

Regional Inspector General for Audit
Cairo, Egypt

94923

**Audit of the Center for Higher Education Reform (CHER)
Local Expenditures Incurred Pursuant to Activity
Agreement No. 10 under USAID/Egypt's Basic
Education Project No. 263-0139.2**

**Report No. 6-263-95-022-N
May 7, 1995**





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

May 7, 1995

MEMORANDUM FOR D/USAID/Egypt, John R. Westley

FROM : RIG/A/Cairo, *[Signature]*
Philip W. Darcy

SUBJECT : Audit of The Center for Higher Education Reform (CHER), Local Expenditures Incurred Pursuant to Activity Agreement No. 10 under USAID/Egypt's Basic Education Project No. 263-0139.2.

The attached report transmitted by Hazem Hassan & Co. on March 16, 1995 presents the results of a financial audit of the Center for Higher Education Reform (CHER), Local Expenditures Incurred Pursuant to Activity Agreement No. 10 under USAID/Egypt's Basic Education Project No. 263-0139.2. The project's primary objective is to act as a leading organization in the process of educational reform at the post-secondary level by providing planning and consultancy services for the Egyptian higher education system.

We engaged Hazem Hassan & Co. to perform a financial audit of CHER's incurred expenditures of \$226,792 (equivalent to LE664,500) as of June 30, 1992. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Hazem Hassan & Co. also evaluated CHER's internal controls and compliance with applicable laws, regulations and grant terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Hazem Hassan & Co. questioned \$3,338 in incurred costs billed to USAID by CHER. The questioned costs included equipment & supplies, travel & per diem and miscellaneous expenses.

In response to the draft report, CHER provided documentation and/or additional explanations for the questioned costs. Hazem Hassan & Co. reviewed CHER's response to the findings. Where applicable, they have made adjustments in their report or provided further clarification of their position.

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

Recommendation No. 1: We recommend that USAID/Egypt resolve questioned costs of \$3,338 consisting of ineligible costs of \$198 and unsupported costs of \$3,140 as detailed on pages 10 and 11 of the audit report.

This recommendation is considered unresolved and can be resolved when RIG/A/C receives the Mission's final determination as to the amounts sustained or not sustained. The recommendation can be closed when any amounts determined to be owed to USAID/Egypt are paid by CHER.

In addition, we strongly recommend that no future funding be provided to CHER until the Mission ensures that the internal control weaknesses and non-compliance issues identified in the report are corrected. We are not making this a formal recommendation as we understand no further funding is contemplated at this time.

Please advise this office within 30 days of any actions planned or taken to close the recommendation. We appreciate the courtesies extended to the staff of Hazem Hassan & Co. and to our office.

b

Financial Audit of
The Center for Higher Education Reform
(CHER)
Related to Activity Agreement No. 1C
under the USAID/Egypt's Basic Education
Project No. 263-139.2
for the Period from August 8, 1989
through June 30, 1992

The Center for Higher Education Reform (CHER)
Related to Activity Agreement No. 10
under the USAID/Egypt's Basic Education Project
No. 263-139.2
for the Period from August 8, 1989 through June 30, 1992

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KPMG Hazem Hassan & Co.

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

March 16, 1995.

Dear Mr. Darcy,

This report presents the results of our financial audit of the Center for Higher Education Reform (CHER) under the USAID/Egypt's Basic Education Project No. 263-139.2 for the period from August 8, 1989 through June 30, 1992.

Background

CHER was established on March 6, 1988 according to the Ministerial decree No. 180. The main objective of CHER is to act as a leading organization in the process of educational reform at the post-secondary level by providing planning and consultancy services for the Egyptian higher education system. USAID/Egypt and the Ministry of Education officials developed a six-year assistance package. The package included two phases.

On August 8, 1989 Activity Grant Agreement No. 10 was originated to finance phase one. Phase one focused on developing the organizational structure of CHER and the professional staff and on three pilot projects. The Agreement was funded by the FT-800 Trust Account. This Agreement was amended five times and was extended through June 30, 1992. The total budgeted amount is \$226,792 (equivalent to LE664,500) and the total expenditures incurred are \$226,792 (equivalent to LE664,500).

Objectives and Scope

The objective of this engagement is to conduct a financial audit of USAID resources managed by the CHER pursuant to Activity Agreement

No. 10. The audit covers the period from August 8, 1989 through June 30, 1992.

The specific objectives of this audit are to:

1. express an opinion on whether the fund accountability statement for the USAID financed project of CHER presents fairly, in all material respects, project revenues received and costs incurred, for the period under audit, in conformity with generally accepted accounting principles or other comprehensive bases of accounting, including the cash receipts and disbursements basis and modifications of the cash basis;
2. determine if the costs reported as incurred under the Activity 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 CHER, assess control risk and identify reportable conditions, including material internal control weaknesses; and
4. perform tests to determine whether CHER complied, in all material respects, with the Agreement terms and applicable laws and regulations.

Preliminary planning and review procedures were started in July 1994 and consisted of:

- discussions with RIG/A/C;
- review of the Activity Grant Agreement No. 10;
- interviews with the CHER key personnel and discussions with them concerning the grant status, accomplishments during the period, the statutory reporting requirements, the grant budget, and actual expenditures and reimbursement procedures from USAID;
- reviews of the CHER organizational structure, procurement and personnel manuals, financial and accounting policies, and procedure manual.

The field work was completed on November 3, 1994. The scope of our work was to audit CHER's costs incurred and reimbursed by USAID under the Agreement. Within each budget line item, we selected disbursements for testing on a judgmental basis. We tested disbursements of \$114,476 (equivalent to LE335,416) out of a total disbursement of \$226,792 (equivalent to LE664,500). Our tests included, but were not limited to, the following:

1. Reconciling cash receipts to USAID/Egypt records.

2. Reconciling CHER's accounting records to invoices submitted to USAID/Egypt, and testing costs for allowability, allocability, reasonableness, and appropriate support.
3. Determining whether travel and transportation charges were adequately supported and approved.
4. Establishing the adequacy of CHER's control over project equipment.
5. Determining whether payroll costs were appropriate and conformable with the terms of the grant Agreements and relevant regulations.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 46 of Chapter 3 of Government Auditing Standards (1988 Revision), because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards (1988 Revision) is not material because we have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

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

Results of Audit

Fund Accountability Statement

Our audit identified total ineligible costs of \$198 (equivalent to LE579) and total unsupported costs of \$3,140 (equivalent to LE9,200), which, result in total questioned costs of \$3,338 (equivalent to LE9,779).

The fund accountability statement expressed in Egyptian pound (LE) and the details of costs questioned were provided to USAID/Egypt and CHER management through supplemental schedules.

Internal Control Structure

We identified the following matters involving the internal control structure and its operations that we consider to be reportable conditions:

- Controls over fixed assets are not adequate.
- Controls over staffing costs are not adequate.
- Bank reconciliations are not prepared.
- Controls over processing accounting data are not adequate.

Compliance with Laws and Regulations

Our tests of compliance disclosed two instances of noncompliance with the Grant Agreement and Egyptian Laws. These instances were not considered to be material.

Management Comments

We have reviewed CHER's response to the questioned costs incurred which is included as Appendix I. The response has not changed our understanding of the fund accountability statement, reportable conditions in the report on internal control structure or findings in the report on compliance with laws and regulations.

This report is solely intended for the use of the United States Agency for International Development and may not be suitable for any other purpose.

Hazem Hassan & Co.

~~Cairo, Egypt~~

Fund Accountability Statement

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KPMG Hażem Hassan & Co.

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Independent Auditor's Report

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

We have audited the accompanying fund accountability statement of the Center for Higher Education Reform (CHER) related to Activity Agreement No. 10 under the USAID Egypt's Basic Education Project No. 263-139.2 for the period from August 8, 1989 through June 30, 1992. The fund accountability statement is the responsibility of CHER's management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the significant estimates made by management, as well as evaluating the presentation of the overall fund accountability statement. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 46 of Chapter 3 of Government Auditing Standards (1988 Revision) because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards (1988 Revision) is not material because we

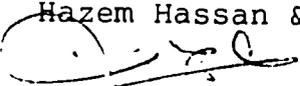
participate in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

The fund accountability statement, referred to above, does not include the cost of USAID/Egypt's direct procurement of vehicles, equipment and technical assistance provided by USAID/Egypt directly to CHER, if any, or the total revenue of and the costs incurred by CHER on the organization-wide basis.

As described in Note 1, the accompanying fund accountability statement has been prepared on the cash basis, which is a comprehensive basis of accounting other than the generally accepted accounting principles. Included in the fund accountability statement are questioned costs of \$3,338. The basis for questioning these costs is more fully described in the "Details of Questioned Costs" section of this report.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the fund accountability statement, referred to above, presents fairly, in all material respects, the cost incurred on the Activity Agreement No. 10 and managed by CHER for the period from August 8, 1989 to June 30, 1992 in conformity with the basis of accounting described in Note 1.

Hazem Hassan & Co.



Cairo, Egypt
November 3, 1994

Center for Higher Education Reform
 CHER
 Activity Agreement No. 10
 Under USAID/Egypt's Basic Education Project NO. 263-139.2

Fund Accountability Statement
 for the Period from August 8, 1989 through June 30, 1992

USAID/Egypt fund received \$
226,792

<u>Expenditures</u>	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>		<u>Audit Finding Reference</u>
	<u>(Note 4)</u>		<u>Ineligible</u>	<u>Unsupported</u>	
	\$	\$	\$	\$	
Staffing	123,925	131,150			
Equipment & Supplies	77,270	79,979	22		Finding No. 1 pg. 10
Travel & Per Diem	14,129	4,089		1,092	Finding No. 2 pg. 10
Miscellaneous expenses	11,468	11,574	176	2,048	Finding No. 3, 4 pg. 10, 11
	<u>226,792</u>	<u>226,792</u>	<u>198</u>	<u>3,140</u>	

* See accompanying notes to the fund accountability statement

Center for Higher Education Reform (CHER)
Related to Activity Agreement No. 10 under the USAID/Egypt's
Basic Education Project No. 263-139.2
For the Period from August 8, 1989 through June 30, 1992

Notes to Fund Accountability Statement

Note 1: Accounting Basis

The fund accountability statement of CHER is prepared on the basis of cash disbursements. Consequently, costs are recognized when paid rather than when the obligation is incurred. The accounting basis of cash disbursements is a comprehensive basis of accounting other than generally accepted accounting principles.

Note 2: Basis of Presentation

The fund accountability statement is the representation of CHER's management and is the responsibility of the said management. The ineligible and unsupported cost columns represent the audit results and are included in the fund accountability statement for presentation purposes only.

Note 3: Reporting Currency

CHER maintains its books and accounts in Egyptian Pounds (LE) as a functional currency. The functional currency is translated into US Dollars (\$) as a reporting currency. The period average exchange rate method is used to translate the fund accountability statement. This exchange rate is \$1 = LE2.930.

Note 4: Budget

The "Budget" column includes USAID/Egypt's approved costs for Agreement No. 10. It covers the period from inception to June 30, 1992. According to the Activity Agreement, CHER may reclassify the budget of each line item, within 20%, as long as it does not exceed the total budget.

Note 5: Questioned Costs

Questioned costs are presented in two separate categories - ineligible costs and unsupported costs - and consist of audit findings proposed on the basis of the terms of Agreement No. 10, and USAID/Egypt regulations which prescribe the nature and treatment of reimbursable costs not specifically defined in the Agreements. Costs in the column labeled "Ineligible" are supported by vouchers or other documentation but are ineligible for reimbursement because they are either unreasonable, prohibited by the Agreement or applicable laws and regulations or not program related. Costs in the column labeled "Unsupported" are also included in the classification of "Questioned Costs" and relate to costs that are not supported with adequate documentation or did not have the required prior approvals or authorizations. All questioned costs are detailed in the "Details of Questioned Costs" section of this report.

Fund Accountability Statement
Audit Findings

Finding No. 1

CHER charged USAID/Egypt \$22 for certain sales taxes.

The General Provisions for LE Trust Funds Grants stated that "The Grant will be free from any taxation or fees imposed under Laws in effect in the territory of the Grantee".

This finding is attributable to the fact that CHER's management was not aware of the aforementioned criteria.

As a result, an unallowable cost of \$22 was charged to USAID.

Finding No. 2

CHER charged USAID/Egypt \$1,092 for certain unsupported transportation costs. CHER's director received a fixed transportation allowance each month without submitting supporting documents to prove that such cost was for actual expenses.

According to Activity Grant Agreement No. 10, USAID funds cover only those costs related to the project, supported by adequate documents and incurred on an actual basis.

CHER management asserted that USAID/Egypt approval was obtained verbally.

This resulted in an unsupported cost of \$1,092 being charged to USAID/Egypt.

Finding No. 3

CHER charged USAID/Egypt \$176 for certain costs of books. Those books were not received by CHER.

According to the Activity Grant Agreement No. 10, all costs charged to USAID/Egypt should be for actual services or goods received by CHER.

We believe that this finding arose because CHER's management did not follow-up the outstanding advance with the supplier.

As a result, an unallowable cost of \$175 was charged to USAID/Egypt.

Finding No. 4

CHER charged USAID/Egypt \$2,048 for certain unapproved equipment.

The Activity Grant Agreement No. 10 stated that "Payments will be made in accordance to the approved budget". Such equipment is not included in the budget.

This finding arose because CHER's management was not aware of the aforementioned criteria.

This resulted in an unapproved cost of \$2,048 being charged to USAID/Egypt.

Internal Control Structure

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Report on Internal Control Structure **Independent Auditor's Report**

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

We have audited the accompanying fund accountability statement of the Center for Higher Education Reform (CHER) related to Activity Agreement No. 10 under the USAID/Egypt's Basic Education Project No. 263-139.2 for the period from August 8, 1989 through June 30, 1992 and have issued our report thereon on November 3, 1994.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 (1988 Revision), because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards (1988 Revision) is not material because we participate in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

In planning and performing our audit of CHER, we considered its internal control structure related to Agreement No. 10, funded by

USAID/Egypt, in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of CHER 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 transactions are executed in accordance with the terms of the Agreements, and are recorded properly to permit the preparation of reliable fund accountability statements in accordance with the cash basis of accounting.

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 into the following categories:

- Cash receipts and banks
- Equipment
- Payroll
- Expenditures

For all of the control categories listed above, we obtained an understanding of the design of the relevant policies and procedures and whether they have been implemented and assessed the 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 that have come to our attention and are related 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 the assertions of management in the fund accountability statements. Our audit disclosed the following reportable conditions:

Finding No. 1

Internal Control over equipment is inadequate. CHER does not maintain a detailed fixed assets record; warehouse receiving reports are not maintained; no physical counts are made regularly and no USAID tags were noted.

A sound internal control system requires the management to safeguard assets against loss and unauthorized use.

However, CHER's management believes that the existing system of internal control is adequate.

As a result, USAID/Egypt's equipment may be subjected to waste, loss or unauthorized use.

We recommend that, if CHER were to receive further USAID funds, CHER should improve the control of equipment.

Finding No. 2

CHER had no personnel policy regulating the wage structure. The project's director determined the salaries for each employee, based on the employee's performance, on a monthly basis. Furthermore, there were no employment contracts, and no comprehensive payroll sheets were prepared.

A good system of internal control requires organizations to have an approved personnel policy, employment contracts and approved monthly payroll sheets.

This finding is attributable to the fact that CHER's management believes that the existing system of internal control is adequate.

This breakdown in the internal control may allow persons to be paid twice for one job or to be paid for time not worked and activities not completed.

We recommend that, if CHER were to receive further USAID funds, CHER should enhance controls over the staff salaries.

Finding No. 3

CHER has not prepared any bank reconciliations.

A good internal control system requires that bank reconciliations be prepared on a monthly basis to explain the difference between the cash balance per bank statement and per cash book.

This finding arose because CHER relies on bank credit notes rather than bank statements.

The lack of bank reconciliations may lead to a discrepancy between the cash book and the bank statement which could affect the fair representation of the fund accountability statement.

We recommend that, if CHER were to receive further USAID funds, CHER should prepare monthly bank reconciliations.

Finding No. 4

Controls over processing accounting data were not adequate. CHER did not maintain pre-numbered forms to control vouchers, journal entries, purchase orders, and petty cash disbursements. Furthermore, documents already paid to suppliers and billed to USAID/Egypt were not stamped "paid" or "charged to USAID".

A well-designed and functioning system of internal control is required for all projects financed by USAID/Egypt.

This finding arose because CHER accounting staff believes that processing the data from the supporting documents is adequate.

The lack of pre-numbered forms affects the project's ability to ensure that all project-related transactions are processed. Additionally, the lack of proper journal entry forms may lead to a misclassification of costs among line items. In addition, vouchers may be paid or charged twice if they are not canceled.

We recommend that, if CHER were to receive further USAID funds, CHER should enhance controls over processing accounting data.

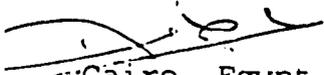
A material weakness is a condition in which the design or operation of the specific elements of the internal control structure does not reduce, to a relatively low level, the risk that errors or irregularities in amounts, that would be material in relation to the fund accountability statement being audited, 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 defined above. However, we believe that the reportable conditions described above are not material weaknesses.

This report is intended for the information of CHER's management and others within the organization 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.

Hazem Hassan & Co.



Cairo, Egypt
November 3, 1994

Compliance With Laws and Regulations

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Report on Compliance with Laws and Regulations **Independent Auditor's Report**

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

We have audited the accompanying fund accountability statement of the Center for Higher Education Reform (CHER) related to Activity Agreement No. 10 under the USAID/Egypt's Basic Education Project No. 263-139.2 for the period from August 8, 1989 through June 30, 1992 and have issued our report thereon on November 3, 1994.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States. These standards require that we 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 (1988 Revision), because 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 (1988 Revision), is not material because we participate in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

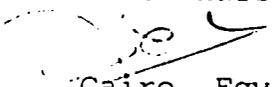
Compliance with laws, regulations, contracts, grants, and binding policies and procedures applicable to CHER is the responsibility of

CHER's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests on CHER's compliance with certain provisions of laws, regulations, contracts, grants, and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions. Our testing of transactions and records selected disclosed two instances of noncompliance with those laws and regulations which are identified in the "Report on Compliance - Audit Findings" section of this report.

The result of our tests indicate that, with respect to the items tested, CHER complied, in all material respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that CHER had not complied, in all material respects, with these provisions.

This report is intended for the information of CHER's management and others within the organization, and USAID. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Hazem Hassan & Co.


Cairo, Egypt
November 3, 1994

Report on Compliance
Audit Findings

The following instances of noncompliance with the applicable regulations and the provisions of the Agreements came to our attention during the audit. These instances of noncompliance are not considered to be material:

Finding No. 1

CHER charged USAID/Egypt for certain sales taxes.

The General Provision for LE Trust Funds Grants stated that "The Grant will be free from any taxation or fees imposed under Law in effect in the territory of the Grantee".

This finding is attributable to the fact that CHER's management was not aware of the aforementioned criteria.

As a result, the following item, numbered as it is presented in the "Details of Questioned Costs" section of this report, is not in compliance with the aforementioned criteria:

Finding No. 1	<u>\$22</u>
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We recommend that, if CHER were to receive any further USAID/Egypt funds, CHER should establish procedures to ensure that no taxes are billed to USAID/Egypt.

Finding No. 2

CHER had two types of employees, those externally recruited and those seconded from other governmental entities (internally recruited). The externally recruited employees are subjected to payroll tax rates different from the rate applied to the internally recruited employees. We noted that CHER applied the rate, which should be applicable only to the internally recruited employees, for all employees.

Income Tax Law No. 157 for the year 1981 defines payroll tax rates applicable for each type of employees.

However, CHER's management believed that all employees were subjected to the flat rate.

As a result, a noncompliance fine may be assessed against CHER by the Taxes Authority.

We recommend that CHER should compute the due taxes and remit them to the concerned authorities.

Appendix I
CHER's Management Response

MINISTRY OF HIGHER EDUCATION

CENTER OF HIGHER EDUCATION REFORM - (CHER)

the part of AlAhram, the center received periodicals that costed LE 1406 only. Thus we contacted AlAhram several times for either to send the missing periodicals or return the rest of the amount, and they promised to send us the rest of the periodicals as soon as they receive it from abroad, and enclosed with this letter the correspondence with AlAhram.

Finding No. 4 :

According to the budget of the Activity Grant Agreement No. 10, communication includes : telephones, data base & Information network access, which implies Fax as a means of world communication.. Meanwhile, the Center management received a verbal approval from the USAID/Egypt before buying the Fax till until possessing a data base and Information network.

Sincerely Yours,

Project Director

A. R. Shouaimy
Dr. Adeeb Ghonaimy

Project Accountant

Nevlen Shaker
Mrs. Nevlén Shaker

cc: Messrs. Hazem Hassan & Co.

CENTER OF HIGHER EDUCATION REFORM - (CHER)

Dr. Adel Gohar
USAID, Financial Department

Cairo, February 20, 1995

Dear Sir,

Reference to the financial audit report of Mr. Hozem Hossan & Co., concerning Center for Higher Education Reform (CHER), project No. 263-139.2 for the period from August 8, 1989 through June 30, 1992, we would like to answer the audit findings stated in the fund accountability statement.

Finding No. 1:

Concerning the check No. 50063 , the total amount of this check and as registered in our books is LE 634.75 paid to Xerox company in return for maintenance.

Finding No. 2 :

The Activity Grant Agreement states in its LE budget, travel expenses, in-country travel per diem. Thus , the CHER's director transportation expense costs were calculated basically according to the average of his daily transportation between different universities and institutes to achieve the Center's objectives. Therefore, a memorandum in this concern was submitted to the Minister of Education and approved by him, after obtaining a verbal approval from the USAID/Egypt, enclosed a copy of the memorandum and the Minister's approval.

Finding No. 3

An amount of LE 1920, was paid to AlAhrom for obtaining scientific and educational periodicals, but due to some transportation delay on

Appendix II
Auditor's Comments

AUDITOR'S COMMENTS

General

Our comments below address the responses of CHER's management relating to those situations where we believe additional information or clarification is warranted.

Our comments follow the sequence of the findings and CHER's management response. Attachments to CHER's responses are not included in Appendix I because they are in Arabic. These attachments are available upon request.

Finding No.1

The total amount paid to the vendor and charged to USAID/Egypt included sales taxes. According to the General Provision for LE Trust Fund Grants, the Grant is free from any taxation or fees imposed under laws in effect in the territory of the Grantee. Accordingly, our position remains the same.

Finding No.2

Documents provided to us are inadequate. Documents to substantiate that transportation costs charged to USAID/Egypt were incurred on an actual basis are still needed. Therefore, our position remains the same.

Finding No.3

Costs charged to USAID/Egypt should be on an actual basis. Since some of the purchased books have not been received yet, we considered related cost as unsupported cost. Accordingly, our position remains the same.

Finding No.4

The budget of the Activity Grant Agreement No.10 includes the exact type and amount of the approved equipment. Had USAID/Egypt approved the procurement of the fax machine, it would have been included explicitly in the approved budget. Therefore, our position remains the same.

Appendix III
Mission's Comments

USAID



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

April 30, 1995

CAIRO, EGYPT

RECEIVED
30 APR 1995

MEMORANDUM

TO : Philippe Darcy, RIG/A/C

FROM : *for James Redder*, OD/FM/FA

SUBJECT : Audit of the Center for Higher Education Reform (CHER), Local Expenditures Incurred Pursuant to Activity Agreement No. 10 under USAID/Egypt's Basic Education Project No. 263-0139.2.

Mission is working with the implementing agency to resolve and close the open recommendation under the subject report, and has no comments to offer at this time. Please issue the final report.