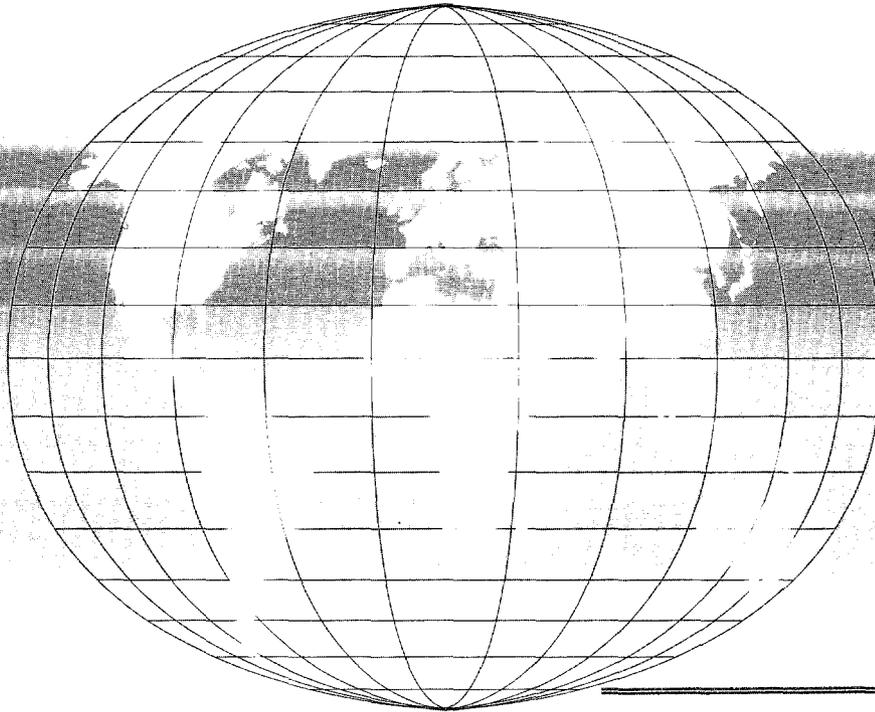


PD-ABQ-479

Report of Audit

**Financial Audit of the
Egyptian Small Enterprise Development Foundation,
Costs Incurred Under Cooperative Agreement
No. 263-0212-A-00-9064-00**

**Report No. 6-263-98-024-N
April 23, 1998**



**FINANCIAL INFORMATION CONTAINED
IN THIS REPORT MAY BE PRIVILEGED.
THE RESTRICTION OF 18 USC 1905 SHOULD
BE CONSIDERED BEFORE ANY INFORMATION
IS RELEASED TO THE PUBLIC.**

**Regional Inspector General for Audit
Cairo, Egypt**

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



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

CAIRO, EGYPT

Report No. 6-263-98-024-N
April 23, 1998

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley

FROM: A/RIG/A/Cairo, Bruce N. Boyer *Bruce N. Boyer*

SUBJECT: Financial Audit of the Egyptian Small Enterprise Development Foundation,
Costs Incurred Under Cooperative Agreement No. 263-0212-A-00-9064-00

The attached report, transmitted on February 15, 1998, by Allied Accountants, presents the results of a financial audit of the Egyptian Small Enterprise Development Foundation (the "Foundation"). The report covers costs incurred by the Foundation during the period September 1, 1994 through December 31, 1996 under Cooperative Agreement No. 263-0212-A-00-9064-00 of USAID/Egypt's Small and Micro Enterprise Development Project (USAID/Egypt Project No. 263-0212). The purpose of the cooperative agreement is to provide loans to small and micro enterprises located in the Cairo Metropolitan area through a loan fund administered by the Foundation. The cooperative agreement also provides funds for operating expenses, equipment, project facilities, training, special projects, international travel, and vehicles.

We engaged Allied Accountants to perform a financial audit of \$599,018 in USAID/Egypt funds reimbursed to the Foundation during the audit period. The purpose of the audit was to evaluate the propriety of the costs incurred during the audit period. The auditors evaluated the Foundation's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming their opinion regarding the Fund Accountability Statement.

The auditors questioned costs of \$1,695 (equivalent to LE5,761) related principally to amounts claimed by the Foundation for sales taxes, duties, and training-related costs. The auditors also identified two material weaknesses in the Foundation's internal control structure, and one matter of material noncompliance with applicable regulations.

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A

In response to the draft report, Foundation officials provided additional documentation and explanations to the report findings. Allied Accountants reviewed the Foundation's response to the findings and, where applicable, made adjustments to the report (see Appendices A and B).

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

Recommendation No. 1: We recommend that USAID/Egypt make a management decision on the questioned costs of \$1,695 (\$957 ineligible and \$738 unsupported) detailed on pages 12 and 13 of the Allied Accountants audit report, and recover from the Egyptian Small Enterprise Development Foundation any amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Egypt obtain evidence that the Egyptian Small Enterprise Development Foundation has addressed the material internal control weaknesses (commingling of funds, untimely accounting, and lack of bank statement reconciliations) detailed on pages 16 and 17 of the Allied Accountants report.

Recommendation No. 3: We recommend that USAID/Egypt obtain evidence that the Egyptian Small Enterprise Development Foundation has addressed the material noncompliance issue (commingling of funds) detailed on page 20 of the Allied Accountants report.

In response to Recommendation No. 1, USAID/Egypt officials sustained questioned costs in the amount of \$1,542 (\$957 ineligible and \$585 unsupported) as unallowable. The remaining questioned costs of \$153 (unsupported) were determined to be allowable. USAID/Egypt issued a bill of collection and recovered \$1,542 from the Foundation. Based on USAID/Egypt's management decision and final action with regard to Recommendation No. 1, we consider it closed upon issuance. In response to Recommendation Nos. 2 and 3, USAID/Egypt officials indicated that they were in the process of verifying that the internal control weaknesses and noncompliance issue were being addressed. Based on USAID/Egypt's response, we consider both recommendations to have received a management decision.

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

Attachment: a/s

B

The Egyptian Small Enterprise Development Foundation

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

Cooperative Agreement No. 263-0212-A-00-9064-00

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

**Financial information contained in this report may be privileged. The restrictions of
18 USC 1905 should be considered before any information is released to the public.**

The Egyptian Small Enterprise Development Foundation

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

Cooperative Agreement No. 263-0212-A-00-9064-00

Fund Accountability Statements

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

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ALLIED ACCOUNTANTS

Ragheb, Istanbouli & El Kilany

A Member Firm of ARTHUR ANDERSEN & Co. SC

Public Accountants & Business Advisors

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المحاسبون المتضامنون

راغب ، اسطنبولي والكيلاني

مراسلو آرثر أندرسن وشركاه

محاسبون قانونيون وخبراء تنظيم وإدارة

زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

February 15, 1998

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

Dear Mr. Mundy:

This report presents the results of the audit of USAID resources managed by the Egyptian Small Enterprise Development Foundation (ESED) under the Small and Micro Enterprise (SME) Development Project, USAID/Egypt Cooperative Agreement No. 263-0212-A-00-9064-00 (the "Agreement"). We were engaged to perform an audit of the local expenditures incurred and reimbursed for the period September 1, 1994 through December 31, 1996.

Background

Grant Agreement No. 263-0212 between the Arab Republic of Egypt and the United States of America for the SME Development Project was signed on September 30, 1988. The Grant Agreement remains in effect until September 30, 1998.

The Cooperative Agreement was signed between ESED and USAID/Egypt on June 26, 1989. The purpose of the Agreement is to provide loans to small and micro enterprises located in the Cairo Metropolitan area through a loan fund administered by ESED. The Agreement also provides funds for operating expenses, equipment, project facilities, training, special projects, international travel, and vehicles.

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

Audit Objectives, Scope, and Methodology

The objective of this engagement was to conduct a financial audit of USAID/Egypt resources (excluding any program generated income and the collateral funds) managed by ESED for the SME Development Project (the "Project"), pursuant to the Agreement for the period September 1, 1994 through December 31, 1996.

The specific objectives of our engagement were to:

1. Express an opinion on whether the fund accountability statements for the USAID/Egypt financed project present fairly, in all material respects, funds received (excluding any program generated income and the collateral funds), and costs incurred for the audit period in conformity with generally accepted accounting principles or another comprehensive basis of accounting;
2. Determine if the costs reported as incurred under the 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 ESED, as it relates to the Project, to assess control risk, and identify reportable conditions, including material internal control weaknesses;

4. Perform tests to determine whether ESED complied, in all material respects, with the Agreement terms, and applicable laws and regulations; and
5. Determine if ESED has taken corrective action on prior audit report recommendations.

The scope of the audit included all funds provided by USAID/Egypt (excluding any program generated income and the collateral funds), and the Project expenditures incurred under the Agreement for the period September 1, 1994 through December 31, 1996.

The methodology of the audit consisted of an evaluation of the internal control structure, testing of expenditures incurred under the Agreement, and testing of ESED's compliance with the Agreement, and applicable laws and regulations.

Our testing included a judgmental selection of costs incurred for each account disclosed in the fund accountability statements. We tested expenditures as follows:

<u>Budget Line Item</u>	<u>Actual</u>	<u>Tested Amount</u>	<u>Percent</u>
Funds provided by USAID/Egypt, LE Budget (LE) (Equivalent in \$)	1,332,893 392,027	1,332,893 392,027	100
Funds provided by USAID/Egypt, \$ Budget	4,000	4,000	100
Expenditures, LE Budget (LE) (Equivalent in \$)	2,026,188 595,938	1,784,415 524,828	88
Expenditures, \$ Budget	3,080	3,062	99

Our testing included, but was not limited to, the following procedures:

1. A review of direct expenditures billed to and reimbursed by USAID/Egypt. Records were reconciled to reports submitted to USAID/Egypt.
2. A review of the funds provided by USAID/Egypt to determine whether they were deposited in a separate bank account, and that the related transactions were properly recorded. We also performed a review of the procedures used to control cash.
3. A review of the general ledgers and Project's ledgers to determine whether costs reported were properly recorded. A reconciliation of direct costs billed to and reimbursed by USAID/Egypt to the Project's ledgers and to general ledgers.
4. A review of procurement procedures to determine whether sound commercial practices, including competitive bids were used, reasonable prices were obtained, and there were adequate controls on qualities and quantities received.
5. A review of travel and transportation charges to determine whether they were adequately supported, approved, and in accordance with the Project's implementation plans.
6. A determination of whether advances of funds were justified based on existing documentation, including a reconciliation of funds advanced, disbursed, and available.

During our audit planning, we considered ESED's internal control structure as it relates to the Project, to obtain an understanding of the design of relevant control policies and procedures, and whether those policies and procedures have been placed in operation. We obtained a sufficient understanding of the internal control structure to plan the audit and to determine the nature and extent of tests to be performed.

Initial planning began with an entrance conference attended by RIG/A/C, USAID/FM, a representative of ESED's Project Officer, ESED's officials, and our audit team. At the end of the fieldwork we held a meeting with ESED's Project management staff to discuss unresolved findings identified during our fieldwork.

The Agreement and its amendments were reviewed to gain an understanding of agreement terms and related applicable laws and regulations.

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

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 33 of Chapter 3 of Government Auditing Standards since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen internal quality control program, which requires our office to be subjected every three years to an extensive quality control review by partners and managers from other Arthur Andersen offices.

Results of Audit

Fund Accountability Statements

Our audit identified \$ 1,695 (LE 5,761) in aggregate questioned costs. The questioned costs are broken down as follows:

Ineligible costs, LE Budget, \$ 957 (LE 3,253) and
Unsupported costs, LE Budget, \$ 738 (LE 2,508).

The details of the questioned costs are presented in the Fund Accountability Statements - Audit Findings section of this report. We considered the questioned costs in forming our audit opinion on the fund accountability statements.

Internal Control Structure

Our evaluation of the internal control structure identified the following reportable conditions:

- Funds received from USAID/Egypt were commingled with other ESED owned and controlled resources and no reconciliations were performed to segregate sources of funding and their uses; and

- Bank statements were not obtained and bank reconciliations were not performed for the \$ account.

The details of the reportable conditions are presented in the Internal Control Structure - Audit Findings Section of this report.

Compliance with Applicable Laws and Regulations

In performing our engagement, we identified a matter of material noncompliance. This matter relates to commingling of USAID/Egypt funds with other ESED controlled resources. Details of this noncompliance are presented in the Compliance with Applicable Laws and Regulations - Audit Finding Section of this report.

Follow-up of Prior Audit Recommendations

ESED was audited under USAID/Egypt's Non-federal Audit Program for costs incurred for the period June 1, 1991 through August 31, 1994. The fieldwork for the prior audit was completed on July 27, 1995 and the final report was submitted to USAID/Egypt on January 9, 1996. The report contained three recommendations on compliance with applicable laws and regulations. Our review indicated that one of the three recommendations has been implemented. The recommendations that have not been implemented are related to commingling of USAID funds with other ESED controlled resources, and payment of ineligible and unsupported expenses with USAID funds. The former recommendation is addressed in our report on Compliance with Applicable Laws and Regulations under Finding No. 1. The latter recommendation is addressed under Findings Nos. 1 through 9 in the Fund Accountability Statements - Audit Findings section of this report.

Management Comments

ESED has provided comments on the results of our audit. The entire management response is included as Appendix A. We provided responses to management's comments in Appendix B. We have deleted or modified the findings related to questioned costs that were adequately responded to by ESED's management.

M. A. A. A.

ALLIED ACCOUNTANTS

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زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

Report of Independent Public Accountants

We have audited the accompanying fund accountability statements of the Egyptian Small Enterprise Development Foundation relating to funds received (excluding any program generated income and the collateral funds), and costs incurred by the Small and Micro Enterprise Development Project, Grant Agreement No. 263-0212, funded by the United States Agency for International Development through Cooperative Agreement No. 263-0212-A-00-9064-00, for the period September 1, 1994 through December 31, 1996. These fund accountability statements are the responsibility of the management of the Egyptian Small Enterprise Development Foundation. Our responsibility is to express an opinion on these fund accountability statements based on our audit.

Except as discussed in the following paragraphs, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall fund accountability statements' presentation. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 33 of Chapter 3 of Government Auditing Standards since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen internal quality control program which requires our office to be subjected every three years to an extensive quality control review by partners and managers from other Arthur Andersen offices.

As described in Note 2, the accompanying fund accountability statements have been prepared on the cash basis. The cash basis is a comprehensive basis of accounting other than generally accepted accounting principles, because revenues and expenditures are recognized when received or paid, rather than when earned or incurred. Accordingly, the accompanying fund accountability statements are not intended to present results in accordance with generally accepted accounting principles.

In our opinion the fund accountability statements referred to above present fairly, in all material respects, funds received and costs incurred by the Egyptian Small Enterprise Development Foundation under the Small and Micro Enterprise Development Project, Grant Agreement No. 263-0212 funded by the United States Agency for International Development through Cooperative Agreement No. 263-0212-A-00-9064-00, for the period September 1, 1994 through December 31, 1996, in conformity with the cash basis of accounting as described in Note 2.

This report is intended for the information of the management and others within the Egyptian Small Enterprise Development Foundation 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.

October 23, 1997
Allied Accountants

Allied Accountants

The Egyptian Small Enterprise Development Foundation

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

Cooperative Agreement No. 263-0212-A-00-9064-00

Fund Accountability Statement
for the Period September 1, 1994 through December 31, 1996

LE Budget expressed in \$

<u>Budget Elements</u>	Budget (Note 4)	Actual	<u>Questioned Costs (Note 6)</u>	
			Ineligible	Unsupported
	\$	\$	\$	\$
Source of funds:				
Beginning cash balance		267,356		
Funds provided by USAID/Egypt		<u>392,027</u>		
Total funds available		659,383		
Expenditures:				
Office operational costs	97,361	97,732	175	88
Equipment and assets	828,567	494,607	782	-
Training	57,582	3,599	-	650
Special projects	<u>367,647</u>	-	-	-
Total expenditures	<u>1,351,157</u>	<u>595,938</u>	<u>957</u>	<u>738</u>
Balance (Note 5)		<u>63,445</u>		

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

The Egyptian Small Enterprise Development Foundation

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

Cooperative Agreement No. 263-0212-A-00-9064-00

Fund Accountability Statement
for the Period September 1, 1994 through December 31, 1996

\$ Budget

<u>Budget Elements</u>	<u>Budget (Note 4)</u>	<u>Actual</u>	<u>Questioned Costs (Note 6)</u>	
			<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Source of funds:				
Beginning cash balance		0		
Funds provided by USAID/Egypt		<u>4,000</u>		
Total funds available		4,000		
Expenditures:				
International travel	<u>54,793</u>	<u>3,080</u>	-	-
Total expenditures	<u>54,793</u>	<u>3,080</u>	<u>0</u>	<u>0</u>
Balance (Note 5)		<u>920</u>		

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

The Egyptian Small Enterprise Development Foundation

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

Cooperative Agreement No. 263-0212-A-00-9064-00

Fund Accountability Statements
for the Period September 1, 1994 through December 31, 1996

Notes to the Fund Accountability Statements

Note 1: Project Activities

Grant Agreement No. 263-0212 between the Arab Republic of Egypt and the United States of America for the Small and Micro Enterprise (SME) Development Project was signed on September 30, 1988. The Grant Agreement remains in effect until September 30, 1998.

Cooperative Agreement No. 263-0212-A-00-9064-00 was signed between the Egyptian Small Enterprise Development Foundation (ESED) and USAID/Egypt on June 26, 1989. The purpose of the Cooperative Agreement is to provide loans to small and micro enterprises located in the Cairo Metropolitan area through a loan fund administered by ESED. The Cooperative Agreement also provides funds for operating expenses, equipment, project facilities, training, special projects, international travel, and vehicles related to the administration of the Project.

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

Note 2: Basis of Presentation

The fund accountability statements have been prepared on the cash basis. Consequently, revenues and expenditures are recognized when received or paid, rather than when earned or incurred.

Note 3: Exchange Rate

Expenditures incurred in Egyptian Pounds (LE) have been converted into US Dollars (\$) at an average exchange rate of approximately LE 3.40 to \$ 1.

Note 4: Budget

The budget, as presented in the fund accountability statements, is the budget available for the expenses incurred during the audit period. It has been calculated, for reporting purposes only, by deducting from the total budget approved as of December 31, 1996 the expenditures incurred as of August 31, 1994, as follows:

	Approved Budget As of 12/31/96	Expenditures As of 08/31/94	Available Budget
LE Budget	\$ 2,128,544	\$ 777,387	\$ 1,351,157
\$ Budget	\$ 68,500	\$ 13,707	\$ 54,793

Note 5: Balance

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

	<u>\$</u>	<u>LE</u>
LE budget	63,445	215,716
\$ budget	<u>920</u>	<u>3,135</u>
Total Fund Balance	<u>64,365</u>	<u>218,851</u>

Note 6: Questioned Costs

Questioned costs are expenditures that we have determined are not in accordance with the Grant Agreement, Cooperative Agreement, or other applicable USAID regulations and are presented in two separate categories: ineligible and unsupported. "Ineligible" costs are deemed to be unallowable because they are unrelated to the program, unreasonable, or prohibited by the Grant Agreement, Cooperative Agreement, or applicable laws and regulations. "Unsupported" costs are expenditures that are not supported by adequate documentation.

Our audit identified \$ 1,695 (LE 5,761) in aggregate questioned costs, as follows:
Ineligible costs, LE Budget, \$ 957 (LE 3,253) and
Unsupported costs, LE Budget, \$ 738 (LE 2,508).

The bases for questioning specific costs are set forth in the "Audit Findings" section of this report.

The Egyptian Small Enterprise Development Foundation

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

Cooperative Agreement No. 263-0212-A-00-9064-00

Fund Accountability Statements
for the Period September 1, 1994 through December 31, 1996

Summary of Audit Findings

<u>Budget Element</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u> \$	<u>Unsupported</u> \$
<u>LE Budget</u>		
<u>Office Operational Costs</u>		
Finding No. 1		88
Finding No. 3	171	
Finding No. 4	<u>4</u>	
	175	<u>88</u>
<u>Equipment and Assets</u>		
Finding No. 4	<u>782</u>	
	782	
<u>Training</u>		
Finding No. 6		356
Finding No. 7		<u>294</u>
		650
Total Questioned Costs (LE Budget)	<u>957</u>	<u>738</u>
Total Questioned Costs	<u>957</u>	<u>738</u>

The Egyptian Small Enterprise Development Foundation

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

Cooperative Agreement No. 263-0212-A-00-9064-00

Fund Accountability Statements

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

Audit Findings

LE Budget

Finding No. 1: Unsupported Overtime

ESED paid and was reimbursed by USAID/Egypt \$ 88 (LE 298) for overtime of ten computer and auditing department employees in excess of the actual overtime worked as indicated by attendance sheets. Section 2.0, Paragraph (a) of the Cooperative Agreement's Standard Provisions for Non-US Grantees, states that ESED shall maintain books, records, documents, and other evidence to sufficiently substantiate charges to the grant. ESED's Chief Accountant indicated that the payment was made as a bonus to the employees who were underpaid for overtime. This cost is reported in the fund accountability statement under "Office operational costs".

USAID/Egypt was billed an unsupported expense of \$ 88 (LE 298).

Finding No. 2: Unsupported Lodging

The finding has been deleted.

Finding No. 3: Meals and Entertainment Expenses

ESED paid and was reimbursed by USAID/Egypt \$ 171 (LE 581) for meals and entertainment expenses. Per Section 1.0, Paragraph 4 of the Cooperative Agreement's Standard Provisions for Non-US Grantees, unallowable costs include but are not limited to entertainment expenses. ESED's Chief Accountant stated that these meals were given to Project employees who worked overtime. However, there was no evidence to support this statement. This cost is reported in the fund accountability statement under "Office operational costs".

USAID/Egypt was billed ineligible expenses of \$ 171 (LE 581).

Finding No. 4: Sales Taxes and Duties

ESED paid and was reimbursed by USAID/Egypt \$ 786 (LE 2,672) for sales taxes related to purchases of stationary, and for duties paid to "El Shahr El Akary" (equivalent to a County Recorder Office in the US) for registration of apartments which were purchased by ESED. Per Project Grant Agreement, Standard Provisions, Section B.4, the Agreement and the Grant will be free from any identifiable taxes, fees, tariffs, duties or other levies imposed under laws in effect in Egypt. ESED's

chief accountant stated that these costs were paid because the Foundation is not exempt from such levies. These costs are reported in the fund accountability statement as follows:

Office operational costs	\$ 4	LE 14
Equipment and assets	<u>782</u>	<u>2,658</u>
	<u>\$ 786</u>	LE <u>2,672</u>

USAID/Egypt was billed ineligible expenses of \$ 786 (LE 2,672).

Finding No. 5: Excess Reimbursement for Apartment

The finding has been deleted.

Finding No.6: Unsupported Training Expenses

ESED paid and was reimbursed by USAID/Egypt \$ 356 (LE 1,210) for lodging related to a training course held in Port Said which was not supported by any hotel invoices. Section 2.0, Paragraph (a) of the Cooperative Agreement's Standard Provisions for Non-US Grantees, states that ESED shall maintain books, records, documents, and other evidence to sufficiently substantiate charges to the grant. ESED's chief accountant indicated that he was unable to provide any additional support. These costs are reported in the fund accountability statement under "Training".

USAID/Egypt was billed unsupported expenses of \$ 356 (LE 1,210).

Finding No. 7: Billing for Payment which was not Incurred

ESED billed and was reimbursed by USAID/Egypt \$ 294 (LE 1,000) for rental of training premises which was paid in 1995 by a check which has not been cashed as of October 23, 1997, the last day of our fieldwork. This payment has not been credited to USAID/Egypt. Section 2.0, Paragraph (a) of the Cooperative Agreement's Standard Provisions for Non-US Grantees, states that ESED shall maintain books, records, documents, and other evidence to sufficiently substantiate charges to the grant. ESED's chief accountant indicated that the amount represents debt that ESED has to pay. This expense is reported in the fund accountability statement under "Training".

USAID/Egypt was billed unsupported expenses of \$ 294 (LE 1,000).

Finding No. 8: Unsupported Training Expenses

The finding has been deleted.

\$ Budget

Finding No. 9: Unsupported Travel Expense

The finding has been deleted.

ALLIED ACCOUNTANTS

Ragheb, Istanbuli & El Kilany

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محاسبون قانونيون وخبراء تنظيم وإدارة

زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

Report of Independent Public Accountants On Internal Control Structure

We have audited the accompanying fund accountability statements of the Egyptian Small Enterprise Development Foundation relating to funds received (excluding any program generated income and the collateral funds), and costs incurred by the Small and Micro Enterprise Development Project, Grant Agreement No. 263-0212, funded by the United States Agency for International Development through Cooperative Agreement No. 263-0212-A-00-9064-00, for the period September 1, 1994 through December 31, 1996, and have issued our report thereon dated October 23, 1997.

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

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 33 of Chapter 3 of Government Auditing Standards since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen offices.

In planning and performing our audit, we considered the Egyptian Small Enterprise Development Foundation's internal control structure as it relates to the Small and Micro Enterprise Development Project, Cooperative Agreement No. 263-0212-A-00-9064-00, to determine our procedures for the purpose of expressing our opinion on the fund accountability statements and not to provide assurance on the internal control structure.

The management of the Egyptian Small Enterprise Development Foundation is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of the internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements; and transactions are properly recorded to permit the preparation of the fund accountability statements referred to above in conformity with the basis of accounting described in Note 2 to the fund accountability statements. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories: the adequacy of the accounting system, procurement procedures and practices, bank account controls, controls to ensure that charges to the Project are proper and supported, and controls over the use and safeguarding of equipment and 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 organization's ability to record, process, summarize, and report financial data consistent with assertions of management in the fund accountability statements. Our audit disclosed the following:

- Funds received from USAID/Egypt were commingled with other Egyptian Small Enterprise Development Foundation owned and controlled resources and no reconciliations were performed to segregate sources of funding and their uses; and
- Bank statements were not obtained and the related bank reconciliations were not performed for the \$ account.

Our discussions regarding the above mentioned matters are detailed in the Findings section of this report.

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

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 consider findings Nos. 1 and 2 to be material weaknesses.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of the Egyptian Small Enterprise Development Foundation in a separate letter dated October 23, 1997.

This report is intended for the information of the management and others within the Egyptian Small Enterprise Development Foundation 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.

October 23, 1997
Allied Accountants



The Egyptian Small Enterprise Development Foundation

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

Cooperative Agreement No. 263-0212-A-00-9064-00

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

Internal Control Structure Audit Findings

Finding No. 1: Commingling of Funds

During our review of cash, we noted that ESED commingled funds received from USAID/Egypt with funds transferred from its own revenue accounts. Furthermore, ESED did not perform any reconciliations to segregate USAID funds from its own revenue funds. In addition, we noted that in some cases, monthly bank reconciliations for the commingled bank account were not prepared until six or seven months after the receipt of the bank statements. Also, entries to the books and records were not input on a weekly or even a monthly basis. During our fieldwork in October 1997, the Accounting Department was inputting the January and February 1997 transactions. Such delays increase the likelihood of error and could result in the unintentional misclassification and omission of transactions from the books and records.

Section 1.0 of Standard Provisions for Non-US, Non Governmental Grantees states that AID funds shall not be commingled with other grantee owned or controlled funds. Also, Project Grant Agreement, Standard Provisions, Section B.5, Paragraph (b) requires ESED to maintain in accordance with generally accepted accounting principles and practices consistently applied books and records relating to the Project and to the Agreement adequate to show without limitation the receipt and use of goods and services acquired under the grant.

Recommendation:

We recommend that ESED:

- Keep USAID/Egypt resources in a separate bank account and perform timely monthly bank reconciliations.
- Ensure that entries to the books and records are made on a timely basis.

Finding No. 2: Lack of Bank Statements and Reconciliations

During our review of operating expenditures funded from the \$ budget, we noted that ESED does not keep bank statements or perform bank reconciliations for the \$ account.

Project Grant Agreement, Standard Provisions, Section B.5, Paragraph (b) requires ESED to maintain in accordance with generally accepted accounting principles and practices consistently applied books and records relating to the Project and to the Agreement adequate to show without limitation the receipt and use of goods and services acquired under the grant.

The issue noted above may lead to errors that go undetected, and makes it more difficult to determine the actual cash in bank.

Recommendation:

We recommend that ESED obtain bank statements for the \$ account and perform monthly bank reconciliations.

ALLIED ACCOUNTANTS

Ragheb, Istambouli & El Kilany

A Member Firm of ARTHUR ANDERSEN & Co. SC

Public Accountants & Business Advisors

Fellows & Members of the Egyptian Society of Accountants & Auditors



المحاسبون المتضامنون

راغب ، اسطنبولي والكيلاني

مراسلو آرثر أندرسن وشركاه

محاسبون قانونيون وخبراء تنظيم وإدارة

زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

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

We have audited the accompanying fund accountability statements of the Egyptian Small Enterprise Development Foundation relating to funds received (excluding any program generated income and the collateral funds), and costs incurred by the Small and Micro Enterprise Development Project, Grant Agreement No. 263-0212, funded by the United States Agency for International Development through Cooperative Agreement No. 263-0212-A-00-9064-00, for the period September 1, 1994 through December 31, 1996, and have issued our report thereon dated October 23, 1997.

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

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 33 of Chapter 3 of Government Auditing Standards since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen offices.

Compliance with laws, regulations, contracts and grants applicable to the Small and Micro Enterprise Development Project is the responsibility of the Egyptian Small Enterprise Development Foundation's management. As part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatement, we performed tests of the Egyptian Small Enterprise Development Foundation's compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed an instance of noncompliance that is required to be reported herein under Government Auditing Standards. This matter relates to commingling of USAID/Egypt funds with other Egyptian Small Enterprise Development Foundation controlled resources and is described in the Audit Finding section of this report.

We considered this instance of noncompliance in forming our opinion on whether the Egyptian Small Enterprise Development Foundation's fund accountability statements are presented fairly, in all material respects, in conformity with the basis of accounting described in Note 2 to the fund accountability statements and this report does not affect our report on the fund accountability statements dated October 23, 1997.

We also noted certain other instances of noncompliance that we have reported to the management of the Egyptian Small Enterprise Development Foundation in a separate letter dated October 23, 1997.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, the Egyptian Small Enterprise Development Foundation 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 the Egyptian Small Enterprise Development Foundation had not complied, in all material respects, with those provisions.

This report is intended for the information of the management and others within the Egyptian Small Enterprise Development Foundation 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.

October 23, 1997
Allied Accountants

M. A. M. M. M.

The Egyptian Small Enterprise Development Foundation

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

Cooperative Agreement No. 263-0212-A-00-9064-00

for the Period September 1, 1994 through December 31, 1996

Compliance with Applicable Laws and Regulations Findings

Finding No. 1: Commingling of Funds

ESED maintains one LE bank account which includes receipts from USAID/Egypt and transfers from ESED's generated revenues. Furthermore, ESED does not perform any cash reconciliations or keep track of the funding sources of the expenditures paid out of the commingled account. Per the Cooperative Agreement, Standard Provisions for Non-US, Non-Governmental Grantees, Section 1.0, Paragraph (a), "AID funds shall not be commingled with other grantee owned or controlled funds. The grantee shall deposit all AID cash advances in a separate bank account and shall make all disbursements for goods and services from this account". ESED's chief accountant stated that ESED did not find it necessary to deposit the funds in separate bank accounts. This non-compliance issue was identified in the prior audit report and no corrective action has been taken by ESED

Recommendation:

We recommend that ESED comply with the terms of the Agreement and maintain USAID/Egypt funds in a separate bank account.

The Egyptian Small Enterprise Development Foundation

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

Cooperative Agreement No. 263-0212-A-00-9064-00

Fund Accountability Statements
for the Period September 1, 1994 through December 31, 1996

Management Comments

Fund Accountability Statement Findings

Finding No. 1: Unsupported Overtime for LE.298

This amount was posted in the books under Salaries which covers salaries and incentives. It's an incentive to some of the employees, for assignments performed. This incentive payment was approved by the executive director, and not for overtime as stated in your report.

Finding No. 2: Unsupported Lodging for LE.240

At time of incidence of this amount, the foundation's by-laws did not address any lodging or transportation costs. Accordingly, disbursement was based on the USAID's travel regulations (copy attached). This disbursement was approved by the executive director.

Finding No. 3: Meals and Entertainment Expenses for LE.581

This amount is a meal allowance to the MIS department, during the installation phase of the loan tracking system. At that point in time, ESED had not reached yet the break-even point, and the amount is considered as incentives.

Finding No. 4: Sales Taxes and Fees for LE.762

A. For the LE.14, several negotiations were held with the Ministry of Finance to receive a sales tax exemption. The Ministry confirmed that the foundation is not exempted from this type of tax (copies of correspondences attached).

B. For the LE.2,658 reported in your draft as registration fees, we would like to confirm that the Foundation is exempt from the these types of fees. However, it is not exempt from charges preceding the registration and these are:

LE.231	Equipment inspection fees.
LE. 52	Official copy of selling contract+Fees for obtaining the specification form
LE.1975	Fees for converting the foundation premises from residence to Specification form.
<u>LE.400</u>	Fees for Inspecting Area
LE.2658	(attached are copies of supporting documentation)

Finding No. 5: Excess Reimbursement of Apartment for LE.1.630

USAID did not completely finance the procurement of the 5 units in the head office and the 3 units in the garage. Procurement of these units was financed from various sources namely, the fixed assets line item, the special project line item and the foundation's revenue. Kindly determine date of financial report relevant to this finding.

Finding No. 6: Unsupported Training Expenses for L.E. 1.210

This amount represents lodging and per diem for two of the financial department staff to attend training in Port Said conducted by EQI. Disbursement was based on the USAID regulations in this respect, and was approved by the executive director. (kindly refer to finding No. 2)

Finding No. 7: Billing for Payment which was not Incurred for L.E. 1.000

ESED has not billed USAID for this amount at the date reported in your draft. It is a debt that the foundation has to pay, and it will be corrected in the financial report due for submission to USAID if debt is canceled.

Finding No. 8: Unsupported Training Expenses for L.E. 3.134

Total Training disbursement posted in records till June 30, 1996 amounts to L.E. 28,002.10. Amounts reported to USAID in financial reports amount to L.E. 24,868. The difference of L.E. 3,134.10 was settled in the December 1996 financial report, previously submitted to you.

Finding No. 9: Unsupported Travel Expenses for L.E. 4.977

This amount is the executive director airfare ticket to the USA to attend the SmallandMicro Enterprise Conference. Attached is the receipt of payment.

The Internal Control Findings

1- Separate Account for the USAID funds:

Upon termination of the audit, ESED opened a new account for the USAID funds. Reconciliation is performed monthly.

2- US Dollar Accounts

The US\$ accounts are in fact time deposits. Monthly, the deposits status is reported by ESED in terms of the deposit number, amount and due dates.

Compliance with Laws and Regulations

Separate Accounts

ESED opened separate accounts for the USAID US dollar and Egyptian pounds funds. (Attached supporting documentation).

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1/2/02
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The Egyptian Small Enterprise Development Foundation

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

Cooperative Agreement No. 263-0212-A-00-9064-00

Fund Accountability Statements
for the Period September 1, 1994 through December 31, 1996

Auditors' Response to Management Comments

Our comments below address the responses of the Egyptian Small Enterprise Development Foundation (ESED) to the findings on the fund accountability statements in our audit report of the Small and Micro Enterprise Development Project for the costs financed by the United States Agency for International Development, Grant Agreement No. 263-0212, for the period September 1, 1994 through December 31, 1996, Cooperative Agreement No. 263-0212-A-00-9064-00.

Fund Accountability Statements

LE Budget

Finding No. 1: Unsupported Overtime:

ESED did not provide any additional documents to what was originally reviewed during the audit. The available supporting documents do not indicate that the payments were made as incentives, but rather, have the actual amount of overtime earned crossed out and replaced by larger amounts. No documents were provided to support the reason or basis for the payment of the "incentives". Accordingly, the finding remains unchanged.

Finding No. 2: Unsupported Lodging

ESED provided additional documents to support the purpose of the trip and related expenses. The support provided included a trip report submitted by its legal consultant who took the trip to Alexandria. ESED also stated that at the time the disbursement was made, the foundation's by-laws did not address any lodging or transportation costs, so it made the disbursement based on USAID's travel regulations. We reviewed USAID's travel regulations and noted that the disbursement made was within the established rates. Accordingly, the finding has been deleted.

Finding No. 3: Meals and Entertainment Expenses

ESED stated that the meals purchased were an allowance given to employees of the MIS department who had to work overtime while they were installing the Loan Tracking System. However, ESED did not provide a list of the employees who stayed overtime and evidence that they worked after official working hours. Accordingly, the finding remains unchanged.

Finding No. 4: Sales Taxes and Duties

With regards to the sales tax, ESED stated that it is not exempt from payment of taxes and provided a copy of a letter received from the Sales Tax Authority denying exemption from the tax. ESED agreed that it is exempt from payment of registration fees but is not exempt from charges required to be paid preceding the registration. However, our audit indicated that the amounts billed to and

reimbursed by USAID were Government of Egypt imposed duties which are required to be paid before an entity could register any premise in its name. Project Grant Agreement, Standard Provisions, Section B.4, states that the Agreement and the Grant will be free from any identifiable taxes, fees, tariffs, duties or other levies imposed under laws in effect in Egypt. Accordingly, the finding remains unchanged.

Finding No. 5: Excess Reimbursement for Apartment

ESED stated that actual cost of the apartments for the Headquarters was greater than what was originally billed to and reimbursed by USAID and the difference was financed from ESED's revenues. ESED provided a copy of the contract for the purchase of the apartment, which is for an amount greater than what has been billed to USAID. Accordingly, the finding has been deleted.

Finding No. 6: Unsupported Training Expenses

ESED provided internal memos that indicate that the amount paid represents lodging and per diem paid to two ESED employees who were supposed to attend a training course in Port Said. However, ESED did not provide any evidence of the training taking place or hotel invoices for the lodging. Accordingly, the finding remains unchanged.

Finding No. 7: Billing for Payment which was not Incurred

ESED's response stated that the questioned amount "is a debt that the foundation has to pay". ESED also stated that a correction will be made in the financial report submitted to USAID if the debt is canceled. However, no debt related to the questioned amount has been recorded in ESED's books. Accordingly, the finding remains unchanged.

Finding No. 8: Unsupported Training Expenses

ESED stated that the amount questioned is related to an adjusting entry made to the financial reports submitted to USAID to reconcile the cumulative amounts reported to USAID from inception of the Project to December 31, 1996 to ESED's books and records. We traced all training expenses incurred from inception of the Project to ESED's financial statements and noted that the cumulative expenses reported to USAID prior to adjustment had been in fact understated by \$ 922 (LE 3,134). Accordingly, the finding has been deleted.

US \$ Budget

Finding No. 9: Unsupported Travel Expense

ESED provided additional support in the form of a sales slip from the travel agency, detailing a US carrier and rate paid. Accordingly, the finding has been deleted.

Internal Control Structure

Finding No.1: Commingling of Funds

ESED agreed with the finding, and stated that it opened a separate bank account for USAID funds subsequent to the last day of our fieldwork and that monthly reconciliations are performed. The finding remains unchanged.

Appendix B

Finding No. 2: Lack of Bank Statements and Reconciliations

ESED's response did not address the finding but rather, stated that "the US\$ accounts are in fact time deposits", thus referring to the collateral funds which were outside the audit scope. The finding remains unchanged.

Compliance with Applicable Laws and Regulations

Finding No. 1: Commingling of Funds

ESED agreed with the finding and stated that it opened a separate bank account for USAID funds. The finding remains unchanged.

The Egyptian Small Enterprise Development Foundation

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

Cooperative Agreement No. 263-0212-A-00-9064-00

Fund Accountability Statements

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

United States Agency for International Development
Mission in Egypt's Response to the Audit Report

USAID



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

M E M O R A N D U M

Date : April 21, 1998
To : Lou Mundy, RIG/A
From : Shirley Hunter, Division Chief, FM/FA
Subject : Financial Audit of the Egyptian Small Enterprise Development Foundation (ESED), Costs Incurred Under Cooperative Agreement No. 263-0212-A-00-9064-00, USAID/Egypt's Small and Micro Enterprise Development Project

Recommendation No. 1:

We recommend that USAID/Egypt make a management decision on the questioned costs of \$1,695 (\$957 ineligible and \$738 unsupported) detailed on pages 12 and 13 of the Allied Accountants audit report, and recover from the Egyptian Small Enterprise Development Foundation any amounts determined to be unallowable.

Mission Response:

Based on Mission's review of the \$1,695 (LE5,761) questioned, the amount of \$153 (LE520) is determined to be allowable, and \$1,542 (LE5,241) is sustained. Bill of Collection No. CO-263-81751 dated April 15, 1998, for \$1,542 (LE5,241) has been issued to recover the amount sustained, (attachment a).

ESED refunded \$1,542 (LE5,240.20) which represents the sustained amount (a difference of LE00.80 resulted from a rounding made by the auditors), (attachment b). Therefore, Mission requests closure of Recommendation No. 1.

Following are the actions taken by the Mission to resolve the audit recommendations.

Finding No. 1: Unsupported Overtime of \$88 (LE298) - page 12 of the audit report

In their response dated April 11, 1998, (attachment c), ESED agreed to refund the bonus payment made to their employees.

Therefore, \$88 (LE298) is sustained.

Finding No. 3: Meals and Entertainment Expense of \$171 (LE581) - page 12 of the audit report

ESED agreed to refund this amount.

Therefore, \$171 (LE581) is sustained.

Finding No. 4: Sales Taxes and Duties of \$786 (LE2,672) - page 12 of the audit report

The questioned amount consists of the following:

a) Sales taxes of \$4 (LE14): ESED agreed to refund this amount.

Therefore, \$4 (LE14) is sustained.

b) Registration Fees related to Equipment and assets of \$782 (LE2,658). Mission believes that this expense is categorized under taxes, tariffs, duties or other levies imposed under the territory of the Grantee, which is prohibited by the PROAG, Section B.4. "Taxation".

Therefore, \$786 (LE2,672) is sustained.

Finding No. 6: Unsupported Training Expenses of \$356 (LE1,210) for lodging - page 13 of the audit report

ESED agreed to refund the lodging costs of \$203 (LE690) due to unavailability of the supporting documentation. The remaining \$153 (LE520) are allowable since they represent meals and incidental expenses which do not require supporting documentation.

Accordingly, \$153 (LE520) is allowed, and \$203 (LE690) is sustained.

Finding No. 7: Billing for Payment of \$294 (LE1,000) which was not Incurred:

ESED agreed to refund this amount. **Therefore, \$294 (LE1,000) is sustained.**

Recommendation No. 2:

We recommend that USAID/Egypt obtain evidence that the Egyptian Small Enterprise Development Foundation has addressed the material internal control weakness (commingling of funds, untimely accounting, and lack of bank reconciliations) detailed on pages 16 and 17 of the Allied Accountants report.

Mission Response:

Finding No. 1

Commingling of Funds:

ESED provided an evidence that a separate bank account for USAID funds was opened in the amount of LE469,323.73, (attachment d). However, verification of the accuracy of the amount deposited is pending submission of the following documentation:

- * The "Certified Fiscal, and the Cash Needs Report" as of March 31, 1998; and
- * Bank statement as of March 31, 1998.

Upon submission of the above documentation, Mission will verify that the bank ending balance agrees with the Mission Accounting and Control System (MACS), and thus, will request closure of this finding.

Performing timely bank reconciliations:

On January 21, 1998, the Executive Director issued a circular titled "Regular Posting in the Financial Records, and in the Automated Accounting System" in which he requested that the Accounting Unit provide him with the results of the banks reconciliations in a period not to exceed seven days following the end of each month, (attachment e).

In view of the above, Mission believes that the corrective actions have been taken, and therefore, this part of the recommendation should be closed.

Finding No. 2: Ensure that entries to the books and records are made on a timely basis:

In the same memo, the Executive Director requested the Accounting Unit to provide him with the total revenues and expenses achieved during the month in a period not to exceed seven days following the end of each month. He also requested them to make the necessary comparisons with the budget to review negative and

positive deviations, their justification, and how to address them. (attachment e).

In view of the above, Mission believes that the corrective actions have been taken, and therefore, this part of the recommendation should be closed.

Finding No. 2:

Lack of Bank Statements and Reconciliations for the dollar bank account:

In their response ESED stated that the dollar bank account in Misr Bank has been closed, and provided a copy of the bank statement as of December 31, 1997 showing a balance of \$00.58.

Upon receipt of ESED's Certified Fiscal Report and cash needs, Mission will verify that the ending balance available, in the bank, agrees with Mission Accounting and Control System (MACS), and accordingly, will request closure of the finding.

In view of the above, Mission requests resolution of Recommendation No. 2. Mission will request closure of the recommendation upon verification of the bank ending balances in both U.S.\$ and LE accounts.

Recommendation No. 3:

We recommend that USAID/Egypt obtain evidence that the Egyptian Small Enterprise Development Foundation has addressed the material noncompliance issue (commingling of funds) on page 20 of the Allied Accountants report.

Mission Response:

This recommendation is related to recommendation No.2.

Therefore, Mission requests resolution of recommendation No. 3, closure will be requested upon verification of the bank ending balances as described under recommendation No. 2 above.

CC. S. Riley, EG/PF
M. Khalil, EG/PF