



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

CAIRO, EGYPT

January 28, 1996

MEMORANDUM

TO : DIRECTOR USAID West Bank/Gaza, Christopher D. Crowley

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

SUBJECT: Audit of American Near East Refugee Aid/Jerusalem (USAID West Bank/Gaza Grant No. ANE-0159-G-SS-9048-00)

The attached report, transmitted December 12, 1995, by Coopers & Lybrand, presents the results of a financial audit of American Near East Refugee Aid/Jerusalem (ANERA/J) as it pertains to USAID West Bank/Gaza resources managed under Grant Agreement No. ANE-0159-G-SS-9048-00. ANERA is a non-profit organization based in Washington, D.C. that was set up to help refugees and displaced persons in the Near East. Most of its activities are in the occupied West Bank and Gaza, but it also operates in Lebanon and Jordan. ANERA signed the aforementioned grant with USAID/Washington on September 29, 1989 in support of projects entitled "Cooperative, Municipal, Indigenous Non-Profit Organization and Cooperative, Municipal and Business Development Projects in the West Bank and Gaza Strip."

We engaged Coopers & Lybrand to perform a financial audit of ANERA/J's incurred expenditures of \$8,358,488 (equivalent to NIS24,908,294) for the period December 1, 1991 through November 30, 1994. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Coopers & Lybrand also evaluated ANERA/J's internal controls and compliance with applicable laws, regulations and grant terms as necessary in forming an opinion regarding the Fund Accountability Statement.

The audit report questions \$80,566 (equivalent to NIS240,086) in value added tax amounts paid to the Government of Israel. Additionally, the auditors noted one material

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weakness in ANERA/J's internal controls as well as one material instance of noncompliance.

In response to the draft report, responsible ANERA/J officials gave more explanation to the questioned costs and internal control and compliance issues. Coopers & Lybrand reviewed ANERA/J's response to the findings and where applicable, made adjustments to the report or provided further clarification of their position.

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

Recommendation No. 1: We recommend that USAID West Bank/Gaza resolve the ineligible questioned costs of \$80,566 detailed on pages 11 and 12 of the Coopers & Lybrand audit report, and recover from American Near East Refugee Aid/Jerusalem the amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID West Bank/Gaza obtain evidence that American Near East Refugee Aid/Jerusalem has addressed the material internal control weakness and the material noncompliance issue (inadequate procedures to track the payment and subsequent receipt of value added tax) detailed on pages 15, 18, and 19 of the Coopers & Lybrand audit report.

Recommendation No. 1 is unresolved and will be considered resolved upon the Mission's determination of the amount of recovery; it will be considered closed upon the recovery of funds, offset of funds, or issuance of a bill for collection. Recommendation No. 2 is unresolved and will be considered resolved upon the Mission's presentation of an acceptable plan of action which addresses the reported material deficiencies; it will be considered closed when the Mission presents acceptable evidence that the required actions have been taken.

Please advise this office within 30 days of any action planned or taken to close the recommendation. Thank you for the cooperation and assistance extended to the audit staff on this engagement and your continued support of the financial audit program in the West Bank and Gaza.

Attachment: a/s

**AUDIT OF USAID/WEST BANK AND GAZA RESOURCES
MANAGED BY AMERICAN NEAR EAST REFUGEE AID/JERUSALEM
UNDER GRANT NO. ANE-0159-G-SS-9048-00**

**FOR THE PERIOD FROM
DECEMBER 1, 1991 THROUGH NOVEMBER 30, 1994**

**AUDIT OF USAID/WEST BANK AND GAZA RESOURCES
MANAGED BY AMERICAN NEAR EAST REFUGEE AID/JERUSALEM
UNDER GRANT NO. ANE-0159-G-SS-9048-00**

**FOR THE PERIOD FROM
DECEMBER 1, 1991 THROUGH NOVEMBER 30, 1994**

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December 12, 1995

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

Dear Mr. Mundy:

We have audited the accompanying fund accountability statement of American Near East Refugee Aid/Jerusalem (ANERA/J) related to disbursements reported by ANERA/J to American Near East Refugee Aid/Washington (ANERA/W) and reimbursements from ANERA/W and the Government of Israel (GOI) under Grant No. ANE-0159-G-SS-9048-00 for the period from December 1, 1991 through November 30, 1994. Fieldwork started in August 1995 and was completed in September 1995.

Background

ANERA is a non-profit making organization based in Washington D.C. that was set up to help refugees and displaced persons in the Near East. Most of its activities are in the occupied West Bank and Gaza, but it also operates in Lebanon and Jordan. ANERA signed the aforementioned grant with USAID/Washington on September 29, 1989 in support of projects entitled "Cooperative, Municipal, Indigenous Non-Profit Organization and Cooperative, Municipal and Business Development Projects in the West Bank and Gaza Strip". The total estimated amount of the program was \$ 14,293,000 over five years. This was split among the following line items:

	<u>US \$</u>
Rural Agriculture	2,280,000
Credit	3,166,000
Urban Economic Infrastructure	3,925,000
Social Services (Indigenous NGOs)	3,353,000
TA/Training	285,000
Administrative	<u>1,284,000</u>
Total	<u>14,293,000</u>

Exclusive of the Administrative budget line item of \$ 1,284,000 which funds ANERA/J local office expenditures in Gaza and the West Bank, the balance of \$ 13,009,000 is made available to 114 Palestinian organizations in the form of sub-grants.

In the period under audit, \$ 7,156,152 in US Dollars and \$ 1,054,818 in New Israeli Shekels (NIS) were transferred from ANERA/W to ANERA/J. Additionally, \$ 318,541 in NIS was received as Value Added Tax (VAT) reclaims from the GOI. Disbursements of \$ 6,923,896 and \$ 390,271 in NIS were made to sub grantees and \$ 1,044,321 in NIS was made to cover administrative expenses for ANERA/J's Gaza and West Bank offices.

Audit Objectives and Scope of Work

We were required to perform an audit examination of the USAID/West Bank and Gaza resources managed by ANERA/J for the period from December 1, 1991 through November 30, 1994 which is sufficient to enable us to:

1. Express an opinion on whether the fund accountability statement for the USAID/West Bank and Gaza-financed projects of ANERA/J presents fairly, in all material respects, receipts and disbursements for the period under audit in conformity with generally accepted accounting principles or another comprehensive basis of accounting.
2. Determine whether disbursements reported to ANERA/W as incurred under the agreement are in fact allowable, allocable and reasonable in accordance with the terms of the agreement
3. Evaluate and obtain a sufficient understanding of the internal control structure of ANERA/J, assess control risk, and identify reportable conditions, including material weaknesses.
4. Perform tests to determine whether ANERA/J complied, in all material respects, with the agreement terms and applicable laws and regulations; and

5. Determine whether ANERA/J has taken corrective action on prior audit report recommendations.

Our audit procedures included, but were not limited to, the following:

1. reviewing transfers of grant funds from ANERA/W to ANERA/J to ensure they were made in accordance with the terms of the grant agreements;
2. reviewing administrative expenses and grant disbursements in the West Bank and Gaza and ensuring they were allowable, allocable, reasonable, properly supported and reached their stated destination;
3. reviewing ANERA/J's accounting records to determine whether receipts and disbursements were properly recorded; and
4. reviewing ANERA/J's procedures used to control USAID funds.

As part of our audit we made a study and evaluation of relevant internal controls within ANERA/J and reviewed compliance with applicable agreements, laws and regulations.

We tested the equivalent of \$ 3,024,699 of disbursements under the grant. This represents 36% of total disbursements reported to ANERA/W.

Results of Audit

Fund Accountability Statement:

We questioned \$ 80,566 of disbursements under the grant reported by ANERA/J to ANERA/W which related to VAT amounts paid to the GOI.

Internal Control Structure:

We found one material weakness related to ANERA/J's failure to track the payment and subsequent receipt of VAT.

Compliance with Agreement Terms and Applicable Laws and Regulations:

We found one material instance of non compliance with applicable laws and regulations related to ANERA/J's failure to keep adequate books and records for the tracking of payment and subsequent receipt of VAT.

Follow-up on Prior Audit Recommendations

Price Waterhouse/Washington conducted an audit of ANERA's schedules of financial assistance for the period from October 1, 1987 through September 30, 1990 (including Grant No. ANE-0159-G-SS-9048-00 from September 1989) and they issued their report dated November 4, 1991. The following matters were included as internal control and compliance points in their audit report:

1. VAT and customs duties were reported as costs under the Grant.

To remedy this situation, Price Waterhouse recommended that ANERA prepare a schedule of VAT and customs duties paid by ANERA and the subgrantees, request a refund of VAT and customs duties paid from the GOI and establish standard procedures for the preparation and monitoring of refund requests.

We found that ANERA's system of following up on VAT refunds claimed from the GOI was unsatisfactory, and that ANERA/J has paid VAT of \$ 80,566 that has not been refunded.

This matter is included as a material weakness in our report on internal controls (see page 15) and as material non compliance in our report on compliance with laws and regulations (see page 18).

2. Field office employees do not prepare time sheets.

To remedy this situation, Price Waterhouse recommended that field office employees prepare time sheets for each pay period, field offices develop and implement control procedures to ensure that time sheets are properly reviewed and authorized by a responsible official of the organization, authorized time sheets be sent to Washington for review and approval, and that ANERA

allocate indirect field office expenses based on time worked on USAID and non-USAID activity as documented on authorized time sheets.

ANERA/J field office employees do now prepare time sheets, which are sent monthly to ANERA/W. We were unable to ascertain whether ANERA allocated indirect field office and expenses based on time worked on USAID and non-USAID activity as documented on authorized time sheets because billing to USAID/Washington is done by ANERA/W, and the scope of our audit was only amounts reported to ANERA/W by ANERA/J.

We have included a recommendation about the future treatment of indirect expenses by ANERA in our letter to ANERA/J management dated September 1, 1995.

3. Ineligible costs were charged to the Grant.

To remedy this situation, Price Waterhouse recommended that field office employees gain a working knowledge of the provisions of the grant, promptly identify, account for and report separately all ineligible costs to ANERA/W and reimburse USAID for ineligible costs previously charged to the grant.

As stated in Note 2 to the fund accountability statement "Administrative disbursements are exclusive of any VAT reported separately to ANERA/W". Four quarterly reports (quarters ended February 28, 1992, May 31, 1992, August 31, 1992 and November 30, 1992) to ANERA/W included VAT as a separate amount. This was the only category of expenditure reported to ANERA/W that is prima facie an unallowable cost.

The scope of our audit was amounts reported by ANERA/J to ANERA/W, and we have identified amounts that would be unallowable if billed to USAID by ANERA/W in Note 6 to the fund accountability statement.

4. ANERA does not properly report Living Quarter Allowance paid on behalf of ANERA's Middle East Representative.

To remedy this situation, Price Waterhouse recommended that ANERA's local

accounting firm be instructed to properly classify, summarize and report all allowances paid as a separate budget line item categorized as "Living Quarters Allowance" to ensure compliance with the terms of the grant agreement.

We found that ANERA/J did indeed properly classify, summarize and report all allowances paid to the local representative as a separate budget line item.

Management Comments

Management comments have been obtained and are included in Appendix A of this report. Our response is included in Appendix B of this report.

This report is intended for the information of management of ANERA/J 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.

Coopers & Lybrand

September 1, 1995

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

REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the accompanying fund accountability statement of American Near East Refugee Aid/Jerusalem (ANERA/J) related to disbursements reported by ANERA/J to American Near East Refugee Aid/Washington (ANERA/W) and reimbursements from ANERA/W and the Government of Israel (GOI) under Grant No. ANE-0159-G-SS-9048-00 for the period from December 1, 1991 through November 30, 1994. The fund accountability statement is the responsibility of ANERA/J. Our responsibility is to express an opinion on this fund accountability statement.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability 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 presentation of the 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 46 of Chapter 3 of Government Auditing Standards since 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 participate in the Coopers and Lybrand worldwide internal quality control program which requires the Coopers and Lybrand Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Coopers and Lybrand offices.

As described in Note 3, the accompanying fund accountability statement has been prepared on the basis of cash receipts and disbursements. Consequently, receipts and disbursements are recognized when received or paid rather than when earned or incurred. Accordingly, the accompanying fund accountability statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the fund accountability statement, ANERA/J has included ineligible value added taxes (VAT) of \$ 80,566 in disbursements reported to ANERA/W that in our opinion should be reimbursed by the GOI.

In our opinion, except for the effects of including the ineligible disbursement as discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in all material respects, disbursements reported by ANERA/J to ANERA/W and reimbursements from ANERA/W and the GOI under Grant No. ANE-0159-G-SS-9048-00 for the period from December 1, 1991 through November 30, 1994 in conformity with the basis of accounting described in Note 3 to the fund accountability statement.

This report is intended for the information of management of ANERA/J 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.

Coopers & Lybrand

**AMERICAN NEAR EAST REFUGEE AID/JERUSALEM
FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD FROM DECEMBER 1, 1991 THROUGH NOVEMBER 30, 1994**

	BUDGET (Note 2) US\$	ACTUAL (Note 2) US\$	RECLASSIFICATIONS (Note 5) US\$	QUESTIONED COSTS (Note 6) US\$
RECEIPTS				
Grant amounts received from ANERA/W	-	7,156,152	-	-
Administrative amounts received from ANERA/W	-	1,054,818	-	-
VAT refunds from GOI	-	<u>318,541</u>	-	-
Total receipts	-	<u>8,529,511</u>	-	-
DISBURSEMENTS				
Grants				-
Rural Agriculture	780,000	961,353	680,635	-
Credit	1,899,600	859,201	-	-
Urban Economic Infrastructure	2,138,200	2,191,150	(680,635)	-
Social Service	1,766,200	2,782,240	-	-
Technical Assistance	<u>125,000</u>	<u>520,223</u>	-	-
Total grant disbursements	6,709,000	7,314,167	-	-
Administration	<u>548,000</u>	<u>1,044,321</u>	-	-
Total disbursements	<u>7,257,000</u>	<u>8,358,488</u>	<u>-</u>	<u>80,566</u>

The accompanying notes are an integral part of this fund accountability statement.

**AUDIT OF USAID/WEST BANK AND GAZA RESOURCES MANAGED BY
AMERICAN NEAR EAST REFUGEE AID/JERUSALEM
FOR THE PERIOD FROM DECEMBER 1, 1991 THROUGH NOVEMBER 30, 1994**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF AUDIT:

The fund accountability statement of ANERA/J includes disbursements reported to ANERA/W and receipts from ANERA/W and the GOI under Grant Agreement No. ANE-0159-G-SS-9048-00 for the period from December 1, 1991 through November 30, 1994.

NOTE 2 - ACTUAL AND BUDGET:

The column labeled "Actual" is the responsibility of ANERA/J and represents cumulative receipts and disbursements for Grant No. ANE-0159-G-SS-9048-00 for the period from December 1, 1991 through November 30, 1994.

Receipts represent transfers from ANERA/W to ANERA/J and VAT refunds received from the GOI. Grant disbursements represent amounts transferred by ANERA/J to subgrantees. Administrative disbursements are exclusive of any VAT reported separately to ANERA/W.

The budget includes all USAID-approved disbursements. The amounts are based on the budget for the three years to September 29, 1994 in the Grant Agreement dated September 29, 1989.

It is not appropriate to compare the Budget and Actual columns directly. Our audit period did not represent the whole duration of the Grant, and we had no information on budget remaining at the beginning of the audit period. Also, the disbursements are being made from total income under the Grant, which includes amounts of VAT received from the GOI as well as receipts of Grant funds from ANERA/W. The budget does not consider any disbursements from VAT refunds.

NOTE 3 - BASIS OF PRESENTATION:

The fund accountability statement has been prepared on the basis of cash receipts and disbursements. Consequently, receipts and disbursements are recognized when received or paid rather than when earned or incurred.

NOTE 4 - EXCHANGE RATE:

Receipts and disbursements in New Israeli Shekels (NIS) have been converted to U.S. Dollars at the average monthly exchange rate during the period under audit of 2.98 New Israeli Shekels to 1 U.S. Dollar.

NOTE 5 - RECLASSIFICATIONS:

Certain reported disbursements associated with various budget line items were misclassified. These disbursements have been reclassified to the proper budget line item to facilitate comparison between actual and budgeted costs.

The amounts involved were as follows:

1. An amount of \$ 665,484 of Rural Agriculture incorrectly classified as Urban Economic Infrastructure; and
2. An amount of NIS 45,150 (equivalent to \$ 15,151) of Rural Agriculture incorrectly classified as Urban Economic Infrastructure.

NOTE 6 - QUESTIONED COSTS:

Questioned disbursements represent amounts that would be questionable if they have been included in ANERA/W's billing to USAID in Washington under the Grant. Disbursements that are ineligible for USAID reimbursement are those that are not program related or are prohibited by applicable agreement terms or laws and regulations. Questioned disbursements identified as ineligible relate to amounts paid as VAT to the GOI and not refunded.

NOTE 6 - QUESTIONED COSTS (CONTINUED):

The Office of Management and Budget (OMB) Circular A-122, Attachment B.46 states that any tax for which an exemption is available is unallowable for inclusion as a grant cost. In 1988, the GOI approved the exemption of VAT and customs duties for domestic and imported purchases used in USAID financed development activities. ANERA/J is in possession of such an exemption.

During the period under audit, ANERA/J claimed a total of \$ 166,931 and NIS 704,678 in VAT refunds. This is equivalent to \$ 403,400. NIS 962,046 (equivalent to \$ 322,834) was received from the GOI in VAT refunds, of which, NIS 12,793 (equivalent to \$ 4,293) was received after November 30, 1994 and so has not been included in the fund accountability statement as a receipt or as an ineligible cost. The difference of \$ 80,566 has been questioned as an ineligible cost.

September 1, 1995

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

**REPORT OF INDEPENDENT ACCOUNTANTS ON
THE INTERNAL CONTROL STRUCTURE**

We have audited the accompanying fund accountability statement of American Near East Refugee Aid/Jerusalem (ANERA/J) related to disbursements reported by ANERA/J to American Near East Refugee Aid/Washington (ANERA/W) and reimbursements from ANERA/W and the Government of Israel (GOI) under Grant No. ANE-0159-G-SS-9048-00 for the period from December 1, 1991 through November 30, 1994 and have issued our report thereon dated September 1, 1995.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since 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 participate in the Coopers and Lybrand worldwide internal quality control program which requires the Coopers and Lybrand Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Coopers and Lybrand offices.

The management of ANERA/J 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 the assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and in accordance with the terms of the agreement, and recorded properly to permit the preparation of the fund accountability statement in accordance with the cash receipts and disbursements method. 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.

In planning and performing our audit of the fund accountability statement of ANERA/J, we considered the internal control structure within ANERA/J in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement and not to provide assurance on the internal control structure.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: disbursements, receipts, compliance with applicable laws and regulations and safeguarding of assets.

For all of the internal control structure 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, or summarize, and report financial data consistent with the

assertions of management in the fund accountability statement. Our audit disclosed the following reportable condition:

1. **ANERA/J does not have adequate procedures to track the payment and subsequent receipt of value added tax (VAT).**

Amounts paid as VAT are not consistently recorded separately in ANERA/J's books and records. VAT claims from the GOI are made by sending VAT invoices to the Ministry of Finance and are not adequately documented. When refunds are obtained, it is not possible to establish which amounts these refunds relate to, making proper follow up difficult. Disbursements are reported inclusive of VAT in ANERA/J's quarterly reports to ANERA/W. Therefore it is impossible to separate VAT and disbursements in Washington, so VAT is being billed as a disbursement under the grant.

Statement of Auditing Standards No. 55, Consideration of the Internal Control Structure in a Financial Statement Audit, identifies the accounting system as a significant element in an entity's internal control structure and states that "...an effective accounting system gives appropriate consideration to establishing methods and records that will...measure the value of transactions in a manner that permits recording their proper monetary value in the financial statements, and...present properly the transactions and related disclosures in the financial statements."

Recommendation 1

We recommend that all disbursements in ANERA/J's books are recorded as follows: costs (exclusive of VAT) should be recorded as disbursements; the amount of VAT paid should be posted to a separate VAT control account. The balance on this account should be used as the basis for any reclaim of VAT from the GOI. This would leave a clear trail of documentary evidence to follow up any reclaims from the GOI. Any unrecovered amounts should first be followed up with the GOI. If amounts are not refunded, this should be documented in writing by the GOI, and then included as a separate line item "unrecovered VAT" in ANERA/J's reports to ANERA/W, as this is a true operating disbursement. In this way, only unrecovered amounts would be reported to ANERA/W.

A material weakness is a reportable condition in which the design or operation of one or more of the 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.

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 described above. We believe the reportable condition described above is a material weakness.

We also noted other immaterial matters involving the internal control structure and its operation that we have reported to ANERA/J in a separate letter dated September 1, 1995.

This report is intended for the information of the management of ANERA/J 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.

Coopers & Lybrand

September 1, 1995

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

**REPORT OF INDEPENDENT ACCOUNTANTS ON
COMPLIANCE WITH LAWS AND REGULATIONS**

We have audited the accompanying fund accountability statement of American Near East Refugee Aid/Jerusalem (ANERA/J) related to disbursements reported by ANERA/J to American Near East Refugee Aid/Washington (ANERA/W) and reimbursements from ANERA/W and the Government of Israel (GOI) under Grant No. ANE-0159-G-SS-9048-00 for the period from December 1, 1991 through November 30, 1994 and have issued our report thereon dated September 1, 1995.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability 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.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 46 of Chapter 3 of Government Auditing Standards since 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 participate in the Coopers and Lybrand worldwide internal quality control program which requires the Coopers

and Lybrand Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Coopers and Lybrand offices.

Compliance with applicable laws, regulations, contracts, grants and binding policies and procedures applicable to ANERA/J is the responsibility of ANERA/J. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of ANERA/J's compliance with certain provisions of laws, regulations, contracts, grants and binding policies and procedures. 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.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the following material instance of noncompliance, the effect of which has been included as a questioned cost of \$ 80,566 in our report on the fund accountability statement dated September 1, 1995.

1. ANERA/J does not have adequate procedures to track the payment and subsequent receipt of value added taxes (VAT).

Amounts paid as VAT are not recorded separately in ANERA/J's books and records. VAT claims from the GOI are made by sending VAT invoices to the Ministry of Finance and are not adequately documented. When refunds are obtained, it is not possible to establish which amounts these refunds relate to, making proper follow up difficult. Disbursements are reported inclusive of VAT in ANERA/J's quarterly reports to ANERA 'W. Therefore it is impossible to separate VAT and disbursements in Washington, so VAT is being billed as a disbursement under the grant.

Standard Provision 2 (a) of the Grant Agreement states that "the grantee shall maintain books, records, documents, and other evidence in accordance with the grantee's usual accounting procedures to sufficiently substantiate charges to the grant. The grantee's financial management system shall provide for...effective control over and accountability for all funds."

The effect of this lack of procedures is the inability to adequately report VAT amounts paid, and a lack of control over funds. This is a noncompliance with the Standard Provisions of the Grant.

Recommendation 1

We recommend that ANERA/J comply with the Standard Provisions of the Grant by properly documenting and recording VAT amounts as and when paid.

We considered this material instance of noncompliance in forming our opinion on whether ANERA/J's fund accountability statement is presented fairly, in all material respects, in conformity with the basis of cash receipts and disbursements, and this report does not affect our report dated September 1, 1995 on the fund accountability statement.

Except as described above, the results of our tests of compliance indicate that, with respect to the amounts tested, ANERA/J complied, in all material respects, with the provisions referred to in the fourth paragraph of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that ANERA/J had not complied, in all material respects, with those provisions.

This report is intended for the information of management of ANERA/J 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.

Coopers & Lybrand

AUDIT OF USAID/WEST BANK AND GAZA RESOURCES
MANAGED BY AMERICAN NEAR EAST REFUGEE AID/JERUSALEM
UNDER GRANT NO. ANE-0159-G-SS-9048-00
FOR THE PERIOD FROM DECEMBER 1, 1991 THROUGH NOVEMBER 30, 1994

MANAGEMENT COMMENTS ON THE FINANCIAL RELATED AUDIT

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December 6, 1995

Mr. Jeffrey Hentges
Coopers & Lybrand
Cairo

Dear Mr. Hentges

Pursuant to the recommendations of the Exit Conference which took place at the ANERA/Jerusalem office on November 9, I am pleased to send to you the following response to your draft audit.

We have limited our remarks below to the section entitled "Results of Audit" (page 3 of your draft statement) and to those items in "Notes to the Fund Accountability Statement" (pages 10-13) which call for a response on our part.

Results of Audit

a. Fund Accountability Statement

During your follow-up visit to Jerusalem in early November, we compared together the schedule of VAT refunds which was referred to in your draft report, and determined that the amount of unrefunded VAT expenditures was approximately \$80,566 (NIS 240,082), and not \$1,089,715, as originally reported by you. The attached "Schedule 1: V.A.T. Claims and Refunds from G.O.I." documents these calculations.

b. Internal Control Structure

We regret the occurrence of "one material weakness related to ANERA/J's failure to track the payment and subsequent receipt of VAT". This occurred during the tenure of the predecessor to Ms. Lana Khaldi, who has taken steps to set up a more efficient and transparent system to track all VAT payments, relating to both USAID and other donors. We are in the process of setting up a computerized tracking system which will in future produce a readily updated and clearly presented table indicating the status of all VAT requests.

c. Compliance with Agreement Terms and Applicable Laws and Regulations

Regarding this point, which refers to the long-established practice of recording each VAT payment as an expense rather than as a receivable, please find attached our auditor's response, dated October 16, 1995. As Mr. Khadder points out, a private voluntary organization such as ANERA is in no position to guarantee that a government authority will respond favorably to VAT reimbursement requests, although we can and do take every step in our power to get a favorable response from the Government of Israel and, in more recent days, from the Palestinian Authority as well. ANERA's persistent efforts to secure VAT repayments, and its high rate of success in this regard, are well documented.

Notes to the Fund Accountability Statement (as needed)

Note 6. Reclassifications

Two of the three items that were called to our attention were in fact misclassified by ANERA. Both items concern the Beit Lahiya Cold Storage project, which involved constructing and equipping a large building located within Beit Lahiya Municipality for storing agricultural produce until the optimal time for marketing; the nature of this project led our Jerusalem-based accountant to mistakenly place expenditures for it under the category "Urban Economic Infrastructure" instead of "Rural Agriculture". ANERA/Washington did correct this in most instances, but did not feed back this correction to our Jerusalem office, with the result that our field office accountant continued to make the same misclassification. Both our headquarters- and field-based accountants, as well as our auditor, are now aware of this, and will work more closely together to avoid any further instance of misclassification.

Item 3 relates to the Tulkarem Feed Plant, which involved both new AID expenditures (\$54,000 out of the \$63,588) and a balance of \$9,588 which came from VAT refunds. The AID-funded expenditures were properly classified as Rural Agriculture, whereas the \$9,588 was used for and classified as Technical Assistance. ANERA/Washington's auditor approved this treatment of VAT refunds, and this was explained in detail to AID/Washington at the time.

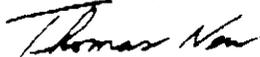
The reclassifications among budget categories, as indicated on page 4 of your report, are thus correct for the most part, and we do not disagree with them. As is clear from the context of your report, there are no budgetary implications arising from this which need to be rectified.

Note 7. Questioned Costs

The points relating to the VAT repayments are dealt with in detail in the enclosed letter dated October 16, 1995 from Mr. Assad Khadder. ANERA's experience over the years is quite consistent with Mr. Khader's observation that we do not have "control over the claims for the refund of VAT paid" until such time as we have actually received the requested refunds. If there is in fact a set of preferred accounting terminology for referring to requested and still-anticipated VAT refunds, we are most willing to make appropriate changes. It would not be accurate, however, to refer to these as "ineligible costs", since ANERA can only assure its best efforts to obtain repayment from the governments concerned.

Thank you again for the efforts of the Coopers & Lybrand team.

Sincerely,



Thomas Neu
Middle East Representative



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Schedule I
V.A.T Claims and Refunds from G.O.I

Amounts claimed according to ANERA records

Date of Submission	Amount in US\$	Amount in NIS
13/12/91	-	19,786
31/8/92	-	8,027
30/11/92	-	396,317
28/2/93	166,931*	497,454
31/10/93	-	120,446
31/01/94	-	30,604
30/4/94	-	117,969
31/7/94	-	2,827
30/11/94	-	8,702
		<u>1,202,132</u>
		(949,253)
Less: Amount refunded in audit period		<u>252,879</u>
Less: Amount refunded after audit period		(12,793)
Unrefunded amount	\$ 80,803**	<u>240,086</u>

*For calculation purposes, the dollar amount of \$166,931 is translated to NIS497454, at the rate of \$1 = NIS 2.98

**The sum of NIS 240,086 is equivalent to \$80,566, at the rate of NIS 2.98 = \$1

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INDEPENDENT ACCOUNTANTS' RESPONSE

This appendix presents our response to American Near East Refugee Aid/Jerusalem's comments on the draft audit report transmitted September 4, 1995. In responding to their comments, we reviewed additional supporting documents and evaluated their comments. Please note that the numbering of our findings follows the numbering of the findings as presented in Notes 6 and 7 to the fund accountability statement, our report on internal controls and our report on compliance with applicable laws and regulations.

Reclassifications

1. Reclassification 3 in our draft report has been removed.

Questioned Costs

1. We agree that the amount of unrefunded VAT expenditure is NIS 240,082 (US\$ 80,566) and have reflected this in the final report.

Internal Controls

1. Management agrees with our finding.

Compliance with Laws and Regulations

1. Though we recognize that the political and economic situation in the areas in which ANERA/Jerusalem operates is difficult, our finding was that ANERA/J does not have adequate procedures to track the payment and subsequent receipt of VAT payments. In their comments on our report on internal controls, management agreed with this point.