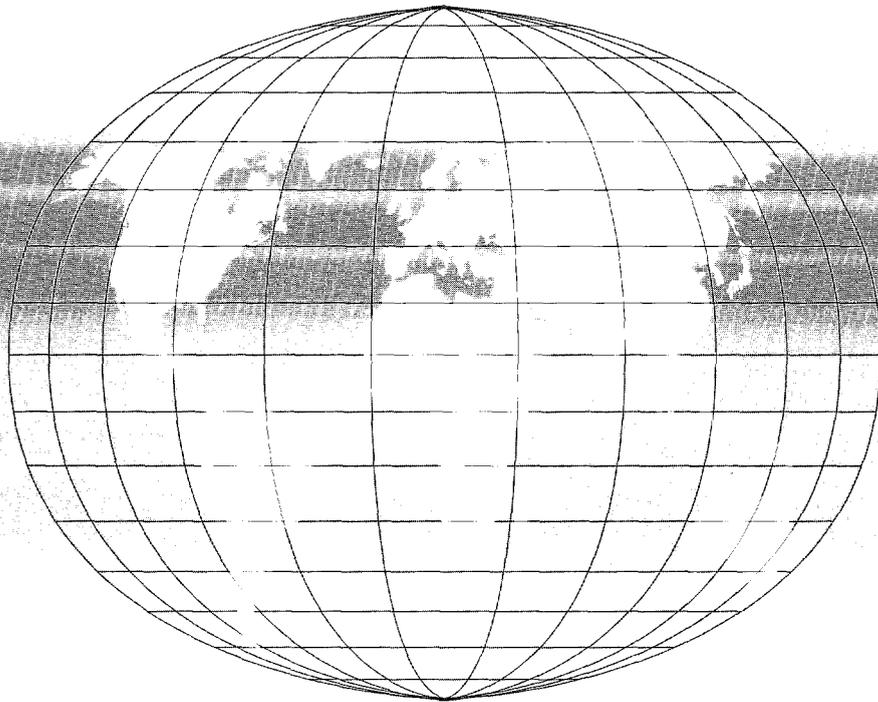


Report of Audit

**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**

**Report No. 6-263-97-012-N
January 16, 1997**



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

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

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



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

CAIRO, EGYPT

January 16, 1997

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley
FROM: RIG/A/C, Lou Mundy *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 January 13, 1997, 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 \$1,000,457 (equivalent to LE3,401,552) for the period September 1, 1995 through May 31, 1996. 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 did not identify any questioned costs billed to USAID/Egypt by the Center. The auditors also did not note any material weaknesses in the Center's internal control structure or any instances of material noncompliance with applicable laws, regulations,

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and agreement terms. As a result, this report does not contain any recommendations to be included in the Office of the Inspector General's recommendation follow-up system.

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 September 1, 1995
through May 31, 1996

FINANCIAL INFORMATION CONTAINED
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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 September 1, 1995
through May 31, 1996

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

January 13, 1997

Dear Mr. Mundy,

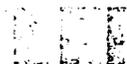
This report represents the results of our financial audit of the Trade Development Center-Egypt (TDC), the implementation arm of the US-Egypt Joint Business Council (JBC), under Cooperative Agreement No. 263-0226-A-00-2027-00, and the related Program Income Account for the period September 1, 1995 through May 31, 1996.

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.



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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 written guidance issued by USAID/Egypt to JBC regarding the use and audit of the PGI. This guidance did not include specific criteria governing expenses funded from PGI.

On March 15, 1995, amendment No. 8 was initiated. The purpose of this amendment was to extend the completion date of the project to September 30, 1996.

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 September 1, 1995 through May 31, 1996. 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 September 1, 1995 through May 31, 1996. These concurrent audits include issuing the sixth and seventh quarterly reports. All the findings, which arose in these quarterly reports, were discussed with TDC management and USAID/Egypt Representatives in order to resolve these findings. All findings related to these two quarterly reports were resolved before issuing this report.

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; and
- reviews of TDC's organizational structure, procurement and personnel manuals, financial and accounting policies and procedures manual.

The field work was completed on December 22, 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 \$553,168, and LE1,401,281 (equivalent to \$412,142).

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 all of the revenue and expenditures from the separate bank account established for PGI funds. 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 incurred in accordance with the Cooperative Agreement's objectives.

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 did not identify any questioned costs.

Program Generated Income Fund Accountability Statements

Our audit did not identify any questioned costs.

Internal Control

Our audit did not identify any reportable conditions, or material internal control weakness.

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 June 1, 1994 through August 31, 1995 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 one material weakness in the internal control structure and no material instances of noncompliance with laws and regulations. During our audit, we noted that TDC's management has improved the internal control structure resulting in the removal of the material weakness.

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, were communicated to TDC's management and are available upon request.

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.



Hazem Hassan & Co.
Cairo, Egypt

FUND ACCOUNTABILITY STATEMENTS



Hazem Hassan

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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 September 1, 1995 through May 31, 1996. 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 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 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.

In our opinion, 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 September 1, 1995 through May 31, 1996 in conformity with the basis of accounting described in Note 1.



Hazem Hassan & Co.
Cairo, Egypt

December 22, 1996



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
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), for the Program Generated Income Account related to Cooperative Agreement No. 263-0226-A-00-2027-00, for the period September 1, 1995 through May 31, 1996. 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 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 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.



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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.

In our opinion, the Program Generated Income Account (PGIA) 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 September 1, 1995 through May 31, 1996 in conformity with the basis of accounting described in Note 1.


Hazem Hassan & Co.
Cairo, Egypt

December 22, 1996

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TRADE DEVELOPMENT CENTER
Fund Accountability Statement
Cooperative Agreement No. 263-0226-A-00-2027-00
For the Period September 1, 1995 through May 31, 1996

	\$
Cash Balance on September 1, 1995	314,044
USAID/Egypt funds received	<u>1,095,000</u>
Cash available during the period	<u>1,409,044</u>

<u>Expenditures</u>	<u>Questioned Costs</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>
	\$	\$	\$	\$
	<u>(Note 4)</u>			
Salaries & Benefits	871,662	173,627		
Other Direct Costs	1,391,990	252,592		
Capital Costs	488,275	27,290		
Technical Assistance	743,523	189,388		
Promotional Events/Materials	1,622,363	322,413		
MIS	196,271	---	---	---
Total Expenditures		<u>965,310</u>	<u>---</u>	<u>---</u>
 USAID/Egypt Fund balance				
as of May 31, 1996		<u>443,734</u>		
 Less:				
Outstanding advance payment (Note 5)		<u>(34,332)</u>		
Bank balance as of May 31, 1996		<u>409,402</u>		

* 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 September 1, 1995 through May 31, 1996

	<u>Questioned Costs</u>		
	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>
	\$	\$	\$
Program Income generated during the period	57,398		
 <u>Expenditures</u>			
Tips	136		
Bank Charges	1,929		
Miscellaneous	28,731		
Travel	714		
Entertainment	2,456		
Exhibitions	1,181	---	---
Total expenditures	35,147	---	---
Excess of Program Income over Expenses for the period	22,251		

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

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

Notes to the Fund Accountability Statements

Note 1: Accounting Basis

The fund accountability statements have been prepared on the basis of cash receipts and disbursements. Consequently, revenues 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 = LE3.4.

Note 4: 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 September 30, 1996.

Note 5: 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.

Note 6: Excess of Program Generated Income over Expenses

The Excess of Program Generated Income over Expenses represents total cash received from TDC's clients and total cash paid during the period September 1, 1995 through May 31, 1996. Business advances amounting to \$58,041 remain outstanding as of May 31, 1996 and accordingly have not been reflected as expenses in the fund accountability statement. Such amounts will be recorded as expense in future periods upon settlement.

INTERNAL CONTROL STRUCTURE



Hazem Hassan

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Report on the Internal Control Structure
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 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 September 1, 1995 through May 31, 1996 and have issued our reports thereon dated on December 22, 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.



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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.

In planning and performing our audit of the 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 September 1, 1995 through May 31, 1996, we obtained an understanding of the internal control structures. 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 statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

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 condition in which the design or operation of one or more of the specific internal control 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. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

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



Hazem Hassan & Co.
Cairo, Egypt

December 22, 1996

COMPLIANCE WITH LAWS AND REGULATIONS



Hazem Hassan

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Report on Compliance with Laws and Regulations 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 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 September 1, 1995 through May 31, 1996 and have issued our reports thereon dated on December 22, 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



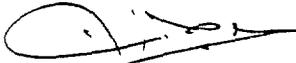
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quality control review by partners and managers from other KPMG offices.

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 instances of noncompliance that are 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. This restriction is not intended to limit the distribution of this report, which is a matter of public record.



Hazem Hassan & Co.
Cairo, Egypt

December 22, 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 June 1, 1994 through August 31, 1995 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 the findings related to the previous NFA audit report:

I. Material Weakness in the Internal Control Structure

Summary of Finding Related to the Previous NFA Audit Report	Current Status	KPMG Hazem Hassan Comment
1. <u>No prenumbered source documents are used.</u>	TDC developed prenumbered vouchers and cash receipts to account for fees received from the clients.	Therefore, this finding has been removed and is not included in this report.

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