the agreement. Hazem Hassan conducted the audit covering expenditures of \$753,658.

The purpose of the agreement is to provide support for the Egyptian Horticulture Exporters Improvement Association (Association) to expand the horticulture exports in Egypt.

The audit report generally meets the reporting requirements of the USAID Office of Inspector General's Guidelines for Financial Audits. Hazem Hassan did not have an external quality control review by an unaffiliated audit organization because no such review program is offered by professional organizations in Egypt. We did not review the audit working papers.

The Hazem Hassan audit report questioned \$6,887 (\$1,758 ineligible and \$5,129 unsupported) detailed on pages 12 through 17. Subsequent to the issuance of the draft audit report, the Association refunded to USAID/Egypt the \$1,758 ineligible portion of the questioned costs. The remaining questioned costs of \$5,129 needed to be resolved.

The auditors identified two material weaknesses associated with the Association's internal controls, as well as three material instances of noncompliance with applicable laws, regulations and agreement terms (including cost sharing), detailed on pages 20 through 25 of the Hazem Hassan report.

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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The Association's Management corrected the noncompliance instances, as well as one internal control weakness. The remaining internal control weakness relating to the Association using an improper system for requesting advances from USAID had not been corrected.

Based on our review of the report, we are including the following audit recommendations in USAID's Consolidated Audit Tracking System:

Recommendation No. 1: We recommend that USAID/Egypt make a management decision on the questioned unsupported costs of \$5,129 detailed on pages 15 and 17 of the Hazem Hassan report, and recover from Horticulture Exporters Improvement Association any amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Egypt ensure that Horticulture Exporters Improvement Association establishes and implements policies and procedures for the purpose of accurately determining the amount of advances to be requested from USAID to fund anticipated project activities.

The questioned unsupported costs pertain to an observational travel and its per-diem. In response to Recommendation No. 1, USAID officials said that the Association provided various supporting documentation, including a letter from the travel agent, attesting that the observational travel took place. As this travel covered one stop in the United Kingdom and several stops in the United States, lodging was a necessary cost item. The Mission considered this instance as an isolated instance, and therefore accepted the airfare and per-diem costs as allowable costs. Accordingly, Recommendation No. 1 is closed upon report issuance and no further action is required from the Mission.

Recommendation No. 2 was included in the auditor's report because the cash on hand as of September 30, 2000, exceeded a reasonable level. In response to Recommendation No. 2, USAID officials said that the Association collected its requested advance on September 15, 2000, leaving only 15 days for the Association to spend the advance funds. Also, since the Association was informed that the Grant Agreement extension beyond September 30, 2000, would not be signed on time, it slowed its expenditures and continued to use the remaining advance balance to avoid suspension of activities due to lack of funds. Further, the Association added to its operational manual a section explaining the methodology for requesting new advances from USAID. USAID officials said that the Association is fully aware of properly requesting projected advances, and requested closure of Recommendation No. 2. Accordingly, Recommendation No.2 is closed upon report issuance and no further action is required from the Mission.

Thank you for the cooperation and assistance extended to my staff on this engagement, and your continued support of the financial audit program in Egypt.

Enclosures: a/s

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Financial Audit of
Horticulture Exporters Improvement Association (HEIA) USAID/Egypt Grant Agreement
No. 263-G-00-99-00010-00
For the Period December 21, 1998 Through September 30, 2000

"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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Financial Audit of
Horticulture Exporters Improvement Association (HEIA)
USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00
For the Period December 21, 1998 Through September 30, 2000

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Hazem Hassan

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

August 30, 2001

Dear Mr. Burris,

This report sets forth the results of our financial audit of Horticulture Exporters Improvement Association (HEIA), USAID/Egypt Grant Agreement No.263-G-00-99-00010-00 for the period December 21, 1998 through September 30, 2000.

Background

USAID/Egypt awarded Horticulture Exporters Improvement Association an agreement with a sum of \$1,632,940 and LE400,000 (equivalent to \$117,647) under Grant Agreement No. 263-G-00-99-00010-00. The effective date of the Grant Agreement was December 21, 1998 and USAID/Egypt has obligated an amount of \$882,940 and LE400,000 (equivalent to \$117,647) as of September 30, 2000. The estimated completion date of the Grant Agreement is September 30, 2001.

HEIA is a membership driven association formed for the benefits of agricultural producers and exporters whose mission is to promote the expansion of sustainable exports of horticultural crops through accessing modern production technology, state of the art post harvest practices and market information.

The purpose of the USAID funded agreement is to provide support for the Egyptian Horticultural Exporters Improvement Association (HEIA) to expand the horticultural exports in Egypt.



Audit Objectives and Scope

The objective of this engagement was to conduct a financial audit of Horticulture Exporters Improvement Association's expenditures under Grant Agreement No. 263-G-00-99-00010-00 for the period December 21, 1998 through September 30, 2000. The audit encompassed an examination of HEIA's expenses (both in US dollars and Egyptian pounds), billed to and reimbursed by USAID/Egypt, in order to determine whether they were in compliance with the terms and conditions of the Grant Agreement and applicable USAID/Egypt rules and regulations. We also reviewed internal controls associated with HEIA's management of resources funded by USAID/Egypt through the Grant Agreement.

The specific objectives were to:

1. Express an opinion on whether the fund accountability statement for the USAID financed Grant Agreement of HEIA presents fairly, in all material respects, project revenues received and costs incurred for the period under audit, in conformity with generally accepted accounting principles or other comprehensive basis of accounting;
2. Determine if the costs, reported as incurred under the Grant Agreement, are, in fact, allowable, allocable, and reasonable in accordance with the terms of the Grant Agreement;
3. Evaluate and obtain a sufficient understanding of the internal control structure of HEIA, assess control risk, and identify reportable conditions, including material internal control weaknesses;
4. Perform tests to determine whether HEIA complied, in all material respects, with the terms and conditions of the Grant Agreement (including cost sharing) and, also, applicable laws and USAID/Egypt rules and regulations;
5. Submit a copy of HEIA's general purpose financial statements, on an organization-wide basis, with the audit of the USAID funds; and
6. Examine HEIA's records to ensure that interest earned on USAID advances are reported accurately in the "Federal Cash Advance Report" form W-245, and that interest earned annually, over the authorized set limit, is refunded to USAID.

Preliminary planning and review procedures started in November 2000 and consisted of:

- Discussions with RIG/Cairo;
- A review of the Grant Agreement;
- Interviews and discussions with HEIA's key personnel concerning the status of the Grant Agreement, accomplishments during the period, the statutory reporting requirements, the Grant Agreement's budget, procedures governing actual expenditures incurred by HEIA and billed to USAID; and
- Review of HEIA's organizational structure and HEIA's established policies and procedures, and controls related to salaries, administrative expenses, program activities, per diem, commodities, travel, financial accounting and reporting, and billing to USAID.

The field work segment of our audit was completed on January 21, 2001. The scope of our work was to audit costs incurred by HEIA and reimbursed by USAID/Egypt under Grant Agreement No. 263-G-00-99-00010-00. Within each budget line item, we selected transactions on a judgmental basis in order to perform a substantive test of details. We tested expenditures of \$216,726 (equivalent to LE736,868) out of total expenditures amounting to \$753,658 (equivalent to LE2,562,438).

Our tests of expenditures included, but were not limited to, the following:

1. Reconciling HEIA's accounting records to invoices issued to USAID and testing costs for allowability, allocability, reasonableness, and adequate supporting documentation;
2. Determining whether salaries, administrative expenses, program activities, per diem for observational travel, commodities and travel costs were appropriate and consistent with the terms of the Grant Agreement and applicable rules and regulations and were adequately supported and approved.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is 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, because no such quality control 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 have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

As part of our examination, we made a study and evaluation of relevant internal controls and reviewed HEIA's compliance with applicable laws and regulations.

Results of Audit

Fund Accountability Statement

Our audit identified unsupported costs amounting to \$5,129 (equivalent to LE17,438) and ineligible costs amounting to \$1,758 (equivalent to LE5,977) for the Grant Agreement No. 263-G-00-99-00010-00. Subsequent to the issuance of the draft report HEIA management refunded to the USAID/Egypt an amount of \$1,758 (equivalent to LE5,977) as a settlement of Findings No. 1a), 1b) and 4).

Internal Controls

Our audit identified certain material weaknesses associated with HEIA's internal controls that are required to be reported in accordance with Government Auditing Standards. These matters are more fully described in our report on internal controls. Specifically, 1) HEIA commingles USAID funds with non-USAID funds and, as a result, cannot reconcile the USAID fund balance with the cash balance per its accounting books and records, and 2) HEIA uses improper system for requesting advances from USAID. Subsequent to the issuance of the draft report HEIA management prepared a

reconciliation for the USAID US Dollar, Egyptian Pound and HEIA's non-USAID bank accounts for the period covered by our audit.

Compliance with Laws and Regulations

Our audit identified certain material instances of noncompliance with the agreement terms and applicable laws and regulations. These instances of noncompliance are more fully described in our report on compliance with laws and regulations. Specifically, 1) HEIA did not provide the required cost sharing contribution as specified in the Grant Agreement, 2) HEIA commingles USAID funds with HEIA's non-USAID funds and, also, commingles FT-800 LE funds with other US Dollar appropriated funds and, 3) HEIA uses non-interest bearing accounts for USAID advances. Subsequent to the issuance of the draft report HEIA actually achieved its required cash contribution for the project overall budget according to last amendment ending September 30, 2001, additionally, HEIA management prepared a reconciliation for the USAID US Dollar, Egyptian Pound and HEIA's non-USAID bank accounts for the period covered by our audit and, also, HEIA management began depositing USAID advances in time deposit accounts as of December 2000.

Cost Sharing

Based on our review of the cost sharing schedule, we noted the following instance of non-compliance with the Grant Agreement:

- 1) Unachievement of the required cost sharing contributions. This matter is more fully described in the compliance report. Subsequent to the issuance of the draft report HEIA actually achieved its required cash contribution for the project overall budget according to last amendment ending September 30, 2001.

Overall Financial Statements

We were not able to reconcile HEIA's financial statements to the fund accountability statement due to the fact that the financial statements are prepared according to the accrual basis of accounting while the fund accountability statement is prepared according to the cash basis of accounting. Additionally, the financial statements were prepared for the fiscal year ending December 31, 1999 and the fund accountability statement is covering the period from December 21, 1998 through September 30, 2000.

Summary of Management Comments

We have reviewed HEIA's response to the questioned costs, internal controls and compliance with laws and regulations matters identified as a result of our audit, which is included in Appendix II. Where applicable, we have made adjustments in our report or provided further clarification of our position in Appendix III. For those items not adjusted in our final report, the responses provided by management have not changed our report on the fund accountability statement, our report on internal controls, or our report on compliance with laws and regulations.

Supplementary Information

A supplementary fund accountability statement and details of questioned costs, presented in the functional currency, were communicated to HEIA's management and are available upon request.

This report is intended for the information of the United States Agency for International Development and HEIA's management and others within the organization. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

KPMG Hazem Hassan



Cairo, Egypt



Hazem Hassan

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Report on the Fund Accountability Statement
Independent Auditor's Report

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

We have audited the accompanying fund accountability statement of funds received and costs incurred by Horticulture Exporters Improvement Association (HEIA), USAID/Egypt Grant Agreement No.263-G-00-99-00010-00 for the period December 21, 1998 through September 30, 2000. This fund accountability statement is the responsibility of HEIA's management. Our responsibility is to express an opinion on this fund accountability statement based upon our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the presentation of the overall fund accountability statement. 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, because no such quality control 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 have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

As described in Note 1, the accompanying fund accountability statement has been prepared on the cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. Included in the fund accountability statement are questioned costs of \$6,887. The basis for questioning costs is fully described in the "Details of Questioned Costs" section in this report.

In our opinion, except for the effects of the questioned costs referred to in the preceding paragraph, the fund accountability statement, referred to above, presents fairly, in all material respects, the amounts received and the costs locally incurred pursuant to Grant Agreement No. 263-G-00-99-00010-00 for the period December 21, 1998 through September 30, 2000 in conformity with the basis of accounting described in Note 1.

KPMG Hazem Hassan
Cairo, Egypt

KPMG Hazem Hassan

January 21, 2001

Financial Audit of
Horticulture Exporters Improvement Association (HEIA)
USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00
For the Period December 21, 1998 Through September 30, 2000

Fund Accountability Statement

	<u>\$</u>	
Amounts received from USAID		1,000,587
		1,000,587
Total		1,000,587

<u>Expenditures</u>	<u>Questioned Costs</u>				<u>Finding No. and Page No.</u>
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	
	(Note 4)				
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	
Salaries	603,351	253,678			
Administrative Expenses	276,231	143,704	866		Findings No. 13) & 14) Page No. 12.
Program Activities	395,058	106,944			
Per Diem For Observational Travel	130,000	125,165		3,038	Finding No. 3 Page No. 15.
Commodities	228,300	53,729	892		Finding No. 4 Page No. 16.
FT-800 Funds Observational Travel (Air Fare)	117,647	70,438		2,091	Finding No. 5 Page No. 17.
Total	1,750,587	753,658	1,758	5,129	
Fund Balance as of September 30, 2000		246,929			

The accompanying notes are an integral part of the fund accountability Statement.

Financial Audit of
Horticulture Exporters Improvement Association (HEIA)
USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00
For the Period December 21, 1998 Through September 30, 2000

Notes to the Fund Accountability Statement

Note 1: Accounting Basis

The fund accountability statement has been prepared on the basis of cash receipts and disbursements. Consequently, revenues are recognized when they are actually received and expenditures are recognized when they are actually paid.

Note 2: Source of Data

The column labeled "Actual" is the responsibility of HEIA management and represents the cumulative costs billed to the USAID for the period December 21, 1998 through September 30, 2000.

Note 3: Translation Rate

Expenditures paid in Egyptian Pounds (LE) have been translated into US Dollars (\$). The period average exchange rate method was used. This rate was \$1 = LE3.4. The translation rate used for the FT-800 expenses in this report is according to the rate stated in the Grant Agreement. This rate was \$1 = LE3.4.

Note 4: Budget

The column labeled "Budget" includes USAID/Egypt's approved budget in accordance with the most recent budget amendment of the Grant Agreement (amendment no. 5 dated October 1, 2000). These amounts have been reported in the fund accountability statement for presentation purposes only.

Financial Audit of
Horticulture Exporters Improvement Association (HEIA)
USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00
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Notes to the Fund Accountability Statement

Note 5: Questioned Costs

Questioned costs are presented in two separate categories - ineligible or unsupported - and consist of audit findings made on the basis of the terms of the grant agreement and applicable rules and regulations, which prescribe the nature and treatment of reimbursable costs. Costs in the column labeled "Ineligible" are supported by vouchers or other documentation but are ineligible for reimbursement because they are either unreasonable or prohibited by the grant agreement or applicable laws and regulations.

Costs in the column labeled "Unsupported" are also included in the clarification of "Questioned Costs" and are related to costs that are not supported by adequate documentation. All questioned costs are detailed in the "Details of Questioned Costs" section in this report.

Financial Audit of
Horticulture Exporters Improvement Association (HEIA)
USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00
For the Period December 21, 1998 Through September 30, 2000

Details of Questioned Costs

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
<u>1. Administrative Expenses</u>		
a) Based upon our audit of administrative expenses, we noted an amount of \$575 representing sales taxes which was billed to USAID. HEIA's management indicated that such amount was billed in error. Applicable terms and provisions of the Grant Agreement state that "any taxes imposed under laws in effect in the Arab Republic of Egypt are unallowable". Accordingly, this amount is considered to be ineligible. Subsequent to the issuance of the draft report this amount was refunded to the USAID.	575	
b) Based upon our audit of administrative expenses, we noted an amount of \$291 representing refreshment expenses which was billed to USAID. HEIA's management indicated that such amount was billed in error. Article No. 10 of OMB Circular A-122 stated that "costs of meals and related costs are unallowable". Accordingly, this amount is considered to be ineligible. Subsequent to the issuance of the draft report this amount was refunded to the USAID.	291	

Financial Audit of
Horticulture Exporters Improvement Association (HEIA)
USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00
For the Period December 21, 1998 Through September 30, 2000

Details of Questioned Costs

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
3. <u>Per Diem for Observational Travel</u>		
Based upon our audit of per diem expenses, we noted that there is an amount of \$3,038 representing lodging and per diem for which no supporting documents were provided to us for review. HEIA's management stated that these documents were mis-filed. According to USAID rules and regulations, HEIA should not charge the USAID with expenses not supported by adequate documentation substantiating such charges. Therefore, this amount is considered to be unsupported.		<u>3,038</u>
 Total Line Item		3,038

Financial Audit of
Horticulture Exporters Improvement Association (HEIA)
USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00
For the Period December 21, 1998 Through September 30, 2000

Details of Questioned Costs

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
4. <u>Commodities</u>		
Based upon our audit of commodities expenses, we noted an amount of \$892 representing sales taxes which was billed to USAID. HEIA's management indicated that such amount was billed in error. Applicable terms and provisions of the Grant Agreement state that "any taxes imposed under laws in effect in the Arab Republic of Egypt are unallowable". Accordingly, this amount is considered to be ineligible. Subsequent to the issuance of the draft report this amount was refunded to the USAID.	<u>892</u>	
Total Line Item	892	

Financial Audit of
Horticulture Exporters Improvement Association (HEIA)
USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00
For the Period December 21, 1998 Through September 30, 2000

Details of Questioned Costs

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
<p>5. <u>FT-800 Air Tickets for</u> <u>Observational Travel</u></p> <p>Based upon our audit of FT-800 expenses, we noted that there is an amount of \$2,091 representing air tickets expenses for which no supporting documents were provided to us for review. HEIA's management stated that these documents were mis-filed. According to USAID rules and regulations, HEIA should not charge the USAID with expenses not supported by adequate documentation substantiating such charges. Therefore, this amount is considered to be unsupported.</p>		<u>2,091</u>
<p>Total Line Item</p>	_____	<u>2,091</u>
<p>Total Questioned Costs</p>	<u>1,758</u>	<u>5,129</u>



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Report on Internal Controls
Independent Auditor's Report

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

We have audited the accompanying fund accountability statement of costs incurred by the Horticulture Exporters Improvement Association (HEIA), pursuant to USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00 for the period December 21, 1998 through September 30, 2000, and have issued our report thereon dated January 21, 2001.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is 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, because no such quality control 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 have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

In planning and performing our audit of the fund accountability statement of HEIA related to funds received



and costs incurred under USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00 for the period December 21, 1998 through September 30, 2000, we obtained an understanding of the internal control structure associated with HEIA's operations in Egypt. With respect to the internal control structure associated with HEIA's operations in Egypt, 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

The management of HEIA 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 an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that the transactions are executed in accordance with the management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with the cash basis of accounting. Because of the inherent limitations in any internal control structure, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the internal control 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.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data in a manner that is consistent with the assertions of management in the fund accountability statement.

Audit Findings:

1) Commingling of USAID Funds with Non-USAID Funds

Based upon our review of cash management practices, we noted that HEIA commingles USAID funds with non-USAID funds for the purpose of funding activities under the Grant Agreement. In addition, we noted that U.S Dollar appropriated funds and FT-800 funds provided by USAID are commingled for the purpose of funding activities under the Grant Agreement. As a result, fund balance reported in the fund accountability statement as of September 30, 2000 could not be reconciled to the bank statements as of September 30, 2000. Specifically, we noted that HEIA pays for certain expenses to be funded by USAID funds with non-USAID funds and, also, we noted that HEIA pays for certain expenses with FT-800 funds provided by USAID that should be funded by U.S Dollar appropriated funds provided by USAID. HEIA does not reconcile the sources and uses of funds in its accounting records and, accordingly, that receipt and disbursement of USAID funds cannot be reconciled to HEIA's applicable bank statements. Based upon inquiry with management, we noted that the reason for commingling funds in the manner described above is to achieve foreign currency gains in response to the devaluation of the Egyptian Pound that has occurred during the period covered by our audit. This practice is in violation of the terms and provisions of the Grant Agreement and, we recommend that HEIA cease this practice immediately. We further recommend that HEIA perform a reconciliation of the sources and uses of USAID funds (both U.S Dollar appropriated and FT-800 funds) from the inception of the project through September 30, 2000 in order to ensure that receipt and disbursement of USAID funds are accounted and reported for properly. Subsequent to the issuance of the draft report HEIA management prepared a reconciliation for the USAID US Dollar, Egyptian Pound and HEIA's non-USAID bank accounts for the period covered by our audit.

2) Requesting Advances From USAID

Based upon our review of HEIA's cash management practices, we noted that HEIA does not have adequate policies and procedures in place for the purpose of determining the amount of advances to be requested from USAID. As a result, as of September 30, 2000 HEIA had received approximately \$250,000 in excess their cash needs, which had not been expended for grant related

activities. Based upon inquiry of project management, we noted that HEIA is currently developing policies and procedures necessary to determine, as accurately as possible, advances required from USAID to fund anticipated project activities. We recommend that project management establish and implement such policies and procedures as soon as possible in order to ensure that terms and provisions of the Grant Agreement related to advances are complied with.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more 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 statement 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 the above mentioned matters involving the internal control structure and its operations that we consider to be material weakness as defined above. These conditions were considered in determining the nature, timing, and extent of the procedures to be performed in our audit of the fund accountability statement of the Horticulture Exporters Improvement Association (HEIA) for the period December 21, 1998 through September 30, 2000.

This report is intended for the information of HEIA's management and others within the organization and the United States Agency for International Development. However, this report is a matter of public record and its distribution is not limited.

KPMG Hazem Hassan
Cairo, Egypt



January 21, 2001



Hazem Hassan

Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street
Mohandseen, Cairo
Egypt

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

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

We have audited the accompanying fund accountability statement of costs incurred by the Horticulture Exporters Improvement Association (HEIA), pursuant to USAID/Egypt Grant Agreement No.263-G-00-99-00010-00 for the period December 21, 1998 through September 30, 2000 and have issued our report thereon on dated January 21, 2001.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is 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, because no such quality control 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 have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

Compliance with laws, regulations, contracts and grants applicable to HEIA is the responsibility of HEIA's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of HEIA's compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the fund accountability statement 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 disclosed certain material instances of noncompliance that are required to be reported herein under Government Auditing Standards.

Audit Findings:

1) Cash Contributions

Grant Agreement No. 263-G-00-99-00010-00 states that HEIA should spend, on a yearly basis, from non-USAID funds an amount equal to the amount or percentage of the total USAID funded expenditures according to the cost-sharing budget as specified in the Agreement. Also, the Grant Agreement states that program income earned under the award shall be applied to finance the non-federal share. Furthermore, 22 Code of Federal Regulations 226.2 defines cost share as program costs not borne by the Federal Government. Although HEIA had sufficient program income to meet its cost share, it did not spend \$87,000 on project costs. As a result, HEIA did not share in the cost of the project. We recommend that HEIA refund \$87,000 to USAID/Egypt.

Subsequent to our audit period, HEIA provided its required cash contribution in accordance with the latest approved budget ending September 30, 2001.

2) Commingling of Funds

Based upon our review of cash management practices, we noted that HEIA commingles USAID provided FT-800 LE funds with USAID provided Dollar appropriated funds. Additionally, HEIA commingles USAID funds with other HEIA controlled funds. According to the Grant Agreement terms and conditions, USAID funds should not be commingled with other HEIA owned or controlled funds and, also, HEIA should deposit all USAID cash advances in separate bank accounts and should make all disbursements for goods and services from such accounts in accordance with the terms

and provisions of the Grant Agreement. We recommend that HEIA management comply with the Grant Agreement requirements in this regard.

Subsequent to the issuance of the draft report HEIA management prepared a reconciliation for the USAID US Dollar, Egyptian Pound and HEIA's non-USAID bank accounts for the period covered by our audit.

3) Using Non-interest Bearing Accounts for Advances

Based upon our review of cash management practices, we noted that HEIA deposits all USAID cash advances in non-interest bearing accounts. According to ADS 583.5.5, USAID cash advances should be deposited in interest bearing accounts and, also, interest earned on advances should be reported in "Federal Cash Advance Report" and should be refunded to USAID where required. We recommend that HEIA management comply with the Grant Agreement requirements in this regard.

Subsequent to our audit period HEIA deposited USAID advances (including the fund balance as of September 30, 2000) in time deposit accounts.

This report is intended for the information of HEIA's management and others within the organization and the United States Agency for International Development. However this report is a matter of public record its distribution is not limited.

KPMG Hazem Hassan
Cairo, Egypt

KPMG Hazem Hassan

January 21, 2001



Hazem Hassan

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Report on Cost Sharing Schedule
Independent Auditor's Report

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

We have reviewed the accompanying cost sharing schedule of the Horticulture Exporters Improvement Association (HEIA) pursuant to USAID/Egypt Grant Agreement No.263-G-00-99-00010-00, for the period December 21, 1998 through September 30, 2000.

Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA). The purpose of our review was to determine if cost sharing contributions were provided and accounted for in accordance with the terms of Grant Agreement No 263-G-00-99-00010-00. We also considered the internal controls related to the provision of and accounting for cost sharing contributions.

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data. It is substantially less in scope than an examination, the objective of which is the expressing of an opinion on the cost sharing schedule. Accordingly, we do not express such an opinion.

We noted one material instance of non-compliance with Grant Agreement terms and conditions. This instance of non-compliance is related to HEIA's cost sharing requirement and is more fully described in our report on compliance with applicable laws and regulations. Specifically, HEIA did not provide the required cash contribution as stated in the approved budget. Subsequent to the issuance of the draft report HEIA management provided its required cash contribution in accordance with the latest approved budget ending September 30, 2001.



Based upon our review, except as noted above, nothing came to our attention that caused us to believe that HEIA has not provided and accounted for cost sharing contributions in accordance with the terms of the Grant Agreement.

This report is intended for the information of HEIA's management and others within the organization and the United States Agency for International Development. However this report is a matter of public record and its distribution is not limited.

KPMG Hazem Hassan
Cairo, Egypt



January 21, 2001

Financial Audit of
Horticulture Exporters Improvement Association (HEIA)
USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00
For the Period December 21, 1998 Through September 30, 2000

Cost Sharing Schedule

<u>Cash Contribution</u>		<u>Questioned Costs</u>			
<u>Line Item</u>	<u>Budget</u> <u>(Note 1)</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	
Program Activities	55,000	0			
Per Diem For Observational Travel	32,000	0			
Sub-Total	87,000	0	0	0	0
<u>In-Kind Contribution</u>		<u>Questioned Costs</u>			
<u>Line Item</u>	<u>Budget</u> <u>(Note 1)</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	
Salaries	59,500	64,500			
Program Activities	76,000	88,935			
Sub-Total	135,500	153,435	0	0	0
Total	222,500	153,435	0	0	0

Financial Audit of
Horticulture Exporters Improvement Association (HEIA)
USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00
For the Period December 21, 1998 Through September 30, 2000

Notes to the Cost Sharing Schedule

Note 1: Budget

The column labeled "Budget" includes USAID/Egypt's approved budget in accordance with the most recent budget amendment of the Grant Agreement as of September 30, 2000. These amounts have been reported in the cost sharing schedule for presentation purposes only.

Note 2: Unsupported Costs

Based on documents and clarifications provided to us by HEIA's management subsequent to the issuance of the draft report with respect to the required in-kind contribution (Salaries), this finding is not included in our final report.

APPENDIX I
HEIA FINANCIAL STATEMENT

HORTICULTURAL EXPORT IMPROVEMENT ASSOCIATION

FINANCIAL STATEMENTS TOGETHER WITH AUDITORS' REPORT
FOR THE YEAR ENDED DECEMBER 31, 1999

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Translation of auditors' report
originally issued in Arabic

AUDITORS' REPORT

To the Members of
Horticultural Export Improvement Association

We have audited the financial statements of the Horticultural Export Improvement Association, which comprise the balance sheet as of December 31, 1999, the statements of revenue and expenditure and receipts and disbursements for the year ended December 31, 1999.

We conducted our audit in accordance with International Standards on Auditing and in light of governing laws. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Horticultural Export Improvement Association as of December 31, 1999, the results of its operations, receipts and disbursements for the year then ended in conformity with Egyptian Accounting Standards to the extent issued and with International Accounting Standards, otherwise.

Cairo, May 25, 2000

Auditor

Dr. Ahmed Shawki
Dr. Ahmed Shawki
Mostafa Shawki & Co.



HORTICULTURAL EXPORT IMPROVEMENT ASSOCIATION
BALANCE SHEET AS OF DECEMBER 31, 1999
(Amounts Are Expressed in Egyptian Pounds)

	<u>Notes</u>	<u>1999</u>	<u>1998</u>
<u>ASSETS</u>			
<u>Fixed Assets</u>			
Furniture and office equipment		195,256	169,909
Computers and electrical equipment		234,776	192,857
Vehicles		50,000	50,000
Fixtures and fittings		<u>35,582</u>	<u>31,420</u>
Total Fixed Assets		516,614	444,186
<u>Less:</u>			
Accumulated depreciation		(158,003)	(81,305)
Net Book Value		<u>358,611</u>	<u>362,881</u>
<u>Current Assets</u>			
Prepaid expenses		4,842	4,987
Deposits with others		10,741	3,500
Time deposits-Egyptian Pounds		564,537	403,174
Time deposits-US Dollars		17,514	-
Bank current account-Egyptian Pounds		161,319	2,132
Bank current account-US Dollars		<u>875,945</u>	<u>16,950</u>
Total Current Assets		<u>1,635,398</u>	<u>430,743</u>
<u>Other Assets</u>			
Establishment expenses		4,992	4,992
Computer programs		83,804	13,125
Scientific books		1,175	1,175
Usefruct	(3)	<u>34,000</u>	<u>34,000</u>
Total Other Assets		128,971	53,292
<u>Less:</u>			
Accumulated amortization		(25,367)	(10,856)
Net Book Value		<u>102,604</u>	<u>42,436</u>
Total Assets		<u>2,096,613</u>	<u>876,060</u>
 <u>ASSOCIATION FUND AND CURRENT LIABILITIES</u>			
Retained surplus		822,744	757,383
Current year surplus		<u>555,990</u>	<u>65,361</u>
		<u>1,378,734</u>	<u>822,744</u>
<u>Current Liabilities</u>			
Deduction from Employees		16,369	8,516
Grants received in advance		366,272	-
Advance payments from members		186,089	-
Creditors	(4)	<u>149,149</u>	<u>4,800</u>
		<u>717,879</u>	<u>13,316</u>
Total Association fund and Current Liabilities		<u>2,096,613</u>	<u>836,060</u>

- The accompanying notes are an integral part of these financial statements.
- Auditors' report attached.

AS

Auditor
Dr. Ahmed Shawki

Shief

Treasurer

Chairman

HORTICULTURAL EXPORT IMPROVEMENT ASSOCIATION
STATEMENT OF REVENUE AND EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 1999
(Amounts Are Expressed in Egyptian Pounds)

	<u>Notes</u>	<u>1999</u>	<u>1998</u>
<u>REVENUE</u>			
Membership fees		147,000	119,000
Annual subscription		105,762	65,563
Donations		98,400	-
Grants		1,291,550	306,916
Interest income		48,288	25,267
Usefruct income		-	17,000
Other revenue		28,082	-
		-----	-----
Total Revenue		1,719,082	533,746
		-----	-----
<u>EXPENDITURES</u>			
Salaries and wages		(466,397)	(252,874)
General and administrative expenses	(1)	(116,032)	(53,825)
Rent		(84,210)	(42,000)
Depreciation		(92,209)	(74,380)
Travel expenses		(328,338)	-
Cost of information publishing		(2,377)	-
Quality control expenses		(19,329)	-
Training expenses		(12,209)	-
Professional fees		(41,991)	(45,306)
		-----	-----
Total Expenses and Other Charges		(1,163,092)	(468,385)
		-----	-----
Current Year Surplus		<u>555,990</u>	<u>65,361</u>

- The accompanying notes are an integral part of these financial statements.

Sherief
Treasurer
Sherief El Beltagi

Chairman
Abdo Ibrahim
Abdo Ibrahim

HORTICULTURAL EXPORT IMPROVEMENT ASSOCIATION
STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE YEAR ENDED IN DECEMBER 31, 1999
(Amounts Are Expressed in Egyptian Pounds)

	<u>1999</u>	<u>1998</u>
Cash Balance as of January 1, 1999	422,256	382,537
<u>Add:</u>		
<u>Receipts</u>		
Membership fees	147,000	119,000
Annual subscription	100,962	65,563
Donations	98,400	-
Cash grants	1,291,550	306,916
Interest income	48,288	25,267
Usefruct income	-	17,000
Subscriptions collected in advance	2,525	4,800
Other revenue	28,082	-
Prepaid donations	366,272	-
Advance payment from members	186,089	-
	2,691,424	821,083
<u>Less:</u>		
<u>Disbursements</u>		
Purchase of fixed assets	(72,427)	-
Prepaid expenses	(4,842)	(4,987)
General, administrative expenses and other charges	(911,420)	(393,840)
Computer programs	(75,679)	-
Deposits with others	(7,241)	-
	(1,071,609)	(398,827)
Cash balance at year end	1,619,815	422,256

Sherif
Treasurer
Sherief EY Beltagi

Chairman
Abdo Ibrahim
4/12/04

HORTICULTURAL EXPORT IMPROVEMENT ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 1999
(Amounts are expressed in Egyptian Pounds)

I. ESTABLISHMENT AND PURPOSE OF THE ASSOCIATION

The Horticultural Export Improvement Association was established on November 7, 1996 and published under Number 1227, according to the Law No. 32 for 1964 for the purpose of providing the following:

- a. Economic development and enhancing family income.
 - b. Cultural, scientific and religious services
 - c. Environmental protection
 - d. Local communities development
 - e. Economic services
 - f. Educational services
 - g. Aid community and social welfare services
1. improving, developing and enhancing the quality of production and marketing horticultural products. Opening new export markets and improving existing ones. Organizing and performing integration in the field of production, quality control, circulation export, marketing and the production of horticultural products.
 2. supplying producers and exporters with technical, marketing and exporting data and information needed to perform those activities. Conducting scientific, technical and marketing researches and studies. Publishing brochures, which assist the association to achieve its objectives, in co-operation with universities, specialized research centers and other scientific and foreign parties. Communicating and co-operating with local and foreign parties to obtain information which benefits the association's members according to the governing rules and regulations after the approval of the specified authority.
 3. providing supplies, production needs, circulation services, packing, quality control, marketing, exporting, cooling storage, guiding, training and other related information which leads to the development of agricultural exports.

...ing ... care for the association's members to assist them, as necessary, according to the association's statutes, and taking care of the members rights and their relations with other parties, holding and organizing conferences, seminars, lectures and workshops to give a chance to discuss positive results and problems related to the development and production of Egyptian horticultural exports; in addition to holding and organizing the training and educational courses to improve personnel skills and increase efficiency.

5. arbitrating any disputes among the association's members where the association's ruling is compulsory for all members.
6. using methods, transactions, production, circulation, marketing and manufacturing tools, which are environment friendly and protecting environment from pollution according to international specifications.

2. SIGNIFICANT ACCOUNTING POLICIES

A summary of the accounting policies applied consistently throughout the current and comparative years is as follows:

a. Basis of Accounting

The accounts have been prepared based on the historical cost convention method in accordance with The Egyptian Accounting Standards on an accrual basis.

b. Foreign Currency

The Association's functional and reporting currency is the Egyptian pound. Transactions in foreign currencies are translated to Egyptian pounds at a fixed rate of LE 3.40 = US \$ 1. At year-end, monetary assets and liabilities denominated in foreign currencies are translated to Egyptian pounds at the same fixed rate used during the year.

c. Fixed Assets Depreciation

Fixed assets are stated at historical cost and are depreciated using the straight-line method over their estimated useful lives, using the following rates:

<u>Asset</u>	<u>Depreciation Rate</u>
Furniture and office equipment	10 %
Computers and electrical equipment	20 %
Vehicles	20 %
Fixtures and fittings	20 %

d. Other Assets

Other assets are stated at cost and are depreciated using the straight-line method, using the following rates:

<u>Asset</u>	<u>Depreciation Rate</u>
Establishment expenses	33.33 %
Computer programs	20 %
Scientific books	50 %
Usefruct	20 %

e. Revenue

- Membership Fees

Membership fees are represented in the amounts paid by members on joining the association.

- Annual Subscriptions

Annual subscriptions are recorded when collected from members.

- Grants

Grants are represented in the amounts obtained by the Association from the (Ronco) Agricultural Technology Transfer Project - Ministry of Agriculture - as a refund of actual expenses incurred for the period from January 1, 1999 to March 31, 1999 and from USAID from April 1, 1999 to December 31, 1999.

3. USEFRUCT

Usefruct amounted to LE 34,000 and represents the user rights obtained by the Association from Zanzay Company in Egypt for, five years starting March 1998.

4. CREDITORS

Creditors represent the following:

	<u>1999</u>	<u>1998</u>
American Express	111,946	-
Thomas Cook	8,554	-
Advanced subscription	2,525	4,800
Sundry Creditors	25,131	-
Due to Tax Authority	993	-
	<u>149,149</u>	<u>4,800</u>

5. TAX POSITION

According to Law No. 32 of 1964, as amended by Law No. 153 of 1999, the Association is exempted from all types of taxes.

6. ASSOCIATION'S TRANSPORTATIONS WITH MEMBERS

The Association did not record uncollected annual subscription amounting to LE 38.688.

7. SUBSEQUENT EVENTS

On April 19, 2000, the Association was legally reincorporated according to Law No. 153 for 1999 for Associations and Local Enterprises.

8. COMPARATIVE FIGURES

Comparative figures have been restated to accord with the current year's presentation.

HORTICULTURAL EXPORT IMPROVEMENT ASSOCIATION

ANALYSIS OF GENERAL AND ADMINISTRATIVE EXPENSES

FROM JANUARY 1, 1999 TILL DECEMBER 31, 1999

Attachment No. (i)

	<u>1999</u>	<u>1998</u>
	<u>L.E</u>	<u>L.E</u>
Communications	15,217	5,864
Stationery	17,012	6,713
Advertising	-	10,750
Repair and Maintenance	14,002	7,972
Car rental	18,122	-
Electricity	6,837	5,277
Car expenses	8,969	3,640
Cleaning expenses	475	309
Meetings expenses	15,393	3,060
Travel and local transportation expenses	1,832	-
Insurance	585	1,807
Audit Fees	3,000	3,000
Miscellaneous expenses	2,435	3,263
Bank charges	2,387	799
Transportation	1,023	1,371
Training expenses	2,420	-
Subscription	6,323	-
	-----	-----
	116,032	53,825
	=====	=====

APPENDIX II
MANAGEMENT COMMENTS

Mr. Thomas L. Malone

Partner

KPMG Hazem Hassan

Giza, Egypt

May 14, 2001

Dear Mr. Malone

Re KPMG audit report to Mr. Darryl Burris - USAID / Cairo Regional Inspector General concerning financial audit of Horticulture Export Improvement Association - HEIA, grant agreement # 263-G-00-99-00010-04 for the period from December 21, 1998 through September 30, 2000. Please find hereunder our notes and action taken, but first of all we need to explain a few things to give a better understanding of the HEIA situation entering into the audit.

In July 2000, the HEIA board of directors became concerned that its management and accounting team was not properly managing the grant funds. A decision was made to replace both. A new finance manager with USAID project experience was recruited and started to work in early July 2000. The Executive Director resigned and was also replaced in early July. New internal controls and procedures were introduced immediately. When KPMG auditors started their work in HEIA for the period mentioned above, the only exception found for the period from July 2000 through September 2000 was an amount of EGPI17, representing a business dinner. We issued a check to return that amount to USAID immediately. The full amount was returned to make it clear that we are ready to correct any errors that may be uncovered. It also indicates that our new management and accounting team have instituted significantly improved controls and procedures. . The remainder of this letter should indicate that we are aware of many of the problems created by the previous team, and that we are determined to correct any errors that your auditors have identified.

Details of Questioned Costs

1. Administration Expenses

- a) After checking the amount of US\$575 equivalent to EGP1,955 representing sales taxes, which was billed to USAID in error, we discussed the matter with your auditors, explaining that the correct amount is US\$571 equivalent to EGP1,940.58. We issued check # 1431931 from the HEIA bank account in the Misr America International Bank payable to United States Agency for International Development for the amount of EGP1,940.58 (copy attached).
- b) After checking the amount of US\$291 equivalent to EGP989 representing refreshment expenses that was billed to USAID in error, we found that the amount is correct. And we issued check # 1431932 from the HEIA bank account in the Misr America International Bank payable to United States Agency for International Development for the amount of EGP988.35 (copy attached).
- c) After checking the amount of US\$1,009 equivalent to EGP3,431 representing excess charging for administration expenses we showed the supporting documents for this amount to KPMG auditors.

2. Program Activities

After checking the amount of US\$1,187 equivalent to EGP4,036 representing excess charges for program activity expenses, the documents supporting this amount were misfile during the audit. However, subsequent to the audit, these documents were located and submitted to KPMG.

3. Observational Travel

With respect to the issue of lodging and per diem in the amount of US\$3,038, we have all required documentation to show the employee did travel as claimed. The traveler certified that he had lost the hotel receipts, but we have an advance reconciliation showing that the amount advanced was fully expended.

4. Commodities

After checking the amount of US\$892 equivalent to EGP3,033 representing sales taxes that was billed to USAID in error, we found that the amount is correct. We issued check # 1431930 from the HEIA bank account in the Misr America International Bank payable to United States Agency for International Development for the amount of EGP3,031.90 (copy attached).

5. FT-800 Air Tickets

With respect to the USS2,091 representing air ticket expenses, this is the travel expense for the observational travel discussed previously in item 3. Observational Travel. We have all the supporting documents showing that the ticket was purchased, and issued by American Express Travel and that payment was made to American Express directly. We also have the employee's trip report.

Internal Controls

1. Commingling of USAID Funds with non USAID Funds

The grant agreement was signed and became effective on December 21, 1998. However, the first tranche of funds was not collected until June 13, 1999. During those months HEIA had to pay all expenses from its own bank account. When the USAID was finally collected it was deposited into a special USAID account.

Because of the delay in receiving grant funding HEIA made payments from its own account, resulting in commingling. In addition, HEIA employees on a few occasions mistakenly deposited HEIA funds into the USAID account. We have now completed a detailed reconciliation of all accounts to correct the balance reported in the fund accountability statement as of September 30, 2000.

In addition, we will apply the same procedure to all transactions since September 30, 2000 and from now will assure that no further commingling occurs.

2. Requesting Advance from USAID

HEIA had adequate policies and procedures for the purpose of determining the amount of advances to be requested from USAID. When we became aware that the extension of our grant would be delayed for three months, we reduced our rate of expenditures. In other words we made only the very urgent expenditures, delaying less important expenditures to another period. We did not want to reach a point of stopping our activities for lack of funds. As a result, as of September 30, 2000 HEIA had an amount of USS222,267.58 representing an advance for the period of October 1, 2000 through December 31, 2000. This amount was part of the amount USS278,099.10 requested from USAID on July 14, 2000, and received on August 20, 2000, and collected by the bank on September 15, 2000 (26 days to collect it). It would have been impossible to spend USS278,099.10 in fifteen days. Since we were informed that the extension would not be signed in less than three months we instituted a program to slow down expenditures as much as possible in order to keep our programs operating. After

we then, we got the approval from the board to add a subject in our manual on how to request an advance from the USAID.

Compliance with Agreement Terms, Applicable Laws & Regulations

1. Cost Sharing Contributions

First, HEIA cost sharing in the grant agreement number 263-G-00-00010-04 is divided into two parts, in-kind contribution and cash contribution. For the auditing period from December 21, 1998 through September 30, 2000 we over achieved our cost sharing in the in-kind contribution in line items, for salaries and program activities. Salaries were budgeted for US\$59,500 and we over achieved this amount by US\$5,000. KPMG auditors asked for more supporting document for this line item according to the draft report and we submitted a copy to them. The documents were accepted after the draft audit report. Program activities were budgeted for US\$76,000. We over achieved this amount by US\$12,935.

With respect to Cash Contribution the salary line item, was budgeted for the amount of US\$23,100. We achieved the amount of US\$21,231 and the amount remaining is US\$1,769 only 8% under the budget. Furthermore, we have already achieved the amount of US\$13,958 as of April 30, 2001, meaning that we over achieve the budget by US\$12,189 during from September 30, 2000 until that date.

After the period ending September 30, 2000 we have over achieved the cash contribution in the program activities line item, which was budgeted for the amount of US\$55,000. We exceeded that amount by US\$16,691. For the observational travel it was budgeted for the amount of US\$32,000 and we achieved the amount of US\$25,426 the amount remaining is US\$6,574, which is 21%. We fully expect to over achieve that amount by the end of the grant.

In summary, we over achieved in cash contributions from the budgeted amount by 120% and in the in-kind contribution by 113%, as of April 30, 2001 We are confident that in the time remaining before September 30, 2001 we will continue to overachieve in contributions.

2. Commingling of Funds

In this finding, KPMG addresses two issues: a) commingling between USAID funds and non-USAID funds. This point was discussed in the Internal Controls section point number 1 and b) Commingling between USAID funds for FT-800 and USAID funds for the grant agreement number: 263-G-00-00010-04. This fund was in Egyptian Pounds. Check number 1148728 issued from HEIA/USAID bank account in Mistr America International Bank for the amount of EGP36.814.10 dated February 25, 2001 payable to United States Agency for International Development solved this commingling. Here is the reason for this commingling. Normally we transfer the amount of money needed to cover our expenses for a certain period from the USS account to the EGP. However but why transfer dollars when we have Egyptian Pounds from the FT - 800 in the account. And the donor is the same. The grant agreement did not restrict transfers from USS account to EGP account. We spent our expenses from this fund to save the dollar to another period when the dollar exchange rate could be higher. Our desire was to save this difference. In the end the saving would accrue to USAID.

3. Using Non-interest Bearing Account for Advances

In December 2000, we started to solve this issue. Because our bank had no interest bearing accounts, we resolved the issue by making a saving time deposit. The interest rate for a time deposit is higher than an interest bearing account. We did the same for FY 2001

Cost Sharing

We briefly answered this matter in the "Compliance with Agreement Terms, Applicable Laws & Regulations" section.

Management Letter Comments

A. Internal Control Structure:

1. Lack of Insurance Coverage over Fixed Assets

We showed KPMG auditors that we have already insured our fixed assets against theft, damage, fire, etc. This happened in November 2000 after the auditing period, i.e. after September 2000.

HEIA has regularly done a fixed asset physical count at the end of our FY. Due to misfile for the fixed assets physical count of FY 1999, we have not been able to show it to KPMG, but we had it for FY 2000 as well as the fixed assets registered book for both FY 1999 & 2000.

For the petty cash, physically we always deposit the money in the bank before the FY end. And due to miss filing of the physical count, we were not able to show it to KPMG auditors. But they accepted the physical count of petty cash for December 2000 and March 2001. Now we are doing the physical count monthly on random days.

B. Compliance with USAID Rules and Regulations.

Lack of USAID Logo over Fixed Assets and Printings.

As we noted before, we review our control and procedures from time to time to make sure that we comply with HEIA internal control procedures and USAID regulations. During this period we asked USAID to provide its logo so we could mark all fixed assets purchased from the USAID funds. Due to the lack of available logos in USAID, we were not able to mark all fixed assets. In April 2001 we finally received logos and marked our fixed assets.

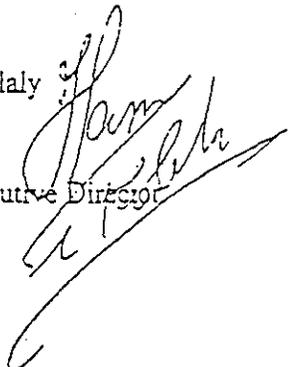
For the printing materials, we started putting the USAID logo on our Akhbarna biweekly newsletter after we scanned the logo.

I believe the answers provided herein amply address your audit comments. We appreciate the patience and assistance of your auditors. It is our desire to assure that all USAID regulations are fully implemented in the process of utilizing grant funds for the benefit of our members.

Sincerely yours,

Hani El Kotaly

HEIA Executive Director



APPENDIX III
AUDITOR'S COMMENTS

AUDITOR'S COMMENTS

Page 1 of 4

Fund Accountability Statement-Questioned Costs

Finding No. 1a

Based on the management response provided to us subsequent to the issuance of our draft report, we noted that this amount was subsequently refunded to the USAID. Therefore, this finding is deemed to be resolved.

Finding No. 1b

Based on the management response provided to us subsequent to the issuance of our draft report, we noted that this amount was subsequently refunded to the USAID. Therefore, this finding is deemed to be resolved.

Finding No. 1c

HEIA's management provided us with documents supporting this amount subsequent to the issuance of our draft report. Therefore, this questioned cost is not included in our final report.

Finding No. 2

HEIA's management provided us with documents supporting this amount subsequent to the issuance of our draft report. Therefore, this questioned cost is not included in our final report.

Finding No. 3

Subsequent to the issuance of our draft report, project management provided us with the travel authorization and request form, trip report, travel reimbursement voucher and the check issued. However, they did not provide us with the original hotel invoices. Therefore, this questioned cost is included in our final report.

Finding No. 4

Based on the management response provided to us subsequent to the issuance of our draft report, we noted that this amount was subsequently refunded to the USAID. Therefore, this finding is deemed to be resolved.

Fund Accountability Statement-Questioned Costs

Finding No. 5

Subsequent to the issuance of our draft report, project management provided us with copies of the travel authorization and request form, trip report, travel reimbursement voucher and the check issued. However, they did not provide us with the original air ticket. Therefore, this questioned cost is included in our final report.

Internal Controls

Finding No. 1

Based on documents and clarifications provided to us by HEIA's management, we reviewed the reconciliation prepared by HEIA's management for the USAID US Dollar, Egyptian Pound and HEIA's non-USAID bank accounts for the period covered by our audit. This reconciliation was prepared based on actual transactions as incurred through different bank accounts and we were able to reconcile the fund balance to the bank balance as of September 30, 2000 our audit revealed that proper adjustments were made, and currently USAID US Dollar and Egyptian Pound accounts include appropriate balances reflecting actual USAID disbursements, and ceased the practice of commingling properly. However, this reconciliation was made subsequent to the issuance of our draft report. Therefore, this finding is included in our final report.

Finding No. 2

Based on documents and clarifications provided to us by HEIA's management, the advance requested to cover expenses for the period July to September 2000 was received on September 15, 2000. HEIA's management reduced the level of expenses during this period due to the delay in receiving the advance requested. However, the fund balance as presented in the fund accountability statement shows that after considering expenses incurred during the aforementioned period, the cash on hand as of September 30, 2000 still exceeds a reasonable level. Additionally, during the period covered by our audit, HEIA's management did not have written policies and procedures governing the process of preparing request for advances from USAID. HEIA's management is currently developing these policies and procedures. Therefore, this finding is included in our final report.

AUDITOR'S COMMENTS

Page 3 of 4

Compliance with Agreement Terms and Applicable Laws and regulations

Finding No. 1

Based on documents and clarifications provided to us by HEIA's management with respect to required cash contribution, we noted that HEIA actually achieved its required cash contribution by an amount of \$123,306 subsequent to September 30, 2000. Therefore, this finding is included in our final report.

Finding No. 2

Based on documents and clarifications provided to us by HEIA's management, we reviewed the reconciliation prepared by HEIA's management for the USAID US Dollar, LE and HEIA's bank accounts for the period covered by our audit. This reconciliation was prepared based on actual transactions as incurred through different bank accounts and we were able to reconcile the fund balance to the bank balance as of September 30, 2000. However, this reconciliation was made subsequent to the issuance of our draft report. Therefore, this finding is included in our final report.

Finding No. 3

Based on documents and clarifications provided to us by HEIA's management, HEIA's management began depositing USAID advances in time deposit as of December 2000. However, this was done subsequent to the issuance of our draft report. Therefore, this finding is included in our final report.

AUDITOR'S COMMENTS

Page 4 of 4

Cost Sharing Schedule

Finding No. 1

Based on documents and clarifications provided to us by HEIA's management with respect to the required in-kind contribution, we obtained HEIA's board of directors approval of the hourly rates used to compute the in-kind contribution associated with HEIA board members attendance at board meetings. This clarification was provided subsequent to the issuance of our draft report. Therefore, this finding is not included in our final report.

APPENDIX IV
MISSION'S COMMENTS

USAID



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

5 FEB 2002

Memorandum

TO : Darryl Burris, RIG/Cairo

FROM : *E. Palmer*
A/Deputy Controller, Elizabeth Palmer

SUBJECT : Financial Audit of Horticulture Exporters
Improvement Association (HEIA), USAID/Egypt Grant
Agreement No. 263-G-00-99-00010-00 for the Period
December 21, 1998, through September 30, 2000.
Draft Report Dated December 31, 2001

Following is the Mission response to the Recommendations
No. 1 and 2 under the subject audit.

Recommendation No. 1:

We recommend that USAID/Egypt make a management decision on
the questioned unsupported costs of \$5,129 detailed on
pages 15 and 17 of Hazem Hassan report, and recover from
Horticulture Exporters Improvement Association any amounts
determined to be unallowable.

The auditors questioned the \$5,129 (Equivalent to LE17,438)
unsupported costs. The \$5,129 represents the following:

- Finding No. 3 - \$3,038 for per diem (lodging and M&IE) for
observation travel, report page 15:

The report stated that the original documents were mis-
filed, accordingly, the auditors questioned the \$3,038.

HEIA provided the following supporting documentation:

- A letter dated 2/3/1999 addressed from HEIA to Ronco
showing a break down of the \$5,129.25 in questioned costs
which represents \$2,032 for lodging and \$1,006 for M&IE
costs and \$2,091 for the airfare for the observational
travel.

< Travel Authorization and Request Form dated March 1, 1999;

USAID Office Building
Plot 1/A off El-Laseki street
New Maadi, Cairo - Egypt.
Postal Code #: 11435

Accordingly, we believe the \$2,091 airfare is allowable.

Recommendation No. 2

We recommend that USAID/Egypt ensure that Horticulture Exporters Improvement Association establishes and implements policies and procedures for the purpose of accurately determining the amount of advances to be requested from USAID/Egypt to fund anticipated project activities.

In July 2000, HEIA requested advance for \$375,535 to cover their projected expenditures for the quarter ending September 2000. On August 20, 2000, USAID issued a check for \$278,099 representing the net advance (\$375,535 - \$97,436). On September 15, 2000, HEIA collected the \$278,099 advance leaving fifteen days only for HEIA to spend the advance funds. As of September 30, 2000, HEIA liquidated \$55,831 (\$278,099 - \$222,268) and left an outstanding advance for \$222,268. HEIA stated that the remaining unexpended balance of \$222,268 was used to cover expenditures for the quarter ending December 2000.

Since HEIA was informed that the grant agreement extension would not be signed in less than three months, HEIA slowed down its rate of expenditures and continued to use the remaining advance balance to avoid suspension of activities due to lack of funds, (Attachment 3). Per USAID accounting records, HEIA continued to liquidate the o/s advance until June 2001.

In their response dated January 14, 2002 to the Mission, HEIA stated that they have adequate policies and procedures in place for requesting project advances from USAID, (Attachment 4).

HEIA's response referred to the board approval to add to their manual a section explaining methodology for requesting new advances from USAID, (Attachment 5).

In view of the above, the Mission believes that HEIA is fully aware of properly requesting projected advances from USAID, and thus, requests closure of Recommendations No. 2 under the subject audit.

Thank you for your cooperation.

- ✓ A signed slip by the traveler showing receipt of the lodging fees and M&IE by check No. 454007 dated 3/3/1999 for \$3,038 withdrawn on the Commercial International Bank (CIB). Further, the traveler certified that he had lost the lodging receipts, (Attachment No. 1).
- ✓ A fax letter from Ronco dated 3/4/1999 referring to list of participants for the observational strawberry tour. Further, HEIA provided a copy of the training schedule for the observational tour.
- ✓ Travel Reimbursement Voucher dated 3/23/1999;
- HEIA provided the traveler trip report, which summarizes the training program and results achieved during the two trips.
- ✓ A statement by the traveler that the hotel bills for \$2,032 and other supporting documentation for \$1,006.25 M&IE couldn't be located.

Finally, HEIA did not exceed the per-diem rate followed by USAID/Egypt. Further, it is not necessary for the M&IE of \$1,006.25 to be supported by documentation. The Mission also believes that this is an isolated instance and that HEIA should maintain all documentation supporting any type of expenditures which will be later billed to USAID/Cairo for payment.

In view of the above, the Mission believes that the lodging costs of \$2,032 and M&IE of \$1,006 amounting to \$3,038 are allowable.

■ **Finding No. 5 - FT-800 Air Tickets for Observational Travel for \$2,091.**

HEIA submitted a copy of the LE4,603 airline ticket for the route (Cairo - New York - London - Cairo) and LE1,293 airline ticket for the route (San Francisco - Redding - San Francisco - New York). Further, HEIA provided a copy of check No. 454005 in favor of the travel agent for \$2,091, (Attachment 2).

HEIA also submitted the trip itinerary and a trip report explaining the trip purpose and results achieved.

Att: a/s

Distribution:

D/DIR, A. Aarnes
AD/EG, R. Mahoney
OD/SCS, D. McCloud
OD/LEG, P. Wiensenfeld
OD/PROC, G. Kinney
OD/FM, H. Jamshed
PROC, R. Plucknet
EG/CAD, A. Osman
FM/FA, H. Elkhodary
FM File

Financial Audit of
Horticulture Exporters Improvement Association (HEIA)
USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00
For the Period December 21, 1998 Through September 30, 2000

Supplementary Schedules for
The Fund Accountability Statement and Details of
Questioned Costs in Egyptian Pounds

Financial Audit of
Horticulture Exporters Improvement Association (HEIA)
USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00
For the Period December 21, 1998 Through September 30, 2000

Fund Accountability Statement

	<u>LE</u>
Amounts Received from USAID	3,401,996
Total	3,401,996

<u>Expenditures</u>	<u>Budget</u> (Note 4)	<u>Actual</u>	<u>Questioned Costs</u>		<u>Finding No. and Schedule No.</u>
			<u>Ineligible</u>	<u>Unsupported</u>	
			<u>LE</u>	<u>LE</u>	
Salaries	2,051,393	862,505			
Administrative Expenses	939,185	488,594	2,944		Finding No. 1a) & 1b) Schedule No. 1
Program Activities	1,343,197	363,610			
Per Diem For Observational Travel	442,000	425,561		10,329	Finding No. 3a) Schedule No. 2
Commodities	776,220	182,679	3,033		Finding No. 4a) Schedule No. 3
FT-800 Funds Observational Travel (Air Fare)	400,000	239,489		7,109	Finding No. 5a) Schedule No. 4
Total	5,951,995	2,562,438	5,977	17,438	
Fund Balance as of September 30, 2000		839,558			

Financial Audit of
Horticulture Exporters Improvement Association (HEIA)
USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00
For the Period December 21, 1998 Through September 30, 2000

Details of Questioned Costs

<u>Item Description</u>	<u>Check No.</u>	<u>J. V. No.</u>	<u>Date</u>	<u>Amount</u>	
				<u>LE</u>	<u>\$</u>
<u>Administrative Expenses</u>					
<u>Finding No. 1</u>				<u>Schedule No. 1</u>	
a:	-	72/A & 387	7/9/99	393	116
	297476	792/B	5/18/2000	337	99
	309969	67/A	6/30/2000	706	208
	247616	548/B	10/20/99	24	7
	282886	749/B	4/24/2000	495	145
Total				<u>1,955</u>	<u>575</u>
b:	-	39/A	4/19/99	31	9
	-	41/A	4/29/99	52	15
	-	42/A	5/13/99	42	12
	-	43/A	5/29/99	94	28
	-	54/A	11/7/99	447	131
	-	54/A	11/7/99	94	28
	-	55/A	11/7/99	46	14
	-	73/A	7/9/99	6	2
	-	962/B	3/9/00	177	52
Total				<u>989</u>	<u>291</u>
Total Line Item				<u>2,944</u>	<u>866</u>

Financial Audit of
Horticulture Exporters Improvement Association (HEIA)
USAID/Egypt Grant Agreement No. 263-G-00-99-00010-00
For the Period December 21, 1998 Through September 30, 2000

Details of Questioned Costs

<u>Item Description</u>	<u>Check No.</u>	<u>J.V. No.</u>	<u>Date</u>	<u>Amount</u>	
				<u>LE</u>	<u>\$</u>
<u>Per Diem for Observational Travel</u>				<u>Schedule No. 2</u>	
<u>Finding No. 3</u>					
a)	454007	319	3/31/99	10,329	3,038
Total				<u>10,329</u>	<u>3,038</u>
Total Line Item				<u>10,329</u>	<u>3,038</u>
<u>Commodities</u>				<u>Schedule No. 3</u>	
<u>Finding No. 4</u>					
a)	247608	536	9/30/99	910	268
	247609	537	9/30/99	607	178
	247610	538	9/30/99	1,516	446
Total				<u>3,033</u>	<u>892</u>
Total Line Item				<u>3,033</u>	<u>892</u>
<u>FT-800</u>				<u>Schedule No. 4</u>	
<u>Finding No. 5</u>					
a)	454005	318	4/3/99	7,109	2,091
Total				<u>7,109</u>	<u>2,091</u>
Total Line Item				<u>7,109</u>	<u>2,091</u>
Total Questioned Costs				23,415	6,887