

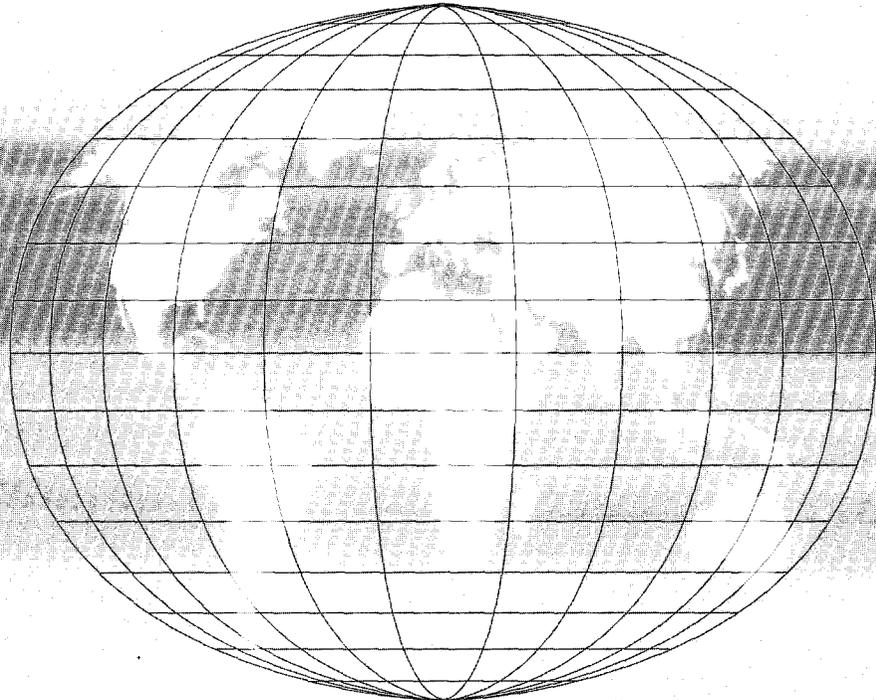
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Report of Audit

**Financial Audit of the USAID/Egypt
Special Account (Grant Agreement Nos.
263-0201, 263-K-627, 263-K-629, 263-K-632, 263-K-633,
and the Memorandum of Understanding)**

**Report No. 6-263-98-009-N
January 14, 1998**



**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

Report No. 6-263-98-009-N
January 14, 1998

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley

FROM: RIG/A/C, Lou Mundy *Lou Mundy*

SUBJECT: Financial Audit of the USAID/Egypt Special Accounts (Grant Agreement Nos. 263-0201, 263-K-627, 263-K-629, 263-K-632, 263-K-633, and the Memorandum of Understanding)

The attached report, transmitted on January 8, 1998 by Coopers & Lybrand, presents the results of a financial audit of the USAID/Egypt Special Accounts established under Grant Agreement Nos. 263-0201, 263-K-627, 263-K-629, 263-K-632, and 263-K-633; releases from the Special Accounts were governed by Memorandum of Understanding Nos. 16, 17, and 18. Funds entered the Special Accounts from various sources: remittances from the Government of Egypt (GOE) and from participating Egyptian banks under Commodity Import Programs, and local currency deposits by the GOE, equivalent in amount to Dollar funds provided by the U.S. Government under Cash Transfer Programs. Releases from the Special Accounts were for GOE contributions to various USAID/Egypt development projects and for support to GOE ministries.

We engaged Coopers & Lybrand to perform a financial audit of the Special Accounts' inflows of \$199,050,849 and releases of \$171,176,470 for the period July 1, 1996 through June 30, 1997. The purpose of the audit was to evaluate the timeliness and propriety of funds flowing through the Special Accounts. Coopers & Lybrand also evaluated the Mission's internal controls as they relate to the Special Accounts and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Statement of Inflows and Releases of Funds.

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

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

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

The audit did not identify any questioned amounts in the inflows or releases from the Special Accounts. Additionally, the auditors did not note any material weaknesses in the internal control structure relating to the Special Accounts nor any material instances of noncompliance with applicable laws, regulations and agreement terms. As a result, this report does not contain any recommendations to be included in the Office of 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

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**FINANCIAL-RELATED AUDIT OF THE USAID/EGYPT
SPECIAL ACCOUNTS RELATED TO GRANT AGREEMENT
NOS. 263-0201, 263-K-633 AND 263-K-632
(PRIVATE COMMODITY IMPORT PROGRAM);
NO. 263-K-0627
(PUBLIC COMMODITY IMPORT PROGRAM); AND
NO. 263-K-629
(CASH TRANSFERS)
AND THE MEMORANDUM OF UNDERSTANDING**

**FOR THE PERIOD FROM JULY 1, 1996
THROUGH JUNE 30, 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."**

**FINANCIAL-RELATED AUDIT OF THE USAID/EGYPT
SPECIAL ACCOUNTS RELATED TO GRANT AGREEMENT
NOS. 263-0201, 263-K-633 AND 263-K-632
(PRIVATE COMMODITY IMPORT PROGRAM);
NO. 263-K-0627
(PUBLIC COMMODITY IMPORT PROGRAM); AND
NO. 263-K-629
(CASH TRANSFERS)
AND THE MEMORANDUM OF UNDERSTANDING**

**FOR THE PERIOD FROM JULY 1, 1996
THROUGH JUNE 30, 1997**

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January 8, 1998

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

Dear Mr. Mundy:

This report presents the results of our financial-related audit of the statement of inflows and releases of funds of the United States Agency for International Development, Mission to Egypt (USAID/Egypt) Special Accounts. The inflows of funds relate to Grant Agreement Nos. 263-0201, 263-K-633 and 263-K-632, (Private Commodity Import Program); Grant Agreement No. 263-K-0627, (Public Commodity Import Program); and Grant Agreement No. 263-K-629 (Cash Transfers), (collectively, the "Active Grant Agreements"). The releases of funds relate to Memorandum of Understanding Nos. 16, 17 and 18 (collectively, the "MOU"). The audit was conducted for the period from July 1, 1996 through June 30, 1997.

Background

The Special Accounts are a means for transferring funds from the United States Government to the Government of Egypt (GOE). Inflows of funds to the Special Accounts are derived from three sources: 1) the GOE under the Public Commodity Import Program and the Cash Transfers Program, 2) the United States Government under the Cash Transfers Program, and 3) the participating banks under the Private Commodity Import Program. Releases of funds from the Special Accounts are governed by the MOU. The Special Accounts are held at the Central Bank of Egypt under the control of the Ministry of Finance.

Private Commodity Import Program (CIP):

There were three active Private CIP Grant Agreements during our audit period: Grant Agreement Nos. 263-0201, 263-K-633 and 263-K-632. The Private CIP is designed to offer low-cost financing to enable Egyptian private entities to import commodities from the US. The US Government pays the American supplier from Washington, D.C. and the Egyptian participating bank which organized the financing for the Egyptian private entity remits the local currency repayments from the entity into the relevant Special Account. It is the responsibility of the participating bank to collect repayments from the Egyptian entities. Once funds enter the Special Accounts, they become the property of the GOE.

Public Commodity Import Program (CIP):

There was one active Public CIP Grant Agreement during our audit period: Grant Agreement No. 263-K-0627. The Public CIP is designed to offer low-cost financing to enable Egyptian public enterprises to import commodities from the US. The US Government pays the American supplier from Washington, D.C. and the GOE remits the local currency repayments into the appropriate Special Account. It is the responsibility of the GOE to make the repayments. Once funds enter the Special Accounts, they become the property of the GOE.

Cash Transfers:

There was one active Cash Transfers Grant Agreement during our audit period: Grant Agreement No. 263-K-629. Cash Transfers deposits are made in local currency and in US

Dollars. The local currency Cash Transfers Special Account is not interest bearing, the US Dollar Cash Transfer program is. Cash is transferred into the U.S. Dollar Cash Transfer Special Account by the US Government and is used by the GOE to purchase US commodities. After the suppliers are paid from the US Special Account, the GOE must deposit an equivalent local currency amount into the Local Currency Cash Transfer Special Account. Once funds enter the Special Accounts, the funds become the property of the GOE.

Memorandum of Understanding:

There was one active MOU during our audit period: MOU No. 18 and a few releases were made related to MOU Nos. 16 and 17. Releases from the Special Accounts are governed by the MOU which is an agreement between the USAID/Egypt and the GOE. The MOU is updated annually, and represents budgeted amounts for releases of funds from the Special Accounts. The type of releases that are typically found in the MOU relate to the GOE contribution to various USAID/Egypt development projects and for support to the GOE ministries.

Audit objectives and scope

The objective of this engagement was to perform a financial-related audit of inflows of funds to the USAID/Egypt Special Accounts established under the Active Grant Agreements and releases of funds from the USAID/Egypt Special Accounts governed by the MOU. The audit was conducted for the period from July 1, 1996 through June 30, 1997.

Specific objectives of our testing of inflows and releases of funds included, but were not limited to, the following:

1. ensuring that the inflow of funds to the Special Accounts were made on a timely basis and at the correct conversion rate;
2. ensuring that the releases of funds from the Special Accounts were based on the applicable MOU; and
3. ensuring that the funds reached their planned destination.

Preliminary planning and review procedures began in September, 1997 and consisted of discussions with personnel from the Office of the Regional Inspector General for Audit in Cairo (RIG/A/C) and the Office of Financial Management (FM), and a review of the Agreements and other applicable regulations. Audit fieldwork commenced in October and was completed in December, 1997.

Inflow of funds to the Special Accounts under the Active Grant Agreements totaled \$199,050,849 and releases of funds from the Special Accounts totaled \$ 171,176,470 during the period from July 1, 1996 through June 30, 1997.

In our testing of inflows of funds to the USAID/Egypt Special Accounts established under the Active Grant Agreements, we tested from source documentation to ensure that amounts were deposited on a timely basis and at the correct conversion rate. In our testing of inflows and releases related to the Special Accounts, we tested \$106,607,491 representing approximately 29% of total inflows and releases. Our testing of inflows and releases of funds included, but were not limited to, ensuring that amounts were deposited in the Special Accounts related to the active Grant Agreements on a timely basis and at the correct conversion rate and determining that releases were based on the MOU and reached their planned destination.

As part of our audit we made a study and evaluation of relevant internal controls related to the Special Accounts and reviewed compliance with agreement terms and applicable laws and regulations.

Audit results

Statement of inflows and releases of funds:

We found that inflows to the Special Accounts related to the Active Grant Agreements were made on a timely basis and at the correct conversion rate and that releases of funds from the Special Accounts were based on the MOU and reached their planned destination.

Internal control structure:

We found no material weaknesses. However, we identified other non-reportable conditions which we have communicated to the management of the Special Account in a separate letter dated December 17, 1997.

Compliance with agreement terms and applicable laws and regulations:

The results of our tests disclosed no material instances of noncompliance with agreement terms and applicable laws and regulations that are required to be reported herein under *Government Auditing Standards*. However, we identified other non-reportable conditions which we have communicated to the management of the Special Account in a separate letter dated December 17, 1997.

Status of prior audit findings:

There were no material internal control weaknesses or material instances of noncompliance with agreement terms and applicable laws and regulations noted in the Special Account audit for the period from April 1, 1995 through June 30, 1996, report number 6-263-97-020-N dated April 21, 1997, and issued May 19, 1997.

Management comments

Management comments have been obtained and are included in Appendix A of this report.

This report is intended for the information of the United States Agency for International Development. However, this report is a matter of public record and its distribution is not limited.

Coopers & Lybrand

December 17, 1997

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

**REPORT OF INDEPENDENT ACCOUNTANTS
ON THE STATEMENT OF INFLOWS AND
RELEASES OF FUNDS**

We have audited the accompanying statement of inflows and releases of funds of the United States Agency for International Development, Mission to Egypt (USAID/Egypt) Special Accounts for the period from July 1, 1996 through June 30, 1997. The inflows of funds relate to Grant Agreement Nos. 263-0201, 263-K-633 and 263-K-632, (Private Commodity Import Program); Grant Agreement No. 263-K-0627, (Public Commodity Import Program); and Grant Agreement No. 263-K-629 (Cash Transfers), (collectively, the "Active Grant Agreements"). The releases of funds relate to the Memorandum of Understanding Nos. 16, 17 and 18 (collectively, the "MOU"). The statement of inflows and releases of funds is the responsibility of USAID/Egypt. Our responsibility is to express an opinion on this statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of inflows and releases of funds is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of inflows and releases. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the statement of inflows and releases. 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* since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of *Government Auditing Standards* is not material because we participate in the Coopers & Lybrand worldwide internal quality control program which requires the Coopers & Lybrand Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Coopers & Lybrand offices.

As described in Note 2, the accompanying statement of inflows and releases of funds has been prepared on the cash receipts and disbursements method of accounting. Consequently, inflows and releases of funds are recognized when deposited or withdrawn rather than when earned or incurred. Accordingly, the accompanying statement of inflows and releases of funds is not intended to present results in accordance with accounting principles generally accepted in the United States of America.

In our opinion the statement of inflows and releases of funds of the USAID/Egypt Special Accounts referred to in the first paragraph presents fairly, in all material respects, the inflows of funds under the Active Grant Agreements and releases of funds under the MOU for the period from July 1, 1996 through June 30, 1997 in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report, dated December 17, 1997 on our consideration of USAID/Egypt's internal control structure and a report, dated December 17, 1997 on its compliance with agreement terms and applicable laws and regulations.

This report is intended for the information of the United States Agency for International Development. However, this report is a matter of public record and its distribution is not limited.

Coopers & Lybrand

**FINANCIAL-RELATED AUDIT OF THE USAID/EGYPT
SPECIAL ACCOUNTS RELATED TO GRANT AGREEMENT
NOS. 263-0201, 263-K-633 AND 263-K-632
(PRIVATE COMMODITY IMPORT PROGRAM);
NO. 263-K-0627
(PUBLIC COMMODITY IMPORT PROGRAM); AND
NO. 263-K-629
(CASH TRANSFERS)
AND THE MEMORANDUM OF UNDERSTANDING

FOR THE PERIOD FROM JULY 1, 1996
THROUGH JUNE 30, 1997**

STATEMENT OF INFLOWS AND RELEASES OF FUNDS

Inflows of Funds

**Private Sector Commodities Import
Program:**

Grant No. 263-0201	\$75,875,960	
Grant No. 263-K-632	69,416,073	
Grant No. 263-K-633	<u>816,745</u>	\$146,108,778

**Public Sector Commodities Import
Program:**

Grant No. 263-K-0627	<u>\$4,036,583</u>	\$4,036,583
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Cash Transfers:

Grant No. 263-K-629	<u>\$48,905,488</u>	<u>\$48,905,488</u>
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Total Inflows

\$199,050,849

Releases of Funds

General Budget Support	<u>\$110,294,118</u>	\$110,294,118
FT-800	<u>\$60,882,352</u>	<u>\$60,882,352</u>

Total Releases

\$171,176,470

The accompanying notes are an integral part of this statement of inflows and releases of funds.

**FINANCIAL-RELATED AUDIT OF THE USAID/EGYPT
SPECIAL ACCOUNTS RELATED TO GRANT AGREEMENT
NOS. 263-0201, 263-K-633 AND 263-K-632
(PRIVATE COMMODITY IMPORT PROGRAM);
NO. 263-K-0627
(PUBLIC COMMODITY IMPORT PROGRAM); AND
NO. 263-K-629
(CASH TRANSFERS)
AND THE MEMORANDUM OF UNDERSTANDING**

**FOR THE PERIOD FROM JULY 1, 1996
THROUGH JUNE 30, 1997**

NOTES TO THE STATEMENT OF INFLOWS AND RELEASES OF FUNDS

NOTE 1 - SCOPE OF AUDIT:

The scope of our audit was inflows and releases of funds of the USAID/Egypt Special Accounts for the period from July 1, 1996 through June 30, 1997. The inflows of funds relate to Grant Agreement Nos. 263-0201, 263-K-633 and 263-K-632, (Private Commodity Import Program); Grant Agreement No. 263-K-0627, (Public Commodity Import Program); and Grant Agreement No. 263-K-629 (Cash Transfers). The releases of funds relate to the Memorandum of Understanding Nos. 16, 17 and 18.

NOTE 2 - BASIS OF PRESENTATION:

The statement of inflows and releases of funds has been prepared on the cash receipts and disbursements method of accounting. Consequently, inflows and releases of funds are recognized when deposited or withdrawn rather than when earned or incurred.

December 17, 1997

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

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

We have audited the statement of inflows and releases of funds of the United States Agency for International Development, Mission to Egypt (USAID/Egypt) Special Accounts for the period from July 1, 1996 through June 30, 1997. The inflows of funds relate to Grant Agreement Nos. 263-0201, 263-K-633 and 263-K-632, (Private Commodity Import Program); Grant Agreement No. 263-K-0627, (Public Commodity Import Program); and Grant Agreement No. 263-K-629 (Cash Transfers), (collectively, the "Active Grant Agreements"). The releases of funds relate to the Memorandum of Understanding Nos. 16, 17 and 18 (collectively, the "MOU"). We have issued our report thereon, dated December 17, 1997.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of inflows and releases of funds is free of material misstatement.

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

The management of USAID/Egypt is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the statement of inflows and releases of funds in accordance with the cash receipts and disbursements method of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the USAID/Egypt Special Accounts, we obtained an understanding of the internal control structure related to the flow of funds of the Special Accounts. With respect to the internal control structure related to the flow of funds, 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 an opinion on the USAID/Egypt Special Accounts 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 related to the flow of funds of the Special Accounts 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 the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the statement of inflows and releases being audited may occur and not be detected in a timely manner by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure related to the flow of funds of the Special Accounts and its operation that we consider to be material weaknesses as described above.

However, we identified other non-reportable conditions which we have communicated to the management of the Special Account in a separate letter dated December 17, 1997.

This report is intended for the information of the United States Agency for International Development. However, this report is a matter of public record and its distribution is not limited.

Coopers & Lybrand

December 17, 1997

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

**REPORT OF INDEPENDENT ACCOUNTANTS ON
COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS**

We have audited the statement of inflows and releases of funds of the United States Agency for International Development, Mission to Egypt (USAID/Egypt) Special Accounts for the period from July 1, 1996 through June 30, 1997. The inflows of funds relate to Grant Agreement Nos. 263-0201, 263-K-633 and 263-K-632, (Private Commodity Import Program); Grant Agreement No. 263-K-0627, (Public Commodity Import Program); and Grant Agreement No. 263-K-629 (Cash Transfers), (collectively, the "Active Grant Agreements"). The releases of funds relate to the Memorandum of Understanding Nos. 16, 17 and 18 (collectively, the "MOU"). We have issued our report thereon, dated December 17, 1997.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of inflows and releases of funds is free of material misstatement.

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

Compliance with agreement terms and applicable laws and regulations applicable to the Special Account is the responsibility of USAID/Egypt. As part of obtaining reasonable assurance about whether the statement of inflows and releases of funds is free of material misstatement, we performed tests of USAID/Egypt's compliance with certain provisions of agreement terms and laws and regulations. However, the objective of our audit of the statement of inflows and releases of funds was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

However, we identified other non-reportable conditions which we have communicated to the management of the Special Account in a separate letter dated December 17, 1997.

This report is intended for the information of the United States Agency for International Development. However, this report is a matter of public record and its distribution is not limited.

Coopers & Lybrand

FINANCIAL-RELATED AUDIT OF THE USAID/EGYPT
SPECIAL ACCOUNTS RELATED TO GRANT AGREEMENT
NOS. 263-0201, 263-K-633 AND 263-K-632
(PRIVATE COMMODITY IMPORT PROGRAM);
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FOR THE PERIOD FROM JULY 1, 1996
THROUGH JUNE 30, 1997

MANAGEMENT COMMENTS

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

January 7, 1998

MEMORANDUM

TO : Lou Mundy, RIG/A/C

FROM : Shirley A. Hunter, OD/FM/FA 

SUBJECT : Financial-Related Audit of the USAID/Egypt Special Accounts Related to Grant Agreement Nos. 263-0201, 263-k-633 and 263-k-632 (Private Commodity Import Program), Nos. 263-k-0627 (Public Commodity Import Program), Nos. 263-k-0629 (Cash transfers), and the memorandum of Understanding No. 18 for the Period from July 1, 1996 Through June 30, 1997.

Reference : Jay Rollins-Khaled Farag/Laila Boutros E. mail Dated January 6, 1998.

Since the subject audit contains no findings or recommendations, Mission agrees that no exit conference is required.

Therefore, please issue the final report.

Thank you for your cooperation.

cc: Matta G. Matta, FM/FA

Handwritten initials