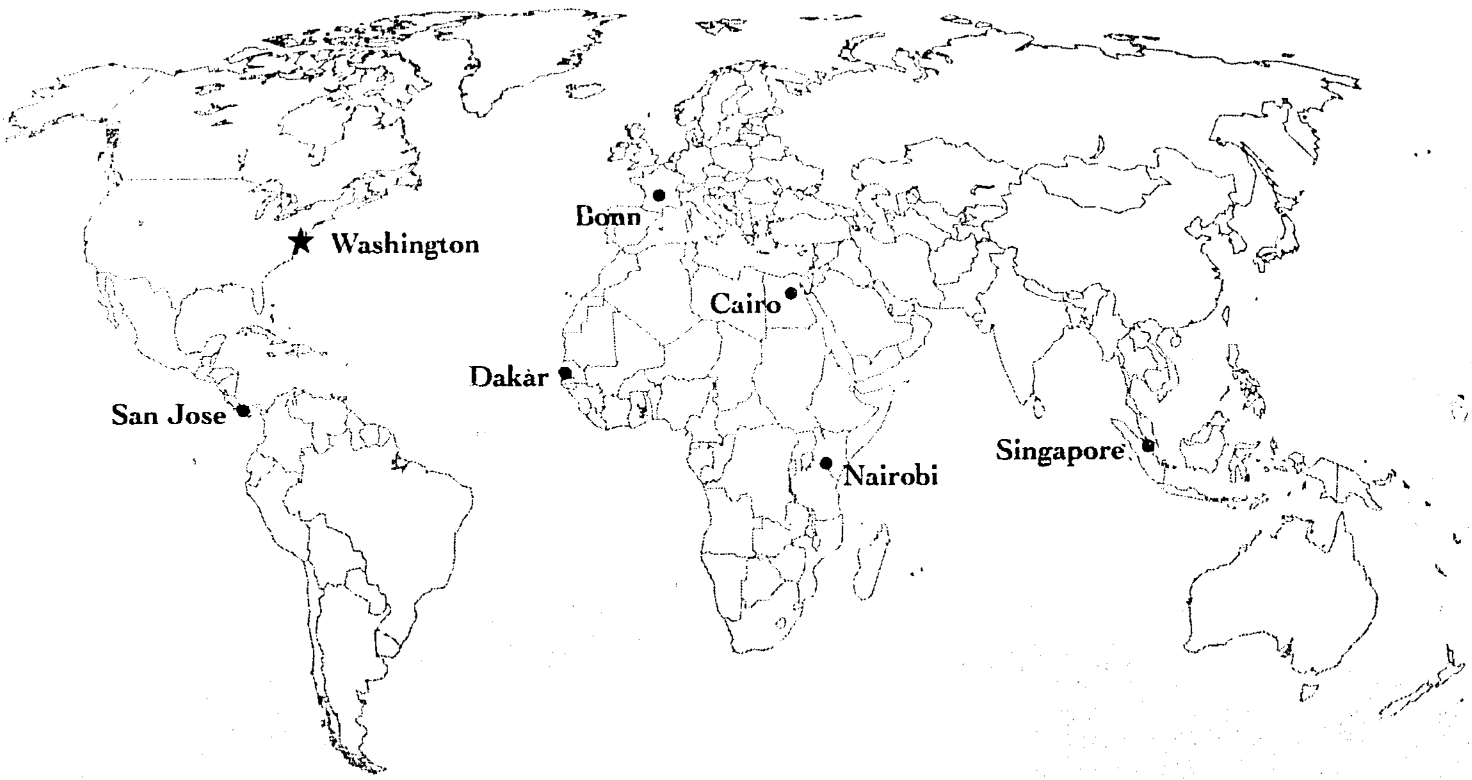
PD-ABL-394
96316

Regional Inspector General for Audit
Cairo, Egypt

Audit of the Trade Development Center - Egypt, Cooperative Agreement No. 263-0226-A-00-2027-00 and the Related Program Income Account

Report No. 6-263-95-028-N
August 24, 1995



FINANCIAL INFORMATION CONTAINED IN THIS REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF 19 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC.

INSPECTOR GENERAL

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

USAID

CAIRO, EGYPT

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

August 24, 1995

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

FROM : A/RIG/A/C, John J. Ottke John J. Ottke

SUBJECT : Audit of the Trade Development Center - Egypt, Cooperative Agreement No. 263-0226-A-00-2027-00 and the Related Program Income Account

The attached report transmitted on June 25, 1995, by Hazem Hassan & Co. presents the results of a financial audit the Trade Development Center- Egypt (TDC), Cooperative Agreement No. 263-0226-A-00-2027-00 and the Related Program Income Account. The purpose of the project, which is carried out by TDC under the subject cooperative agreement, is to increase Egypt's sustainable economic growth through expanded foreign exchange earnings and to increase non-traditional exports produced by Egypt's private sector. The program generated income is a separate account maintained for fees earned by TDC as a result of USAID/Egypt financed activities.

We engaged Hazem Hassan & Co. to perform a financial audit of TDC's incurred expenditures of $2,089,594 (equivalent to LE7,000,144) as of May 31, 1994. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Hazem Hassan & Co. also evaluated TDC's internal controls and compliance with applicable laws, regulations, and cooperative agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Hazem Hassan & Co. questioned $344,007 ($286,496 funded by the cooperative agreement and $57,511 funded by the related program income account) in costs billed to USAID by TDC. The questioned costs related primarily to salaries & benefits, other direct costs, capital costs, technical assistance, promotion materials, and trade shows. Hazem Hassan & Co. noted ten material weaknesses in TDC's internal controls and two instances of material non-compliance.

In response to the draft report, TDC gave more explanation to the questioned costs and has initiated action to resolve the internal control and compliance issues. Hazem Hassan & Co. reviewed TDC's response to the findings. Where applicable, they made adjustments to the report or provided further clarification of their position.

We also reduced questioned costs from $344,007 to $327,592 based upon our review of the additional information provided by the Mission in it's response to the audit report (attached as Appendix III).

U.S. Mailing Address
USAID-RIG/A/C Unit 64902
APO AE 09839-4902

Tel. Country Code (202)
357-3909
Fax # (202) 355-4318

#106 Kasr El Aini St.,
Cairo Center Building,
Garden City, Cairo, Egypt

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

> **<u>Recommendation No. 1:</u> We recommend that USAID/Egypt resolve the questioned costs of $327,592 consisting of ineligible costs of $250,841 and unsupported costs of $76,751 detailed on pages 14 through 24 of the audit report.**

This recommendation is considered unresolved and can be resolved when RIG/A/C receives the Mission's formal 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 TDC.

> **<u>Recommendation No. 2:</u> We recommend that USAID/Egypt require TDC to address the material internal control weaknesses detailed on pages 27 through 37 of the audit report.**

This recommendation is considered resolved and can be closed when RIG/A/C has assessed TDC's response and USAID/Egypt's follow-up for adequacy. With regard to the reportable conditions, they should be handled directly between the Mission and the grantee.

> **<u>Recommendation No. 3:</u> We recommend that USAID/Egypt require TDC to address the material noncompliance issues detailed on pages 41 and 42 of the audit report.**

This recommendation is considered resolved and can be closed when RIG/A/C has assessed TDC's responses and USAID/Egypt's follow-up for adequacy.

Please advise this office within 30 days of any action planned or taken to close the recommendations. We appreciate the courtesies extended to the staff of Price Waterhouse Accountants and to our office.

Financial Audit of
the Trade Development Center - Egypt (TDC)
The implementation arm of US - Egypt
Joint Business Council (JBC) under
Cooperative Agreement
No.263-0226-A-00-2027-00
and the Related Program Income Account
for
the Period from March 16, 1992
through May 31, 1994

C

KPMG Hazem Hassan

Financial Audit of the Trade Development Center - Egypt (TDC) The implementation arm of US - Egypt Joint Business Council (JBC) under Cooperative Agreement No.263-0226-A-00-2027-00 and Related Program Income Account for the Period from March 16, 1992 through May 31, 1994

TABLE OF CONTENTS

Financial Audit of the Trade Development Center - Egypt (TDC) The implementation arm of US - Egypt Joint Business Council (JBC) under Cooperative Agreement No.263-0226-A-00-2027-00 and Related Program Income Account for the Period from March 16, 1992 through May 31, 1994

TABLE OF CONTENTS (Cont.)

Appendices

KPMG Hazem Hassan

Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street
Mohandseen, Cairo
Egypt

Telephone: (202) 3499588 - 3499677
Telefax : (202) 3497224 - 3487819
Telex : 20457 (hhco - un)

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

June 25, 1995

Dear Mr. Darcy,

This report presents the result of our financial audit of the Trade Development Center - Egypt (TDC), the implementation arm of US-Egypt Joint Business Council (JBC), under Cooperative Agreement No.263-0226-A-00-2027-00, and the related Program Income Account for the period from March 16, 1992 through May 31, 1994.

Background

On March 16, 1992 the Cooperative Agreement No.263-0226-A-00-2027-00 was made between USAID/Egypt and US - Egypt Joint Business Council (JBC). The purpose of the project is to increase Egypt's sustainable economic growth through expanded foreign exchange earnings and to increase non-traditional exports produced by Egypt's private sector.

The project is carried out by TDC, which is the action arm of the Joint Business Council (JBC) and has the primary responsibility for implementing the project.

TDC receives funding from USAID/Egypt and the program generated income.

The Program Generated Income (PGI) is a separate account maintained by TDC for fees earned by TDC as a result of USAID/Egypt financed activities. The income is mainly generated from TDC's clients' commissions and from interest earned. On March 16, 1994, Amendment No.4 to the Cooperative Agreement was issued; the amendment includes special provisions guiding the proper use of the PGI. Before this amendment, TDC used a written guidance issued by USAID/Egypt to JBC regarding PGI's audit and utilization requirements. This guidance did not include specific criteria that govern spending from the PGI.

Audit Objectives and Scope

The objective of this engagement was to conduct a financial audit of USAID Egypt's resources, managed by TDC, the implementation arm of JBC, under Cooperative Agreement No.263-0226-A-00-2027-00 and the related program income account for the period from March 16, 1992 through May 31, 1994. Accordingly, the audit encompassed an examination of TDC expenses, compliance with the Cooperative Agreement terms and a review of internal controls.

The specific objectives were to:

1. Express an opinion on whether the fund accountability statements for the USAID-financed Cooperative Agreement of TDC and the related program income presents fairly, in all material respects, project revenues received and costs incurred and reimbursed 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 whether the direct costs billed to USAID/Egypt by TDC under the Cooperative Agreement are, in fact, allowable, allocable and reasonable in accordance with the terms of the Cooperative Agreement and relevant regulations;

3. Evaluate and obtain a sufficient understanding of the internal control structure of the organization; assess control risk; and identify reportable conditions, including material internal control weaknesses;

4. Perform tests to determine whether TDC complied, in all material respects, with the Cooperative Agreement terms and applicable laws and regulations.

5. Follow-up on the IG/I/CFO report; and

6. Ensure that expenditures from the program income account were used to further eligible TDC activities.

Preliminary planning and review procedures started on October 16, 1994 and consisted of:

- discussions with RIG/A/C;
- review of the Cooperative Agreement;
- interviews and discussions with the TDC key personnel concerning the Cooperative Agreement status, accomplishments during the period, the statutory reporting requirements, the agreement budget, and actual expenditures and reimbursement procedures from USAID;
- reviews of the TDC organizational structure, procurement and personnel manuals, financial and accounting policies, and procedures manual.

After a review of the IG/I/CFO report and discussions with RIG/I/Cairo, we evaluated the internal control structure of TDC Also, we obtained an understanding of TDC's policy and procedures in order to decide whether these policies and procedures were placed in operation.

The results of our review, discussions and evaluations of the internal control structure lead us to maximize our sample size in order to obtain sufficient and competent evidential matter to support our opinions.

The field work was completed on December 22, 1994. The scope of our work was to audit costs incurred by TDC and reimbursed by USAID/Egypt under Cooperative Agreement No.263-0226-A-00-2027-00. Within each budget line item, we selected amounts for testing on a judgmental basis to test a majority of the related amounts. We tested expenditures of $982,353 (equiv. to LE3,290,883) and LE3,079,343 (equiv. to $919,207), out of total expenditures amounting to $1,025,583 (equiv. to LE3,435,703) and LE3,331,606 (equiv. to $994,509).

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

1. Reconciling TDC's accounting records to invoices issued to USAID/Egypt and testing of costs for allowability, allocability, reasonableness, and appropriate support;
2. Determining that payroll costs were appropriate and conformed with the terms of the Cooperative Agreement and relevant regulations;

3. Determining that per diem and transportation charges were adequately supported and approved; and

4. Establishing the adequacy of TDC's control over USAID/Egypt funded project equipment.

The scope of our program generated income audit was all revenue and expenditures from the separate bank account established for program generated income funds. We tested one hundred percent of the transactions from this separate account. Our audit tests were designed to determine whether expenditures from the program generated income account were in furtherance of eligible TDC activities.

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 statements are 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 TDC's compliance with applicable laws and regulations.

Follow-up on the IG/I/CFO Report

One of the objectives of this engagement was to follow-up the IG/I/CFO report. To achieve this objective, several meetings with IG officers were held and we thoroughly reviewed the IG/I/CFO report. Issues resolved to our satisfaction have not been included in this report. Unresolved issues are included in the details of questioned costs section, the Report on internal control structure section and the noncompliance with applicable laws and regulations section of this report.

The Progress Report

On completion of the field work and in light of the material findings that we identified during the audit, we issued a progress report to RIG/A which was subsequently sent to the mission and to TDC's management. Several meetings and discussions were held with the mission and TDC;s management. Certain issues have been resolved to our satisfaction and the remaining issues are reported as described in the results of audit section.

Results of Audit

Cooperative Agreement Fund Accountability Statement

Our audit identified total questioned costs of $122,231 (equiv. to LE409,474) and LE550,296 (equiv. to $164,265), which are divided into ineligible costs of $68,348 (equiv. to LE228,966) and LE542,314 (equiv. to $161,882) and unsupported costs of $53,883 (equiv. to LE180,508) and LE7,982 (equiv. to $2,383).

Program Generated Income Fund Accountability Statement

Our audit identified total questioned costs of $57,511 which are divided into ineligible costs of $37,026 and unsupported costs of $20,485.

Internal Control

Our audit identified the following material weaknesses:

- Deficiencies pertaining to TDC's ability to record, process, summarize and report income generated from USAID/Egypt financed activities. Due to these deficiencies in the accounting system, we were not able to ensure that all transactions relating to the program generated income are complete and accounted for. This is considered a scope limitation and led to a disclaimer of opinion on the program generated income fund accountability statement.

- Deficiencies in TDC's internal control environment.

- Inadequacy of control procedures over cash, payroll and personnel, procurement and safeguarding of fixed assets, filing system and international telephone calls.

- Lack of segregation of duties between the custody of cash and the bookkeeping function.

- Inadequate accounting system for the Cooperative Agreement accounts.

Reportable Conditions

- Control procedures over the use of vehicles were inadequate as were control procedures over the payment process.

Noncompliance with Laws and Regulations

The results of our tests of compliance disclosed two material instances of noncompliance, 1) TDC has no legal status in Egypt and 2) an instance of noncompliance with the cooperative agreement, the effects of which have been reflected in the TDC's fund accountability statements.

Subsequent Events

Subsequent to the audit period, TDC has taken certain corrective actions regarding the internal control structure.

In addition to the engagement objectives, we have been asked to conduct certain agreed-upon procedures to ensure that TDC has taken the corrective actions recommended. All the subsequent events and the corrective actions taken are detailed in the report on events subsequent to the audit period section of this report. However, we noted that a draft policy and procedures manual, which addresses most of the aforementioned weakness, has been developed.

Supplementary Information

The supplementary fund accountability statements presented in the functional currency and schedules of questioned costs including dates, number of vouchers and amounts were communicated to TDC's management and are available upon request.

Management Comment

We have reviewed TDC's response to the questioned costs incurred, which is included as Appendix I. Where applicable, we have made adjustments in our report or provided further clarification of our position in Appendix II. For those items not adjusted in the final report, the responses provided by TDC's management have not changed our understanding of the fund accountability statement, reportable conditions and material weaknesses in the report on internal control structure or our 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

FUNDS ACCOUNTABILITY STATEMENTS

7a

KPMG Hazem Hassan

Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street
Mohandseen. Cairo
Egypt

Telephone: (202) 3499588 - 3499677
Telefax : (202) 3497224 - 3487819
Telex : 20457 (hhco - un)

Report on Fund Accountability Statements
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 statements of the Trade Development Center - Egypt (TDC), the implementation arm of US-Egypt Joint Business Council (JBC), relating to expenditures incurred under the Cooperative Agreement No.263-0226-A-00-2027-00 and the related program income account for the period from March 16, 1992 through May 31, 1994. These statements are the responsibility of TDC's management. Our responsibility is to express an opinion on these statements based upon our audit.

Except as explained in the following two paragraphs, 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 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 the significant estimates made by management, as well as evaluating the presentation of the overall fund accountability statements. 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 the KPMG offices.

TDC did not maintain a proper accounting system to account for revenues and expenditures of the program generated income, and we were unable to satisfy ourselves that all valid transactions were recorded. Because of this limitation, the scope of our work was not sufficient to enable us to express, and we do not express, an opinion on the program generated income fund accountability statement for the period from March 16, 1992 through May 31, 1994. However, based on the available records and information, we identified $57,511 as questioned costs. The basis for questioning these costs is fully described in the "Details of Questioned Costs" section of this report.

The fund accountability statements referred to above, do not include the cost of USAID/Egypt's direct procurement of vehicles, equipment, and technical assistance provided by USAID/Egypt directly to TDC nor do they include the total revenues and costs incurred by TDC, if any, on an organization-wide basis.

As described in Note 1, the accompanying fund accountability statements have been prepared on the cash basis, which is a comprehensive basis of accounting other than the generally accepted accounting principles. Included in the Cooperative Agreement fund accountability statement, are questioned costs of $286,496. 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 Cooperative Agreement fund accountability statement, referred to above, presents fairly, in all material respects, the funds received and costs incurred under the Cooperative Agreement No.263-0226-A-00-2027-00 and managed by TDC for the period from March 16, 1992 through May 31, 1994 in conformity with the basis of accounting described in Note 1.

Hazem Hassan & Co.

Cairo, Egypt
December 22, 1994

TRADE DEVELOPMENT CENTER
Fund Accountability Statement
Cooperative Agreement No.263-0226-A-00-2027-00
For the Period from March 16, 1992 Through May 31, 1994

USAID/Egypt Fund Received $ 2,057,387

Expenditure	Budget $	Actual $	Questioned Costs Ineligible $	Questioned Costs Unsupported $	Finding No. & Pg.
Salaries & Benefits	540,579	294,979	18,487		1(a) through (e) pg.14-15
Other Direct Costs	1,494,157	727,479	93,789		2(a) through (f) pg.15-17
Capital Costs	144,652	127,801	44,716	117	3(a) through (d) pg.17-18
Technical Assistance	409,879	199,027	10,223		4(a) through (b) pg.18-19
Seminars	339,950	1,109			
Promotion Materials	77,949	42,767	2,054	2,266	5(a) through (c) pg.19-20
Trade Shows	1,057,153	626,930	60,961	53,883	6(a) through (h) pg.20-22
M.I.S	199,200	-	-	-	
Total Expenditures		2,020,092	230,230	56,266	
USAID/Egypt Fund as of May 31, 1994		37,295			

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

TRADE DEVELOPMENT CENTER

Program Income Account Fund Accountability Statement

For the Period from March 16, 1992 Through May 31, 1994

Program Revenue	Actual $	Questioned Costs Ineligible $	Questioned Costs Unsupported $	Finding No. & Pg.
Cash transferred from USIPO Account	21,727			
Commissions	69,485			
Debt Swap Deal	10,750			
Interest Income	468			
	102,430			
Expenditures				
Dinner & Entertainment	9,785	9,612	173	
Tips	6,478	6,478		
Gratuities	597	597		
Purchasing of Alcohol	1,561	1,561		
Gifts	90	90		
Upgrading Air Tickets & Per Diem Rates	13,559	13,559		
Bonus for Employees	1,100	1,100		
Flowers	430	430		(a) through (c)
Question Costs Paid on behalf of USIPO	3,599	3,599		pgs. 23 & 24
Life Insurance Premiums	1,608			
Annual Fees for Personal Credit Cards	1,125			
Expenses Incurred During the Dubai Exhibition	12,985		11,492	
Publication & Video Recording Expenses	3,882		1,420	
Leasehold Improvement	6,325		6,325	
Purchasing of Video & Television	1,075		1,075	
Trade Shows & Seminars	4,135			
Local & International Telephone calls	814			
Bank Charges	304			
Total Expenditures	**69,502**	**37,026**	**20,485**	
Program Income Fund Balance as of May 31, 1994	32,928			

* The accompanying notes are integral part of the fund accountability statements.

Trade Development Center - Egypt (TDC)
Fund Accountability Statements
Cooperative Agreement No.263-0226-A-00-2027-00
and Related Program Income Account

Notes to the Fund Accountability Statements

Note 1: **Accounting Basis**

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

Note 2: **Basis of Presentation**

The fund accountability statements are the representation of TDC's management and are the responsibility of the said management. The "Questioned Costs" columns represent the audit results and are included in the fund accountability statements for presentation purposes only.

Note 3: **Translation Rate**

Expenditures paid in Egyptian Pounds (LE) have been translated into US Dollars ($). The period average exchange rate method was used. This rate is $1 = LE3.35.

Note 4: **The Cooperative Agreement**

The Cooperative Agreement was originated on March 16, 1992. The Agreement and related budget were amended four times. The last amendment, No.4, is effective from March 16, 1994. The expiration date of Phase I of the Agreement is March 15, 1995 and funds obligated are $2,193,406 and LE6,934,882 through Phase I.

Note 5: **The Program Generated Income**

Program revenue represents gross income earned by TDC from client commissions, interest earnings and a debt-swap transaction transferred from USIPO. Expenditures from the program generated income are used to further eligible program objectives.

Note 6: Questioned Costs

Questioned Costs are presented in two separate categories - ineligible or unsupported - and consist of audit findings proposed on the basis of the terms of the Cooperative Agreement and related regulations which prescribe the nature and treatment of reimbursable costs. Costs in the column labeled "Ineligible" are supported by vouchers or other documentation but are ineligible for reimbursement because they are either unreasonable, not program related, not have the required prior approvals or are prohibited by the agreement or applicable laws and regulations. Costs in the column labeled "Unsupported" are also included in the classification of "Questioned Costs" and are related to costs that are not supported by adequate documentation. All questioned costs are detailed in the "Details of Questioned Costs" section of this report.

KPMG Hazem Hassan

Details of Questioned Costs

Cooperative Agreement Fund Accountability Statement

Our audit identified the following items related to the Cooperative Agreement No.263-0226-A-00-2027-00 that are ineligible or unsupported.

Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
1. Salaries & Benefits		
a) This amount represents bonuses to two employees in excess of the approved budget. Attachment No.1, Amendment No.4 of the Cooperative Agreement approved a bonus of 8.3% of the annual salary paid to each employee. These two employees worked with TDC for a period of less than one year while TDC paid them a full year's bonus. Therefore, the excessive bonus is considered to be unallowable.	6,400	
b) This amount represents consultants fees. Attachment No.1, Amendment No.4 of the Cooperative Agreement does not include consultants fees during the period in which this amount was charged to USAID/Egypt. TDC management attributed this finding to the fact that the fees had been paid before the issuance of Amendment No.4. Although this Amendment was issued subsequent to the payment of the fees, nevertheless, it restated the project budget since the inception of the Agreement. Accordingly, this amount is considered to be unallowable.	6,716	
c) Annual bonuses were paid to TDC employees in excess of the USAID/Egypt's approved budget.		

Item Description	Questioned Costs Ineligible $	Unsuppor[ted] $
Attachment No.1, Amendment No.4 of the Cooperative Agreement approved annual bonuses of $596 for the period from March 16, 1992 through March 15, 1994. Bonuses paid during that period amounted to $5,967. TDC management believed that there was a typographical error in the Attachment. Additionally, the management asserted that bonuses had been paid before the issuance of Amendment No.4. Although this Amendment was issued subsequent to the payment of the bonuses, nevertheless, it restated the project budget since the inception of the Agreement. Therefore, the amount of $5,371 paid in excess is considered to be unallowable.	5,371	
d) Based on documents and clarification provided to us subsequent to the issuance of the draft report, this finding has been removed.		
e) Based on documents and clarification provided to us subsequent to the issuance of the draft report, this finding has been removed.		
Total line item	**18,487**	
2. Other Direct Costs		
a) This item represents sales taxes. Article 46, Attachment B of the OMB Circular No.A-122 stated that "Taxes are not allowable if tax exemption was available". On October 19, 1992 TDC obtained a letter from the Tax Authority affording TDC exemption from sales		

Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
tax. Although TDC obtained this letter, sales taxes were charged to USAID/Egypt. Therefore, this amount is considered to be unallowable.	4,046	
b) This amount represents the cost of certain additions to the air conditioner to increase its capacity. Attachment No.1, Amendment No.4 of the Cooperative Agreement does not include capital costs for air conditioners. TDC management believed that because there is no limitation in the Agreement regarding reallocation among budget line items, TDC can use the fund for items not listed in the Agreement. Disbursements should be according to the approved budget. Therefore, this amount is considered to be unallowable.	8,955	
c) Based on documents and clarification provided to us subsequent to the issuance of the draft report, this finding has been removed.		
d) This amount represents rental expenses of part of floor No. 24 in the Nile Tower for the period from January 1, 1992 through March 15, 1992. TDC was formed on March 16, 1992 and the approved budget does not include pre-operation expenses. Therefore, this amount is considered to be unallocable.	2,273	
e) Based on documents and clarification provided to us subsequent to the issuance of the draft report, this finding has been removed.		

Item Description	Questioned Costs Ineligible $	Unsupport $
f) This amount represents personal and business international telephone calls. TDC did not maintain logs or other records to distinguish between personal and business calls. Although business calls are allowable under the Cooperative Agreement, we considered all the amount unallowable because TDC management were unable to prove that all calls were for business purposes.	78,515	
Total line item	93,789	--
3. Capital Cost		
a) This item represents sales taxes. Article 46, Attachment B of the OMB Circular No.A-122 stated that "Taxes are not allowable if tax exemption was available". On October 19, 1992, TDC obtained a letter from the Tax Authority affording TDC exemption from sales tax. Therefore, this amount is considered to be unallowable.	61	
b) Based on documents and clarification provided to us subsequent to the issuance of the draft report, this finding has been removed.		
c) TDC bought certain samples to be displayed in trade shows. The supplier's invoice was issued in the name of one of TDC's employees rather than the name of the organization. In order to consider this amount adequately supported, a supplier's invoice should be addressed to		

Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
TDC. Therefore, this amount is considered to be unsupported.		117
d) Based on documents and clarification provided to us subsequent to the issuance of the draft report, this finding has been reclassified as unreasonable cost under the ineligible column rather than unsupported cost.	44,655	
Total line item	44,716	117
4. Technical Assistance		
a) Fees for a lawyer were charged to USAID/Egypt. Item d., Article 34, Attachment B of the OMB Circular No.A-122 stated that "legal fees are unallowable unless otherwise provided for in the award". The USAID Egypt approved budget did not include this type of expenditure. TDC management believed that such fees were necessary to the normal course of business. USAID Egypt's approval is required for these fees therefore, this amount is considered to be unallowable.	4,323	
b) This amount represents the cost of a feasibility study for the establishment of a fruit and vegetable packing station in Egypt and the cost of evaluation of another feasibility study for a pharmaceutical company. Conducting feasibility studies is not included in the project papers nor in the Cooperative Agreement. TDC management believed that such type of work is within the scope of work of the Agreement. USAID/Egypt's approval is required		

Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupport $
for this work. Therefore, this amount is considered to be unallowable.	5,900	
Total line item	10,223	---
5. **Promotion Materials**		
a) Costs of participation in the Nairobi exhibition were charged to USAID/Egypt. The objective of the Cooperative Agreement is to promote Egyptian exports in Europe and the Middle East. Nairobi is not within the area stated in the Agreement. TDC management believed that this exhibition was essential to achieve TDC's objectives. Because this exhibition was not approved by USAID/Egypt, this amount is considered to be unallowable.	562	
b) Various expenses were charged to USAID/Egypt but lacked adequate supporting documentation. The only description mentioned in the documents is "Expenses related to TDC function". TDC management attributed this finding to the fact that all these documents were related to seminars held in hotels and detailed invoices were not provided by the hotels at that time. Description as "Expenses related to TDC function" is not adequate to support the cost. Therefore, this amount is considered to be unsupported.		2,26
c) This item represents payment to the Management Engineering Society as a support for the seminar of Privatization and Management.		

Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
Under the OMB Circular No.A-122, donation is not allowable. TDC management asserted that this amount was paid to attend the said seminar. Because the available supporting documents explicitly stated that this amount was to support the seminar and not to attend the seminar, this amount is considered to be unallowable.	1,492	
Total line item	2,054	2,266
6. Trade shows		
a) This amount represents Value Added Tax (VAT) charged on the rental costs and other expenses incurred during the exhibition. Article 46, Attachment B of the OMB Circular No.A-122 stated that "Taxes are not allowable if tax exemption was available". VAT is refundable and should not have been charged to USAID/Egypt. Therefore, this amount is considered to be unallowable.	15,838	
b) Based on documents and clarification provided to us subsequent to the issuance of the draft report, this finding has been modified to be as follows: $14,722 has been removed, $2,321 reclassified to be considered as unallowable cost and $48,583 still remaining as unsupported cost.	2,321	48,583
c) This amount represents costs of participation in the Nairobi and Dubai exhibitions. The objective of the project is to promote exports in the Middle East and Europe. These two exhibitions do		

Item Description	Questioned Costs Ineligible $	Unsupport[ed] $
not fall within the area stated in the Agreement. TDC management believed that these exhibitions were essential to TDC business. USAID/Egypt's approval is required. Therefore, this amount is considered to be unallowable.	37,766	
d) Various expenses were charged to USAID/Egypt but lacked adequate supporting documents. The only description mentioned in the documents is "Expenses related to TDC function". TDC management asserted that these expenses were paid for certain seminars held in hotels and the hotels' detailed invoices were not available. All amounts charged to USAID/Egypt should be supported by adequate documents. Therefore, this amount is considered to be unsupported.		5,30
e) This item represents amounts spent on flowers and charged to USAID/Egypt. The USAID/Egypt approved budget did not list such expenses. TDC management asserted that this type of cost is essential to TDC business activities. This cost should not be charged to USAID/Egypt. Therefore, it is considered to be unallowable.	3,942	
f) The cost of items lost during exhibitions was charged to USAID/Egypt. The members of the staff, in whose care these items had been placed, should have been held responsible for payment of the cost of those lost items. This amount should not have been charged to USAID/Egypt. Therefore,		

Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
this amount is considered to be unallowable.	1,094	
Total line item	60,961	53,883
Total Questioned Costs	230,230	56,266
	286,496	

Program Income Fund Accountability Statement Audit Findings

Our audit procedures identified the following amounts from the program income account that are ineligible or unsupported:

Item Description	Questioned Costs Ineligible $	Unsuppor $
a) TDC incurred various types of expenses in facilitating its operation and achieving the project objectives. However, prudent business practice dictates that such expenses should be reasonable relative to the size of the activities. TDC attributed this finding to the fact that the program income was used to finance costs that are not reimbursable from USAID/Egypt grant funds under the Cooperative Agreement. TDC management asserted that the use of the program income was within a written guidance issued by USAID/Egypt to JBC regarding audit and utilization requirements for the program income account. However, we considered the following to be unreasonable relative to the size of the TDC activities.		
• Dinner and entertainment	9,612	
• Tips	6,478	
• Gratuities	597	
• Alcoholic beverages	1,561	
• Gifts	90	
• Upgrading hotel rooms, air tickets and per diem rates	13,559	
• Additional bonuses to TDC employees	1,100	
• Flowers	430	
	33,427	
b) TDC incurred the following costs which did not relate to TDC activities. Accordingly, the		

Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
following items are considered to be unallocable.		
• Questioned costs to USIPO paid by TDC	3,599	
• Life insurance premiums	--	
• Annual fees of personal credit cards	--	
	3,599	
c) The following items were spent from the PGIA but are not supported by adequate documents.		
• Costs incurred during the Dubai exhibition		11,492
• Dinner and entertainment		173
• Video taping		1,420
• Leasehold improvement in the elevator area.		6,325
• Video recorder and television		1,075
Total Questioned Costs	**37,026**	**20,485**
		57,511

INTERNAL CONTROL STRUCTURE

24a

KPMG Hazem Hassan

Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street
Mohandseen, Cairo
Egypt

Telephone: (202) 3499588 - 3499677
Telefax : (202) 3497224 - 3487819
Telex : 20457 (hhco - un)

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 fund accountability statements of the Trade Development Center - Egypt (TDC), the implementing arm of US-Egypt Joint Business Council (JBC), under the Cooperative Agreement No.263-0226-A-00-2027-00 and the related program income account for the period from March 16, 1992 through May 31, 1994 and have issued our report thereon dated December 22, 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 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 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 TDC, we considered its internal control structure in order to determine our auditing 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 TDC 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 the internal control structure, policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement 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 receipt and disbursements;
- General accounting;
- Payroll; and
- Equipment and supplies procurement and safeguarding.

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 placed in operation, and we assessed the control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the 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 audit disclosed the following conditions which we believe constitute material weaknesses:

MATERIAL WEAKNESSES

1. There are deficiencies in TDC's Control Environment.

A major component of an entity's internal control structure is its control environment. The control environment represents the collective effect of various factors on establishing, enhancing or mitigating the effectiveness of specific policies and procedures. Such factors include, among others, (1) management's philosophy and operating styles, (2) management's attitude and demonstrated commitment to establishing a positive atmosphere for the implementation and execution of well controlled business operations, (3) methods of assigning authority and responsibility and (4) the organizational structure of the entity.

The control environment reflects the general attitude, awareness and actions of management and others towards the importance of control and the emphasis placed upon it in the entity.

We noted that the operating styles of the management do not comply with certain project requirements, documented in the agreement with USAID/Egypt. For example, the management does not comply with the procurement policies and does not fully understand what types of costs are subject to reimbursement from USAID/Egypt. Furthermore, we noted many instances where incurred costs were misclassified in the accounting records, i.e. costs were charged to budget line items without regard to USAID/Egypt's regulations or to whether the cost was related to TDC. Additionally, although TDC's organizational structure calls for the executive committee to assume overall policy-making, this committee has met only twice since the inception of TDC.

Subsequent to our audit, we received a draft of TDC's policy and procedures manual. This manual includes TDC management's philosophy and operating style, and the organizational structure. Under the management's philosophy and operating style, the manual stipulates that "All persons associated with TDC's operations should be imbued with a sense of mission and clear purpose; they must act according to high professional norms and ethical standards". We recommend that TDC management comply with the manual after it has been approved by USAID/Egypt.

Under the organizational structure, the manual stipulates that "The Executive Committee meets periodically with the Executive Director and Director of Sales and Marketing to review actual progress against the plan and ensure implementation of Board policy decision". We recommend that TDC comply with the manual after it has been approved by USAID/Egypt. However, we prefer that in the sentence we have quoted, the word "periodically" be replaced by "quarterly".

****

2. There are deficiencies pertaining to TDC's ability to record, process, summarize and report income generated from USAID supported/financed activities.

During the audited period, approximately $102,000 were generated by TDC for the services it provided. This income is defined by USAID as "program income". Program income is generated from TDC's clients' commissions, interest earnings and a debt-swap transaction. This debt-swap transaction was originally initiated by USIPO. When the USIPO project was closed, this transaction was transferred to TDC.

It was expected that adequate financial records and source documents would be maintained by TDC in order to record, process and summarize the program income and related costs incurred. However, during our audit, we noted the following material weaknesses in the accounting system relating to the program income:

2.1 No prenumbered source documents are used such as cash receipts, cash disbursements vouchers and journal vouchers.

2.2 No project ledger or subsidiaries are maintained in order to a) identify and record all valid transactions; b) describe the transactions in sufficient detail; c) determine the time period in which transactions occurred; and d) present properly the transactions and related disclosures in the financial statements.

Due to this breakdown in the accounting system, we are not able to ensure that all transactions, relating to the program income, are completed and accounted for.

Subsequent to our audit, we were provided with a draft of TDC's policy and procedures manual. This manual includes books of account and subsidiary control records which provide an orderly record of TDC's transactions and establish a basis for reporting the financial condition of TDC and the results of its operations. We recommend that TDC establish and implement the accounting records and procedures stated in the manual after it has been approved by USAID/Egypt.

****

3. **There is no system for maintaining, monitoring, and reconciling advance accounts. In addition, TDC invoices USAID/Egypt for advances made rather than the actual project costs incurred.**

TDC uses advances for procurement and payment transactions. However, during our audit, we noted that:

3.1 There is no system in place that effectively monitors advances. For example, TDC allows many employees to receive advances without the benefit of adequate records to document and control these advances.

3.2 Advances are not reconciled on a timely basis; there are often significant delays in the reconciliations of the advances.

3.3 An advance subsidiary ledger is not maintained to ensure proper matching of actual expenses to the appropriate budget line items and to facilitate the follow-up of the outstanding advances balance.

3.4 TDC bills advances to USAID/Egypt rather than the actual project costs incurred.

However, starting from October 1994, TDC has initiated a separate column in the project ledger for the advances granted to employees. Since that date, TDC has stopped billing advances to USAID/Egypt. Additionally, the TDC policy and procedures manual, which is in the final stage, includes a control account for advances and a detailed subsidiary ledger to be maintained. However, procedures to monitor advances are not included in the manual. Therefore, we recommend the addition of the following control procedures to the manual: a) an advances subsidiary ledger should be maintained and should be reviewed and approved by the financial manager; b) monthly advance totals from the project or cash ledger should be compared with the advances subsidiary ledger and differences should be investigated; c) excessive advance balances should be refunded promptly to TDC and additional advances should not be granted without performing reconciliations of prior advances.

****

4. Segregation of duties between the custody of cash and the bookkeeping function is lacking.

Control procedures are those policies and procedures that management has established to provide reasonable assurance that entity objectives will be achieved. One of those procedures is the segregation of duties among authorizing transactions, recording transactions, and maintaining custody of assets.

During our audit, we noted that cash custody, bookkeeping, payroll preparation and payment of expenses are all performed by the financial manager.

A good accounting system requires the segregation of duties in a way that reduces the opportunities for any person to be in a position to both perpetrate and conceal errors or irregularities in the normal course of his duties. Therefore, TDC should assign the responsibilities of authorizing transactions, recording transactions and maintaining custody of assets to different people.

Subsequent to our audit, we have been provided with the new TDC policy and procedures manual. This manual includes procedures for payroll preparation. According to the manual, the Director of Operations keeps the Accountant/Financial Controller informed of personnel actions that affect pay at the time such actions are approved by the Executive Director; the Accountant/Financial Controller prepares the payroll; the Executive Director approves the payroll and the cashier prepares the payroll checks.

We recommend that TDC management comply with the aforementioned procedures after being approved by USAID/Egypt. However, since the manual includes the position of Personnel and Administrative Manager, we also recommend that the preparation of payroll be assigned to the Personnel and Administrative Manager rather than the Accountant/Financial Controller.

5. **The control procedures over cash are inadequate.**

A cash transaction is that type of transaction, in the entity's operations, that is significant to the financial statements. During our audit, we noted the following material weaknesses in the control of cash transactions.

5.1 Bank account reconciliation procedures are not adequate and reconciliations are not prepared in a timely manner. Additionally, there is no evidence of review or approval of bank reconciliations. Improper bank account reconciliation procedures offer the opportunity for an irregularity to occur and be concealed.

5.2 Controls over the supply of unused checks are not adequate and there is easy access to stocks of new checks which are vulnerable documents.

5.3 Control procedures over guarantee checks are grossly inadequate. TDC receives checks from its clients as guarantees of good faith when the clients make reservations to participate in international exhibitions. We noted that:

- there is no register maintained for recording the receipt and details of these checks.
- many checks were filed with the supporting documents instead of being kept in a safe.
- no individual was assigned the responsibility of receiving and safeguarding these checks.

Subsequent to the audited period, we noted that bank reconciliations are prepared by the Cashier/Administrative Secretary and reviewed by the Financial Manager. We also have been provided with TDC's draft policy and procedures manual and we noted that:

* The manual assigns reconciling bank accounts to an accountant and assigns reviewing the reconciliations to the Financial Controller. However, the manual does not include detailed procedures for preparing the bank reconciliations and does not indicate who will approve such reconciliations.

* The manual assigns the custody of check books to the cashier, but it does not include control procedures over the supply of unused checks.

* The manual does not include control procedures over guarantee checks.

Therefore, we recommend that:

- Detailed procedures for preparing bank reconciliations be incorporated in the manual, and approval of bank reconciliations be assigned to a responsible official who is independent of all cash processing and recording activities.

- Control procedures over unused checks and guarantee checks, such as keeping checks in a locked safe, maintaining a register for guarantee checks and assigning custodial accountability to the responsible individual should be incorporated in the manual.

****

6. The accounting system for the Cooperative Agreement accounts is not adequate.

The accounting system for the Cooperative Agreement accounts contains several material weaknesses. A well-designed and functioning accounting system is required of all projects financed by USAID/Egypt. The weaknesses noted in the current accounting system may reduce the system's ability to adequately monitor and control the processing, accumulating and reporting of financial information. Specifically, we noted that:

6.1 Budget amendments are not reflected in the project ledger or billings submitted to USAID/Egypt. As a result, comparison between accumulating actual expenditures and the budget is impaired.

6.2 The project ledger does not include budgetary sub-line items. Accordingly, accumulation and presentation of expenditures incurred, on the sub-line item level, are seriously impaired.

6.3 The petty cash register is not maintained and prenumbered forms are not used to control petty cash transactions.

Subsequent to our audit, we were provided with TDC's draft policy and procedures manual. This manual includes a comprehensive accounting system for the Cooperative Agreement accounts. However, we noted that:

- The manual does not include control procedures for ensuring that disbursements conform to USAID/Egypt's approved budget before the said disbursements are made.

- Although the manual includes procedures for preparing USAID/Egypt's reimbursement vouchers, it does not include a separate project ledger to facilitate the preparation of such vouchers.

We recommend that control procedures, to ensure conformity with USAID/Egypt's approved budget and the maintenance of a project ledger, be added to the TDC policy and procedures manual. Additionally, TDC should record the most recent budget amendment in the billings submitted to USAID/Egypt.

****

7. The control procedures concerning payroll and personnel are not adequate.

Salaries and benefits costs represent approximately one third of total expenditures incurred during the audited period. Therefore, the design and effectiveness of the control procedures over this area should be closely scrutinized by TDC management. However, during our audit, we noted the following weaknesses relating to the management's ability to identify, quantify and control salaries and wages:

7.1 No formal hiring process exists.

7.2 Time and attendance records are not complete, and no review is made nor approval given before remuneration is made. This breakdown in the internal control structure may allow employees to be paid for time not worked.

7.3 No comprehensive payroll sheets are prepared before disbursals are made. This maximizes the risk that an employee may be paid twice for the same effort or that payment may not be in accordance with approved salary rates.

7.4 No personnel policy exists to regulate annual increases, bonuses, and staff loans and advances. For example, we noted that: a) annual increases are assessed without the benefit of a documented evaluation process or the support of prescribed criteria, b) employee advances are not reconciled on a timely basis, c) outstanding advances are not liquidated prior to the issuance of new advances; d) certain employees are paid salaries but do not have valid contracts with TDC and e) no salary pay slips are used as evidence that employees have received their salaries.

Subsequent to the audited period, TDC retroactively prepared payroll sheets from the inception of the project to date. Additionally, the TDC draft policy and procedures manual covers all the aforementioned weaknesses.

Therefore, we recommend that TDC comply with the manual after it has been approved by USAID/Egypt.

****

8. **The control procedures over procurements and safeguarding of fixed assets are not adequate.**

During our audit, we noted the following weaknesses relating to procurement procedures and the safeguarding of fixed assets:

8.1 No procurement policy is applied. For example, there are no regulations to ensure that TDC obtains competitive bids for items, priced at more than certain specified amounts, or that it chooses the best possible prices for items, not subject to competitive-bidding requirements, by using approved vendor lists and supply items catalogs. Because of this, the risk exists that TDC may procure goods and services at terms and prices that are not reasonable and competitive. Particularly, we noted that no sound procurement procedures were applied for procuring computers and leasehold improvements.

8.2 No procedures were followed to ensure that the purchase of unnecessary or duplicate items could not occur. Lack of such procedures may cause TDC to purchase redundant items.

8.3 Purchasing functions are not assigned to a particular employee or department. Many employees may make purchases on behalf of TDC. Furthermore, checks are made payable to the employees who carried out the transactions. This may lead TDC to lose control over regular business transactions and the way may be clear for the processing of unauthorized transactions.

8.4 Assets are not insured, detailed property records are not maintained and physical counts of assets are not performed as a routine matter.

Subsequent to our audit, we were provided with a draft of TDC's policy and procedures manual. This manual includes a procurement policy which provides assurance that purchases are in accordance with the approved budget, necessary for operation, and that they are properly authorized and that competition is used to get the most reasonable price. Additionally, a physical count of assets was performed and detailed property lists were prepared.

We recommend that TDC comply with the policy and procedures manual after it has been approved by USAID/Egypt. We also recommend that TDC compare the property list with the total amount of the Capital Costs line item which was charged to USAID/Egypt.

****

9. The control over the financial documents is not adequate

During our audit, we noted that TDC staff were unable to locate numerous documents. A sound internal control system requires that all significant events and transactions be clearly documented and available for examination. We believe that TDC's inability to locate certain documents is attributable to inadequate controls over the storage of documents and inadequate assignment of responsible staff for maintaining complete and organized files.

As a result, documents supporting approximately $77,000 of the total costs incurred during the period could not be located.

Subsequent to our audit, we have been provided with a draft of TDC's policy and procedures manual. This manual assigns the filing function to the Cashier/Administrative Secretary.

We recommend that TDC comply with the policy and procedures manual after it has been approved by USAID/Egypt. We also recommend that TDC use a filing system that is documented, sufficiently controlled, and tracks documents or files throughout the transaction process. Furthermore, the accounting system should not record any payment that is not fully supported by adequate documents or does not have the necessary approvals.

****

10. There is no formal policy for regulating TDC's program income and client commissions:

TDC receives commissions from companies and individuals participating in international exhibitions. These commissions represent a major source of funds for the TDC program income account. During our audit, we noted that no price list exists which would determine the amounts of commissions, the basis of calculation and the method of payment.

Subsequent to our audit, we have been provided with a draft of TDC's policy and procedures manual. This manual does not include a price policy for services provided by TDC.

In order to improve control procedures over the program income, TDC should develop a price list and a formal policy regarding payments and commissions and the management should establish procedures to ensure that all commissions charged to the clients are in compliance with those regulations. Additionally, such control procedures should be incorporated in the TDC policy and procedures manual.

****

11. The control procedures over international telephone calls are inadequate.

During our subsequent event testing, we noted that TDC implemented adequate control procedures over the international telephone calls. Accordingly, this finding is resolved.

****

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 fund accountability statements. Our audit disclosed the following reportable conditions:

Reportable Conditions

12. The control procedures over use of vehicles are inadequate.

During our audit, we noted that TDC has rented five vehicles, to be used in the normal course of business. No vehicle logs are used to distinguish between personal and business usage. In order to monitor the level of business and personal usage, logs should be established. These logs should contain information such as time out, meter reading at start of journey, destination, time in, meter reading at end of journey, distance traveled, driver's signature and user's signature. Applying the aforementioned control procedures may lead to reducing the number of vehicles rented in the future and saving USAID/Egypt's funds.

However, subsequent to the audited period we noted that TDC implemented adequate control procedures over vehicle usage. Furthermore, starting from October 1994, credits to the USAID account for vehicle personal usage are being made.

****

13. There is a lack of control over the payment process

From our review of supporting documentation, it is not evident if and when an invoice has been paid. Unless paid invoices are marked "paid", the possibility exists that an invoice may be paid more than once, hence depleting the cash assets and indicating a weakness in the internal control system.

Subsequent to our audit, we have been provided with a draft of TDC's policy and procedures manual. This manual includes control procedures for cash disbursements. However, those procedures do not include a method that prevents invoices from being paid twice.

Therefore, we recommend that all invoices should be marked "paid" at the time they are processed for payment.

This report is intended for the information of TDC'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

December 22, 1994

COMPLIANCE WITH LAWS AND REGULATIONS

KPMG Hazem Hassan

Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street
Mohandseen, Cairo
Egypt

Telephone: (202) 3499588 - 3499677
Telefax : (202) 3497224 - 3487819
Telex : 20457 (hhco - un)

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,
Cairo, Egypt.

We have audited the fund accountability statements of the Trade Development Center - Egypt (TDC), the implementing arm of US-Egypt Joint Business Council (JBC), under the Cooperative Agreement No.263-0226-A-00-2027-00 and the related program income account for the period from March 16, 1992 through May 31, 1994 and have issued our report thereon dated December 22, 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 statements of TDC are 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 TDC is the responsibility of TDC's management. As part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatement, we performed tests on TDC's compliance with certain provisions of laws, regulations, contracts, grants, and binding policies and procedures. However, our objective was not to provide an opinion on compliance with such provisions.

Material instances of noncompliance are violations of laws, regulations, contracts, grants or binding policies and procedures that cause us to conclude that the aggregation of misstatements, resulting from those violations, is material to the fund accountability statements. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have been reflected in the TDC's fund accountability statements.

1. TDC has no legal status in Egypt

We noted that TDC was neither registered in accordance with Law No. 159 of 1981 (The "Companies Laws") nor with Law No. 32 of 1964 (The "Private Societies and Establishments Laws").

The Cooperative Agreement stated that "TDC shall be established as a legal entity within one year following award of this Agreement, unless such requirement is waived by the USAID Mission Director in writing". This means that TDC should have been registered within the period from March 16, 1992 through March 15, 1993. Noncompliance with the above criteria is considered a material violation of both the Cooperative Agreement and Egyptian laws, particularly because TDC generates income from various activities which are not related to the project objectives, such as the debt-swap transaction, which are subject to income tax.

On November 10, 1992, TDC received legal advice from its attorney containing the alternative ways in which TDC could be registered in Egypt. Since that date, TDC has not taken any action regarding this matter.

TDC should promptly take the necessary actions to register itself as a legal entity under the appropriate legal structure which will enable TDC to function properly and achieve its objectives.

Furthermore, in our opinion, the registration of TDC is a material issue because there is a governmental entity, named "Export Development Center" formed by Law No. 22 of 1992, conducting the same activity in Egypt and coordination between the two entities may benefit the TDC and USAID/Egypt.

2. **Instances of noncompliance with the Cooperative Agreement.**

During our audit, we noted that TDC did not comply with certain provisions of the Cooperative Agreement regarding the allowability, allocability and reasonableness of costs charged to USAID/Egypt. Additionally, certain costs were charged to USAID/Egypt that were neither approved by USAID/Egypt nor supported by adequate documents. The financial effect of those instances of noncompliance is reflected in the "Details of Questioned Costs" section of this report.

We recommend that TDC's management take the necessary corrective actions to comply with the Cooperative Agreement, regarding the allowability, allocability and reasonableness of costs charged to USAID/Egypt. Additionally, TDC should ensure that all costs billed to USAID/Egypt are within the USAID/Egypt approved budget or have prior approval from USAID/Egypt.

****

We considered these material instances of noncompliance in forming our opinion on whether TDC's fund accountability statements are presented fairly, in all material respects, in conformity with the cash basis of accounting. This report does not affect our report dated December 22, 1994 on the fund accountability statements.

Additionally , our testing of transactions and records disclosed other one instance of noncompliance with those laws and regulations which is identified in the "Report on Compliance - Audit Findings" section of this report.

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

This report is intended for the information of TDC'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
December 22, 1994

REPORT ON COMPLIANCE
AUDIT FINDINGS

The following instance of noncompliance with the applicable regulations and local laws came to our attention during the audit.

1. During our audit, we noted that TDC did not deduct withholding taxes from amounts paid for purchases, supplies or services to private sector suppliers.

   This instance of noncompliance may expose TDC to penalties assessed by the Government of Egypt.

   However, subsequent to our audit, we have been provided with a draft of TDC's policy and procedures manual. The manual states that the responsibility of withholding taxes rests with the accountant of TDC. We recommend that TDC comply with the policy and procedures manual after it has been approved by USAID/Egypt.

FOLLOW-UP ON THE IG/I/CFO REPORT

44a

Follow-up on the IG/I/CFO Report

The following discussion relates to the results of following-up the IG/I/CFO report.

During the planning phase, we visited the IG/I office, held several meetings with IG officers and thoroughly reviewed the IG/I/CFO report regarding certain issues related to TDC and its fund accountability statements.

All the issues have been considered during our audit and related evidence has been subject to audit procedures. Issues resolved to the satisfaction of ourselves have not been reported in this report. Unresolved issues are included in the Details of Questioned Costs section, the Report on Internal Control Structure section and the Noncompliance with Applicable Laws and Regulations section of this report.

SUBSEQUENT EVENTS

KPMG Hazem Hassan

Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street
Mohandseen, Cairo
Egypt

Telephone: (202) 3499588 - 3499677
Telefax : (202) 3497224 - 3487819
Telex : 20457 (hhco - un)

ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES REGARDING EVENTS SUBSEQUENT TO THE AUDIT PERIOD

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

Dear Mr. Darcy,

We have applied certain agreed-upon procedures, as discussed below, to the internal control structure of the Trade Development Center - Egypt(TDC), the implementing arm of US-Egypt Joint Business Council (JBC), subsequent to the audit period, the purpose of those procedures is to ensure that TDC has taken corrective actions, subsequent to the audit period, regarding the internal control structure. Our work included, to the extent we considered necessary, (a) a review of the draft of the policy and procedures manual including TDC;s organizational structure, the segregation of functional responsibilities, accounting and budgeting procedures, personnel policies and job descriptions, (b) discussions with management, accounting and other personal who are assigned responsibilities for ensuring adherence to and for applying internal accounting control procedures, (c) inspection, on a test basis, of documents evidencing application of control procedures, and (d) observation of personnel in the performance of their assigned duties.

Our findings are presented in the accompanying report "Report on Events Subsequent to The Audit Period".

Our procedures did not include compliance test of the accounting records and related data and consequently would not disclose instances of noncompliance with the system or errors or irregularities which may have occurred after May 31, 1994. This report relates only to the internal control structure and does not extend to any financial statement of TDC, taken as a whole, after May 31, 1994. The report is solely intended for the information of the United States Agency for International Development and may not be suitable for any other purpose.

Hazem Hassan & Co.

Cairo, Egypt
February 1, 1995

REPORT ON EVENTS SUBSEQUENT TO THE AUDIT PERIOD

(1) TDC has substantially completed a draft of policy and procedures manual. This manual addresses most of the recommendations on TDC's internal control structure and regulates TDC's procedures. The manual includes:

a) TDC management's philosophy and operating style, and the organizational structure.

b) books of account and subsidiary control records which provide an orderly record of TDC transactions and establish a basis for reporting the financial condition of TDC and the results of its operations.

c) procedures for payroll preparation which recognize the segregation of duties between the custody of cash and the bookkeeping function.

d) a comprehensive accounting system for the Cooperative Agreement accounts.

e) comprehensive control procedures concerning payroll and personnel.

f) procurement policy and procedures which provide assurance that purchases are in accordance with the approved budget, necessary for operation, and that they are properly authorized and that items are chosen on a competitive basis to get the most reasonable price.

2) TDC has implemented the following control procedures to enhance controls over USAID/Egypt's funds:

a) Commencing October 1994, TDC initiated a separate column in the project ledger for the advances granted to employees. Since that date, TDC has stopped billing advances to USAID/Egypt.

b) Payroll sheets have been retroactively prepared from the inception of the project to date.

c) Adequate control procedures over international telephone calls and use of vehicles have been implemented.

3) On January 15, 1995, KPMG Hazem Hassan (HH) signed a contract with USAID/Egypt to conduct financial monitoring and auditing of USAID resources managed by TDC.

The objectives of this engagement include the following:

a) To identify unallowable costs resulting from voucher examinations.

b) To provide specific details of the unallowable cost(s) such as amounts, the recipient's voucher number, invoice number, and any other pertinent details to facilitate tracking the unallowable costs to the recipient's records and files.

c) To specify reason(s) for determining a cost unallowable.

The engagement will cover the quarterly vouchers submitted to USAID/Egypt during the period from June 1, 1994 through March 14, 1996.

The expected result of this engagement is the elimination of questionable costs in the future.

4) TDC has made the necessary adjustments regarding advances which were charged to USAID/Egypt. These adjustments have been reflected in TDC's accounting books and will be reflected in the next Fiscal Quarterly Report (FQR) to USAID/Egypt. The follow-up to these adjustments will be made during our financial monitoring and auditing stated in the aforementioned paragraph.

APPENDIX I

TDC'S MANAGEMENT RESPONSE

T C - EGYPT
TRADE DEVELOPMENT CENTER - EGYPT

Cairo in June 4th, 1995

Hazem Hassan & Co.
Cairo - Egypt

Dear sirs,

Re: Trade Development Center
Audit of Cooperative Agreement
No. 263-0226-A-0226-A-00-2027-00
and the Program Income Account

Referring to the above mentioned subject and to the audit findings, I have the pleasure to enclose herewith our final comments prepared on the aforementioned findings.

Should you need any further clarification, please do not hesitate to contact us.

Very truly yours,

Emad Abdel Razek
Executive Director

cc. Tim O'Connor

P.O.Box 28 Giza 12211, Floor 24, Nile Tower Bldg., 21 Giza St., Giza, Egypt. E-MAIL : TDC @ INTOUCH.COM
Tel. : (202) 627 006/570 2511/570 2532/43/54/86 Fax. : (202) 623 120/570 2565 Tlx. : 93550 USEBC UN

TDC'S COMMENTS
ON
COOPERATIVE AGREEMENT FUND ACCOUNTABILITY STATEMENT
AUDIT FINDINGS

Draft Report Reference 1.a) Salaries and Benefits LE 21,441 ($6,400)
This amount represents a bonus to two employees in excess of the approved budget. Attachment 1, amendment 4, of the cooperative agreement approved a bonus of 8.3 percent of the annual salary paid to each employee. These two employees worked for TDC for a period less than one year while TDC paid them a full year's bonus. Therefore, the excessive bonus is considered to be unapproved.

TDC Response TDC requests that this finding be deleted from the report.

The payments cited in the draft report as bonuses were in fact termination payments to two employees. In exchange, the two employees tendered letters of resignation. TDC believes that the alternative to the payments would have been legal action against TDC on the part of the terminated employees.

During discussions of this finding with the auditors, they stated that termination payments could not be made to employees who resigned; i. e., because TDC obtained letters of resignation (to preclude legal action on the part of the terminated employees) the termination payments were "unsupported."

TDC believes that the payments were both reasonable and supported and notes that the payments did not exceed the approved budget line item for salaries and benefits.

***

Draft Report Reference 1. b) Salaries and Benefits LE 22,500 ($ 6,716)
This amount represents consultants fees. attachment 1, amendment 4 of the cooperative agreement does not include consultants fees during the period in which this amount was charged to USAID/Egypt. Accordingly the amount is considered unapproved.

TDC Response TDC requests that this finding be deleted from the report.

TDC believes that this cost should not be questioned. In a letter dated September 27, 1993, to the TDC Executive Director, the project officer noted that the budget was supposed to include 8 person months for local consultants, that this provision was inadvertently left out of the budget and that USAID/Egypt never intended to eliminate TDC's ability to obtain local consultants.

Also, the payments were made to Mr. Mohamed Aziz Salem. He was included, by name, in the original cooperative agreement budget under the line item Salaries with the title "AG. Export Manager." The amount budgeted for year one was LE 36,000. He received payments of LE 22,500 during April - December 1992 (year one ended March 15, 1993).

The cooperative agreement attachment 4 includes a budget of LE 22,500 under Salaries for year one for "Director of Ag". This agrees with the amount actually paid to Mr. Mohamed Aziz Salem.

There is no question that USAID/Egypt approved payment to Mr. Mohamed

Aziz Salem - he was included in the approved budget by name and LE 36,000 was budgeted specifically to pay for his services.

The audit issue is apparently Mr. Mohamed Aziz Salem's contract with TDC. He was employed under a "consulting contract" rather than an "employment contract." In spite of the type of contract used, TDC believes the payments should not be questioned by the auditors on the basis that the amendment 4 budget does not include consultant fees because a) funds were specifically budgeted for Mr. Mohamed Aziz Salem, b) the payments were made to him for services received in accordance with that specific budget. Although TDC believes that amendment four has no bearing on this finding because the amendment was not effective until after the approved payments took place; TDC notes that the actual payments of LE 22,500 were included in amendment 4 under the sub-line item "Director of Ag" in the Salaries portion of the budget.

***

Draft Report Reference 1. c) Salaries and Benefits LE 18,000 ($ 5,371)
Annual bonuses were paid to TDC employees in excess of the USAID/Egypt's approved budget. Attachment 1, amendment 4 of the cooperative agreement approved annual bonuses of LE 1,990 ($ 596) for the period from March 16, 1992, through March 15, 1994. Bonuses paid during that period amounted to LE 19,990 ($ 5,967). Therefore the amount of LE 18,000 paid in excess is considered to be unapproved.

TDC Response TDC requests that this finding be deleted from the report.

The March 16, 1992 cooperative agreement budget provided for bonuses of LE 26,970 for the first year of the project.

The April 20, 1993, amendment 2 to the cooperative agreement budget provided for bonuses of LE 58,036. This amendment 2 budget was the cooperative agreement budget until March 16, 1994, when amendment 4 took effect.

Bonuses actually paid during the period were LE 19,900. When this amount was included in the amendment 4 budget, issued September 30, 1994, it was shown as LE 1,990. TDC believes the LE 1,990 entry in the amendment 4 budget was an error.

Equally important is the fact that amendment 4 was issued after the period in question. Amendment 4 was not the controlling budget during the period these costs were incurred. TDC believes that for the auditors to conclude that TDC must now repay LE 18,000 of legitimately incurred costs to USAID/Egypt because of an apparent error in a document that did not become effective until after the period in question is totally unreasonable.

***

Draft Report Reference 1. d) Salaries and Benefits LE 3,929 ($ 1,173)
Medical insurance was paid in excess of USAID/Egypt's approved budget. Attachment 1, amendment 4 of the cooperative agreement approved medical insurance of LE 7,389 ($2,206) for the period from March 16, 1992, through March 15, 1993. Medical insurance charged to USAID/Egypt during the period was LE 11,319 ($ 3,379). Therefore, the amount of LE 3,929 ($ 1,173) paid in excess is considered unapproved.

TDC Response TDC requests that this finding be deleted from the report.

57

In researching documents for TDC's response to this finding, only LE 7,389 was found to be charged to USAID/Egypt during the period cited in the audit. After a thorough search of TDC records failed to turn up additional medical insurance payments, TDC requested and obtained the auditors' references for this finding.

TDC found that one of the payments cited by the auditors as a medical insurance payment was in fact a payment for building maintenance. Thus the payments charged to USAID/Egypt equal, but do not exceed, the amendment four budget.

Equally important, however, is the fact that Amendment 4 was not controlling the budget during the period these costs were incurred. (The budget in the cooperative agreement for the first year of the agreement provided LE 13,600 for medical insurance.) TDC believes that it is totally unreasonable for the auditors to conclude that TDC must repay legitimately incurred costs to USAID/Egypt based on a budget that did not become effective until after the period in which the costs were incurred.

***

Draft Report Reference 1. e) Salaries and Benefits LE 2,316 ($ 691)
Social insurance was paid in excess of USAID's approved budget. Attachment 1, amendment 4 of the cooperative agreement approved social insurance of LE 25,409 as the employer's share in the social insurance for the period from March 16, 1993, to March 15, 1994. Social insurance charged to USAID/Egypt during that period was LE 27,725 ($8,276). Therefore the amount of LE 2,316 ($691) paid in excess is considered to be unapproved.

TDC Response TDC requests that this finding be deleted from the report.

As noted by the auditors, the cooperative agreement budget for social insurance is for the **employer's share**. The social insurance payments identified by the auditors as charged to USAID/Egypt for the period are the total amount paid during the period and include both the employer's and **employees'** share of the social insurance. The employer's share was approximately two-thirds of the total payments identified by the auditors and therefor well within the budget.

Equally important is the fact that the budget in effect when these payments were made included LE 57,024 in the sub-line item for social insurance for year two. TDC therefore does not accept the auditors' conclusion that the costs are "unsupported". The fact is that the costs are supported by adequate documentation and have the required approvals and authorizations. TDC believes that for the auditors to conclude TDC must repay legitimately incurred costs to USAID/Egypt because of budget revisions in a document that did not become effective until after the period in question is totally unreasonable.

***

Draft Report Reference 2. a) Other Direct Costs LE 13,554 $ 4,046
This item represents sales taxes. Article 46, attachment B of the OMB circular A-122 stated that "Taxes are not allowable if tax exemption is available." On October 19, 1992 TDC obtained a letter from the Tax Authority affording TDC exemption from sales tax. Although TDC obtained this letter, sales taxes were charged to USAID/Egypt. Therefore, this amount is considered to be unallowable.

TDC Response This item is sales taxes on the telephone bills, airline tickets and one imprest fund item.

54

LE 6,830.71, Telephone

As stated by the auditors, "Although TDC obtained [a letter from the Tax Authority affording TDC exemption from sales tax] sales taxes were charged to USAID/Egypt." This happened because a copy of the TDC exemption was presented to ARENTO, but ARENTO refused to accept it, insisting on an exemption letter addressed specifically to ARENTO. Action to obtain the specific letter is under way but not yet been completed.

TDC has prepared schedules of the telephone bills showing the sales taxes charged to TDC from inception through the last billing (April 1995). TDC will present the documentation to USAID/Egypt and ask that a letter be issued to the taxing authority requesting recovery of the taxes. USAID has agreed to this procedure. Once this letter is received by TDC it will be presented to ARENTO for credit against future telephone charges.

Action should be completed prior to the issuance of the final "Blue Cover" audit report.

LE 6,484, Airline Tickets

The matter of taxes on airline tickets was also raised by the USAID/Egypt FAST team during a review that preceded this audit. As a result of the FAST review, TDC was provided a copy of the USAID/Egypt Contractor Notice 29-93 and a copy of the letter from the GOE Ministry of Economy and Foreign Trade, Central Department for Foreign Currency exempting contractor employees working under contracts that are financed by USAID/Egypt from the 10 percent tax on international air tickets. From these documents and from discussions with USAID/Egypt's Office of Project Support, it is TDC's understanding that only American contractor employees are entitled to the tax exemption and that Egyptian Nationals are not exempt and must pay the tax.

TDC will again review the airline ticket tax issue with USAID/Egypt, and take action to recover these taxes if the taxes are recoverable.

LE 240, Imprest fund Voucher

This amount was included in an LE 1,200.90 voucher for the replenishment of the cashier's imprest fund. There were 13 cash receipt vouchers involved. TDC did not attempt to review this item.

***

Draft Report Reference 2. b) Other Direct Costs LE 30,000 ($8,955)
This amount represents the cost of certain additions to the air conditioner to increase its capacity. Attachment 1, amendment 4 of the cooperative agreement does not include capital costs for air conditioners. Therefore this amount is considered to be unapproved.

TDC Response TDC requests that this finding be deleted from the report.

The additions to the air conditioning were part of the refurbishment of the office space.

The lessor provided peripheral air conditioning units located under the windows as part of the lease agreement. However, when the interior offices were constructed, two additional units and related duct work were required to air condition those offices. The installation conformed to specifications established by the landlord. Note that the two units are not stand alone equipment, but a part of the building's air conditioning system.

TDC believes that this is a legitimate refurbishment cost, whether or not specified as a sub-line item in the amendment 4 budget.

***

Draft Report Reference 2. c) Other Direct Costs LE 23,397 ($ 6,984)
Various expenses were paid on behalf of the US Investment Promotion Office (USIPO). Such expenses should have been paid by USIPO and not by TDC which subsequently charged them to USAID/Egypt. To assume the responsibility of another entity, an explicit approval from USAID/Egypt is required. Therefore this amount is considered unallocable.

TDC Response TDC requests that this finding be deleted from the report.

Various expenses paid by TDC may have been billed to USIPO, but these expenses were not, as stated by the auditors, "Paid on behalf of The US Investment Promotion Office (USIPO)".

According to a schedule provided by the auditors, five payments were included in this finding:

May 1992	LE 5738.60
May 1992	2991.72
May 1992	6402
June 1992	6509.42
May 1992	1755.00
	23,396.74

LE 5,738 was paid to American Express on check number 329221 for two air tickets. Payment was made on May 10, 1992. The tickets were issued on March 5, 1992 and the statement for the account of USIPO was dated March 24, 1992. However, the actual travel involved covered the period March 6 to March 29, 1992, to promote trade in Germany. Because the purpose of this trip furthered TDC objectives and the activity carried over from USIPO after the startup of the cooperative agreement,

LE 2991.72 was paid to Xerox Egypt on July 17, 1992, by check number 329223 for maintenance contracts. Two of the contracts are for the period April 30 to July 30, 1992. The third contract is for the period March 30, 1992 to March 30, 1993. The entire period of the maintenance is for TDC, not USIPO.

One of the Xerox contracts did include a charge in the amount of LE 844.80 for copies made during the period January 30, 1992 to April 30, 1992. Since the meter was not read on March 15, 1992, and given the fact that the first 6000 copies on the meter were free and thus attributable to USIPO, TDC believes that it is not unreasonable to allow the total charge for copies to be reimbursed to TDC.

LE 6,402 was paid to Egypt Travel Service on May 28, 1992, by check number 329243 for car rent for the period April 12, 1992, to July 11, 1992. Again, the benefit of this payment was clearly received after the startup of the cooperative agreement.

LE 6,509.42 was paid to ARENTO on June 7, 1992, by check number 329246 for international calls during the month of April 1992. Again, the benefit of this payment was clearly received after the startup of the cooperative agreement. TDC also notes that this item was also included in the LE 263,026 questioned costs for personal and international calls - it was double counted as an ineligible cost.

LE 1,755 was for 23 petty cash items purchased during the period Marcn 23, 1992 to April 14, 1992. The items were paid from the USIPO petty cash fund because TDC did not have funds until the first USAID advance was received. The petty cash fund was reimbursed from the USIPO bank account on April 4, 1992, by check number 271356 to the cashier.

On May 4, 1992, TDC reimbursed USIPO by check number 329217 for the payment of these items. Check number 329217 was in the amount of LE 20,243 and included other reimbursed items in addition to the petty cash in question. Again, the benefit of this payment was clearly received after the startup of the cooperative agreement. TDC believes this finding should be deleted.

***

Draft Report Reference 2. d) Other Direct Costs LE 7,615 ($2,273)
This amount represents rental expenses of part of 24th floor in the Nile Tower for the period from January 1, 1992, through March 15, 1992. TDC was formed on March 16, 1992, and the approved budget does not include pre-operation expenses. Therefore the amount is considered to be unallocable.

TDC Response TDC requests that this finding be deleted from the report.

The lease for the 24th floor was effective November 15, 1992. TDC did not pay rent on the 24th floor for periods before that time.

The payment in question was check number 382418 dated November 19, 1992, in the amount of LE 31,984.26 for 69 square meters on the 16th floor. The rental rate was computed on the LE equivalent of $160 per year per square meter. The invoice was for the period January 1 - November 15, 1992.

TDC did as stated in the audit report, pay rent for the period January 1, March 15, at the time the organization was called USIPO. TDC continued to pay rent for the same space through November 15, 1992.

In exchange for this payment, TDC occupied an additional 92 square meters (in addition to the 69 square meters on which rent was paid) on the 16th floor rent free during the period March 15, 1992 to January 1, 1993, under an agreement that USIPO had with the Egyptian Businessman's Association. Also, TDC continued to occupy the 69 meters rent free from November 15, 1992 until January 1993, when TDC moved tc the refurbished space on the 24th floor. The free rent at the end of the period nearly offsets the payment at the beginning of the period (November 15 to January 1 vs January 1 to March 15).

The alternative to making the payment in question would have been for TDC seek a new agreement for office space.

TDC believes that the rental costs incurred by continuing the USIPO agreement were by far the most economical way to provide office space during the transition to the 24th floor. TDC requests that this questioned cost be deleted.

Draft Report Reference 2. e) Other Direct Costs LE 54,000 ($16,119)
This amount represents a capital lease contract of a vehicle with the option to purchase. The total amount of the contract is LE108,000 ($32,239). Article F.d., attachment 1 of the cooperative agreement stated that "contracts exceeding $25,000 should have prior approval from USAID/Egypt. Based on the aforementioned article, USAID/Egypt's approval is required. Therefore we questioned the lease expenses charged to USAID/Egypt during the audited period as unapproved cost.

TDC Response TDC requests that this finding be deleted from the report.

The costs were questioned because "USAID/Egypt's approval is required."

TDC has been authorized by the agreement officer to incur costs associated with the leasing of vehicles since the agreement was signed March 16, 1992.

This authorization was reconfirmed in a letter from the agreement officer dated May 24, 1995. The reconfirmation applies to all the vehicles currently leased by TDC, including the lease questioned by this finding.

***

Draft Report Reference 2. f) Other Direct Costs LE 263,026 ($78,515)
This amount represents personal and international telephone calls. TDC did not maintain logs or other records to distinguish between personal and business calls. Although business calls are allowable under the cooperative agreement, we considered all of the amount unallowable because TDC management were unable to prove that all the calls were for business purposes.

TDC Response TDC requests that this finding be reduced to L.E. 706.

The enclosed list represents the outcome of the work of 4 individual TDC staff members who are still working in the office. They are as follows:

Emad Abdel Razek Executive Director
Ali Nossrat Director of Sales and Marketing
Amal El Malla Associate Director RMG
Ihab Ramzy Financial Manager

The list covers the period from March 92 until October 94. The numbers listed represents those which looked unfamiliar and could not be immediately identified as business, for example the numbers in; *Hong Kong, India, Norway, Singapore, Romània, South Africa, Portugal, Bulgaria,Venezuela, Caribbean, Columbia, Peru and Guatemala.*

All of these numbers were called and the outcome of the test is as follows:

- Hong Kong 31 calls costing LE 706 were personal
- India Two numbers are faxes and the other gave no reply
- Norway Nordek is an institution which assists in the promotion of imports from Third World countries.
- Singapore The number was tried but it is a fax
- Romania Importers of Egyptian food products were being traced.
- South Africa Discussions were being held with one of TDC's consultants who was providing information concerning the ex-

port of Egyptian food products - Portugal Oscar Johnson of "Eurowalk" was retained by TDC to develop some models for shoes. He had his office and factory in Portugal.

- Bulgaria These numbers were called but the respondents do not speak english.
- Venezuela, Caribbean, Columbia, Peru & Guatemala During 1993 1994, TDC received assistance from Israeli experts. They worked on cantaloupe products with Egyptian producers. They were contacting these countries in order to get feed-back on certain varieties of cantaloupe.
- Denmark The number was tried but it is a fax.

The final determination was that 31 calls totaling LE 706 were in fact personal. Bills will be issued to recover the costs of these calls.

TDC installed a logging system effective August 1994. Since that time, as noted by the audit report, "adequate control procedures over the international telephone calls have been implemented."

TDC believes that the overwhelming majority of the calls were official and it is unreasonable to find the entire L.E.263,026 ineligible and repayable to USAID/Egypt.

***

<u>Draft Report Reference</u> 3. a) Capital Cost LE 203 ($61)
This item represents sales taxes. Article 46, attachment B of the OMB circular A-122 stated that "Taxes are not allowable if tax exemption was available." On October 19, 1992, TDC obtained a letter from the Tax Authority affording TDC exemption from sales tax. Therefore this amount is considered unallowable.

<u>TDC Response</u> TDC did not attempt to review this item. TDC will further research this finding and claim the tax (see TDC comments on finding 2. a.).

***

<u>Draft Report Reference</u> 3. b) Capital Cost LE 28,000 ($ 8,358)
This amount represents the cost of installing telephone lines and other various expenses. All invoices were addressed to the US Investment Promotion Office (USIPO). These expenses should have been paid by USIPO and not by TDC. Invoices related to these expenses should be addressed to TDC in order to allocate the cost to TDC. Therefore, this amount is considered to be unallocable.

<u>TDC Response</u> TDC requests that this finding be deleted from the report.

The costs were incurred for TDC and not for USIPO. The telephone lines were installed for TDC after TDC started operations. TDC received the services, USIPO did not.

TDC notes that the payment was made May 5, 1992. TDC started on March 15, 1992. The payment was to ARENTO for the installation of 6 new phone lines. The ARENTO invoices are on file with the TDC voucher.

The lines were initially in the name of USIPO. In a letter dated June 23, 1992, the MIC instructed ARENTO to change the lines to TDC. The lines are currently in use by TDC.

TDC notes that the total expenditure was LE 27,388.90, not LE 28,000 as stated in the audit report. The TDC Financial Manager took an LE

51

28,000 advance to pay for the lines. He redeposited LE 611.10 to the CIB bank account after completing the transaction.

Attached are copies of the vouchers, the advance check, the letter from MIC to ARENTO, the deposit slip redepositing the LE 611.10, a summary schedule of the ARENTO payments showing a total of LE27,388.90 and copies of the ARENTO invoices totalling LE 27,388.90.

Originals of these documents were filed with the vouchers when the transactions took place and are available for examination.

***

Draft Report Reference 3. c) Capital Cost LE 391 ($ 117)
TDC bought certain samples to be displayed in trade shows. The supplier's invoice was issued in the name of one of TDC's employees rather than the name of the organization. In order to consider this amount adequately supported, a supplier's invoice should be addressed to TDC. Therefore this amount is considered to be unsupported.

TDC Response TDC requests that this finding be deleted from the report.

TDC disagrees with the audit conclusion that an invoice addressed to an employee, in and of itself, creates a questioned cost that must be refunded to USAID/Egypt. Especially given the relatively small amount of the transaction. Since the draft report made no mention of deficiencies in the voucher, in the approvals, in the check or other supporting documentation, TDC believes that this transaction is adequately supported and is reasonable, allocable and allowable for reimbursement.

***

Draft Report Reference 3. d) Capital Cost LE 149,593 ($ 44,655)
Furniture, leasehold improvement and various expenses were charged to USAID/Egypt. Only informal cash receipts were available. Additionally, total checks of LE 46,018 ($13,371) were made payable to the TDC financial manager rather than the name of the supplier. In order to consider these amounts as supported costs, three offers, vendor's invoices, goods receiving reports and formal cash receipts are required. Therefore, these amounts are considered to be unsupported.

TDC Response TDC requests that this finding be deleted from the report.

The auditors questioned LE 149,593. However, LE 2,000 of the amount questioned was refunded by a vendor in settlement of an advance.

The auditors state that only informal cash receipts were available. Also available were the approved vouchers, copies of checks and receipts showing that the checks had been received. "Formal" receipts were in the file, for a telephone set, kitchen equipment and a lamp for example. There is a formal offer for the provision of office chairs. There are summary statements from vendors showing line item charges, total charges, advances received and amounts due.

The auditors included twenty-five check vouchers in this finding. Many of these check vouchers were progress or installment payments as work progressed. The auditors state that these vouchers must be supported by three offers, vendors' invoices, goods receiving reports and formal cash receipts in order to be acceptable for reimbursement by USAID/Egypt.

Whether or not these requirements have been met, TDC notes that the transactions have been **independently** verified by USAID investigators.

The transactions took place.

The fact that there was an independent verification by the grantor agency is satisfactory evidence of the transactions.

TDC was told during discussions with the auditors, after the draft report was issued, that the finding had been discussed with the USAID investigators and investigative documents were reviewed. The auditors said that as a result of these contacts with the investigators the "existence" of the costs had been verified; and as a result, the finding had been revised to question the entire amount as unsupported because the "reasonableness" of the transactions could not be verified by the auditors.

Irrespective of the imperfections in the past procurement process, TDC believes that the instant transactions have been meticulously reviewed after the fact and found to be eligible for reimbursement.
TDC acknowledges the audit findings in the internal control section of the draft report with respect to procurement procedures. As noted in the audit report section on events subsequent to the audit, the policy and procedures manual currently being developed addresses these issues.

***

Draft Report Reference 4. a) Technical Assistance LE 9,500 (Equ.$2,836)+$1,487=$4-,323
Fees for a lawyer were charged to USAID/Egypt. Item d., article 34, attachment b of the OMB circular a-122 stated that "legal fees are unallowable unless otherwise provided for in the award". The USAID/Egypt approved budget did not include this type of expenditure. USAID/Egypt's approval is required for these fees, therefore, this amount is considered to be unallowable.

TDC Response TDC requests that this finding be deleted from the report.

As noted in the audit report, TDC was required by the cooperative agreement to establish itself as a legal entity. Legal advice was needed in order to initiate this process. TDC believes that a precedent for financing legal fees was thus provided for in the award.

The fees in question were incurred to defend an employee lawsuit inherited from USIPO, assistance in obtaining the resignation of another employee, and assistance in opening a tax file.

Draft Report Reference 4. b) Technical Assistance $5,900
This amount represents the cost of a feasibility study for the establishment of a fruit and vegetable packing station in Egypt and the cost of evaluation of another feasibility study for a pharmaceutical company. Conducting feasibility studies is not included in the project papers or the cooperative agreement. USAID/Egypt's approval is required for this work. Therefore this amount is considered to be unapproved.

TDC Response TDC requests that this finding be deleted from the report.

The questioned activities directly contribute TDC's mission and are fully supported by USAID/Egypt.

One of TDC's major promotion areas is fresh fruits and vegetables. The study on the packing station was done to determine feasibility of setting up a facility for small producers that would meet international standards.

The pharmaceutical study was requested by the company and by MIC.

***

Draft Report Reference 5. a) Promotion Materials LE 1,982 ($562)
Costs of participation in the Nairobi exhibition were charged to USAID/Egypt. The objective of the cooperative agreement is to promote Egyptian exports in Europe and the Middle East. Nairobi is not within the area stated in the agreement. Because this exhibition was not approved by USAID/Egypt, this amount is considered unapproved.

TDC Response TDC requests that this finding be deleted from the report.

The Board approved participation in the Nairobi Exhibition. The USAID/Egypt TI/FI Assistant Director attended the board meeting and did not disapprove of TDC's participation.

TDC believes therefore that USAID/Egypt implicitly approved this participation.

***

Draft Report Reference 5. b) Promotion Materials LE 7,591 ($2,266)
Various expenses were charged to USAID/Egypt but lacked adequate supporting documentation. The only description mentioned in the documents is "Expenses related to TDC function". Description as "Expenses related to TDC function" is not adequate to support the cost. Therefore this amount is considered to be unsupported.

TDC Response TDC requests that this finding be deleted from the report.

As noted by the auditors, TDC has supporting documents for the functions in question. The auditors noted that invoices were available but the only description was TDC function.

In addition to invoices, TDC has correspondence, agendas, invitations and other documents of the purpose and details of many of the charges questioned by the auditors on file. TDC believes these other documents provide the descriptions sought by the auditors.

TDC believes these costs are adequately supported.

Draft Report Reference 5. c) Promotion Materials LE 5,000 ($1,492)
This item represents payment to the Management Engineering Society as support for the seminar of Privatization and Management. Under OMB circular A-122, donation is not allowable. Because the available supporting documents explicitly stated that this amount was to support the seminar and not to attend the seminar, this amount is considered to be unallowable.

TDC Response TDC requests that this finding be deleted from the report.

The EED Project Paper and subsequent Cooperative Agreements oblige TDC to promote exports to Europe and the Middle East. The purpose of TDC participating in the cost sharing of the Management Engineering Society seminar, as noted in their letter, was to promote and increase Egyptian exports. As well as promoting the idea of exporting the seminar also focused on improving the quality of products for export. The seminar was under the patronage of Dr. Atef Ebeid, the Minister of Public Works in Egypt. This minister is a strong proponent of export development in Egypt having responsibility for, among other things, privatization and the ISO 9000 Program. He is also a strong supporter of TDC's activities and encouraged TDC participation in the seminar.

This cost was allocated to Promotional Material while in fact it is best classified as Seminars. TDC's budget clearly allows for financing seminars. There is no requirement for TDC to pay the whole cost of a seminar. In fact, if it can save money through others participating in the event, and achieve the same effect, it is a more prudent course of action. This still remains true even if the other party takes the responsibility of collecting TDC's portion of the cost and settling the bill. OMB Circular A-122 clearly does not preclude TDC from exercising good business practice in reducing it's cost exposure.

***

Draft Report Reference 6. a) Trade Shows $15,838
This amount represents value added tax (VAT) charged on the rental costs and other expenses incurred during the exhibition. Article 46, attachment B of the OMB circular A-122 stated that "Taxes are not allowable if tax exemption was available". VAT is refundable and should not have been charged to USAID/Egypt. Therefore this amount is considered to be unallowable.

TDC Response TDC has identified the VAT payments and is in the process of submitting the original documents to obtain refunds.

***

Draft Report Reference 6. b) Trade Shows $65,626
Various expenses were incurred during exhibitions and the supporting documents are not available. This finding is attributable to the fact that the control over the filing system is not adequate. All amounts charged to USAID/Egypt should be supported by adequate documents. Therefore this amount is considered to be unsupported.

TDC Response TDC requests that this finding be deleted from the report.

The amounts involved are:

Interstoff Exhibition	$27,000
Cibus Participation Fee	4,378
Koln Messe stand/equipment rental	12,665
SIAL exhibition, Exec. Dir. travel	2,645
Vouchers are misplaced	18,938
	$65,626

$ 27,400 was construction fees for the Interstoff exhibition, April 6-8, 1994. The expenditure was for the construction and decoration of three stands for the exhibition. Supporting documents available include:

A budget for the exhibition.

Deko Bau Sud quotation, 4/4/94	$26,242	(DM 43,300)
Mess Montage Service quotation 4/4/94	$37,921.21	(DM 52,670)
Kanya Egypt 3/25/94 quotation		$27,400

The Kanya quotation is in English and includes a detailed list of what is to be provided.

An invoice from Kanya dated 4/20/94 in the amount of $27,400,

62

including 15 percent VAT.

An analysis dated 5/18/94 of the three offers and a recommendation from the TDC Export Promotion Coordinator that the Kanya offer be accepted. (After the fact, but it is justification for choosing Kanal - and the offers were received before the show.)

A memorandum dated 5/18/94 from the Export Promotion Coordinator requesting, and receiving, EXD and Sales and Marketing Director approval to issue a check in the amount of $27,400 to The Kanal Egypt General Manager.

A copy of the May 19, 1994 check to the General Manager of Kanya, with the general manager's signature signing for the check.

TDC believes this amount is adequately supported.

$4,378.19 was the fee for participation in the Cibus exhibition. Supporting documents for this payment include:

The exhibitor's copy of the invoice.
A statement showing hot TDC's particulars will appear in the exhibition catalog.
A copy of the check issued in payment of the invoice.

TDC believes this amount is adequately supported.

$12,665 was for stand and equipment rental at the Koln Messe exhibition. Supporting documents for this exhibition include:

Photocopies of the invoices from Koln-Messe. TDC notes that the invoices are faxes and that these faxes are dated 23 January 93 for the rental and equipping of stands at an exhibition that took place on 5-7 February. Advance payment was required.

A copy of the CIB DM check dated 26 January 1993 issued in payment of the invoices.

A copy of TDC's check transmittal letter dated 27 January 1993.

The shipper's copy of the international airbill for the check.

The transactions took place in advance of the exhibition. TDC attended the exhibition. TDC notes that the invoices required advance payment and that the invoices were "contemporary valid as order confirmation".

TDC believes this amount is adequately supported.

$2,645 was for a TDC function and other expenses at the SIAL exhibition. Supporting documents for this exhibition include:

A signed statement by the TDC Executive Director that two invoices (FF 1,000 and FF 2,134.8) had been lost. The US dollar equivalent is $ 633.

A faxed invoice in the amount of FF 9,962 from the Intercontinental Hotel - Paris. The US dollar equivalent is $2,012.

TDC believes this amount is adequately supported.

64

Draft Report Reference 6. c) Trade Shows $37,766
This amount represents the costs of participation in the Nairobi and Dubai exhibitions. The objective of the project is to promote exports in the Middle East and Europe. These two exhibitions do not fall within the area stated in the agreement. USAID/Egypt's approval is required. Therefore, this amount is considered to be unapproved.

TDC Response TDC requests that this finding be deleted from the report.

$19,266 was for the Nairobi exhibition. The Board approved participation in the Nairobi Exhibition. The USAID/Egypt TI/FI Assistant Director attended the board meeting and did not disapprove of TDC's participation. TDC believes therefore that USAID/Egypt implicitly approved this participation.

$18,500 was for the Dubai exhibition. TDC considers Dubai to be part of the Middle East for the purposes of implementing the cooperative agreement.

With regard to the Dubai exhibition, TDC notes that payments for the space and exhibition expenses were made in June-July 1992. In September 1992, in a letter to TDC, the Project Officer stated that the work that had already gone into this activity was much appreciated but that no further "exploratory" efforts were to be conducted in the software area. Thus TDC had approval for this exhibition.

Draft Report Reference 6. d) Trade Shows $5,300
Various expenses were charged to USAID/Egypt but lacked adequate supporting documents. The only description mentioned in the documents is "expenses related to TDC function". All amounts charged to USAID/Egypt should be supported by adequate documents. Therefore this amount is considered unsupported.

TDC Response TDC requests that this finding be deleted from the report.

As noted by the auditors, TDC has supporting documents for the functions in question. The auditors noted that invoices were available but the only description was TDC function.

In addition to invoices, a TDC trip report and a report from the Egyptian Ambassador to the EEC on the meetings are on file. TDC believes these reports clearly provide the description sought by the auditors.

TDC believes these costs are adequately supported.

***

Draft Report Reference 6. e) Trade Shows $3,942
This amount represents amounts spent on flowers and charged to USAID/Egypt. The USAID/Egypt approved budget did not list such expenses. This cost should not be charged to USAID/Egypt. Therefore it is considered unallowable.

TDC Response TDC requests that this finding be deleted from the report.

The expenditures are for the leased flowers/plants used in the decoration of the exhibition booths/stands. TDC participation in the trade shows is approved by USAID/Egypt and the individual trade show budgets include setup and decoration of the booths in addition to rental of the space. TDC believes that the decoration of booths with leased flowers/plants is a common practice at these events.

65

Given the facts that there is a budget item for trade shows and the fact that USAID/Egypt approves the shows, TDC does not agree with the audit report statement that the USAID/Egypt approved budget did not list such expenses.

***

Draft Report Reference 6. h) (Maybe f)) Trade Shows $1,094
The cost of items lost during exhibitions was charged to USAID/Egypt. The members of the staff, in whose care these items had been placed, should have been held responsible for payment of the cost of those lost items. This amount should not have been charged to USAID/Egypt. Therefore this amount is considered to be unallowable.

TDC Response TDC requests that this finding be deleted from the report.

The memorandum requesting reimbursement for lost items is in error. The payment is for rental costs for sound equipment leased for the exhibition. The employee who wrote the memorandum initiating this payment is no longer employed by TDC.

***

Draft Report Reference a) Page 22 $33,427
TDC incurred various types of expenses in facilitating its operation and achieving project objectives. However, prudent business practice dictates that such expenses should be reasonable relative to the size of the activities.

TDC Response TDC requests that this finding be deleted from the report.

The total budget for the period amounted to $2.02 million. As a percentage of this, $33,427 amounts to a mere 1.7 percent. This is a small price to pay given all the expenditures did to further program objectives as confirmed by the auditors' statement above.

***

Draft Report Reference b) Page 22 $6,332
TDC incurred costs which did not relate to TDC activities

TDC Response Questioned cost paid to USIPO by TDC $3,599

TDC requests that $2,810 be deleted from the report. This amount represents 9 new telephone lines for TDC and a subscription to a post office box. All of these were for TDC even if the invoice was marked for USIPO. An explanation of the balance of $798 was not provided to the auditors.

Questioned cost paid for life insurance premiums. $1,608

TDC requests that this amount be deleted from the audit report. TDC pays no life insurance premiums. If the amount was for foreign medical insurance, this was approved by the Project Officer on May 5, 1993. (See letter attached.)

Questioned fees for personal credit cards. $1,125

TDC requests that this amount be deleted from the audit report. The fees were paid for corporate cards, not personal cards.

66

Draft Report Reference c) Page 23 $20,485
The amount was spent from PGIA but not supported by adequate documents

TDC Response TDC requests that this amount be deleted from the audit report. TDC has the original documents available for inspection. Copies of the documents are attached.

INTERNAL CONTROL STRUCTURE

Draft Report Reference Page 25, 1. There are deficiencies in TDC's Control Environment.

TDC Response As a general comment on this finding, and on the entire report on the internal control structure, TDC believes the language is unduly harsh and moralizing. For example, the finding states in substance that the attitude, awareness and actions of TDC management in general do not comply with project requirements.

TDC states, categorically, that management's attitude is to fully support the project objectives, the requirements of the agreement and good business practice. TDC is absolutely committed to the implementation and execution of a well controlled business operation. In fact, the draft report section on events subsequent to the audit notes that TDC has been responsive to the recommendations in the report and that substantial progress has been made by TDC in addressing the internal control and compliance issues discussed in the draft report. TDC strongly requests that this finding be revised to avoid giving report readers the impression that TDC lacks the will or commitment to implement this project.

The finding goes on to state that the auditors noted "many instances" where incurred costs were charged to line items without regard to USAID/Egypt's regulations or to whether the cost was related to TDC. TDC rejects this statement. TDC knows of no instance where charges were made to budget line items without regard to whether or not the cost was related to TDC. TDC knows of no instance where costs were charged without regard to USAID/Egypt's regulations. TDC strongly requests that this statement be deleted from the report to avoid giving report readers the impression that TDC was irresponsible in the management of USAID/Egypt funds.

With regard to the specific finding that the executive committee has met only twice since the inception of TDC, although the organizational structure calls for the executive committee to assume overall policy making, . TDC notes that there were meetings with individual executive committee members (who are all volunteers serving without compensation) as needed and that there was frequent telephone contact between the Executive Director and individual executive committee members during the period covered by the audit.

Recommendation The audit report notes that a policy and procedures manual is in draft and recommends that a) TDC management comply with the policy and procedures manual after the manual is approved by USAID/Egypt and b) that the manual be changed to require that the executive committee meet quarterly.

TDC will comply with the approved manual. The manual has been modified to provide for annual meetings of the executive committee with more frequent meetings if needed.

***

Draft Report Reference Page 26, 2. There are deficiencies pertaining to TDC's ability to record, process, summarize and report income generated from USAID supported/financed activities.

TDC Response TDC agrees with the substance of this finding as stated in sections 2.1 and 2.2 and is committed to implementing the recommendation. With respect to the specific findings:

Item 2.1 of the audit report states that no prenumbered source documents are used such as cash receipts, cash disbursements vouchers and journal vouchers. TDC notes, however, that there were source documents and records - the program income funds were deposited in a bank account, the account bank statements were on file, receipts from trade show participants were deposited into the account and disbursements from the account required two signatures and were supported by invoices and other documentation.

> TDC will acquire and use prenumbered cash receipts books. With regard to disbursements vouchers, the current TDC practice is to use the check number on the disbursement voucher and that the checks are pre-numbered. With respect to journal vouchers, TDC believes that there will be so few of these, that effective control can be achieved by numbering journal vouchers consecutively as these vouchers are prepared.

Item 2.2 of the audit report states that no project ledger or subsidiaries are maintained.

> Subsequent to the audit, TDC established a program income ledger and reconstructed the transactions from March 1992. Currently, transactions are recorded as they arise.

Recommendation The audit report recommends that TDC establish and implement the accounting records stated in the policy and procedures manual after being approved by USAID/Egypt.

TDC will comply with the approved manual.

***

Draft Report Reference Page 27, 3. There is no system for maintaining, monitoring and reconciling advance accounts. In addition, TDC invoices USAID/Egypt for advances made rather than the actual project costs incurred.

TDC Response TDC agrees with the substance of this finding, including the statement in the audit report that starting in October 1994, advances transactions are recorded in the project ledgers and that advances are no longer billed to USAID/Egypt. With respect to the specific findings:

Item 3.1 of the audit report states that there is no system in place to effectively monitor advances. For example, TDC allows many employees to receive advances without the benefit of adequate records to document and control these advances.

> TDC notes that, whether or not the records are "adequate," there are procedures in place; employees receiving advances in currency from the imprest fund sign for the advances and the advances are monitored by the cashier. Also, vouchers are prepared for advances by check. Advances by check are now shown as open items

in the project ledger and reported to USAID/Egypt on the monthly vouchers. In other words there are records to document and control employee advances.

Item 3.2 of the audit report states that advances are not reconciled on a timely basis; there are often significant delays in reconciliations of the advances.

Since October 1994, the balance of outstanding advances as shown in the project ledger is analyzed and a listing prepared showing the details of the outstanding advances.

Item 3.3 of the audit report states that an advance subsidiary ledger is not maintained to ensure proper matching of actual expenses to the appropriate budget line items and to facilitate the follow-up of the outstanding advances balance.

TDC's procedure is to match actual expenses to the budget line items at the time advances are liquidated. It is at that time that invoices and other supporting documentation are available from the advancee to categorize and support the expenses. Since October 1994, follow-up of outstanding advances is facilitated by information recorded in the project ledger and the periodic detailed listings of outstanding advances.

Item 3.4 states that TDC bills advances to USAID/Egypt rather than the actual project costs incurred.

As noted in the section of the report on events subsequent to the audit period, since October 1994, TDC no longer bills advances to USAID/Egypt.

Recommendation The audit report recommends that:

a) An advances subsidiary ledger should be maintained and should be reviewed and approved by the financial manager.

TDC has set up the detailed advances data in the project ledger itself.

b) Monthly advance totals from the project or cash ledger should be compared with the advances subsidiary ledger and differences should be investigated.

TDC has so few advances outstanding at any one time, it is practical and effective to list the details in the project ledger as notes to the control account: This is being done.

c) Excessive advance balances should be refunded promptly to TDC and additional advances should not be granted without performing reconciliations of prior advances.

Should advance balances become excessive, TDC will arrange for prompt refunds. TDC will consider advances outstanding in determining the timing and amount of additional advances.

***

Draft Report Reference Page 28, 4. Segregation of duties between the custody of cash and the bookkeeping function is lacking.

TDC Response Prior to the approval of the new structure by USAID in January 1995, TDC had limited accounting personnel. In such situations it is not uncommon in the private sector for the same individual to handle, what would otherwise be, dispirit functions.

Given the approval of the new organization structure TDC has already

69

filled the new posts in the accounting structure and is therefore segregating the functions of authorizing transactions, recording transactions, and maintaining custody of assets as recommended by the audit.

Recommendation The audit also made the recommendation that since the manual includes the position of Personnel and Administrative Manager, preparation of the payroll be assigned to the Personnel and Administrative Manager rather than the Accountant/Financial Controller.

TDC believes that to consolidate custody of the personnel records and preparation of the payroll would in effect allow one individual to control who gets paid what amount without benefit of internal check. TDC believes that payroll should be prepared by the accounting department based on information from the personnel department along with approved time and attendance records.

***

Draft Report Reference Page 29, 5. The control procedures over cash are inadequate.

TDC Response TDC agrees that cash transactions are the type of transactions that are significant to the financial statements. With respect to the specific findings:

5.1 The audit report states that bank reconciliation procedures are not adequate and reconciliations are not prepared in a timely manner. Additionally there is no evidence of review or approval of bank reconciliations. Improper bank account reconciliation procedures offer the opportunity for an irregularity to occur and be concealed.

> As noted by the audit report, the TDC Cashier/Administrative Secretary reconciles the bank statements and the Financial Controller reviews them.

5.2 The audit report states that controls over the supply of unused checks are not adequate and there is easy access to stocks of new checks which are vulnerable documents.

> TDC's unused checks are locked up. Regarding access to new checks, the procedure is a) the Financial Controller requests a specific quantity; e. g., "Four books of 50 blank checks", on a form issued by the bank for that purpose; and b) the bank has TDC approval to give the check stock to one TDC messenger who is authorized to receive the checks. The messenger returns the blank checks to the Financial Controller and the supply of checks is locked up. TDC believes that the check stock is adequately controlled.

5.3 The audit report states that control procedures over guarantee checks are grossly inadequate. TDC receives checks from its clients as guarantees of good faith when the clients make reservations to participate in international exhibitions. We noted that:

There is no register maintained for recording the receipt and details of these checks.

Many checks were filed with the supporting documents instead of being kept in a safe.

No individual was assigned the responsibility of receiving and safeguarding these checks.

> TDC notes that there are currently no guarantee checks on hand. The control of these instruments has been the subject of much internal TDC discussion. TDC will set up a register for the receipt and disposition of the checks and lock them up when

10

received. A separate prenumbered cash receipts book will be used by the Cashier to receive guarantee checks. As an added precaution, TDC is considering a requirement that the checks be post-dated to the first day of the exhibition; i. e., the date that a check could be cashed if the exhibitor did not participate in the exhibition. This decision has not yet been taken.

Recommendation The audit report recommends that detailed procedures for preparing bank reconciliations be incorporated in the manual and approval of bank reconciliations be assigned to a responsible officer who is independent of all cash processing and recording activities.

Copies of the April 1995 reconciliations are attached showing the procedures, preparers and approvers.

Recommendation The audit report also recommends that control procedures over unused checks and guarantee checks, such as keeping checks in a locked safe, maintaining a register for guarantee checks and assigning custodial accountability to the responsible individual be incorporated in the manual.

TDC will include procedures in the manual.

***

Draft Report Reference Page 30, 6. The accounting system for the cooperative agreement accounts is not adequate.

TDC Response With respect to the specific findings:

Item 6.1 of the report states that budget amendments are not reflected in the project ledger or billings submitted to USAID/Egypt. As a result, comparison between accumulating actual expenditures and the budget is impaired.

TDC notes that no budget line item has ever been overspent. Each expense voucher submitted to USAID/Egypt shows the cumulative expenditures and the budget by line item. Budget amendments are reflected in the billings when the funding changes become effective; i. e., when cooperative agreement amendments become effective. Thus expenditures are compared and reported to USAID/Egypt on a monthly basis.

Item 6.2 of the audit report states that the project ledger does not include budgetary sub-line items. Accordingly, accumulation and presentation of expenditures incurred, on the sub-line item level, are seriously impaired.

TDC notes that the project ledger accumulates expenditures at the line item level and that this information is adequate to prepare and support the expenditure vouchers submitted to USAID/Egypt. The policy and procedures manual includes a chart of accounts to classify and summarize TDC's transactions. TDC believes that recording sub-line item budgets and expenditures in the project ledger would be unduly cumbersome and redundant.

Item 6.3 of the audit report states that the petty cash register is not maintained and prenumbered forms are not used to control petty cash transactions.

TDC uses an imprest fund to make small currency and coin payments. The paid invoices, advance receipts signed by TDC employees and replenishment vouchers in transit; along with currency, coins and checks must equal the amount of the fund. In this situation, TDC sees little value in using prenumbered forms. Subsequent to the audit, TDC set up a register to make it easier to process replenishment vouchers.

Recommendation The audit report recommended that control procedures, to ensure conformity with USAID/Egypt's approved budget and the maintenance of a project ledger, be added to the policy and procedures manual. Additionally TDC should record the most recent budget amendment in the billings submitted to USAID/Egypt.

TDC will add procedures to the manual for keeping the project ledger. TDC will record the most recent budget amendment figures in the billings submitted to USAID/Egypt.

***

Draft Report Reference Page 31, 7. The control procedures concerning payroll and personnel are not adequate.

TDC Response The audit report noted that salaries and benefits costs represent approximately one third of total expenditures incurred during the audited period. Therefore the design and effectiveness of the control procedures over this area should be closely scrutinized by TDC management. However, during the audit, the auditors noted the following weaknesses relating to management's ability to identify, quantify and control salaries and wages.

TDC agrees that salaries and benefits represent about one third of the expenditures audited. With respect to the weaknesses relating to management's ability, TDC has the following comments on the specific findings:

Item 7.1 of the audit report states that no formal hiring process exists.

TDC has a process. Openings are advertised, resumes are evaluated, candidates are interviewed and from the process, the best candidate is selected.

Item 7.2 of the audit report states that time and attendance records are not complete, and no review is made nor approval given before remuneration is made. This breakdown in the internal control structure may allow employees to be paid for time not worked.

TDC notes that, effective August 1994, employees sign in and out on a daily basis and that time sheets are maintained.

Item 7.3 of the audit report states that no comprehensive payroll sheets are prepared before disbursals are made. This maximizes the risk that an employee may be paid twice for the same effort or that payment may not be in accordance with approved salary rates.

TDC notes that subsequent to the audit field work, comprehensive payrolls were retroactively prepared from the inception of the project and that pay is now based on the payroll. TDC started as a small organization and is still relatively small in terms of number of personnel. TDC knows of no instance where an employee was paid twice or payments were not in accordance with approved salaries.

Item 7.4 of the audit report states that no personnel policy exists to regulate annual increases, bonuses, and staff loans and advances. For example, the auditors noted that: a) annual increases are assessed without the benefit of a documented evaluation process or the support of prescribed criteria, b) employee advances are not reconciled on a timely basis, c) outstanding advances are not liquidated prior to the issuance of new advances; d) certain employees are paid salaries but do not have valid contracts with TDC and e) no salary pay slips are used as evidence that employees have received their salaries.

TDC does annual appraisals as the basis for determining annual salary adjustments. There are criteria. TDC's current policy is no salary advances to employees. Travel and procurement advances are monitored through the advances column in the project ledger and monthly analysis of outstanding advances. All TDC employees have valid contracts with TDC. Employees' salaries are deposited directly into their accounts by TDC's bank and pay slips are issued. Therefore, in addition to the pay slips, there is independent verification that salary has been paid.

As noted in the audit report, payrolls have been prepared retroactively and all the payroll and personnel items included in the audit report have been addressed by the policy and procedures manual.

Recommendation The audit report recommended that TDC comply with the policy and procedures manual after it has been approved by USAID/Egypt.

TDC will comply with the recommendation.

***

Draft Report Reference Page 32, 8. The control procedures over procurements and safeguarding of fixed assets are not adequate.

TDC Response The audit report states that during the audit, the auditors noted the following weaknesses relating to procurement procedures and the safeguarding of fixed assets:

Item 8.1 of the audit report states that no procurement policy is applied. For example, there are no regulations to ensure that TDC obtains competitive bids for items, priced at more than certain specified amounts, or that it chooses the best possible prices for items not subject to competitive bidding requirements, by using approved vendor lists and supply items catalogs. Because of this, the risk exists that TDC may procure goods and services at prices that are not reasonable and competitive. Particularly the auditors noted that no sound procurement procedures were applied for procuring computers and leasehold improvements.

While there is always room for improvement, TDC notes that the computer procurement was approved by USAID/Egypt. The leasehold improvements were also investigated by AID and as noted by the auditors the amounts expended were verified by the investigators.

Item 8.2 of the audit report states that no procedures were followed to ensure that the purchase of unnecessary or duplicate items could not occur. Lack of such procedures may cause TDC to purchase redundant items.

While TDC did not have in place a system of multi-part requisition forms, formally reviewed and approved by management, TDC does note that it was a very small organization in terms of personnel during the period covered by the audit and knows of no instance where unnecessary, duplicate and/or redundant items were procured.

Item 8.3 of the audit report notes that purchasing functions are not assigned to a particular employee or department. Many employees may make purchases on behalf of TDC. Furthermore checks are made payable to the employee who carried out the transactions. This may lead TDC to lose control over regular business transactions and the way may be clear for the processing of unauthorized transactions.

TDC knows of no instance where TDC has lost control over regular business transactions and no instance where an unauthorized transaction has been processed. However, TDC is aware of the importance of sound procurement procedures as evidenced by the procurement requirements of the operations manual and TDC is committed to following sound procurement procedures.

Item 8.4 of the audit report states that assets are not insured, detailed property records are not maintained and physical counts of assets are not performed in a routine manner.

As noted by the report, TDC has made a count of physical assets and a detailed list has been prepared. The next step is to incorporate these assets into the accounting records including the general ledger and subsidiary property records. TDC will also initiate competitive procurement actions to arrange for reasonable insurance coverage.

The audit report noted that subsequent to the audit period, a physical count of assets was made and the policy and procedures manual was provided.

Recommendation The audit report recommended that TDC comply with the policy and procedures manual after it is approved by USAID/Egypt and compare the property list with the capital costs line item which was charged to USAID/Egypt.

TDC will comply with the recommendation.

***

Draft Report Reference Page 34, 9. The control over the filing system is not adequate.

TDC Response The audit report states that during the audit the auditors noted that TDC staff were unable to locate numerous documents. A sound internal control system requires that all significant events and transactions be clearly documented and available for examination. The auditors believe that TDC's inability to locate certain documents is attributable to inadequate controls over the storage of documents and inadequate assignment of responsible staff for maintaining complete and organized files.

The report goes on to state that as a result documents supporting approximately $138,000 of total cost incurred during the period could not be located.

TDC notes that the auditors questioned $65,626 of Trade Shows costs as unsupported due to the filing system. TDC believes that the files support $46,688 of these costs. Copies of the supporting documents are submitted to the auditors in TDC's response to the monetary findings. The documents supporting $18,938 could not be located by TDC subsequent to the audit.

Recommendation The audit report recommends that TDC comply with the policy and procedures manual after it has been approved by USAID/Egypt and also recommends that TDC use a filing system that is documented, sufficiently controlled, and tracks documents or files throughout the transaction process, and further recommends that the accounting system should not record any payment that is not supported by adequate documents or does not have the necessary approvals.

TDC recognizes the importance of the files, will comply with the policy and procedures manual and avoid recording any payment not supported by adequate documents or necessary approvals.

***

Draft Report Reference Page 34, 10. There is no price list or formal policy for regulating TDC client commissions.

TDC Response The agreement with USAID is that a full policy of self sustainability be developed during the plan period 1995/96. Prior to this the objective has been to test what the market will bear in terms of cost recoupment. This is being done in the absence in the market-place of a track record of development projects charging for their services. In fact there have been instances when TDC has been charging for a particular service which was provided free by another project. In other instances there has been no competition.

For TDC to fix it's prices to a particular list in this unstructured market would be detrimental to it's ability to negotiate with clients. TDC's general approach to cost recoupment is to maximize cost recovery where possible while treating similar clients/jobs on an equal basis.

<u>Draft Report Reference</u> Page 35, 11. The control procedures over international telephone calls are inadequate.

<u>TDC Response</u> The audit report states that TDC does not maintain logs or other records and that international lines are available to all TDC staff.

As stated in the audit report, the auditors noted that, subsequent to the audit period, TDC implemented adequate control procedures over international calls.

***

<u>Draft Report Reference</u> Page 35, 12. The control procedures over vehicle usage are inadequate.

<u>TDC Response</u> The audit report noted that there were no vehicle logs to distinguish between personal and business use.

As noted by the audit report, TDC instituted vehicle logs and a system of charges for non-official usage of vehicles.

***

<u>Draft Report Reference</u> Page 36, 13. There is a lack of control over the payment process.

<u>TDC Response</u> The audit report states that from the auditors' review of supporting documentation, it is not evident if and when an invoice has been paid. Unless paid invoices are marked "paid", the possibility exists that an invoice may be paid more than once, hence depleting the cash assets and indicating a weakness in the internal control system.

The audit report also states that TDC's policy and procedures manual control procedures for cash disbursements do not include a method that prevents invoices from being paid twice.

<u>Recommendation</u> The audit report recommends that TDC mark all invoices "paid" at the time they are processed for payment.

TDC knows of <u>no instance</u> where an invoice had been paid more than once resulting in cash assets being depleted and internal control weakened because invoices were not marked paid and it was not evident if and when an invoice had been paid.

TDC notes that the payment approval process may be weakened if reviewers rely too much on a "paid" mark as opposed to examination of supporting documentation.

However, TDC now has a rubber stamp with line items for inserting the date and the check number and invoices are marked paid, including the date and the check number.

***

<u>Draft Report Reference</u> Page 38, 1. TDC has no legal status in Egypt.

15

TDC Response The audit report states that a) TDC was not registered in accordance with applicable Egyptian law, b) the cooperative agreement provides that "TDC shall be established as a legal entity within one year following the award of the agreement, unless such requirement is waived by the Mission Director in writing" (underlining added), c) TDC should have been registered before March 15, 1993, and d) the noncompliance is a material violation of both the Cooperative Agreement and Egyptian law.
The audit report notes that TDC received legal advice on November 10, 1992, on alternative ways in which TDC could be registered in Egypt, and since that date, TDC has not taken any action regarding this matter (underlining added).

TDC notes that the USAID/Egypt Mission Director approved a waiver of the "separate legal entity" requirement for TDC on December 21, 1992. TDC believes that no further action is necessary at this time.

***

Draft Report Reference Page 38, 2. Instances of noncompliance with the cooperative agreement.

TDC Response The audit report states that TDC did not comply with provisions of the cooperative agreement regarding the allowability, allocability and reasonableness of costs charged to USAID/Egypt and that cost were charges to USAID/Egypt that were neither approved nor supported by adequate documents.

TDC has included in this response to the audit report detailed comments on the questioned costs. As shown in the detailed comments, TDC believes that all of the costs questioned by the auditors are eligible and supported under the terms of the cooperative agreement and should be deleted from the report, with the exception of some telephone calls and questioned sales taxes and VAT amounting to less than $20,000.

Recommendation The audit report recommends that TDC take necessary corrective actions to comply with the cooperative agreement and ensure that all costs billed to USAID/Egypt are within the USAID/Egypt approved budget or have prior approval from USAID/Egypt.

TDC believes it is in material compliance with the cooperative agreement. TDC believes that with the exception of the aforementioned tax payments/collections, all costs billed to USAID/Egypt are within the approved budget. However, TDC has in process a policy and procedures manual that addresses many of the concerns expressed by the auditors in other sections of this report.

Therefore, TDC believes this recommendation is redundant and should be deleted from the report. TDC also notes that the language of the recommendation is so unspecific that it would be difficult to reach agreement on when the recommendation is implemented.

***

Draft Report Reference Page 40, 1. Instance of noncompliance with the applicable regulations and local laws of the Government of Egypt.

TDC Response The audit report states that the auditors noted that TDC did not withhold taxes on payments for purchases, supplies or services. This non compliance may expose TDC to penalties assessed by the Government of Egypt.

TDC will explore ways to resolve this difficult compliance situation with USAID/Egypt.

APPENDIX II

AUDITOR'S COMMENTS

Auditors' Comments

General

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

Our comments follow the sequence of the findings and TDC's responses. Attachments to TDC's responses are not included in Appendix I, because some of them are in Arabic. These attachments are available upon request.

Reclassification of Questioned Costs

Questioned Costs were presented in the draft report as ineligible and unsupported costs. Unsupported costs included costs that were not supported by adequate documentation or did not have the required prior approval. For the purpose of segregating the unsupported costs, all unapproved costs were reclassified under the "ineligible" column as unallowable costs.

The Cooperative Agreement Fund Accountability Statement

1. Salaries and Benefits

a) TDC's management asserted that this amount represents termination payments. Termination payments are not included in the USAID/Egypt's applicable budget, and no USAID approval was obtained for this type of payment. Therefore, we still consider this amount to be an unapproved cost. Our position remains the same.

b) TDC's management asserted that the consultants' fees were inadvertently left out of the budget. Because the approved budget did not include consultants' fees during the period in which this amount was charged to USAID/Egypt, and the said amount was paid based on a consultancy contract, we still consider the amount to be an unapproved cost. Our position remains the same.

c) TDC's management asserted that it believes that the annual bonus entry in the amendment No.4 budget was an error and amendment No.4 was not controlling the budget during the period when these costs were incurred. Because amendment No.4 restated the project budget since the inception of the agreement, and was accepted by TDC management, amendment No.4 budget was applied as criteria. Therefore, annual bonuses paid in excess of that budget are still considered to be unapproved. Our position remains the same.

d) TDC classified the said amount in the accounting books and in the voucher submitted to USAID/Egypt as a medical insurance rather than other direct costs. However, based on the documents subsequently provided to us, this finding has been removed.

e) Based on the documents and clarification subsequently provided to us, this finding has been removed.

2. Other Direct Costs

a) TDC's response does not change our position. The said amount is still considered to be unallowable.

b) TDC's management asserted that "the additions to the air conditioning were part of the refurbishment of the office space".

Item (4).b.(1), Article 13 of OMB Circular No.A-122 states that "Capital expenditures for general purpose equipment are unallowable as a direct cost except with the prior approval of awarding agency".

Additionally, item (4).d. of this circular states that "capital expenditures for improvements to land buildings, or equipment which materially increase their value or useful life are unallowable as a direct cost except with the prior approval of the awarding agency.

Item(4), Article 13 of OMB Circular No.A-122 gives the following examples of general purpose equipment: office equipment and furnishing, air conditioning, equipment, motor vehicles and automatic data processing equipment.

Because the Agreement budget does not include capital costs for air conditioners and because USAID/Egypt approval of such expenses was not obtained, this finding is still considered to be unapproved and our position remains the same.

c) Based on the documents and clarification subsequently provided to us, this finding has been removed.

d) We agree with TDC's management that the rental expenses were for part of the 16th floor. However,

these expenses were paid before the initiation of the Cooperative Agreement and the approved budget does not include pre-operating expenses. Therefore, this amount is still considered to be unallocable. Our position remains the same.

e) Based on USAID/Egypt's approval, which has been provided to us subsequent to the issuance of the draft report, this finding has been removed.

f) TDC's management asserted that it tested the international calls, which looked unfamiliar and could not be immediately identified as business calls, and it believes that the majority of the calls were official.

Because this verification was limited to only calls which looked unfamiliar and did not include all international calls, we were unable to satisfy ourselves that the majority of the calls were official as asserted by the management. Therefore, our position remains the same.

3. <u>Capital Cost</u>

a) Based on TDC's management response, our position remains the same.

b) Based on the documents and clarification provided to us, subsequent to the issuance of the draft report, this finding has been removed.

c) Statement No.31 on auditing standards states that "To be competent, evidence must be both valid and relevant". Supporting documents not addressed to an organization are considered to be irrelevant. Therefore, our position remains the same.

d) This finding has been discussed with the Office of Investigations - Cairo Field Office - (RIG/I) - to discuss the objectives and scope of work, procedures made and evidence obtained by RIG/I.

Based on the work performed, either by RIG/I or ourselves, we are not able to assure the reasonableness of the amount charged to USAID/Egypt as a leasehold improvement. Therefore, our position remains the same. However, we reclassified the questioned cost as unreasonable

under the "ineligible" column rather than "unsupported" column.

4. <u>Technical Assistance</u>

a)&b) TDC's management response does not change our position. Therefore, these amounts are still considered to be questioned costs.

5. <u>Promotion Materials</u>

a) TDC's management asserted that USAID/Egypt's implicit approval was obtained. USAID/Egypt's explicit and documented approval is required. Therefore, our position remains the same.

b) Documents provided to us with the TDC management response are the same documents that we verified during our audit. These documents are not adequate to support the cost charged to USAID/Egypt. Therefore, our position remains the same.

c) Documents and clarification provided to us do not change our position which remains the same.

6. <u>Trade shows</u>

a) Based on TDC's management response, our position remains the same.

b) Based on TDC's management response, this finding has been modified as follows:

	Amount as per the draft report	Resolved questioned cost	Remaining questioned cost
Interstaff Exhibition	$ 27,000	-- (1)	27,000
Cibus Participation fee	4,378	3,709 (2)	669 (3)
Koln Mess stand/ equipment rental	12,665	11,013 (2)	1,652 (3)
Sial Exhibition	2,645	-- (1)	2,645
Vouchers misplaced	18,938	-- (1)	18,938
	$ 65,626	**14,722**	**50,904**

(1) Documents provided to us are not adequate.

(2) Based on documents, subsequently provided to us, this amount has been removed.

(3) This amount represents value added tax charged to USAID/Egypt.

Accordingly, the total of questioned costs became $50,904 which is made up of unsupported costs amounting to $48,593 and unallowable costs amounting to $2,321.

c) TDC's management asserted that USAID/Egypt's implicit approval was obtained for participation in the Nairobi exhibition. However, USAID/Egypt's explicit and documented approval is required. Therefore, our position remains the same.

The Dubai exhibition was for "Software Development". Article II.B.2.a, Attachment No.2 of the Cooperative Agreement states that "The project shall target assistance to selected group of high potential Egyptian procedures to build Egypt's capacity to increase exports to Europe and the Middle East in two primary sectors: light manufacturing and fruits and vegetables". We believe that "Software Development" is irrelevant to either the light manufacturing or the fruits and vegetables sectors. Therefore, USAID/Egypt's approval is required for this exhibition. Our position remains the same.

d) Documents and clarification, subsequently provided to us, do not change our position which remains the same.

e) TDC's management asserted that decoration of booths with leased flowers/plants is a common practice at these events. However, we still believe that such expenses are unallowable. Our position remains the same.

f) Documents provided to us, which are the same documents that we verified during our audit, do not change our position. Therefore, this amount is still considered to be unallowable.

Auditor's Comments

Program Income Fund Accountability Statement

Item a) page 23

This cost has been questioned based on the type and nature of the expenditures and has no relation to the total budget. Our position remains the same.

Item b) page 23

This is related to a questioned cost of $3,599. According to TDC records, this amount represents the refund to USAID/Egypt, by a bank draft dated December 22, 1993, of a questioned cost raised during the Non Federal Audit of USIPO. Our position remains the same.

Based on documents and clarification subsequently provided to us, the amounts of $1,608 and $1,125 have been removed.

Item c) page 24

Documents provided to us do not change our position. Therefore, this amount is still considered to be unsupported.

Additionally, paragraph 24, Appendix A of OMB circular A-110 states that "Program income earned during the project period should retained by the recipient in accordance with the federal awarding agency regulations or the terms and conditions of the award". Therefore our position regarding the ineligible costs remains the same.

Auditors' Comments

Internal Control Structure

Page No.27, finding No.1

TDC's management agreed on our recommendation in spite of the fact that they disagree on the finding. However, our position remains the same.

Page No.28 and 29, findings No.2 and 3

TDC's management agree with the substance of this finding. Our position remains the same.

Page No.30 through 38, findings No.4 through 13

TDC's management response does not change our position which remains the same.

****

Auditors' Comments

Compliance with Laws and Regulations

Page No.41, findings No.1 and 2

TDC's management response does not change our position which remains the same.

Page No.44, finding No.1

TDC's management response does not change our position which remains the same.

APPENDIX III

MISSION'S COMMENTS

USAID

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

August 20, 1995

MEMORANDUM

TO: Louis Mundy, RIG/A/C

FROM : Shirley Hunter, OD/FM/FA

Subject : Audit of The Trade Development Center - Egypt (TDC), Cooperative Agreement No. 263-0226-A-00-2027-00 and the Related Program Income Account. Draft Report Dated July 19, 1995.

Following is the Mission response to the subject draft report:

Recommendation No. 1:

Finding No. (1.b): The Ineligible amount of $6,716 - page No. 14 of the audit report.

* The amount represents consultants fees not included in the USAID approved budget as per amendment No. 4 of the Cooperative Agreement. Although the amendment was issued subsequent to the payment of the fees, it restated the project budget since the inception of the agreement.

* Although the consultant fees were not specifically stated under the sub-categories of the "salaries and benefits" line item of amendment No. 4, Mission believes that the sub-categories were included for illustrative purpose only, and that it was not the intention to prohibit the payments of such fees. To document this fact, amendment No. 6 was issued approving a revised budget which covered the period from the project inception through March 1996 (see copy attached). The revised budget included the main line items only to provide more flexibility to TDC management in determining the types of expenses under each line item.

Based on the above, Mission believes that the amount is considered eligible and requests closure of this part of the recommendation.

106 Kasr El Aini Street
Garden City
Cairo, Egypt

Finding No. (1.c): The Ineligible amount of $5,371 - page No. 12 of the audit report.

* The amount represents annual bonuses paid to TDC employees in excess of the USAID approved budget as per amendment No. 4 of the Cooperative agreement. The amendment approved annual bonuses of $596 while the payments amounted to $5,967.

* TDC has responded that the bonuses' expenses incurred in the Fiscal Year ending March 16, 1994, amounted to LE 19,900. Amendment No. 4 was issued subsequent to March 16, 1994 and has, erroneously, included a revised budget of LE 1,990 for bonuses for the same period. Mission concurs with TDC response, and believes that this typographical error is confirmed by the fact that the previous approved budgets for bonuses actually exceeded the annual average of LE 25,000. Accordingly, Mission has taken a corrective action by issuing amendment No. 6, which included consolidated line items and provided sufficient coverage for the questioned amount.

Therefore, this amount is now considered eligible and Mission requests closure of this part of the recommendation.

Finding No. (4.a): The Ineligible amount of $4,328 - page No. 18 of the audit report.

* This amount represents legal fees paid by TDC in the absence of budget provision or USAID approval.

* In his memo dated May 29, 1995, the cognizant USAID Project Officer has responded that the legal fees were necessary for TDC activities to obtain legal assistance and advises regarding an employee dismissal case, and for establishing a tax file. The Project Officer has also confirmed that his verbal approval was given to TDC, at that time, to incur these expenses. Further, attached is an e-mail from LEG, dated June 13, 1995, confirming that the Project officer has no problem in retroactively approving such costs.

Mission believes that the amount is now considered eligible and requests closure of this part of the recommendation.

Based on the above, Mission requests that the $344,007 questioned under recommendation No. 1 be reduced by $16,415. Mission is working with TDC management to resolve the remaining $327,592.

<u>Recommendation Nos. 2 and 3:</u>

Mission worked closely with the auditee to resolve the material internal control weaknesses and non-compliance issues during the discussion paper and draft stages. TDC has assigned a financial consultant to assist in addressing the findings, and has taken corrective actions including the issuance of a revised financial and administrative manual (see attached TI/FI memo dated July 25, 1995 and TDC letter dated August 2, 1995).

Accordingly, Mission requests that recommendation Nos. 2 and 3 be resolved. Closure will be requested upon the USAID final assessment of the corrective actions, and the approval of TDC financial and administrative manual.

Based on the above, Mission requests the issuance of the final report.

USAID

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

MEMORANDUM

TO: Tim O'Connor, TI/FI

FROM: Fred K. Kirschstein, TI/FI

SUBJECT: Legal Costs of TDC

DATE: 5/29/95

I understand that the auditors may question TDC's expenses incurred for legal advice. As you may know, USAID required in the Cooperative Agreement that TDC obtain legal status believing (erroneously) that TDC had no legal status. This requirement stemmed from an inability of various government ministries to deal with organizations created by Presidential decree. The French legal system, as it is applied in Egypt, allows for the creation of organizations such as TDC through either Presidential Decree, laws passed by the People's Assembly, or Ministerial Decrees. Organizations created in such a way are legal. Egypt, however, has not made provisions for how organizations formed under Ministerial or Presidential decrees will be treated by other Administrative offices. This fact led to misunderstanding within USAID concerning the legal status of TDC.

The different hierarchy of law coupled with the underdeveloped state of Egyptian law related to the private sector including contract law, trust law, and a variety of other areas (which TDC by virtue of its design had to address) raised a host of questions amongst Project Committee members on the basic legalities of TDC's activities. Given the abscence of law in many of these areas, USAID requested on several occasions that TDC obtain some legal advice. (Whether legal advice is the same as legal counsel is debatable and I would argue that the intent of the prohibition on legal counsel was not intended for the purposes presently being used by the auditors of TDC). However, what is not debatable is that seeking such advice was a directive to TDC from one USAID office or another.

Throughout the initial three years of TDC, committee members would require legal advice before agreeing to various activities under discussion at TDC. A few examples will suffice to make the point. TDC had been advised by USAID contracted technical assistance to join the New Desert Growers with an equity investment. The purpose of this exploratory issue was to find a legal entity which also had the possibility of creating a self sustaining organization. Making a direct equity investment had never been done before in a USAID project and legal advice was

106 Kasr El Aini Street
Garden City
Cairo, Egypt

critical to avoid audit vulnerabilities. The result of that episode led to suggestions from TDC's legal counsel that a "trust" account might be a better option which again led to further legal questions. The quest to satisfy the legal structural question required of TDC in the Cooperative Agreement led to a variety of other questions which were directly related to TDC's efforts to become a self-sustaining, legal organization under Egyptian law.

As for the legal expenses incurred for advice on employee dismissals, it should be noted that Egyptian law makes in almost impossible to dismiss an employee. To avoid project delay, significant cost, and other complexities, some USAID projects either retain the employees or pay exorbitant amounts to avoid the courts. USIPO's and TDC's approach was more consistent with Western management style and saved both tax payer dollars and TDC project monies. To penalize them for this approach would be short sighted and inflexible. USAID projects must have the ability to dismiss employees for fraud, unethical behavior, or graft. To require that we not expend funds cost effectively to dismiss these employees would not sit well with the U.S. Congress or the Office of the Regional Inspector General.

TDC's expenditures for legal advice on the tax file was directly related to its legal status. It is not the fault of TDC that Egypt has made no allowance for how organizations formed under Ministerial decrees or Presidential decrees will be treated by other Government offices or Ministries. That is a hole in Egypt's legal code which neither USAID or TDC had the ability to correct.

Consequently, this letter will certify that in the case of Rafik Abbar and in the case of the tax filing, I, as the TDC project officer at that time, verbally approved seeking legal advice in both of those cases.

USAID

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

MEMORANDUM

Date: July 25, 1995

From: Mona Kaldas, TI/FI

To: Mohamed Mounir, FM/FA

Subject: Approval of Operations Manual
Trade Development Center (TDC)
Export Enterprise Development Project
No. 263-0226

Attached is a copy of the revised draft of the TDC Operations Manual (Part I). Please let me know if yoy have any comments on this draft. Your approval of this draft is needed for its acceptance by USAID. Thank you.

106 Kasr El Aini Street
Garden City
Cairo, Egypt

Operations Manual
for
The Trade Development Center

Operations Manual

PART I

Developed by
Chemonics International
Export Enterprises Development Project
July 1995

Table Of Contents

94

DUPLICATE
ORIGINAL

 Sec. (6)

AMENDMENT OF COOPERATIVE AGREEMENT

1. **COOP AGREEMENT No.:** 263-0226-A-00-2027-00
2. **COOP AGREEMENT Effective Date:** 03/16/1992
3. **Amendment No.:** 06
4. **Effective Date of Amendment** : May 31, 1995

5. **Recipient:** (Name and Address)

Egypt U.S. Joint Business Council
Trade Development Center
21 Giza St., Flr. 16
Giza, Egypt

6. **Administered By:**

Office of Contract Services
USAID/Cairo
Cairo Center Bldg., 10th Flr.
106 Kasr El Aini St.,
Cairo, Egypt

7. **Fiscal Data:**

PIO/T No.: N/A
Appropri tion No.: n/a
Allotment Symbol : n/a
Technical Office: TI/FI

8. **Previous PIO/T's:**

263-0225-3-92032, A.1., A.2., A.3., A.4., and A.5.

Amt. Oblig. Prior to this Amendment:	$2,193,406	LE6,934,882
Amt. Oblig. by this Amendment :	$ -0-	LE -0-
Total Obligated Amount :	$2,193,406	LE6,934,406

9. A. The purpose of this Amendment No. 06 is as stated on the following pages.

(continued on page two)

AID TECHNICAL OFFICE: USAID/Egypt, TI/FI

10. This Amendment is entered into pursuant to the authority of the Foreign Assistance Act of 1961, as amended. Except as herein provided, all terms and conditions of the grant referenced in Block 1 remain unchanged and in full force and effect.

11. Recipient is required to sign this document(for acknowledgement) and return 6 copies.

12. RECIPIENT:
EGYPT-U.S. JOINT BUSINESS COUNCIL

BY: [illegible signature]

NAME: Ali El Husseini

TITLE: Chairman, Executive Committee

DATE: [illegible]

THE UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT

BY: James C. Athanas

James C. Athanas

TITLE: Agreement Officer

DATE: 6-1-95

CA No.:263-0226-A-00-2027-06
Egypt-U.S Joint Business Council/TDC
Page Two

The purpose of this amendment is to correct errors in the budget as put forth in Amendment number 04 of this Agreement and to implement new guidance regarding award and administration of Grants and Cooperative Agreements. Therefore the Agreement is modified as follows:

I. Attachment 1, Schedule (pg. 2 of 12)
D.1 - Cooperative Agreement Budget

Delete the budget as shown in its entirety and insert in lieu thereof the attached budget shown as Attachment 1a.

** - The Recipient shall only make revisions to this budget in accordance with clause of this Agreement entitled revision of Grant (Agreement) budget. Absent any of the requirements of the clause necessitating a request to the Agreement Officer, the recipient shall have complete flexibility regarding line items. When making revisions to the budget (that do not require Agreement Officer approval) the Recipient shall, when submitting requests for payments, include a budget showing the revised line items and amounts against which the invoice is submitted.

The effective date of this amendment is the date of the Agreement Officer's signature on the face of this document but this budget revision shall apply to programmatic expenditures for the period March 16, 1994 until the expiration of this Agreement, unless amended in writing by the Agreement Officer.

GV

TDC BUDGET FOR YEAR 4 (1995/6) AND REMAINING PIPELINE FUNDS								
	BUDGET TOTAL YR1-3 Mar. 92 - Mar. 95		BUDGET YR4 Mar.'95 - Mar. '96		PIPELINE FUNDS (REMAINING BALANCE)		FUNDS REQUIRED YR4 Mar.'95 - Mar. '96	
	LE	US$	LE	US$	LE	US$	LE	US$
SALARIES AND BENEFITS	1,810,941	0	1,449,634	0	296,923	0	1,152,711	0
OTHER DIRECT COSTS	3,412,867	475,391	1,521,750	100,000	1,061,713	252,490	460,037	(152,490)
CAPITAL COSTS	484,585	0	1,232,000	0	0 56,451	0	1,175,549	0
TECHNICAL ASSISTANCE	106,240	378,166	50,000	511,000	0 96,740	163,143	(46,740)	347,857
PROM. EVENTS/MATERIALS	452,929	1,339,849	100,000	569,214	289,963	364,143	(189,963)	205,071
MIS	667,320	0	602,870	0	602,870	0	0	0
TOTAL	6,934,882	2,193,406	4,956,254	1,180,214	2,404,660	779,776	2,551,594	400,438
TOTALS CONVERTED TO US$	2,088,820	2,193,406	1,492,848	1,180,214	724,295	779,776	768,552	400,438
COMBINED TOTALS L.E. & US$		4,282,226		2,673,062		1,504,071		1,168,990

Tim OConnor@TI.FI@CAIRO
Jim Athanas@PROC@CAIRO,Eugene Rauch@PDS.PS@CAIRO

c:
om: Vicki Moore@LEG.AD@CAIRO
oject: re: Legal Fees
te: Tuesday, June 13, 1995 18:59:41 CAI
tach:
rtify: Y
rwarded by:

---

m,

rry for the delay in responding. Based on the information you provided and at I already know, assuming the cooperative agreement officer has no problem th retroactively approving these costs, I would support taking that action. do, however, need to make sure that TDC understands that approval in advance needed in the future for these types of expenditures, if they are expected be financed by USAID. Thanks, VM