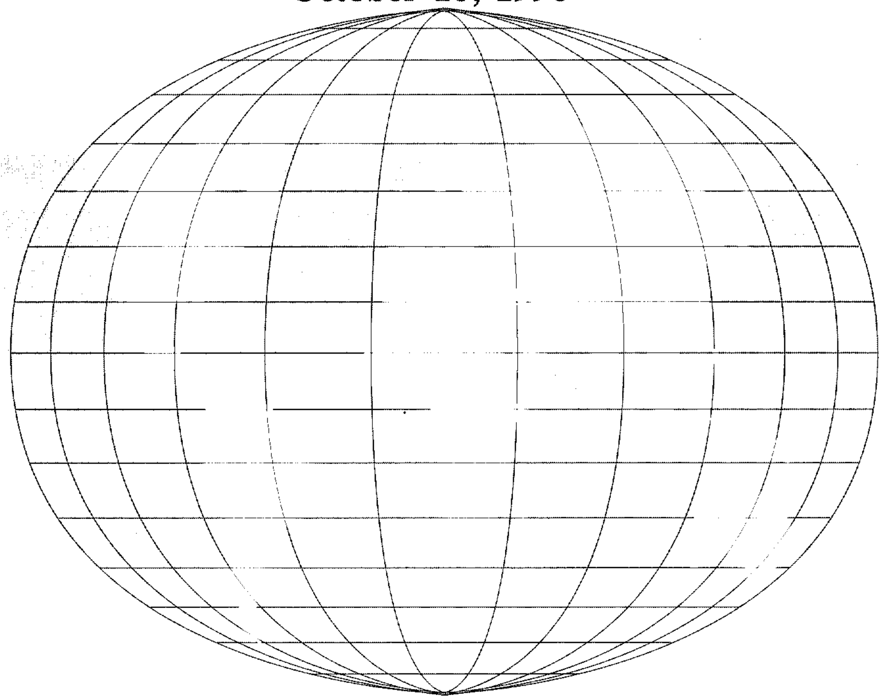
Report of Audit

Financial Audit of the Trade Development Center-Egypt, the Implementation Arm of the US-Egypt Joint Business Council (USAID/Egypt Cooperative Agreement No. 263-0226-A-00-2027-00)

Regional Inspector General for Audit
Cairo, Egypt

Report No. 6-263-97-01-N
October 16, 1996



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

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

PD-ABN-317

USAID

CAIRO, EGYPT

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

October 16, 1996

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley

FROM: RIG/A/C, Lou Mundy

SUBJECT: Financial Audit of the Trade Development Center-Egypt, the Implementation Arm of the US-Egypt Joint Business Council (USAID/Egypt Cooperative Agreement No. 263-0226-A-00-2027-00)

The attached report, transmitted on September 5, 1996, by KPMG Hazem Hassan, presents the results of a financial audit of the Trade Development Center-Egypt (Center), the implementation arm of the US-Egypt Joint Business Council as it pertains to USAID/Egypt Cooperative Agreement No. 263-0226-A-00-2027-00. 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 Center has the primary responsibility for implementing the agreement through funding it receives from USAID/Egypt and through program generated income.

We engaged KPMG Hazem Hassan to perform a financial audit of the Center's incurred expenditures of $1,219,129 (equivalent to LE4,142,601) for the period June 1, 1994 through August 31, 1995. The purpose of the audit was to evaluate the propriety of costs incurred during this period. KPMG Hazem Hassan also evaluated the Center's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statements.

The audit report questions $107 (equivalent to LE361) in costs billed to USAID/Egypt by the Center. The questioned costs related to fines for late payment of an invoice. Additionally, the auditors noted one material weakness in the Center's internal control

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structure, and no instances of material noncompliance with applicable laws, regulations, and agreement terms.

In response to the draft report, responsible Center officials provided additional explanation to the questioned costs. KPMG Hazem Hassan reviewed the Center's response to the findings and where applicable made adjustments to the report or provided further clarification of their position (see Appendices I and II).

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

> **Recommendation No. 1: We recommend that USAID/Egypt make a management decision on the ineligible costs of $107 detailed on page 15 of the KPMG Hazem Hassan audit report, and recover from the Trade Development Center-Egypt the amounts determined to be unallowable.**
>
> **Recommendation No. 2: We recommend that USAID/Egypt obtain evidence that the Trade Development Center-Egypt has addressed the material internal control weakness (pre-numbered source documents are not used) detailed on page 19 of the KPMG Hazem Hassan audit report.**

In its response to the audit report, the Mission has sustained $107 of the questioned costs, and collected this amount from the Center (see Appendix III). Based on the Mission's management decision and final action, Recommendation No. 1 is closed upon issuance of this report.

In response to Recommendation No. 2, the Mission provided evidence that the Center has established a cash control system utilizing pre-numbered cash receipts and invoices (see Appendix III). Based on the Mission's management decision and final action, Recommendation No. 2 is closed upon issuance of this report.

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

Financial Audit of the
Trade Development Center-Egypt
(TDC)
The Implementation Arm of the 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 June 1, 1994
through August 31, 1995

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 the Related Program Income Account for the Period from June 1, 1994 through August 31, 1995

Table of Contents

	Page
Introduction	
Background	1
Audit Objectives and Scope	2
Results of Audit	5
Management Comment	6
Fund Accountability Statements	
Independent Auditor's Report on the Cooperative Agreement	7
Independent Auditor's Report on the Program Generated Income	9
Fund Accountability Statements and Notes	11
Details of Questioned Costs	15
Internal Control Structure	
Independent Auditor's Report	17
Compliance with Laws and Regulations	
Independent Auditor's Report	21
Follow-up on the Previous NFA Report	23
Appendices	
Appendix I TDC's Management Response	
Appendix II Auditor's Comments	
Appendix III Mission's Comments	

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

September 5, 1996

Dear Mr. Mundy,

This report represents the results of our financial audit of the Trade Development Center-Egypt (TDC), the implementation arm of the 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 June 1, 1994 through August 31, 1995.

Background

On March 16, 1992, the Cooperative Agreement No.263-0226-A-00-2027-00 was signed between USAID/Egypt and the 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 related 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 commissions received from TDC's clients and from interest earned on the account.

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 the use and audit of the PGI. This guidance did not include specific criteria that govern spending from the PGI.

On May 31, 1995, amendment No.6 was initiated. The purpose of this amendment was to adjust the budget line items. However, the total budget and completion date remained unchanged.

Audit Objectives and Scope

The objective of this engagement was to conduct a financial audit of USAID/Egypt's resources, managed by the TDC, the implementation arm of JBC, under Cooperative Agreement No. 263-0226-A-00-2027-00, and the related PGI account, for the period from June 1, 1994 through August 31, 1995. Accordingly, the audit included an examination of the TDC's expenses, compliance with the Cooperative Agreement terms and a review of TDC's 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 Generated Income present 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 basis of accounting, including the cash receipts and disbursements basis and modifications of the cash basis;

2. determine if the costs reported as incurred under the 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 TDC, 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; and

5. ensure that expenditures from the program income account were used to further eligible TDC activities.

We have conducted concurrent audits of all transactions under the Cooperative Agreement and the Program Generated Income account, on a quarterly basis for the period from June 1, 1994 through August 31, 1995. These concurrent audits include issuing five quarterly reports. All the findings, which arose in these quarterly reports, were discussed with TDC management in order to eliminate these findings. This report includes the unresolved findings. The audit included the following steps:

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

The field work was completed on January 23, 1996. 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. We tested 100% of total expenditures in dollars amounting to $638,942, and LE1,971,476 (equivalent to $580,187).

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 costs for allowability, allocability, reasonableness, and appropriate support;

2. Determining that salaries and benefits costs were appropriate and conformed with the terms of the Cooperative Agreement and the relevant regulations;

3. Determining that other direct costs, capital costs, technical assistance, promotional events/material and the cost of Management Information System (MIS) were adequately supported and approved; and

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

The scope of our PGI audit was the revenue and expenditures from the separate bank account established for PGI funds for the period from June 1, 1994 through August 31, 1995. We tested one hundred percent of the transactions from this separate account. Our audit tests were designed to determine whether expenditures from the PGI account were in furtherance of eligible Cooperative Agreement objectives. No accounting controls were exercised over the Program Generated Income (PGI) in previous years. Accordingly, we were not able to perform audit procedures to attest to the completeness of the opening balance of the PGI as of June 1, 1994.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, 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 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 the relevant internal controls and reviewed TDC's compliance with applicable laws and regulations.

Results of Audit

Cooperative Agreement Fund Accountability Statements

Our audit identified total questioned costs of $107 (equivalent to LE361) which represent ineligible costs.

Program Generated Income Fund Accountability Statements

Our audit did not identify any questioned costs relating to Program Generated Income account.

Internal Control

Our audit identified the following internal control weakness:

Material Weaknesses

- No prenumbered source documents are used to record income generated from USAID supported/financed activities (PGI).

Noncompliance with Laws and Regulations

Our audit did not identify any material noncompliance with applicable laws and regulations.

Follow-up of the Previous NFA Report

We have followed up on the findings and recommendations identified in the previous NFA report for the period from March 16, 1992 through May 31, 1994 for the Cooperative Agreement and the related Program Generated Income Account, as required by paragraph 10 of Chapter 4 of Government Auditing Standards.

The previous NFA report identified eleven material weaknesses in the internal control structure and two material instances of noncompliance with laws and regulations. During our audit, we noted that TDC's management has made significant improvements to the internal control structure resulting in the removal of ten out of these eleven material weaknesses. We believe that the remaining weakness may affect the fund accountability statements. Therefore, they remain in this report.

For the instance of noncompliance regarding TDC's legal status in Egypt, TDC management provided us with a waiver from USAID/Egypt that waived the "separate legal entity" requirement for TDC. Regarding the noncompliance with the Cooperative Agreement, TDC management did not take adequate corrective actions to be in compliance with such an agreement.

For more details see "Follow-up of the Previous NFA Report" section of this report.

Supplementary Information

The supplementary fund accountability statements, presented in the functional currency, and schedules of questioned costs, including dates, numbers 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 are included in 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 repsonses provided by TDC's management have not changed our understanding of the fund accountability statement, reportable conditions in the Report on Internal Control Structure, or our finding in the Report on Compliance with Laws and Regulations.

This report is intended for the information of the United States Agency for International Development and TDC's management and others within the organization. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

M. Kamel

Hazem Hassan & Co.
Cairo, Egypt

FUND ACCOUNTABILITY STATEMENTS

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Report on the Fund Accountability Statement for the Cooperative Agreement No. 263-0226-A-00-2027-00
Independent Auditor's Report

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

We have audited the accompanying fund accountability statement of the Trade Development Center-Egypt (TDC), the implementation arm of the US-Egypt Joint Business Council (JBC), under Cooperative Agreement No.263-0226-A-00-2027-00, for the period from June 1, 1994 through August 31, 1995. This statement is the responsibility of TDC's management. Our responsibility is to express an opinion on this statement based upon our audit.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, 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 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.

The aforementioned fund accountability statement does not include the cost of USAID/Egypt's direct procurement of vehicles, equipment, and technical assistance provided by USAID/Egypt directly to TDC, or the total revenues and costs incurred by TDC on an organization-wide basis.

As described in Note 1, the accompanying fund accountability statement has been prepared on the cash basis, which is a comprehensive basis of accounting other than the generally accepted accounting principles. Included in the fund accountability statement are questioned costs of $107 relating to the Cooperative Agreement No.263-0226-A-00-2027-00. 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 the costs incurred under the Cooperative Agreement No.263-0226-A-00-2027-00 and managed by TDC for the period from June 1, 1994 through August 31, 1995 in conformity with the basis of accounting described in Note 1.

M. Kamel

Hazem Hassan & Co.
Cairo, Egypt

January 23, 1996

KPMG Hazem Hassan

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Report on the Fund Accountability Statement for the Program Generated Income Account
Independent Auditor's Report

Mr. Lou Mundy
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United States Agency for International Development
Cairo, Egypt.

We have audited the accompanying fund accountability statement of the Trade Development Center-Egypt (TDC), the implementation arm of the US-Egypt Joint Business Council (JBC), for Program Generated Income Account related to Cooperative Agreement No.263-0226-A-00-2027-00, for the period from June 1, 1994 through August 31, 1995. This statement is the responsibility of TDC's management. Our responsibility is to express an opinion on this statement based upon our audit.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, 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 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 described in Note 1, the accompanying fund accountability statement has been prepared on the cash basis, which is a comprehensive basis of accounting other than the generally accepted accounting principles.

No accounting controls were exercised over the Program Generated Income (PGI) in previous years. Accordingly, we were not able to perform audit procedures to attest to the completeness of the opening balance of the PGI as of June 1, 1994. (It was not possible to apply audit procedures to the account beyond the recorded amounts from June 1, 1994 through August 31, 1995.)

In our opinion, except for the effects of such adjustment, if any, (as might have been determined to be necessary had the opening balance of the PGI referred to above been susceptible to satisfactory audit tests,) the PGI referred to in the first paragraph above presents fairly, in all material respects, the funds received and the costs incurred under the Program Generated Income Account, related to the Cooperative Agreement No.263-0226-A-00-2027-00 and managed by TDC for the period from June 1, 1994 through August 31, 1995 in conformity with the basis of accounting described in Note 1.

M. Kamel

Hazem Hassan & Co.
Cairo, Egypt

January 23, 1996

TRADE DEVELOPMENT CENTER

Fund Accountability Statement

Cooperative Agreement No.263-0226-A-00-2027-00

For the Period from June 1, 1994 through August 31, 1995

	$
Cash Balance on June 1, 1994	37,295
USAID/Egypt fund received	1,495,882
Cash available during the period	1,533,177

			Questioned Costs		
Expenditures	**Budget**	**Actual**	**Ineligible**	**Unsupported**	**Finding No. & Pg.**
	$	$	$	$	
Salaries & Benefits	959,557	263,132	---		
Other Direct Costs	2,027,603	314,017	107	---	
Capital Costs	505,175	30,478			
Technical Assistance	935,146	97,006	---	---	
Promotional Events/Materials	2,071,785	500,223	---		
M.I.S	373,805	14,273			
Total Expenditures		**1,219,129**	**107**	**---**	
USAID/Egypt Fund balance as of August 31, 1995		**314,048**	**107**		
Less:					
Outstanding advance payment		(50,614)			
Bank balance as of 31.08.95		**263,434**			

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

TRADE DEVELOPMENT CENTER
Fund Accountability Statement
Program Generated Income Account
For the Period from June 1, 1994 through August 31, 1995

		Questioned Costs		
	Actual $	**Ineligible** $	**Unsupported** $	**Findings Ref.**
Cash balance on June 1, 1994	32,928			
Income generated during the period	133,878			
Cash available during the period	166,806			
Expenditures				
Tips	77			
Bank Charges	287			
Miscellaneous	3,310			
Travel	216			
Contribution	394			
Entertainment	4,844			
Exhibitions	1,765			
Total expenditures	10,893	---	---	
USAID Fund Balance	155,913			
Less:				
Outstanding advance payment	49,827	---		
Bank balance as of 31.08.95	**106,086**			

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

Notes to the Cooperative Agreement Fund Accountability Statements

Note 1: Accounting Basis

The fund accountability statements have been prepared on the basis of cash receipts and disbursements. Consequently, revenues are recognized when they are actually received and expenditures are recognized when they are actually paid.

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 was $1 = LE3.398.

Note 4: Questioned Costs

Questioned Costs are presented in two separate categories - ineligible or unsupported - and consist of audit findings made 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, or are prohibited by the Cooperative 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.

Note 5: **Opening Balance**

The opening balance represents the difference between the funds received, $2,057,387, and the expenditures incurred, $2,020,092, for the Cooperative Agreement, and the income generated, $102,430, and the expenditure incurred, $69,502, for the PGI account for the period from March 16, 1992 through May 31, 1994.

Note 6: **Budget**

The budget represents USAID/Egypt's approved budget in accordance with the most recent amendments to the Cooperative Agreement and the related PGI account, which were made within the audited period. It includes the total budget of the project from March 16, 1992 through August 31, 1995.

Note 7: **Outstanding Advance Payment**

Outstanding advances represent advances that were not settled with some of TDC's employees until the date of issue of this report.

Details of Questioned Costs

Cooperative Agreement Fund Accountability Statements

Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
2. Other Direct Costs		
b) This amount represents fines for late payment of a telephone invoice. Article 14, Attachment B of OMB Circular No. A-122 stated that "Costs of fines and penalties resulting from violation of, or failure of the organization to comply with local laws and regulations are unallowable."	107	
Total Line item	**107**	**---**
Total Questioned Costs	**107**	

Based upon documents and clarifications provided to us subsequent to the issue of the draft report, all other findings have been removed.

Program Income Fund Accountability Statements Audit Findings

Based on documents and clarifications provided to us subsequent to the issue of the draft report all findings have been removed.

INTERNAL CONTROL STRUCTURE

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Report on the Internal Control Structure
Independent Auditor's Report

Mr. Lou Mundy
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United States Agency for International Development
Cairo, Egypt.

We have audited the accompanying fund accountability statements of the Trade Development Center-Egypt (TDC), the implementation arm of the US-Egypt Joint Business Council (JBC), under Cooperative Agreement No.263-0226-A-00-2027-00, and the related Program Generated Income Account for the period from June 1, 1994 through August 31, 1995 and have issued our report thereon on January 23, 1996.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, 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 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.

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 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 the transactions are executed in accordance with the management's authorization and recorded properly to permit the preparation of fund accountability statements in accordance with the cash basis of accounting. Because of the inherent limitations in any internal control structure, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- 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.

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 WEAKNESS

1. No prenumbered source documents are used

During our audit we noted that no prenumbered source documents are used such as cash receipts, invoices, and journal vouchers. TDC's policy and procedures manual states that such documents should be used in order to provide support and orderly record transactions to TDC, and establish a basis for reporting the financial status of TDC and the results of its operations.

A well designed and adequate internal control system requires that adequate financial records and source documents be used.

This breakdown in the internal control system may significantly affect TDC's ability to record, process, summarize and report income generated from USAID financed activities.

This finding is attributable to the fact that TDC believed that the accounting system applied during the audited period was adequate to achieve TDC's objectives. Additionally, the policy and procedures manual was approved by USAID/Egypt after the audited period.

We recommend that TDC implement the accounting procedures stated in the manual.

2. Based upon documents and clarifications provided to us subsequent to the issue of the draft report, this finding has been removed.

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We noted one matter, involving the internal control structure and its operation, that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. A reportable condition involves one matter that has come to our attention and is related to a significant deficiency in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data, consistent with the assertions of management in the fund accountability statements. Our audit disclosed the following reportable condition:

REPORTABLE CONDITION

3. Based on documents and clarifications provided to us subsequent to the issue of the draft report, this finding has been removed.

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.

M. Kamel

Hazem Hassan ~~& Co.~~
Cairo, Egypt

January 23, 1996

COMPLIANCE WITH LAWS AND REGULATIONS

KPMG Hazem Hassan

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

Mr. Lou Mundy
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United States Agency for International Development
Cairo, Egypt.

We have audited the accompanying fund accountability statements of the Trade Development Center-Egypt (TDC), the implementation arm of the US-Egypt Joint Business Council (JBC), under Cooperative Agreement No.263-0226-A-00-2027-00, and the related Program Generated Income account for the period from June 1, 1994 through August 31, 1995 and have issued our report thereon on January 23, 1996.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, 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 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.

Compliance with laws, regulations, contracts and grants 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 and grants. However, it was not the objective of our audit of the fund accountability statements to provide an opinion on compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no material instance of noncompliance that is required to be reported herein under Government Auditing Standards.

This report is intended for the information of TDC's management and others within the organization and the United States Agency for International Development. However, this report is a matter of public record, and its distribiution is not limited.

M. Kamel

Hazem Hassan & Co.
Cairo, Egypt

January 23, 1996

FOLLOW-UP ON THE PREVIOUS NFA REPORT

Follow-up on the Previous NFA Report

We have followed up on the findings and recommendations identified in the previous NFA report for the period from March 16, 1992 through May 31, 1994 for the Cooperative Agreement and the related Program Generated Income Account, as required by paragraph 10 of Chapter 4 of Government Auditing Standards.

The following schedule identifies the current status of findings related to the previous audit report:

I. Material Weaknesses in the Internal Control Structure

	Summary of Findings Related to the Previous Audit Report	Current Status	KPMG Hazem Hassan Comments
1.	There are deficiencies in TDC's control environment.	TDC developed a policy and procedures manual which was approved by USAID. This manual includes TDC management's philosophy and operating style which stipulates that "All persons associated with TDC's operation should be imbued with a sense of mission and clear purpose; they must act according to high professional norms and ethical standards."	During our audit we did not note any circumstances that made us believe that TDC is not in compliance with its policy and procedures manual. Therefore, this finding has been removed and is not included in this report.

	Summary of Findings Related to the Previous Audit Report	Current Status	KPMG Hazem Hassan Comments
2.	<u>There are deficiencies pertaining to TDC's ability to record, process, summarize and report income generated from USAID supported/financed activities.</u>	TDC developed and currently maintains a project ledger for the program generated income. However, we noted that TDC has not yet developed prenumbered source documents such as invoices and cash receipts in order to ensure that all transactions are completed and accounted for.	As of the starting date of the audited period TDC's executive committee issued a memorandum for each exhibition stating names of participants, fees to be collected and other related information. These memoranda give us reasonable assurance of the completeness of transactions. However, use and maintenance of prenumbered source documents is a significant internal control element that should be implemented. Therefore, this finding remains in this report.
2.1	No prenumbered source documents are used.		
2.2	No project ledger or subsidiaries are maintained.		
3.	<u>There is no system for maintaining, monitoring and reconciling advance accounts. In addition, TDC bills USAID/Egypt for advances made rather than the actual project costs incurred.</u>	TDC placed a system that effectively monitors advances and reconciles them in a timely basis and bills actual costs to USAID/Egypt rather than advances.	Based on the comprehensive enhancement of internal controls implemented by TDC in this area, this finding is not included in this report and has been removed.
4.	<u>Segregation of duties between the custody of cash and the bookkeeping function is lacking.</u>	TDC segregates between cash custody, bookkeeping, payroll preparation and payment functions.	Based on the comprehensive enhancement of internal controls implemented by TDC in this area, this finding has been removed.

	Summary of Findings Related to the Previous Audit Report	Current Status	KPMG Hazem Hassan Comments
5.	<u>The control procedures over cash are inadequate.</u>	Currently, TDC applies adequate control procedures over cash, for example, bank reconciliations are prepared in a timely manner and reviewed and approved by the responsible staff. Additionally, access to the unused checks is limited to authorized staff.	Based on the comprehensive enhancement of internal controls implemented by TDC in this area, this finding has been removed.
6.	<u>The accounting system for the Cooperative Agreement accounts is not adequate.</u>		
6.1	The Budget is not reflected in the project ledger	TDC's management provides USAID with a comparison of the budget to actual expenditures each month as a part of the reporting process. Additionally, the computerized accounting system provides budget tracking for groups of accounts.	Based on the enhancement of internal controls implemented by TDC in this area, this finding has been removed.
6.2	The petty cash register is not maintained nor are prenumbered forms used to control petty cash transactions	Currently, TDC maintains a petty cash register and uses forms to control petty cash transactions.	We believe that control procedures over petty cash transactions have become adequate. Accordingly, this finding has been removed.

	Summary of Findings Related to the Previous Audit Report	Current Status	KPMG Hazem Hassan Comments
7.	The control procedures concerning payroll and personnel are not adequate.	Currently, TDC applies adequate control procedures over payroll and personnel. These include the maintenance of a formal hiring process, adequate and approved time records; preparing comprehensive payroll sheets; and including a personnel policy as a part of TDC's policy and procedures manual.	Based on the comprehensive enhancement of internal controls implemented by TDC in this area, this finding has been removed.
8.	The control procedures over procurements and safeguarding of fixed assets are not adequate.	Currently, TDC has a procurement policy as a part of its policy and procedures manual. This policy provides assurance that purchases are in accordance with the approved budget, necessary for operation, and that they are properly authorized.	Based on the comprehensive enhancement of internal controls implemented by TDC in this area, this finding has been removed.
9.	The control over the financial documents is not adequate.	Currently, TDC assigns the filing function to responsible staff.	Based on the current status, this finding has been removed.
10.	There is no formal policy for regulating TDC's program income and client commission.	Currently, TDC's executive committee issues a memorandum for each exhibition stating the exact commission to be collected from clients.	We believe that this procedure is the most practical one that TDC can apply in order to control client commission. Therefore, this finding has been removed.

	Summary of Findings Related to the Previous Audit Report	Current Status	KPMG Hazem Hassan Comments
11.	The control procedures over international telephone calls are inadequate.	Currently, TDC applies adequate control procedures over the international telephone calls.	Based on the current status, this finding has been removed.

II. Material Instances of Noncompliance with Laws and Regulations

	Summary of Findings Related to the Previous Audit Report	Current Status	KPMG Hazem Hassan Comments
1.	TDC has no legal status in Egypt.	TDC's management provided us with a waiver from USAID/Egypt that waived the "separate legal entity" requirement for TDC.	Based on the current status, this finding was removed from this report.
2.	Instances of noncompliance with the Cooperative Agreement.	During the current audit, we also noted certain instances of noncompliance with the Cooperative Agreement which resulted in questioned costs of $57,850.	Based on the current status, this finding remains in this report.

Findings and recommendations that may affect the fund accountability statements have .been considered during our audit. Findings resolved and recommendations implemented, to our satisfaction, have not been mentioned in this report.

APPENDIX I

TDC'S MANAGEMENT'S RESPONSE

TDC EGYPT
Trade Development Center

August 19, 1996

Hazem Hassan & Co.

RE: Draft NFA Report on the
Trade Development Center, the
Implementation Arm of the US-Egypt
Joint Business Council Under
Cooperative Agreement
No. 263-0226-A-00-2027-00 and the
Related Program Income Account
Fund Accountability Statments

Referring to the above subject, and as directed by the Regional Inspector General for Audit, I have the pleasure to enclose a copy of our final comments on the draft audit findings.

TDC believes that our comments on each finding along with the attached copies of supporting documentation should result in the deletion of the monetary findings from the final audit report.

Very truly yours,

R. Dimitry

Ragai Dimitry,
Financial Controller

cc: TI/FI
RIG/A/C

TDC'S COMMENTS
ON
COOPERATIVE AGREEMENT FUND ACCOUNTABILITY STATEMENT
AUDIT FINDINGS
FOR THE PERIOD JUNE 1, 1994 - AUGUST 31, 1995

Draft Report Reference	Questioned Amount
Page 16, 1. a) Salaries and Benefits	$1,118

This amount represents annual bonuses paid to two of TDC's employees in excess of the USAID/budget. Attachment No. 1, Amendment No. 4 of the cooperative agreement approved an annual bonus calculated as 8.3 percent of the annual salary for each employee. Although these two employees did not work for TDC for the whole year, TDC paid them a full year's bonus.

TDC Response

TDC requests that this finding be deleted from the report.

As stated in our response to the concurrent audit report finding, the bonus was based on performance. Replacements were not hired during the contract period. TDC's position is that the Executive Director has the right under the personnel manual of operations to determine the exact amount of annual bonus to be paid to an employee, based on merit.

Draft Report Reference	Questioned Amount
Page 17, 2. a) Other Direct Costs	$4,082

This item represents sales taxes. Article 46, Attachment B of the OMB Circular No. A-122 stated that "Taxes are not allowed if tax exemption was 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. Subsequent to the audit period TDC obtained a letter from the Tax Authority agreeing to reimbursement of the taxes paid. However the exact amount to be reimbursed is being negotiated with the Tax Authority. We consider this amount to be unallowable.

TDC Response

TDC requests that this finding be deleted from the report.

On July 7, 1996, TDC deposited a check in the amount of LE 38,244.85 (equivalent to $11,255) received from the Tax Authority. The check received from the Tax Authority includes the audit finding of $4, 082.

Photocopies of the check and the deposit slip are attached

Draft Report Reference
Page 17, 2. b) Other Direct Costs

Questioned Amount
$107

This amount represents fines for late payment of a telephone invoice.. Article 14, Attachment B of OMB Circular No. A-122 stated that "Costs of fines and penalties resulting from violation of, or failure of the organization to comply with local laws and regulations are unallowable."

TDC Response

TDC requests that this finding be deleted from the report.

TDC did not violate local law nor did TDC fail to comply with local laws or regulations. As noted by the auditors, TDC was assessed a charge by the telephone company for late payment of a phone invoice. This happened because TDC was out of LE funds. An advance requested by TDC on April 6, 1994, was not received by TDC until May 12, 1994, the same date the telephone bill was due.

32

Draft Report Reference | Questioned Amount
Page 18, 2. c) Other Direct Costs | $166

This amount represents fees and taxes for vehicle license renewal. Article A of Amendment No. 4 of the Cooperative Agreement States that "AID grant fund cannot be used to reimburse certain costs which include identifiable GOE taxes and other assessment.

TDC Response

TDC requests that this finding be deleted from the report.

This was a payment in lieu of vehicle rent. TDC paid the license renewal on a leased vehicle. A condition of the lease was that TDC do this. The license renewal was in the name of the lessor, not TDC.

A copy of the lease is attached.

33

Draft Report Reference | Questioned Amount
Page 18, 2. d) Other Direct Costs | $566

This item represents taxes on air tickets. Article 46, Attachment B of OMB Circular No. A-122 states that "Taxes are not allowable if tax exemption was available."

TDC Response

TDC requests that this finding be deleted from the report.

In this case, tax exemption was not available. The travelers were Egyptians. We have a letter from the Tax Authority to the American Embassy's travel service, Thomas Cook, stating that the exemption is not available to Egyptians even though their tickets are financed by AID. We request that the auditors follow up with USAID regarding the conditions under which airline tickets financed by AID are tax exempt.

The matter of taxes on airline tickets was first raised by the USAID/Egypt FAST Team. Your firm's audit of TDC's fund accountability statement for the period ended May 31, 1994, again included a finding that TDC was paying taxes on airline tickets. In our response to that audit, we said that we were provided a copy of 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 airline tickets. From those documents and from our discussions with USAID's Office of Project Support, we noted that it was TDC's understanding that only American employees of contractors are entitled to the tax exemption and that Egyptian employees are not exempt.

Your concurrent audits again raised this issue. Our response to the concurrent audit was that TDC was not exempt and we provided you with a letter from the Tax Authority to Thomas Cook stating clearly that Egyptians were not exempt from the tax irrespective of USAID financing of the tickets.

TDC has again discussed this issue with the Project Officer and the Grant Officer and we firmly believe that the airline taxes questioned by you in three successive audit reports are in fact eligible for reimbursement because these taxes on Egyptian employees of USAID contractors and grantees are not exempt from taxation under the USG/GOE Bilateral Agreement. We request that you at least discuss this finding with knowledgeable USAID Officials before again reporting that these taxes are ineligible for reimbursement.

A copy of the letter from the Tax Authority is attached.

Draft Report Reference | Questioned Amount
Page 18, 2. e) Other Direct Costs | $1,307

This amount represents an excess of USAID/Egypt's per diem rates for international travel. No USAID approval is available for this amount. This amount is considered to be ineligible.

TDC Response

TDC requests that this finding be deleted from the report.

From our discussions with the you during the concurrent audits we believe this finding represents two periods. The first is $428 reimbursed for lodging in June 1994. As noted in our response when this amount was included in the draft concurrent audit report for the period June 1 - November 30, 1994, TDC rules at the time allowed travelers to charge actual lodging costs of up to $100 in excess of the stated USG per diem rate. As we have discussed with you a number of times in the past, the USAID directive that per diem exceeding the maximum rates would be limited to 150 percent of the USG per diem rate was issued after the travel took place. "No USAID approval of this amount is available", because no USAID approval was required at the time.

With regard to the $879 part of this finding, your statement that "No USAID approval is available for this amount." may come as a surprise to the Project Officer. Our response to this finding when it was included in the concurrent audit draft report for the period March 1 - May 31, 1995, was that there was prior approval by the Project Officer. We provided you with copies of the Project Officer letters which specifically approved the use of grant resources for lodging at a rate up to but not exceeding 150 percent of the U. S. Government's authorized rates for Dusseldorf and Frankfurt.

We request that you at least discuss this finding with the Project Officer before again reporting that these lodging payments are ineligible for reimbursement.

We are again submitting the Project Officer's approvals, as well as copies of the related expense reports submitted by the travelers. Copies of these documents are attached.

Draft Report Reference | Questioned Amount
Page 18, 2. f) Other Direct Costs | $4,078

This amount represents international medical insurance for some of the TDC employees. There is no line item for fringe benefits in the dollar budget. Therefore we consider this amount to be unallowable.

TDC Response

TDC requests that this finding be deleted from the report.

The amount is not a "fringe benefit." The expenditure was for "Other Direct Costs." As we noted in our response to your draft report on the concurrent audit for the period July 1 - August 31, 1995, the coverage is for only TDC's business travelers. In the absence of international business travel TDC would never have such an expense.

Draft Report Reference	Questioned Amount
Page 18, 2. g) Other Direct Costs	$28

This amount represents fees for a visa to Germany for one of the TDC employees presented without supporting documents. Therefore, we consider this amount unsupported

TDC Response

TDC requests that this finding be deleted from the report.

TDC disagrees with the draft audit report statement that the employee submitted the claim without supporting documents. As we noted in our response to the draft concurrent audit report for the period March 1 - May 31, 1995, the employee's request for reimbursement was a supporting document which stated that she was not able to obtain receipts other than the visa itself, stamped into her passport. She attached additional supporting documents; i.e., photocopies of her passport and the visa. Thus there was supporting documentation.

The TDC Financial Controller, after taking into consideration the traveler's past demonstrated reliability in correctly preparing her expense reports and conscientiously submitting complete documentation, including required approvals and receipts for lodging and incidentals, exercised his **professional judgement** and determined that, based on her past reputation for honesty and integrity, he could accept, just this once, her certification that the visa and related telex charge did in fact total the equivalent of $28, reimburse her, and in good conscience submit the amount as a legitimate charge on the appropriate expenditure report to USAID.

TDC believes that the traveler's explanation and documentation attached to the voucher was adequate support for a $28 payment and that you should use equally good judgement and drop this finding from the report.

Draft Report Reference	Questioned Amount
Page 18, 2. h) Other Direct Costs	$93

This amount represents a charge for transportation expenses, incurred during the trip of one of TDC's employees to Germany, and presented without supporting documents.

TDC Response

TDC requests that this finding be dropped from the report.

TDC believes that the $93 involves two extended trips, one to Dubai and one to Germany. In both cases the travelers' expense reports included claims for taxi fares. Some of the taxi fares claimed were not supported by receipts. Again, the TDC Financial Controller exercised his professional judgement, and, based on the travel authorizations, approval of the activities by USAID, the hotel bills, evidence of participation in trade fares, trip reports, used airline tickets and other documentation indicating that the travelers had in fact traveled to where they said they did, carried out the business they went there for, during the times and dates they were supposed to be there; approved the reimbursement of taxis without receipts.

Draft Report Reference | Questioned Amount
Page 19, 3. a)Technical Assistance | $5,400

This amount represents technical assistance fees. Although this technical assistance is provided by a company, the contract and the check was in the name of an individual and TDC could not prove the relationship between him and the Company. Therefor we consider the amount to be unsupported.

TDC Response

TDC requests that this finding be deleted from the report.

At May 31, 1995, TDC entered into a contract with the company. An individual signed the contract for the company as its managing director. The payment in question was made pursuant to an invoice from the company which stated "Make all payments to [the managing director]. The payment that you questioned in you draft report on the concurrent audit for the period July 1 - August 31, 1995, was to the same individual who signed the contract as managing director. It is difficult for TDC to understand how you can make a statement that TDC could not prove the managing director's relationship between himself and the company after we presented you with the signed contract and an invoice that said make the check payable to the individual who signed the contract. However, in order to respond to your draft report on the concurrent audit, TDC requested, and received, on November 30, 1995, a facsimile statement from the company certifying that the individual whose relationship to the company you questioned during the concurrent audit, was in fact the owner and managing director and noting that the relationship was in conformity with the contract and subsequent invoices issued by the company to TDC.

Unless there is some other problem, unstated in the draft audit report, TDC believes that the relationship is proven and you can delete the finding.

We are again submitting the documents made available to you in response to the concurrent audit; the contract, a representative invoice and the facsimile certification of the individual's relationship to the company.

Draft Report Reference
Page 19, 3. b) Technical Assistance

Questioned Amount
$300

This amount represents fees for technical assistance provided by a lawyer for a study on establishing an association for furniture export. This amount should have been paid by the exporters rather than by TDC especially since TDC did not stand to gain any benefit. Therefore we consider this amount unallowable.

TDC Response

TDC's goal, objectives and strategies are stated in the project documentation, including the agreement, related work plans and the introduction to the Accounting and Internal Control Manual. This study, which you question, directly supports TDC's main goal of serving as a catalyst to increase Egypt's exports and generate foreign exchange reserves. One of TDC's stated objectives is to deliver **technical assistance** and market access support and information to firms in five targeted sector, one of which is furniture. The study you question directly supports implementation of TDC's key strategies. TDC stands to gain direct benefit from this study. TDC therefore firmly believes that this expenditure is eligible under the cooperative agreement.

Draft Report Reference	Questioned Amount
Page 19, 4. a) Promotion Events/Materials	$2,084

This amount represents the cost of printing brochures for an exhibition. The procurement was performed by direct order. To ensure that the best prices were obtained, TDC should have had, at least, three competitive offers. Therefore the amount is considered ineligible.

TDC Response

TDC requests that this finding be deleted from the report

As noted in our response to the draft audit report on the concurrent audit for the period June 1 - November 30, 1994, this was a two part order. The initial order, for flyers, was less than the $1,000 required for competitive bidding. Shortly before the exhibition, brochures were ordered in addition to the flyers. The same printing setup was used for both parts of the order and as a result, TDC believes it acted properly and got the best product at the best price under the circumstances of having to deliver the brochures in time for the exhibition.

41

Draft Report Reference | Questioned Amount

Page 20, 4. b) Promotion Events/Materials $38,175

This amount represents VAT paid during certain exhibitions. Article 46, Attachment B of the OMB Circular No. A-122 stated that "Taxes are not allowable if tax exemption was available." Subsequent to our audit, TDC requested USAID to appoint a voucher examiner. This will enable TDC to send the original vouchers back and recover the VAT. Since this action has not yet taken place, we consider this amount to be unallowable.

TDC Response

TDC requests that this amount be deleted from the audit report on the basis that TDC has set up an account receivable in the project ledger for the VAT and the expenditures chargeable to AID on the expenditure report for the month of August 1996 will be reduced accordingly, pending submission of the documents to the European taxing authorities and those authorities' determinations of the amounts of VAT refundable. Items on which the authorities determine that tax exemption is not available will be written off to expenditures and charged to AID.

Draft Report Reference | Questioned Amount
Page 20, 4. c) Promotion Events/Materials | $346

This amount represents shipment of two packages to Brussels after the termination of the exhibition in Parma. There was no reason given for this shipment. Therefore this amount is considered to be **unallocable.**

TDC Response

TDC requests that this finding be deleted from the report.

TDC notes that the above quoted finding repeats, *verbatim*, the finding included in the draft and final versions of the report on the concurrent audit; thus completely ignoring TDC's response to that audit.

As quoted above, your finding states that "There was no reason given for this shipment." Your statement is not correct. A reason was given for the shipment, but you chose to ignore it.

As you know, TDC gave you the reason for the shipment in its April 16, 1995, response to your March 15, 1995, draft report on the concurrent audit for the period June 1 - November 30, 1994. TDC wrote at that time that the reason for the shipment was that "TDC retained a consultant in Belgium to promote foodstuffs (copy of contract enclosed) and as per his request, the samples were sent to him after the Cibus fair."

Please note that the shipment was consigned to the contractor, Mr. Rene Montens in Brussels, and that the shipment was made on May 14, 1994, which was during the period of Mr. Montens contract, March 14, 1994 to June 14, 1994.

Again, please find attached copies of the documentation we provided to you at the time of the audit and as a part of our response to the concurrent audit draft report; the contract, the Project Officer's approval of the contract, the voucher, The TDC Sales and Marketing Director's request to the TDC Executive Director requesting approval of the payment, the Executive Director's approval, the check issued to Fagioli, Fagioli's invoice which includes the air waybill number, consignee and other details of the shipment; all under cover of a TDC voucher face sheet.

Unless you have other evidence, not included in the audit report, that supports you questioning of this amount, TDC believes that there is no audit support for this finding.

Draft Report Reference | Questioned Amount
Page 21, PGI a) | $40

This amount represents the cost of flowers exceeding the USAID/Egypt approved budget. Therefore, we consider this amount to be unallowable.

TDC Response

TDC requests that this finding be deleted from the report.

As stated in the response to the concurrent audit for the period June 1 - November 30, 1994, this finding involves a number of transactions. The maximum allowed amount was $10 per transaction and each of these transactions exceeded the maximum by a small amount.

Draft Report Reference | Questioned Amount
Page 21, PGI b) | $325

This amount represents lodging expenses in excess of the approved rate. Article E, Attachment No. 3, Amendment No. 4 of the Cooperative Agreement stated that "PGI funds should not be used to exceed the maximum per diem allowance allowed by USAID Regulations for foreign areas."

TDC Response

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

1. The amount you cite is not correct. Your audit finding refers to our check No 212653, issued August 28, 1994. We note that the amount of our payment was only $261. You have questioned $64 more than we paid out under this transaction. Actually, the amount claimed was $325; however, the TDC Financial Controller used his good **professional judgement** and, based on the documentation, disallowed part of the claim.

2. The citation of Amendment 4 is not correct. The questioned travel occurred May 5-9, 1994 and was settled on August 28, 1994. Amendment 4 was signed by the Agreement Officer on September 30, 1994, over four months after the questioned transaction took place and one month after the voucher was paid.

We are providing you with a copy of the voucher, with supporting documentation attached, that was reviewed by your auditors at the time they devised this finding. The documentation includes a copy of the TDC travel regulation in effect at the time.

Draft Report Reference | Questioned Amount
Page 21, PGI c) | $141

This amount represents the cost of flowers provided to foreign government employees. Amendment No. 4 prohibits the provision of flowers for foreign government employees. Therefore, we consider this amount to be unallowable.

TDC Response

TDC requests that this finding be deleted from the report.

TDC maintains its position that the flowers in question were not provided to individuals, they were provided as TDC's participation in functions such as receptions for national days, visiting missions and delegations. TDC also notes that not all of the items questioned by your auditors were for government functions.

A list of the transactions is attached.

APPENDIX II

AUDITOR'S COMMENTS

AUDITOR'S COMMENTS

Cooperative Agreement No. 263-0226-A-00-2027-00

I. Fund Acountability Statement

Finding No. 2b)

TDC's management stated that "these fines were paid for a late payment of a phone invoice. This happened because TDC was out of LE." We still believe that fines should not be charged to USAID/Egypt according to OMB Circular No. A-122. Therefore this finding will remain the same.

****

Based on documents and clarifications provided to us subsequent to the issue of the draft report all other findings have been removed.

II. Program Generated Income Account:

Fund Accountability Statement

Based on documents and clarifications provided to us subsequent to the issue of the draft report all findings have been removed.

III. Internal Control:

Material Weaknesses:

Finding No. 1

TDC's management stated that corrective actions fo this finding will be taken in the future. Therefore, this finding will remain the same.

Finding No. 2

Based on documents and clarifications provided to us subsequent to the issue of the draft report this finding has been removed.

Reportable Condition:

Finding No. 3

Based on documents and clarifications provided to us subsequent to the issue of the draft report this finding has been removed.

APPENDIX III

MISSION'S COMMENTS

USAID

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

October 15, 1996

15 OCT 1996

MEMORANDUM

To : Lou Mundy, RIG/A/C

From : Eric Schaeffer, Acting Office Director, FM/FA

Subject: Financial Audit of the Trade Development Center-Egypt, the Implementation Arm of the US-Egypt Joint Business Council
(USAID/Egypt Cooperative Agreement No. 263-0226-A-00-2027-00). Draft Report dated September 16, 1996

Following are the actions taken by the Mission to resolve of Recommendation No. 1.under the subject draft audit report.

Recommendation No. 1.

We recommend that USAID/Egypt make a management decision on the ineligible costs of $107 detailed on page 15 of the KPMG Hazem Hassan audit report, and recover from the Trade Development Center-Egypt the amounts determined to be unallowable.

Mission response

Mission has determined that the full amount is sustained. The $107 was recovered by check No.138000 dated October 8, 1996, (see attached copy of the refund check and USAID General Receipt No. A000160 dated October 8, 1996). Therefore, Mission requests closure of Recommendation No. 1.

Recommendation No. 2.

We recommend that USAID/Egypt obtain evidence that the Trade Development Center-Egypt has addressed the material internal control weakness (prenumbered source documents are not used) detailed on page 19 of the KPMG Hazem Hassan audit report.

Mission response:

Mission review of TDC memorandum dated September 16, 1996 and the attached documents has revealed that prenumbered cash receipts and invoices system has been put in place to achieve control and accountability over cash transactions. Based on the system newly established by TDC, the following procedures have been implemented:-

106 Kasr El Aini Street
Garden City
Cairo, Egypt

2- Fair contribution will be supported by a TDC prenumberd invoices, (see attached). As soon as the accounting division receives the list of the contributing clients, invoices will be issued accordingly and copies will maintained in a separate serial log book by the cognizant senior accountant.

- Money received by TDC will be supported by a TDC prenumbered receipts, (see attached). A separate log book indicating the related invoice number for which money is received will be maintained by the cognizant accountant.

- Cancellation of any contribution will always be supported by a proper "Credit Note" before reporting it to the accounting division.

- All invoices and credit notes will be signed either by the executive director or the drafter.

Mission believes that the above corrective actions properly address the internal control weakness identified by the auditors. Mission also believes that the use of prenumbered journal voucher form is a TDC management decision based on the nature of their operation and is not a key element to provide control over cash transactions.

- Att: a/s.