

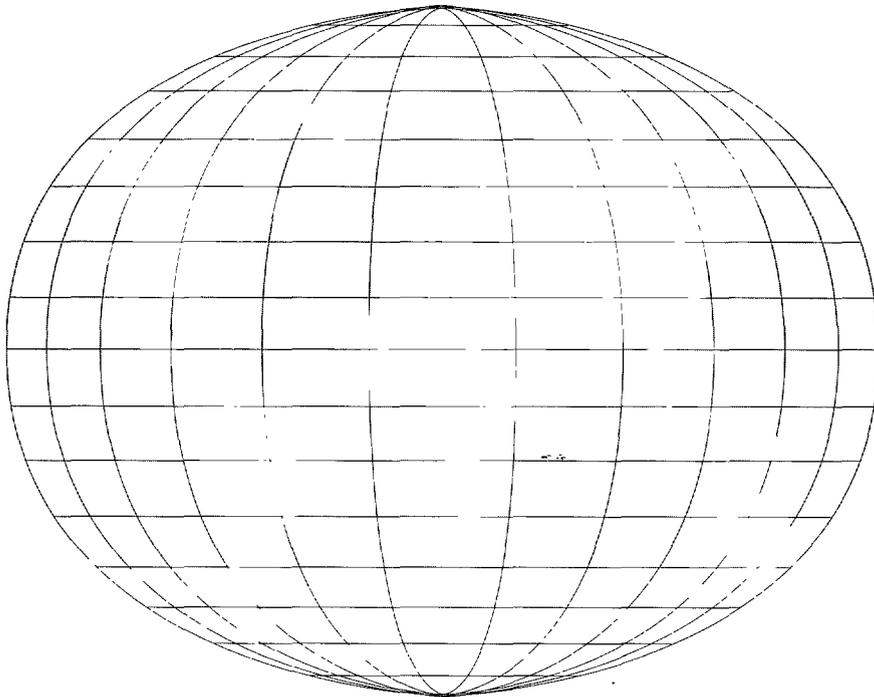
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Report of Audit

Financial Audit of the Ministry of Higher Education's Peace Fellowship Program Under USAID/Egypt's Development Training Project (USAID/Egypt Project No. 263-0125)

Regional Inspector General for Audit
Cairo, Egypt

Report No. 6-263-96-25-N
July 3, 1996



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

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



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

CAIRO, EGYPT

July 3, 1996

MEMORANDUM

TO : DIRECTOR USAID/Egypt, Toni Christiansen-Wagner (Acting)

FROM: RIG/A/C, John Ottke (Acting) *John J. Ottke*

SUBJECT: Financial Audit of the Ministry of Higher Education's Peace Fellowship Program Under USAID/Egypt's Development Training Project (USAID/Egypt Project No. 263-0125)

The attached report, transmitted on May 15, 1996, by Price Waterhouse, presents the results of a financial audit of the Ministry of Higher Education's (Ministry's) Peace Fellowship Program (Program) under Project Implementation Letters Nos. 12 and 14, and FT-800 Agreement No. 7 of the Development Training Project; USAID/Egypt Project No. 263-0125. The purpose of the Program is to provide scholarships to Egyptians primarily for graduate study in the United States in disciplines identified as critical to Egypt's development.

We engaged Price Waterhouse to perform a financial audit of the Program's incurred expenditures of \$1,203,691 (equivalent to LE4,056,441) and revenues received of \$1,221,517 (equivalent to LE4,116,511) for the periods January 1, 1993 through January 31, 1995; January 1, 1993 through July 31, 1995; and January 1, 1993 through July 31, 1995 for each respective agreement. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Price Waterhouse also evaluated the Ministry's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement.

The audit report questions \$373 (equivalent to LE1,257) in costs billed to USAID/Egypt by the Ministry. The questioned costs related primarily to advance program participant maintenance allowances which were not returned to the Program account. Additionally,

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the auditors noted two reportable conditions in the Program's internal control structure, and no instances of material noncompliance with applicable laws, regulations, and agreement terms.

In response to the draft report, responsible Ministry officials provided additional explanation to the questioned costs. Price Waterhouse reviewed the Ministry's response to the findings and where applicable made adjustments to the report or provided further clarification of their position (see Appendices A and B).

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

Recommendation No. 1: We recommend that USAID/Egypt resolve the ineligible questioned costs of \$373 detailed on page 8 of the Price Waterhouse audit report, and recover from the Ministry of Higher Education the amounts determined to be unallowable.

In its response to the audit report, the Mission has sustained \$373 of the questioned costs, and collected this amount from the Ministry (See Appendix C). Therefore, Recommendation No. 1 is resolved and closed.

The reportable conditions identified by the auditor's review of the Ministry's internal control structure should be handled directly between Mission and Ministry officials.

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

Attachment: a/s

MINISTRY OF HIGHER EDUCATION

**PROJECT IMPLEMENTATION LETTERS NO. 12, 14
AND FT-800 AGREEMENT NO. 7
UNDER THE USAID/EGYPT
PEACE FELLOWSHIP PROGRAM OF
DEVELOPMENT TRAINING PROJECT NO. 263-0125.1**

**FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION
FOR THE PERIODS
JANUARY 1, 1993 THROUGH JANUARY 31, 1995
(PIL NO. 12) AND
JANUARY 1, 1993 THROUGH JULY 31, 1995
(PIL NO. 14 AND FT-800 AGREEMENT NO. 7)**

MINISTRY OF HIGHER EDUCATION
PROJECT IMPLEMENTATION LETTERS NO. 12, 14
AND FT-800 AGREEMENT NO. 7
UNDER THE USAID/EGYPT
PEACE FELLOWSHIP PROGRAM OF
DEVELOPMENT TRAINING PROJECT NO. 263-0125.1

FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION
FOR THE PERIODS
JANUARY 1, 1993 THROUGH JANUARY 31, 1995
(PIL NO. 12) AND
JANUARY 1, 1993 THROUGH JULY 31, 1995
(PIL NO. 14 AND FT-800 AGREEMENT NO. 7)

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Price Waterhouse



May 15, 1996

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

Dear Mr. Mundy:

This report presents the results of our financial related audit of program revenues received and costs incurred by the Ministry of Higher Education ("MOHE") on behalf of the Peace Fellowship Program of the Development Training Project. The audit population includes revenues received and costs incurred by MOHE under Project Implementation Letters ("PILs") No. 12, 14 and FT-800 Agreement No. 7 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Grant Agreement No. 263-0125.1 ("Grant Agreement") (collectively, the "Agreements") for the periods January 1, 1993 through January 31, 1995 for PIL No. 12, and January 1, 1993 through July 31, 1995 for PIL No. 14 and FT-800 Agreement No. 7 (collectively, the "Audit Periods.")

Background

The Peace Fellowship Program ("program") is a component of Development Training Project No. 263-0125.1. The program, which commenced September 26, 1985, provided scholarships to Egyptians primarily for graduate study in the United States in disciplines identified as critical to Egypt's development. The completion date of the program was September 25, 1995.

MOHE managed the operations of the program. MOHE advertised for candidates, screened and interviewed applicants, and disbursed monies for travel and allowances. The program received 100% of its funding from USAID/Egypt. The GOE did, however, provide non-monetary assistance in the way of personnel, office space and technical assistance.

Program accounts are segregated from other MOHE funds and are denominated in U.S. Dollars ("\$") and Egyptian Pounds ("LE"). PIL No. 12 is denominated in Dollars and was used for participant per diem costs. FT-800 Agreement No. 7 is denominated in Egyptian Pounds and was reserved for air travel and excess baggage costs of participants. PIL No. 14 is denominated in Dollars and Egyptian Pounds. The Dollar portion was used for MOHE personnel training in the United States. The Egyptian Pound portion was expended on local support costs.

Audit Objectives and Scope

The objective of this engagement was to perform a financial related audit of project revenues received and costs incurred by MOHE under the Agreements during the Audit Periods. Specific objectives were to perform and determine the following:

1. Express an opinion on whether the fund accountability statement for the USAID/Egypt financed program presents fairly, in all material respects, program revenues received and costs incurred during the Audit Periods in conformity with generally accepted accounting principles or another comprehensive basis of accounting;



2. Determine if the costs reported as incurred under PILs No. 12, 14 and FT-800 Agreement No. 7 are in fact allowable and allocable in accordance with the terms of the Agreements;
3. Evaluate and obtain a sufficient understanding of the internal control structure of MOHE as it relates to the Agreements, assess control risk, and identify reportable conditions, including material internal control weaknesses;
4. Perform tests to determine whether MOHE complied, in all material respects, with the terms of the Agreements and with applicable laws and regulations; and
5. Determine if MOHE has taken corrective action on prior audit report recommendations.

Preliminary planning and review procedures began in November 1995. These procedures consisted of discussions with personnel from the office of the Regional Inspector General for Audit in Cairo and MOHE management, as well as a review of Financial Analysis Support Team reports and prior non-federal audit reports. Audit fieldwork commenced in December 1995 and was completed in May 1996.

The scope of our audit included a population of program costs amounting to \$1,203,691 or LE 4,056,441. On a judgmental basis, we selected and tested \$445,725 or LE 1,502,093 (37 %) of these costs. Our audit population also included \$1,221,517 or LE 4,116,511 of program revenues received. We tested one hundred percent of these revenues.

Our tests of program costs incurred by MOHE included, but were not limited to, the following:

1. Reconciling MOHE program accounting records to billings issued to USAID/Egypt to ensure that program costs were appropriately supported.
2. Testing program costs funded by USAID/Egypt for allowability and allocability.
3. Determining if travel and excess baggage costs were properly approved.
4. Establishing the adequacy of MOHE control procedures, as they relate to the Agreements, to safeguard program funds/assets.

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

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



As part of our examination of MOHE, we assessed internal controls, as they relate to the Agreements, in order to determine our auditing procedures. We also reviewed MOHE's compliance with applicable laws, regulations, contracts and grants as they relate to the Agreements.

Results of Audit

Fund Accountability Statement

Our audit procedures identified \$373 or LE 1,257 of ineligible questioned amounts. No unsupported questioned amounts were identified. The fund accountability statement and the detail of questionable program amounts, both as incurred in Egyptian pounds, are included in supplemental schedules to this report.

Internal Control Structure

Our audit procedures identified two reportable conditions in the internal control structure of MOHE as it relates to the Agreements: these conditions are not considered material weaknesses.

1. Monthly bank reconciliations are not performed for certain accounts.
2. USAID/Egypt funds were commingled between PILs No. 12 and No. 14.

Compliance with Laws, Regulations, Contracts and Grants

The results of our tests disclosed no material instances of non-compliance.

Follow up on Prior Audit Recommendations

We have reviewed the prior audit report of MOHE for the period August 8, 1988 through December 31, 1992 (the "prior audit.") With the exception of the following item, internal control and non-compliance findings and recommendations from the prior audit report have been addressed and implemented:

Internal Control

1. "We recommend that bank accounts be reconciled monthly."

This finding is considered unresolved and has been included in our Report on Internal Controls, Reportable Condition No. 1.

Management Comments

MOHE management comments have been obtained and are included in Appendix A to this report. In response to management's comments, we either provided further clarification of our position in Appendix B or have adjusted our findings.

Mission Response

The mission response is included in Appendix C to this report.

This report is intended for the information of MOHE management and others within the organization and USAID/Egypt. However, this report is a matter of public record and its distribution is not limited.

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**REPORT OF INDEPENDENT ACCOUNTANTS
ON THE FUND ACCOUNTABILITY STATEMENT**

May 15, 1996

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

We have audited the fund accountability statement of program revenues received and costs incurred by the Ministry of Higher Education ("MOHE") on behalf of the Peace Fellowship Program ("program") of the Development Training Project under Project Implementation Letters ("PILs") No. 12, 14 and FT-800 Agreement No. 7 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Grant Agreement No. 263-0125.1 ("Grant Agreement") (collectively, the "Agreements") for the periods January 1, 1993 through January 31, 1995 for PIL No. 12, and January 1, 1993 through July 31, 1995 for PIL No. 14 and FT-800 Agreement No. 7 (collectively, the "Audit Periods.") The fund accountability statement is the responsibility of MOHE management. Our responsibility is to express an opinion on this statement based on our audit.

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

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

As described in Note 2, the fund accountability statement has been prepared on the basis of cash receipts and disbursements. Consequently, revenues are recognized when received and expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the fund accountability statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.

In our opinion, the fund accountability statement referred to in the first paragraph presents fairly, in all material respects, program revenues received and costs incurred by MOHE under the Agreements during the Audit Periods, in conformity with the basis of accounting described in Note 2.



In accordance with GAS, we have also issued a report dated May 15, 1996 on our consideration of MOHE's internal control structure as it relates to the Agreements, and a report dated May 15, 1996 on its compliance with laws and regulations as they relate to the Agreements.

This report is intended for the information of MOHE management and others within the organization and USAID/Egypt. However, this report is a matter of public record and its distribution is not limited.

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MINISTRY OF HIGHER EDUCATION
PROJECT IMPLEMENTATION LETTERS NO. 12, 14 AND FT-800 AGREEMENT NO. 7
UNDER THE USAID/EGYPT
PEACE FELLOWSHIP PROGRAM OF DEVELOPMENT TRAINING PROJECT NO. 263-0125.1
FUND ACCOUNTABILITY STATEMENT
FOR THE PERIODS
JANUARY 1, 1993 THROUGH JANUARY 31, 1995 (PIL NO. 12) AND
JANUARY 1, 1993 THROUGH JULY 31, 1995 (PIL NO. 14 AND FT-800 AGREEMENT NO. 7)

	Budget (Note 1)	Actual (Note 1)	Project Cost Reclassifications & Disallowances (Note 4)	Revised Actual (Note 1)	Questionable Program Amounts		Finding Ref. (Note 5)
					Ineligible (Note 5)	Unsupported (Note 5)	
REVENUES - USAID/EGYPT		\$ 1,221,517	\$ -	\$ 1,221,517	\$ 30	\$ -	Page 8, (A)
EXPENDITURES							
<u>FT-800 Agreement No. 7 (LE)</u>							
International Travel	\$ 1,252,198	\$ 1,060,216	\$ -	\$ 1,060,216	\$ -	\$ -	-
Excess Baggage	166,637	26,471	-	26,471	-	-	-
Bank Charges	124	194	-	194	-	-	-
	<u>\$ 1,418,959</u>	<u>\$ 1,086,881</u>	<u>\$ -</u>	<u>\$ 1,086,881</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>PIL No. 12 (\$)</u>							
Maintenance Allowance	\$ 184,350	\$ 41,858	\$ -	\$ 41,858	\$ 300	\$ -	Page 8, (B)
Bank Charges	(640)	-	-	-	-	-	-
	<u>\$ 183,710</u>	<u>\$ 41,858</u>	<u>\$ -</u>	<u>\$ 41,858</u>	<u>\$ 300</u>	<u>\$ -</u>	
<u>PIL No. 14 (\$)</u>							
Training	\$ 9,292	\$ -	\$ -	\$ -	\$ -	\$ -	-
Per Diem	(688)	100	-	100	-	-	-
Bank Charges	-	237	-	237	-	-	-
	<u>\$ 8,604</u>	<u>\$ 337</u>	<u>\$ -</u>	<u>\$ 337</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>PIL No. 14 (LE)</u>							
Office Supplies	\$ 63,650	\$ 61,703	\$ 147	\$ 61,850	\$ -	\$ -	-
International Communication	8,000	7,311	-	7,311	43	-	Page 8, (C)
Honoraria	67	(15)	-	(15)	-	-	-
Local Expenditures	7,469	5,616	(212)	5,404	-	-	-
Other	180	-	-	-	-	-	-
	<u>\$ 79,366</u>	<u>\$ 74,615</u>	<u>\$ (65)</u>	<u>\$ 74,550</u>	<u>\$ 43</u>	<u>\$ -</u>	
Total Expenditures	<u>\$ 1,690,639</u>	<u>\$ 1,203,691</u>	<u>\$ (65)</u>	<u>\$ 1,203,626</u>	<u>\$ 343</u>	<u>\$ -</u>	
OUTSTANDING BALANCE		<u>\$ 17,826</u>		<u>\$ 17,891</u>			

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

MINISTRY OF HIGHER EDUCATION
PROJECT IMPLEMENTATION LETTERS NO. 12, 14
AND FT-800 AGREEMENT NO. 7
UNDER THE USAID/EGYPT
PEACE FELLOWSHIP PROGRAM
OF DEVELOPMENT TRAINING PROJECT NO. 263-0125.1
NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF STATEMENT:

The fund accountability statement includes project revenues received and costs incurred by MOHE on behalf of the Peace Fellowship Program ("program") under PILs No. 12, 14 and FT-800 Agreement No. 7 of Grant Agreement No. 263-0125.1 ("Grant Agreement") (collectively, the "Agreements") for the periods January 1, 1993 through January 31, 1995 for PIL No. 12, and January 1, 1993 through July 31, 1995 for PIL No. 14 and FT-800 Agreement No. 7 (collectively, the "Audit Periods.")

"Budget" includes USAID/Egypt approved project costs in accordance with the most recent budget amendment of the Agreements within the Audit Periods, and is presented for informational purposes only. The last amendments during the Audit Periods and their respective approved budgets since program inception are amendment No. 6 and \$327,000 for PIL No. 12, amendment No. 8 and \$309,566 for PIL No. 14, and amendment No. 11 and \$3,169,050 for FT-800 Agreement No. 7. Therefore, the approved total budget is \$3,805,616. MOHE records as of December 31, 1992 indicate that since program inception, expenditures of \$143,290 were incurred under PIL No. 12, \$221,596 were incurred under PIL No. 14, and \$1,750,091 were incurred under FT-800 Agreement No. 7. Accordingly, the budgets during the Audit Periods for PIL No. 12, PIL No. 14, and FT-800 Agreement No. 7 are \$183,710, \$87,970, and \$1,418,959, respectively. "Budget" in LE has been converted to US dollars at an average exchange rate of LE 3.37 to one US dollar as explained below in Note 3.

"Actual" represents cumulative program revenues received and costs incurred by MOHE under the Agreements during the Audit Periods. "Revised Actual" represents actual program costs adjusted for program cost reclassifications and disallowances as explained below in Note 4. Expenditures in LE have been converted to US dollars at an average exchange rate of LE 3.37 to one US dollar as explained below in Note 3. Actual revenues are greater than program expenditures due to timing differences between program expenditures and reimbursement of such expenditures from USAID/Egypt. Accordingly, "Revised Actual" has an outstanding balance of \$17,891 or LE 60,289. In accordance with the terms of the Agreements, actual line item expenditures may exceed an individual budget line item by fifteen percent.

NOTE 2 - BASIS OF PRESENTATION:

The fund accountability statement of MOHE has been prepared on the basis of cash receipts and disbursements. Consequently, project revenues are recognized when received. Project costs are recognized when paid rather than when the obligation is incurred.

NOTE 3 - FOREIGN EXCHANGE:

Actual and budgeted project revenues and costs incurred in LE have been converted to US dollars at an exchange rate of 3.37 LE to one US Dollar. The exchange rate has been calculated by averaging the ending monthly exchange rates during the Audit Periods.

NOTE 4 - PROGRAM COST RECLASSIFICATIONS AND DISALLOWANCES:

Certain billed program costs associated with various budget line items were recorded in the program's accounting records in the incorrect budget line item. These misclassified program costs were isolated incidents. They have been reclassified to the proper budget line item to facilitate a more appropriate comparison between actual and budgeted program costs. Local expenditures of \$65 or LE 219 were disallowed by USAID/Egypt during the Audit Periods and have been deducted accordingly.

NOTE 5 - QUESTIONABLE PROGRAM AMOUNTS:

Questionable program amounts are presented in two categories, ineligible and unsupported. Program amounts that are ineligible for USAID/Egypt reimbursement are those that are not program related or are prohibited by the Agreements, or applicable laws and regulations. Unsupported program amounts are those lacking adequate documentation.

Questionable program amounts identified as either ineligible or unsupported are detailed below:

NOTE 5 - QUESTIONABLE PROGRAM AMOUNTS (CONT'D):

	<u>Questionable Amounts</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<u>REVENUES - USAID/EGYPT</u>		
A. Interest earned on USAID/Egypt funds is to be refunded to USAID/Egypt in accordance with Section D.2, Refunds, of the Grant Agreement Standard Provisions. Therefore, \$30 of interest earned is questioned as ineligible program revenue.	\$ 30	\$ -
Total Questionable Amounts - USAID/Egypt Revenues	\$ 30	\$ -
<u>EXPENDITURES</u>		
<u>PIL No. 12</u>		
B. Maintenance Allowance		
Two program participants received advance maintenance allowances of \$598 prior to their pending trips to the United States. These allowances were billed to USAID/Egypt. However, these individuals ultimately did not participate in the program and travel to the United States. Accordingly, they refunded their allowances to MOHE management, who in turn deposited the monies into a program bank account. Section D.2, Refunds, of the Grant Agreement Standard Provisions, states that amounts refunded must be applied to reduce the available funds under the Grant Agreement. Accordingly, \$598 is questioned as ineligible.		
<i>Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been reduced to the final questioned cost amount shown.</i>	300	-
Total Maintenance Allowance and PIL No. 12 Questionable Costs	\$ 300	\$ -
<u>PIL No. 14</u>		
C. International Communication		
MOHE installed equipment and paid annual subscriptions for an Internet connection. Management believed it was a valid communication expense under PIL No. 14 because Internet access allows world-wide communication with program participants. However, MOHE's involvement with USAID/Egypt funded participants is limited to participant selection and logistical support which takes place exclusively in Egypt. As such, world-wide communication is unnecessary to MOHE's management of the Peace Fellowship Program. Accordingly, \$1,616 is considered ineligible. Included within this amount is \$43 of sales taxes paid. Section 5.5 of Amendment No. 7 to the Grant Agreement specifically states that any taxes shall be paid with funds other than those provided by USAID/Egypt.		
<i>Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been reduced to the final questioned cost amount shown.</i>	43	-
Total International Communication Questionable Costs	\$ 43	\$ -

NOTE 5 - QUESTIONABLE PROGRAM AMOUNTS (CONT'D):

	Questionable Amounts	
	<u>Ineligible</u>	<u>Unsupported</u>
D. Local Expenditures		
MOHE paid incentives of 50% of the monthly salary of certain staff totaling \$434 as effective reimbursement for transportation expenses incurred during procurement activities. No support was provided for the transportation expenses incurred. Section B.5 of the Grant Agreement Standard Provisions requires books and records to show without limitation all costs incurred. Since no such support was provided for the \$434, it has been questioned accordingly.		
<i>Subsequent to the issuance of our draft report, we were provided additional support relating to this item. Based on our review of this information, this finding has been removed from the final report.</i>	\$ -	\$ -
Total Local Expenditures Questionable Costs	\$ -	\$ -
Total PIL No. 14 Questionable Costs	\$ 43	\$ -
Total Questionable Costs	\$ 343	\$ -
Total Questionable Amounts	\$ 373	\$ -

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

May 15, 1996

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

We have audited the fund accountability statement of program revenues received and costs incurred by the Ministry of Higher Education ("MOHE") on behalf of the Peace Fellowship Program ("program") under Project Implementation Letters ("PILs") No. 12, 14 and FT-800 Agreement No. 7 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Grant Agreement No. 263-0125.1 ("Grant Agreement") (collectively, the "Agreements") for the periods January 1, 1993 through January 31, 1995 for PIL No. 12, and January 1, 1993 through July 31, 1995 for PIL No. 14 and FT-800 Agreement No. 7 (collectively, the "Audit Periods"), and have issued our report thereon dated May 15, 1996.

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

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

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



In planning and performing our audit of the fund accountability statement of MOHE for the Audit Periods, we obtained an understanding of the internal control structure as it relates to the Agreements under audit. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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

REPORTABLE CONDITIONS

1. Monthly bank reconciliations are not performed for certain accounts.

We noted that MOHE implemented the prior audit's recommendation to perform bank reconciliations. However, for bank accounts with no book activity, monthly reconciliations were not performed. Management indicated that because there was no book activity, it was not necessary to perform written reconciliations. Statement of Auditing Standard No. 55, Consideration of the Internal Control Structure in a Financial Statement Audit, states that independent checks on performance and the proper valuation of recorded amounts are needed. Monthly bank reconciliations can ensure that there is no activity in the bank accounts as well as internal accounting records. During our fund reconciliations, we noted three instances of bank errors. One error was not corrected for two months because a reconciliation was not made until book transaction activity occurred in the account. Thus, the effect of not performing monthly bank reconciliations for every bank account, regardless of book activity, does not permit the monitoring of bank activity and the timely identification and disposition of errors.

Recommendation No. 1

We recommend that MOHE institute a policy of performing monthly bank reconciliations for every bank account, regardless of activity.

* * * * *

2. USAID/Egypt funds were commingled between PILs No. 12 and No. 14.

PIL No. 14 funds are currently commingled with PIL No. 12 funds. The PIL No. 14 Dollar denominated bank account was closed and the ending balance was transferred to the PIL No. 12 Dollar denominated account. MOHE management states that there was no choice since PIL No. 12 was the only other Dollar denominated account. Statement of Auditing Standard No. 55, Consideration of the Internal Control Structure in a Financial Statement Audit, states that adequate safeguards over access to and use of assets is a key control procedure. Commingling PIL No. 14 funds in a bank account dedicated for PIL No. 12 diminishes accountability over PIL No. 14 funds; funds designated for PIL No. 14 may inadvertently be spent on PIL No. 12 activities.



Recommendation No. 2

We recommend that, prior to the formal close-out of the program by USAID/Egypt, MOHE management should ensure that the current balance of the Dollar denominated PIL No. 12 bank account never falls below the amount of PIL No. 14 Dollars that was transferred to the PIL No. 12 bank account. If the current balance did fall below this amount, it would indicate that PIL No. 14 funds were being expended on PIL No. 12 activities.

* * * * *

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

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

We also noted other matters involving the internal control structure and its operation that we have reported to management of MOHE in a separate letter dated May 15, 1996.

This report is intended for the information of MOHE management and others within the organization and USAID/Egypt. However, this report is a matter of public record and its distribution is not limited.

Pricewaterhouse

4, Road 261,
New Maadi,
Cairo, Egypt

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TELEGRAPH PRICEWATER
CAIRO CR 226786

Price Waterhouse



**REPORT OF INDEPENDENT ACCOUNTANTS
ON COMPLIANCE WITH LAWS, REGULATIONS, CONTRACTS AND GRANTS**

May 15, 1996

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

We have audited the fund accountability statement of program revenues received and costs incurred by the Ministry of Higher Education ("MOHE") on behalf of the Peace Fellowship Program ("program") under Project Implementation Letters ("PILs") No. 12, 14 and FT-800 Agreement No. 7 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Grant Agreement No. 263-0125.1 ("Grant Agreement") (collectively, the "Agreements") for the periods January 1, 1993 through January 31, 1995 for PIL No. 12, and January 1, 1993 through July 31, 1995 for PIL No. 14 and FT-800 Agreement No. 7 (collectively, the "Audit Periods"), and have issued our report thereon dated May 15, 1996.

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

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

Compliance with laws, regulations, contracts and grants applicable to MOHE is the responsibility of MOHE management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of MOHE compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our audit of the fund accountability statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. For purposes of this report, we have categorized the provisions of laws, regulations, contracts and grants we tested as part of obtaining such reasonable assurance into the following categories:

- ▶ Procurement policies and procedures
- ▶ Participant training
- ▶ Restrictions on billing taxes
- ▶ Deposit and investment restrictions
- ▶ Budgetary expenditure limitations
- ▶ Maintenance of accounting books, records and documents

The results of our tests disclosed no instances of non-compliance that are required to be reported herein under GAS.

This report is intended for the information of MOHE management and others within the organization and USAID/Egypt. However, this report is a matter of public record and its distribution is not limited.

Price Waterhouse

MINISTRY OF HIGHER EDUCATION

PROJECT IMPLEMENTATION LETTERS NO. 12, 14
AND FT-800 AGREEMENT NO. 7
UNDER THE USAID/EGYPT
PEACE FELLOWSHIP PROGRAM OF
DEVELOPMENT TRAINING PROJECT NO. 263-0125.1

MANAGEMENT COMMENTS

Arab Republic of Egypt
Ministry of Higher Education
Missions Department

بسم الله الرحمن الرحيم

جمهورية مصر العربية
وزارة التعليم العالي
الإدارة العامة للبعثات
الإشراف المالي

Ministry Of Higher Education

Mission Department

Peace Fellowship Unit

Date May 4 1996

To: U.S. A.I.D

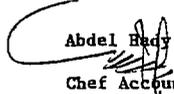
From : Mission Department

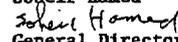
Subject: Response of the Memorandum Dated April 4, 1996 offerd by

Price water House "audit report".

Attached are Our response on the audit report offerd by price water
house Concerning the fund Accountability statement of US Aid/ Egypt rec-
ources managed by our department under Pil 12,14 and F.T 800 agreement -
Project No. 263-125-1

Best Regards.


Abdel Hady Attia
Chef Accountant

Soheir Hamed

General Director

Telex : 21822 Misca UN

العنوان : مجمع التحرير الدور السابع - القاهرة
تليفون : ٣٥٤٧٣٦٤ - ٣٥٤٤٨١٠ - ٣٥٤٧٨٥٢

14

MINISTRY OF HIGHER EDUCATION

PROJECT IMPLEMENTATION LETTERS NO. 12, 14
AND FT-800 AGREEMENT NO. 7
UNDER THE USAID/EGYPT
PEACE FELLOWSHIP PROGRAM OF
DEVELOPMENT TRAINING PROJECT NO. 263-0125.1

MANAGEMENT COMMENTS

Arab Republic of Egypt
Ministry of Higher Education
Missions Department

بسم الله الرحمن الرحيم

جمهورية مصر العربية
وزارة التعليم العالي
الإدارة العامة للبعثات
الإشراف المالي

Introduction:

The Project Started on august 1988 and ended on 30.9.1995 All

Our books and records accepted with the general accounting Principals

The Period from 1988 to Dec. 31. 1992

had been audited by the Allied Accountants and the C.A.A "Egypt"

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تليفون : ٣٥٤٧٣٦٤ - ٣٥٤٤٨١٠ - ٣٥٤٧٨٥٢

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MINISTRY OF HIGHER EDUCATION

PROJECT IMPLEMENTATION LETTERS NO. 12, 14
AND FT-800 AGREEMENT NO. 7
UNDER THE USAID/EGYPT
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MANAGEMENT COMMENTS

Arab Republic of Egypt
Ministry of Higher Education
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بسم الله الرحمن الرحيم

جمهورية مصر العربية
وزارة التعليم العالي
الإدارة العامة للبعثات
الإشراف المالي

Results of audit and Response

The audit procedures identified \$ 2678 or L.E 9024 of questioned

Costs - it is Comprised of:-

\$ 2244 or L.E 7561 inehgible omounts

\$ 434 or L.E 1463 Unsupported Costs

Responses

Internal Control Structure

1- Concerning Monthly bank reconciliation for certain accounts every Month we prepaire bank reconcilistion on the bank book and we offered it to the auditors but sometimes when there were no movement on the Accounts we do it every 2 or three mothes when the balance changes.

2- U.S. AID Funds were commingled between pil 12 and 14

We had explained this matter to the auditors and it was done once when opening the new account of pil 14 U.S, Dollar as the Pank asked to deposit a sum of dollars to open a new accountand it was tr-
Ansfereed from Pil 12 to Pil 14 \$ and later it was refunded whan U.S
AID send the budject of Pil 14\$

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MINISTRY OF HIGHER EDUCATION

PROJECT IMPLEMENTATION LETTERS NO. 12, 14
AND FT-800 AGREEMENT NO. 7
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PEACE FELLOWSHIP PROGRAM OF
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MANAGEMENT COMMENTS

Arab Republic of Egypt
Ministry of Higher Education
Missions Department

بسم الله الرحمن الرحيم

جمهورية مصر العربية
وزارة التعليم العالي
الإدارة العامة للبعثات
الإشراف المالي

Questionable Amounts

ineligible

Pil 12

1- \$ 30 interest earned

We have reduced it from the expenditures-Report 85 "Copy attached"

2- Maintenance Allowance \$ 598 has not been reduced against US AID billing.

We have redaced \$ 300 refunded from Mr. Fareed Magdy on 11/15/1993 as he did not Participate in the Program Report 85 "Copy attached". and for the amount of \$ 298 we had explained the details on the same report No. 85 according to our discussion with Mr. Bop Robert Johnson.

3- \$ 1616 internet access world wide communication according to our

PIL 14

discussions on the last meeting we had send a lettre requesting Aid Approval. Copy attached". for what we done as it was very necessary and urgent for the program and for the amount of \$ 43 sales taxes paid we have reduced it from. The amount of taxes not yet paid to the Tax Administration.

"Copy attached"

4- \$ 434 local expenditure

- unsupported this

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تليفون : ٣٥٤٧٣٦٤ - ٣٥٤٤٨١٠ - ٣٥٤٧٨٥٢

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MINISTRY OF HIGHER EDUCATION

PROJECT IMPLEMENTATION LETTERS NO. 12, 14
AND FT-800 AGREEMENT NO. 7
UNDER THE USAID/EGYPT
PEACE FELLOWSHIP PROGRAM OF
DEVELOPMENT TRAINING PROJECT NO. 263-0125.1

MANAGEMENT COMMENTS

Arab Republic of Egypt
Ministry of Higher Education
Missions Department

بسم الله الرحمن الرحيم

جمهورية مصر العربية
وزارة التعليم العالي
الإدارة العامة للبعثات
الإشراف المالي

amount was paid as effective transportation expenses during procurement
activities of the project Attached are the document of these transportation
according to our discussion on the last meeting.

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تليفون : ٣٥٤٧٣٦٤ - ٣٥٤٤٨١٠ - ٣٥٤٧٨٥٢

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MINISTRY OF HIGHER EDUCATION
PROJECT IMPLEMENTATION LETTERS NO. 12, 14
AND FT-800 AGREEMENT NO. 7
UNDER THE USAID/EGYPT
PEACE FELLOWSHIP PROGRAM OF
DEVELOPMENT TRAINING PROJECT NO. 263-0125.1

INDEPENDENT ACCOUNTANTS' RESPONSE

Management of the Ministry of Higher Education ("MOHE") provided comments to our draft report presented at the exit conference held on April 16, 1996. These comments are included, unedited, in Appendix A to this report. We have reviewed these comments and either adjusted our final report or clarified our position. Our response below parallels the findings in our audit report.

RESPONSE TO MOHE MANAGEMENT COMMENTS TO QUESTIONABLE COSTS
DETAILED IN SUPPLEMENTAL SCHEDULE NO. 2

A. USAID/Egypt Revenues

MOHE management agreed with the finding. They have deducted \$30 from the September 1995 billing voucher. However, this action was taken outside of our audit period. Our finding remains. We have deleted the statement that the amount has not been deducted from subsequent USAID/Egypt billings.

B. Maintenance Allowance

MOHE management agreed with the \$300 advance maintenance allowance portion of the finding. They have deducted it from the September 1995 billing voucher. However, this action was taken outside of our audit period. This portion of the finding remains. We have deleted the statement that the amount has not been deducted from subsequent USAID/Egypt billings. The remaining \$298 was erroneously included in the finding and has been removed from the final report.

C. International Communication

MOHE explained their rationale for the necessity of the internet connection to USAID/Egypt. The USAID/Egypt Project Officer has concurred and issued an approval for the internet charge. This charge has been removed from our final report as an ineligible questioned cost.

However, included in the internet charge was \$43 of sales tax. MOHE management concurs with this portion of our finding. They indicate in their response that they have deducted it from the amount payable to the tax authorities. However, they have not yet made this reduced payment. Moreover, this action has been taken outside of our audit period. We have reduced our ineligible questioned cost finding to \$43 of sales tax.

D. Local Expenditures

MOHE management provided support which adequately documented the transportation expenses. This finding has been removed from our final report.

RESPONSE TO MOHE MANAGEMENT'S COMMENTS
TO THE REPORT ON INTERNAL CONTROL STRUCTURE

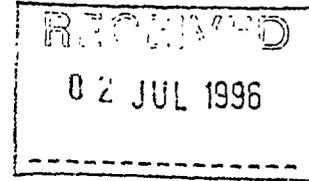
1. MOHE management confirms that bank reconciliations were not done every month for all bank accounts. Our finding remains unchanged.
2. Management's comments did not address the finding. Therefore, our position remains unchanged.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

July 2, 1996



MEMORANDUM

TO : Lou Mundy, RIG/A/C

FROM : Shirley Hunter, OD/FM/FA

A handwritten signature in black ink, appearing to be "SH" or similar initials, written over the "FROM" line.

Subject : Financial Audit of the Ministry of Higher Education's Peace Fellowship Program Under USAID/Egypt's Development Training Project (USAID/Egypt Project No. 263-0125)- Draft Audit Report dated June 2, 1996

Following is the Mission's response to Recommendation No. 1 under the subject draft report:

Recommendation No. 1:

We recommend that USAID/Egypt resolve the ineligible questioned costs of \$373 detailed on page 8 of the audit report, and recover from the Ministry of Higher Education the amounts determined to be unallowable.

Mission Response:

Mission has determined that the \$373 is ineligible. MOH has refunded the amount by Check Nos 235877 (\$30), GR Nos.A000065; Check No 235876 (\$300), GR#A000066; and check No. 007326 for LE 145 (\$43). Accordingly, Mission requests closure of Recommendation No. 1 upon issuance of the final report.

Revenues:

- A. The ineligible amount of \$30 - page 8
- * This amount represents interest earned on USAID/Egypt funds.
- * The amount was refunded by Check No. 235877, GR#A000065 (copy attached).

A small, handwritten mark or signature in the bottom right corner of the page.

PIL 12:

B. The ineligible amount of \$300 - page 8

- * This amount represents advance maintenance allowances billed to USAID, however the participants did not travel to the United States.
- * The amount was refunded by Check No. 235876, GR#A000066 (copy attached).

PIL 14:

C. The ineligible amount of \$43 (LE 145) page 8

- * This amount represents sales tax.
- * This amount was refunded by Check No. 0073826 dated June 13, 1996. Attached is a copy of the check and GR #A0000054 dated June 23, 1996.

Att: a/s

21



CAIRO BARCLAYS

C 235876

١٩٩٦ / ٧ / ٢

بنك القاهرة باركليز الدولي ش.م.م
BANQUE DU CAIRE BARCLAYS INTERNATIONAL S.A.E.
القاهرة CAIRO



أولاً
PAY

الوكالة الأمريكية للتنمية الدولية بالقاهرة

ادفعوا
OR ORDER



فقط ثلاثمائة دولار

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بنك القاهرة باركليز الدولي ش.م.م



CAIRO BARCLAYS

C 235877

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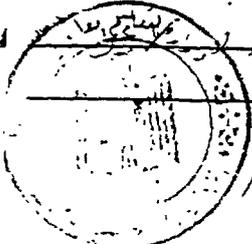
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BANQUE DU CAIRE BARCLAYS INTERNATIONAL S.A.E.
القاهرة CAIRO



أولاً
PAY

الوكالة الأمريكية للتنمية الدولية بالقاهرة

ادفعوا
OR ORDER



فقط ثلاثمائة دولار

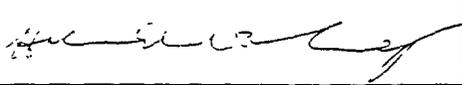
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BEST AVAILABLE COPY

Handwritten mark

GENERAL RECEIPT		No.: A 000066
1. Post: USAID/Cairo, Egypt		2. Date: 07/02/96
3. Received from: M.O.H.E. CK# 235876	4. Permanent address: USAID/Cairo, Egypt	
5. The amount of: US Dollars 300.00 By check		6. Rate of exchange: 1.0000 To US \$ 1.00
7. Received by: Name : Hala M. El-Gawhary Title: Class B Cashier	8. Signature: 	9. US \$ EQUIV. \$ 300.00
10. Accounting classification: \$300.00-72-96FOEA		
11. Received for: CHECK - PIL 12 - 263-0125		

COPY 1 - PAYER

OPTIONAL FORM 158
(DEPT OF STATE - REVISED 1/79)

Y900 1:23:11 PM '96

23

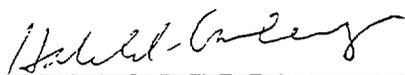
GENERAL RECEIPT		No.: A 000065
1. Post: USAID/Cairo, Egypt		2. Date: 07/02/96
3. Received from: M.O.H.E. CK 235877	4. Permanent address: USAID/Cairo, Egypt	
5. The amount of: US Dollars 30.00 By check		6. Rate of exchange: 1.0000 To US \$ 1.00
7. Received by: Name : Hala M. El-Gawhary Title: Class B Cashier	8. Signature: 	9. US \$ EQUIV. \$ 30.00
10. Accounting classification: \$30.00-72-96FOEA		
11. Received for: CHECK -INTEREST - 263-0125		

COPY 1 - PAYER

OPTIONAL FORM 158
(DEPT OF STATE - REVISED 1/79)

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24

GENERAL RECEIPT		No.: A 000054
1. Post: USAID/Cairo, Egypt		2. Date: 06/23/96
3. Received from: MIN. OF H. EDUC./CK 73826	4. Permanent address: USAID/Cairo, Egypt	
5. The amount of: Egyptian Pounds 145.00 By check		6. Rate of exchange: 3.4075 To US \$ 1.00
7. Received by: Name : Hala M. El-Gawhary Title: Class B Cashier	8. Signature: 	9. US \$ EQUIV. \$ 42.55
10. Accounting classification: \$42.55-LC 145.00-72-3220		
11. Received for: CK # 73826 / INTEREST EARNED/ FT-800 / 263-0125.1		

COPY 1 - PAYER

OPTIONAL FORM 158
(DEPT OF STATE - REVISED 1/79)

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بنك مصر
BANQUE MISR

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١٩٩٦/٦/١٧ التاريخ
DATE

٣٢/٧٣٩١/٨٠
الرقم المشترك مع الأصل م
٣٣٣/٦٢٥
بزيانج

ادفعوا لاشد الوكالة الأمريكية للتنمية الدولية بالقاهرة
مبلغا وقدره ١٤٥ مائة وأربعون جنيلا فقط

PAY TO / OR ORDER

THE SUM OF

١٤٥
L.E.

CBE BANKNOTE PRINTING PRESS

البنك المركزي المصري - دار شامس القلند

BEST AVAILABLE COPY