

Regional Inspector General for Audit
Cairo, Egypt

Audit of Cooperative for American Relief Everywhere
Grant No. 263-0102-G-00-8083-00 Under
USAID/Egypt Project No. 263-0212

Report No. 6-263-92-10-N
January 30, 1992



U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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

January 27, 1992

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford

FROM :

RIG/A/C, *Philippe L. Darcy*
Philippe L. Darcy

SUBJECT:

Audit of Cooperative for American Relief Everywhere
(CARE) Grant No. 263-0102-G-00-8083-00 South Sinai
Project (Project No. 263-0102)

The attached report dated August 15, 1991 by Shawki & Co. presents the results of a financial audit of Cooperative For American Relief Everywhere's (CARE's) expenditures under Grant No. 263-0102-G-00-8083-00. This project provided funding for procurement of fishing boats and engines, establishment of engine repair workshops, improvement of cold chains and marketing systems, and creation of revolving loan funds for inshore fishermen.

Shawki's audit was designed to determine whether CARE's Fund Accountability Statement fairly presents project revenues and costs incurred. Shawki also evaluated CARE's internal control structure and compliance with applicable laws, regulations and agreement terms as part of determining whether the Fund Accountability Statement is free of material misstatement. The audit, which examined local expenditures between August 28, 1988 and September 30, 1990, covered a total of \$341,232 consisting of LE 780,417 and \$22,695.

The auditors concluded that CARE's Fund Accountability Statement fairly presented local revenues and costs. Additionally, while CARE did use an erroneous rate to calculate local employee taxes, no material internal control weakness or noncompliance was noted. According to CARE management, the tax issue was discussed with CARE's lawyer and the correct tax liability determined.

There are no recommendations for your action, as this audit resulted in no significant findings.

AUDIT OF LOCAL EXPENDITURES BY
COOPERATIVE FOR AMERICAN RELIEF EVERYWHERE (CARE)
Grant NO. 263-0102-G-00-8083-00
UNDER USAID/EGYPT'S PROJECT NO. 263-0102

SHAWKI & CO.

Member Firm of Arthur Andersen & Co.

Members of the Egyptian Society of Accountants & Auditors

Cairo Office : 151 Mohamed Farid St.
Bank Misr Tower
P.O. BOX 2095- Cairo 11511
Tel : 3926000 - 3917299
Tlx : 92195 AASCO 93649 AAS
Fax : 3939430

Mostafa Shawk
Hafez Ragheb
Dr. Ahmed Shawk
M. Sherif Abdel Salam
Emad Ragheb
Wahid Abdel Ghafar
Azmy Aboud
Nahli Istanbuli
Hoda Shawk
Mohsen Gamgoum
Mohamed El Kateb
Abdel Salam Shehata
Abdel Aziz Fatouh
Tamer Abdel Aziz
Khaled El Ghanam
Tarek El Menshaw
Rashad Hosny
Hala Rashed

September 22, 1991

Mr. Philippe L. Darcy
Regional Inspector General for Audit
US Agency for International Development
Mission to Egypt
Cairo, Egypt

Dear Sir:

This report presents the results of our financial and compliance audit of local expenditures incurred by Cooperative for American Relief Everywhere (CARE), Grant No. 263-0102-G-00-8083-00 South Sinai Project under USAID Egypt's Technical Cooperation and Feasibility Studies Project No. 263-0102.

BACKGROUND

The South Sinai Fisheries (SSF) project seeks to increase the income of 400 fishermen along the Gulf of Aquaba and Gulf of Suez through technical and credit interventions managed by the fishermen's cooperatives. The SSF project activities include the procurement of fishing boats and engines, and selling them to fishermen through revolving loan funds, the establishment of a cooperative managed marine engine repair workshop, the improvement of cold chains and marketing systems through cooperative owned and managed refrigerated trucks, and the creation of revolving loan funds for inshore fishermen. The grant's effective date was August 28, 1988 and the amended termination date is September 30, 1991. The overall project budget is \$ 261,630 and LE 1,907,403 funded as follows: USAID \$77,600 and LE 1,308,173, CARE \$ 184,030 and LE 199,230, and the Ministry of Reconstruction LE 400,000.

AUDIT OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to determine whether:

1. The fund accountability statement for CARE-Egypt presents fairly, in all material respects, project revenues and costs incurred/reimbursed for the grant in conformity with the applicable accounting principles.
2. The costs reported as incurred under the grant agreement are in fact allowable, allocable, and reasonable in accordance with the terms of the grant and AID Handbook 13, chapters 1 and 4, as well as OMB Circular A-110/122.

3. The internal controls, accounting systems and management practices of Cooperative for American Relief Everywhere are adequate for USAID/Egypt grants.
4. Project CARE-Egypt is in compliance with the grant terms (including standard grant provisions) which may have affected the costs incurred under the grant.

We performed a financial and compliance cost-incurred audit of local expenditures relating to USAID funding for the South Sinai Fisheries Project. Our audit scope covered locally incurred expenditures of LE 780,417 and \$ 22,695 for the period from August 28, 1988 to September 30, 1990. We did not audit \$ 54,905 of US incurred cost.

Our audit methodology included analytical review procedures, discussions with management and transaction testing deemed necessary to achieve the objectives listed above. We reconciled billings to USAID with CARE's accounting records. We substantively tested LE 618,268 (79%) of total local incurred cost of LE 780,417 and \$ 22,695 (100%) of locally incurred dollar cost. We recalculated overhead amounts charged to USAID for local currency and dollar amounts. We agreed the rates used in the calculations to CARE Headquarter's approved correspondence with its Egypt office.

RESULTS OF AUDIT

Fund accountability statement

CARE/Egypt's fund accountability statement of costs incurred under the grant is fairly stated in all material respects.

Internal Control

CARE's internal control is adequate. The only exception noted was that rates used to calculate local employee salary taxes were not correct. CARE- Egypt subsequently recalculated the taxes on local employees salaries and took appropriate action with the tax authorities.

COMPLIANCE

We found no material instances of noncompliance.

Management comments

The (tax) issue was discussed with CARE's lawyer, and once the tax liability was determined, the deduction was made. The final settlement for the taxable allowances was done in December 1990. There were no clear instructions concerning other income to be taxed.



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FUND ACCOUNTABILITY STATEMENT REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the fund accountability statement of the Cooperative for American Relief Everywhere (CARE - EGYPT) for the period from August 28, 1988 to September 30, 1990 relating to the South Sinai Grant No. 263-0102-G-00-8083-00. This statement is the responsibility of CARE's management. Our responsibility is to express an opinion thereon based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 revision) 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 above mentioned statement is free of 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 significant estimates made by management, as well as evaluating the overall fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As indicated in Note 1, the financial statements have been prepared on the cash basis of accounting. Consequently, certain revenues are recognized when received rather than when earned and certain expenses are recognized when paid rather than when incurred. Accordingly, the accompanying financial statements are not intended to be a presentation in conformity with generally accepted accounting principles.

In our opinion, the fund accountability statement of the Cooperative for American Relief Everywhere (CARE - EGYPT) for the period August 28, 1988 to September 30, 1990, presents fairly, in all material respects, project cost incurred and reimbursed relating to the South Sinai Grant No. 263-0102-G-00-8083-00 in conformity with the cash basis method of accounting as described in Note 1.


SHAWKI & CO.

August 15, 1991

Cooperative for American Relief Everywhere
Fund Accountability Statement
AID Grant No. 263-0102-G-00-8083-00
August 28, 1988 TO September 30, 1990
SOUTH SINAI PROJECT

EGYPTIAN POUNDS

<u>COST ELEMENT</u>	<u>BUDGET</u>	<u>EXPENDITURES</u>
Salaries & Consultants	100,999	59,075
Benefits & Allowances	71,851	34,139
Equipment	975,375	548,221
Travel & Transportation	24,800	14,694
Other support operation	25,045	63,026
Overhead (8%)	110,103	61,262
	-----	-----
Total in L.E.	1,308,173	780,417
	=====	=====
Total in U.S. Dollars (1)	533,948	318,537
	=====	=====

U.S. DOLLARS

<u>COST ELEMENT</u>	<u>BUDGET</u>	<u>EXPENDITURES</u>
Salaries & Consultants	52,800	52,125
Benefits & Allowances	16,100	16,579
Other support operation	0	157
Valuation & Assessment	2,170	0
Overhead (8.5%)	6,530	5,959
	-----	-----
Total in U.S. Dollars	77,600	74,820
	=====	=====

(1) Converted at an average exchange rate of L.E. 2.45/\$.

COOPERATIVE FOR AMERICAN RELIEF EVERYWHERE (CARE)
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Note to Fund Accountability Statement

1. Basis of Presentation

The accompanying fund accountability statement has been prepared on the basis of cash disbursement, consequently, expenditure invoices are recognized when submitted for payment rather than when the liability is incurred. Additionally, the statements have been prepared in accordance with the cost principles set forth in "USAID Handbook 13", which prescribes the nature of reimbursable expenditures not specifically defined in the contract.

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REPORT ON INTERNAL CONTROL STRUCTURE REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the fund accountability statement of the Cooperative for American Relief Everywhere (CARE - EGYPT) for the period August 28, 1988 to September 30, 1990 relating to the South Sinai Grant No. 263-0102-G-00-8083-00 and have issued our report thereon dated August 15, 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the above mentioned statement is free of material misstatement.

In planning and performing our audit of CARE - Egypt, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statements, and not to provide assurance on the internal control structure.

The management of CARE 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 transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the basis of accounting described in Note 1 to the fund accountability statement.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures as follows:

o Cycles

Purchases/disbursements
Revenues/receipts

o Accounting applications

Invoicing, cash receipts, purchasing/receiving, cash disbursements, and payroll.

For all of the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

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

Income taxes deducted from employee salaries should be checked for accuracy and CARE should subject any taxable allowance to taxation. Sequential vouchers should be used by the company to provide effective control over disbursement transactions.

A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe none of the reportable conditions described above is a material weakness.

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



Shawki & Co.

August 15, 1991

FINDINGS

1. Payroll

Per our review and recalculation of income taxes, we found that the amount of taxes deducted from each Egyptian employee's salary per the payroll sheets of South Sinai project are not accurate. In our discussion with the Financial Manager and our substantive testing for the reconciliation of a sample of employees, we found that an overall reconciliation of income taxes due is made.

We also noticed that a few employees earn an allowance for working on the remote site of Al - Thor, which is subject to tax, but the company does not subject those amounts to taxation.

During the course of our audit CARE recalculated the salary taxes in accordance with the tax law and made the proper payments to the tax authorities through December 31, 1990.

Recommendation

We recommend that CARE accurately calculate income taxes and that allowances be taxed as required by Egyptian tax law.

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REPORT ON COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the fund accountability statement of the Cooperative for American Relief Everywhere (CARE - EGYPT) for the period August 28, 1988 to September 30, 1990 relating to the South Sinai Grant No. 263-0102-G-00-8083-00, and have issued our report thereon dated August 15, 1991.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 revision) issued by Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the above mentioned statement is free of material misstatement.

Compliance with the grant terms, laws and regulations applicable to CARE is the responsibility of CARE's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of CARE's compliance with certain provisions of laws, regulations, grants, and binding policies and procedures. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests indicate that, with respect to the items tested, CARE complied in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that CARE had not complied, in all material respects, with those provisions.

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Shawki & Co.

Shawki & Co.

August 15, 1991

APPENDIX I

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