

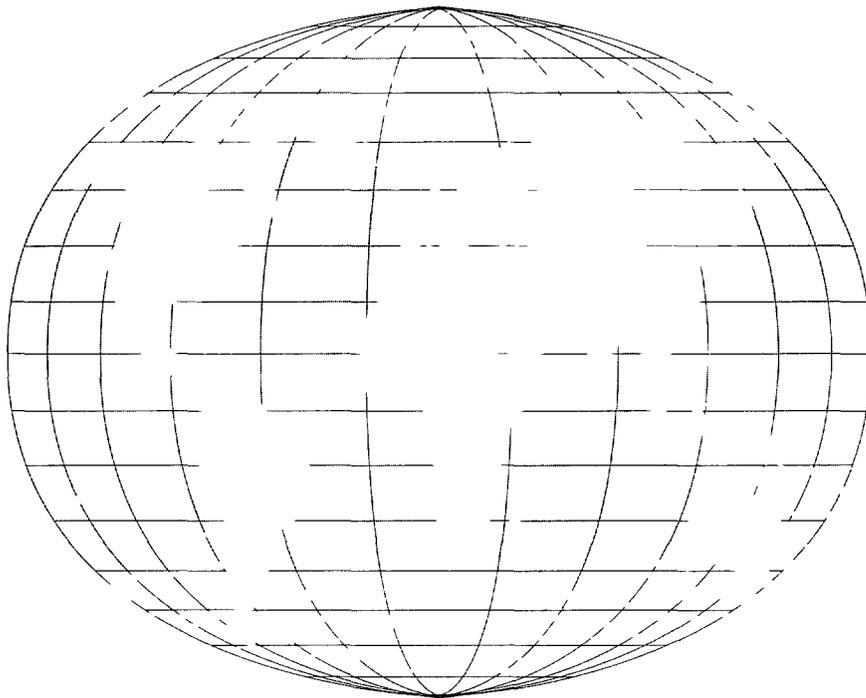
# Report of Audit

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## **Financial Audit of the State Information Service, Costs Incurred Under USAID/Egypt's Population and Family Planning III Project No. 263-0227**

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**Report No. 6-263-00-003-N  
December 16, 1999**



**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**

**USAID**



CAIRO, EGYPT

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

**Report No 6-263-00-003-N**

December 16, 1999

**MEMORANDUM**

**TO** DIRECTOR USAID/Egypt, Richard M Brown

**FROM** RIG/Cairo, Darryl T Burris *DT Burris*

**SUBJECT** Financial Audit of the State Information Service, Costs Incurred Under USAID/Egypt's Population and Family Planning III Project No 263-0227

The attached report, transmitted on November 25, 1999, by KPMG Hazem Hassan, presents the results of a financial audit of USAID resources managed by the State Information Service (SIS) under USAID/Egypt's Population and Family Planning III Project No 263-0227 (the Project) This report covers \$738,802 of costs incurred by SIS under Project Implementation Letter (PIL) No 5B during the period July 1, 1997 through June 30, 1998 The Project was designed to increase the level and effectiveness of family planning use among married couples by increasing the access of couples to information and services

The auditors issued an unqualified opinion on SIS's Fund Accountability Statement and did not identify any questioned costs The auditors did not note any material weaknesses in the SIS's internal control structure or any material instances of noncompliance with applicable laws, regulations, or agreement terms

No response is required from USAID/Egypt since no recommendations were included in the Office of Inspector General's audit 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

*U S Mailing Address*  
**USAID-RIG Unit 64902**  
**APO AE 09839-4902**

*Tel (202)515-5505*  
**Fax(RIG/A) (202)516-2530**  
**Fax(RIG/I) (202)516-5316**

**USAID**  
**Zahraa El-Maadi**  
**Maadi, Cairo, Egypt**

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Financial Audit of  
State Information Service (SIS)  
USAID/Egypt Project No 263-0227  
Project Implementation Letter No 5B  
for the period from July 1, 1997 through June 30, 1998

"Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public."

Financial Audit of  
State Information Service (SIS)  
USAID/Egypt Project No 263-0227  
Project Implementation Letter (PIL) No 5B  
for the Period July 1, 1997 through June 30, 1998

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# Hazem Hassan

## Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street  
Mohandseen Cairo  
Egypt

Telephone (202) 336 90 94 336 90 98  
Telefax (202) 349 72 24 348 78 19  
E Mail hhassan2@rite.com

Mr Darryl Burris  
Regional Inspector General for Audit-Cairo  
United States Agency for International Development  
Cairo, Egypt

November 25, 1999

Dear Mr Burris,

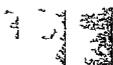
This report presents the results of our financial audit of State Information Service (SIS) related to expenditures locally incurred under USAID/Egypt Project No 263-0227 for PIL No 5B for the period July 1, 1997 through June 30, 1998

### Background

The SIS is a lead government agency responsible for family planning communication in Egypt. Since its establishment in 1979 with the technical and financial assistance of USAID/Egypt, the SIS has carried out its public education activities at the national level through the mass media and at the Governorates level through interpersonal communication activities conducted by Local Information Centers.

SIS's goal is to assist the Government of Egypt to achieve fertility reduction. The Project's purpose is to increase the level and effectiveness of family planning use among married couples by increasing the access of couples to information and services, thus, will enable them to select an appropriate, effective method of family planning, use that method correctly, and continue to use it.

PIL No 5B, dated May 10, 1994, committed an amount of \$4,294,486 (equivalent to LE14,519,526) for the period from April 1, 1994 through June 30, 1997. The PIL was amended 6 times increasing the total amount committed to \$4,901,953 (equivalent to LE16,584,913) and extending the completion date to June 30, 1998.



## Audit Objectives and Scope

The objective of this engagement was to conduct a financial audit of USAID/Egypt's resources managed by State Information Service (SIS), USAID/Egypt Project No 263-0227 under Project Implementation Letter (PIL) No 5B for the period July 1, 1997 through June 30, 1998. The audit encompassed an examination of SIS's expenses, billed to and reimbursed by USAID/Egypt, in order to determine whether they were in compliance with the terms and conditions of the PIL, and USAID/Egypt rules and regulations. We also reviewed internal controls associated with SIS's management of the PIL.

The specific objectives were to

- 1 Express an opinion on whether the fund accountability statement, for the USAID financed PIL presents fairly, in all material respects, revenues received and costs incurred for the period under audit, in conformity with generally accepted accounting principles or other comprehensive bases of accounting,
- 2 Determine whether the costs, reported as incurred under the PIL, are, in fact, allowable, allocable, and reasonable in accordance with the terms of the PIL,
- 3 Evaluate and obtain sufficient understanding of the internal control structure of SIS, assess control risk, and identify reportable conditions, including material internal control weaknesses,
- 4 Perform tests to determine whether SIS complied, in all material respects, with the terms and conditions of the PIL, and with applicable laws and USAID/Egypt rules and regulations, and
- 5 Determine whether SIS has taken corrective action on prior audit report recommendations,

Preliminary planning and review procedures started in June 1999 and consisted of

- discussions with RIG/A/C officials,
- a review of the PIL,

- interviews and discussions with SIS's key personnel concerning the status of the PIL, accomplishments during the period, the statutory reporting requirements, the PIL budgets, and procedures governing actual expenditures incurred by SIS and billed to and reimbursed by USAID/Egypt, and
- review of the SIS organizational structure and SIS's established policies and procedures and controls related to procurement, financial accounting and reporting, and billing to USAID/Egypt

The fieldwork segment of our audit was completed on August 19, 1999. The scope of our work was to audit costs incurred by SIS and reimbursed by USAID/Egypt under P/L No 5B. Within each budget line item, we selected transactions on a judgmental basis in order to perform substantive tests of details. We tested expenditures of \$251,235 (equivalent to LE854,198) out of total expenditures amounting to \$738,802 (equivalent to LE2,511,926).

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

1. Reconciling SIS's accounting records to invoices issued to USAID/Egypt and testing costs for allowability, allocability, reasonableness, and adequate supporting documentation,
2. Determining whether Mass Media and Advertisement costs were appropriate and consistent with the terms of the PIL and applicable rules and regulations, and were adequately supported and approved,
3. Determining whether project expenditures billed to USAID/Egypt were appropriate and consistent with the terms of the PIL and were adequately supported and approved, and
4. Checking the adequacy of SIS's control over project equipment funded by USAID/Egypt

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 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.

### **Results of Audit**

#### **PIL No 5B Fund Accountability Statement**

Our audit did not identify any questioned costs required to be disclosed in our report on the fund accountability statement.

#### **Internal Control Structure**

Our audit did not identify any reportable conditions associated with SIS's internal control structure.

#### **Compliance with Laws, Regulations and Agreement Terms**

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

#### **Cost Sharing**

Based on our review of the cost sharing schedule, nothing came to our attention that caused us to believe that cost sharing contributions were not made and accounted for in accordance with the terms of the agreement.

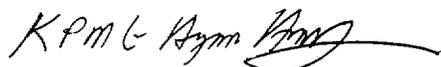
#### **Follow-up on the Previous Audit Report**

The previous audit report did not include any questioned costs or internal control and compliance matters requiring follow-up.

Supplementary Information

A supplementary fund accountability statement, presented in the functional currency, was communicated to SIS's management and is available upon request

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



KPMG Hazem Hassan  
Cairo, Egypt

FUND ACCOUNTABILITY STATEMENT



# Hazem Hassan

## Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street  
Mohandseen Cairo  
Egypt

Telephone (202) 336 90 94 336 90 98  
Telefax (202) 349 72 24 348 78 19  
E Mail hhassan2@rte.com

### Report on the Fund Accountability Statement Independent Auditor's Report

Mr Darryl Burris  
Regional Inspector General for Audit-Cairo  
United States Agency for International Development  
Cairo, Egypt

We have audited the accompanying fund accountability statement of funds received and costs incurred by State Information Service (SIS), USAID/Egypt Project No 263-0227 under Project Implementation Letter (PIL) No 5B for the period July 1, 1997 through June 30, 1998. The fund accountability statement is the responsibility of SIS's management. Our responsibility is to express an opinion on the fund accountability statement based upon our audit.

Except as discussed in the following paragraphs, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the presentation of the fund accountability statement. We believe that our audit provides a reasonable basis for our opinion.

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

In our opinion, the fund accountability statement referred to above presents fairly, in all material respects, the amounts received and costs incurred by SIS pursuant to USAID/Egypt Project No 263-0227 through PIL No 5B during the audited period.



KPMG Hazem Hassan  
Cairo, Egypt

August 19, 1999

State Information Service (SIS)  
Fund Accountability Statement  
Project Implementation Letter (PIL) No 5B  
For the Period July 1, 1997 through June 30, 1998

	\$			
USAID/Egypt Funds Received	1,128,664			
	<u>Budget</u>	<u>Cumulative project expenditures through June 30, 97</u>	<u>Actual project expenditures for the current period</u>	<u>Cumulative project Expenditures through June 30, 98</u>
<u>Project Support Element</u>	\$	\$	\$	\$
<b><u>(a) IEC</u></b>				
Mass Media	966,133	767,309	169,449	936,758
Support Inf Prod	767,470	693,316	59,129	752,445
Inter-agency Collab	926,991	676,521	262,078	938,599
Training	209,650	160,388	56,972	217,360
Research	119,801	113,919	0	113,919
Commodities, Supplies and Equipment	218,380	125,205	56,884	182,089
Monitoring & Evaluation	54,119	39,854	12,468	52,322
Management, office support and services	152,497	116,578	30,468	147,046
<b><u>Subtotal</u></b>	<b>3,415,041</b>	<b>2,693,090</b>	<b>647,448</b>	<b>3,340,538</b>
<b><u>(b) SDP</u></b>				
Marketing Campaign Materials	337,307	194,660	41,396	236,056
Client Provider IEC Materials	637,728	583,316	13,235	596,551
Additional Activities	7,722	7,722	261	7,983
Research & Evaluation	48,214	24,684	23,456	48,140
Management	100,515	85,809	13,006	98,815
<b><u>Subtotal</u></b>	<b>1,131,486</b>	<b>896,191</b>	<b>91,354</b>	<b>987,545</b>
<b>Total Expenditures</b>	<b>4,546,527</b>	<b>3,589,281</b>	<b>738,802</b>	<b>4,328,083</b>

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

**State Information Service (SIS)**  
**Under USAID/Egypt Project No 263-0227**  
**Project Implementation Letter (PIL) No 5B**

**Notes to the Fund Accountability Statement**

**Note 1      Accounting Basis**

The fund accountability statement has 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      Translation Rate**

The expenditures of PIL No 5B which were paid in Egyptian Pounds (LE), have been translated into US Dollars (\$). The period average exchange rate method was used. This rate is \$1 = LE3.40.

**Note 3      Revenues and Expenditures**

Expenditures reported in the fund accountability statement represent costs incurred by the project for the period July 1, 1997 through June 30, 1998. However, project expenditures amounting to \$145,545 (equivalent to LE494,853) were billed to USAID/Egypt but not reimbursed during the period covered by our audit. Also, revenues reported in the fund accountability statement include an amount of \$432,193 (equivalent to LE1,469,457) which represents reimbursement of costs incurred by SIS and billed to USAID/Egypt in the period prior to that covered by our audit.

**Note 4      Budget**

The budget figures set forth in the fund accountability statement represent the project's cumulative budget, as amended, from the inception of the project through June 30, 1998. Such information has been included in the fund accountability statement for presentation purposes only.

INTERNAL CONTROL STRUCTURE



# Hazem Hassan

## Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street  
Mohandseen Cairo  
Egypt

Telephone (202) 336 90 94 336 90 98  
Telefax (202) 349 72 24 348 78 19  
E Mail hhassan2@rite.com

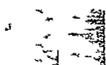
### Report on the Internal Control Structure Independent Auditor's Report

Mr Darryl Burris  
Regional Inspector General for Audit-Cairo  
United States Agency for International Development  
Cairo, Egypt

We have audited the accompanying fund accountability statement of the State Information Service (SIS) pursuant to Project Implementation Letter (PIL) No 5B under USAID/Egypt Project No 263-0227 for the period July 1, 1997 through June 30, 1998, and have issued our report thereon dated August 19, 1999. We also reviewed the separate cost sharing schedule to determine whether contributions were provided and accounted for in accordance with the terms of the agreement.

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 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.



The management of SIS 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 policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with the management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with the cash basis of accounting. Because of the inherent limitations in any internal control structure, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of internal control structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the fund accountability statement of State Information Service (SIS), related to funds received and incurred costs under USAID/Egypt Project No 263-0227 for Project Implementation Letter (PIL) No 5B for the period July 1, 1997 through June 30, 1998, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they had been placed in operation, and we assessed control risk, in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement but 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 reportable condition in which the design or operation of one or more 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 statement and cost sharing schedule, 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.

However, we noted other immaterial matters involving the internal control structure and its operation that we have reported to the management of SIS in a separate letter dated August 19, 1999.

This report is intended for the information of SIS'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 distribution is not limited.



KPMG Hazem Hassan  
Cairo, Egypt

August 19, 1999

COMPLIANCE WITH LAWS, REGULATIONS, AND AGREEMENT TERMS



# Hazem Hassan

## Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street  
Mohandseen Cairo  
Egypt

Telephone (202) 336 90 94 336 90 98  
Telefax (202) 349 72 24 348 78 19  
E Mail hhassan2@rte.com

### Report on Compliance with Laws, Regulations, and Agreement Terms Independent Auditor's Report

Mr Darryl Burris  
Regional Inspector General for Audit-Cairo  
United States Agency for International Development  
Cairo, Egypt

We have audited the accompanying fund accountability statement of the State Information Service (SIS) pursuant to Project Implementation Letter (PIL) No 5B under USAID/Egypt Project No 263-0227 for the period July 1, 1997 through June 30, 1998, and have issued our report thereon dated August 19, 1999. We also reviewed the separate cost sharing schedule to determine whether they were provided and accounted for in accordance with the terms of the agreement.

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 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 SIS, is the responsibility of SIS's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of SIS's compliance with certain provisions of laws, regulations, contracts, and grants. However, it was not the objective of our audit of the fund accountability statement to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion. We also performed tests of SIS's compliance with certain provisions of agreement terms and laws and regulations applicable to the provision of cost sharing contributions.

The results of our tests disclosed no matters of noncompliance that are required to be reported herein under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that we have reported to SIS's management in a separate letter dated August 19, 1999.

This report is intended for the information of SIS'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 distribution is not limited.



KPMG Hazem Hassan  
Cairo, Egypt

August 19, 1999

COST SHARING SCHEDULE



# Hazem Hassan

## Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street  
Mohandseen Cairo  
Egypt

Telephone (202) 336 90 94 336 90 98  
Telefax (202) 349 72 24 348 78 19  
E Mail hhassan2@rte.com

### Report on the Cost Sharing Schedule Independent Auditor's Report

Mr Darryl Burris  
Regional Inspector General for Audit-Cairo  
United States Agency for International Development  
Cairo, Egypt

We have reviewed the accompanying cost sharing schedule of State Information Service (SIS) pursuant to USAID/Egypt project No 263-0227 under Project Implementation Letter (PIL) No 5B for the period July 1, 1997 through June 30, 1998

Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA) The purpose of our review was to determine if cost sharing contributions were provided and accounted for in accordance with the terms of the agreement We also considered the internal controls related to the provision of and accounting for cost sharing contributions

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data It is substantially less in scope than an examination, the objective of which is the expressing of an opinion on the cost-sharing schedule Accordingly, we do not express such an opinion

Based on our review, nothing came to our attention that caused us to believe that the State Information Service (SIS) has not provided and accounted for cost sharing contributions in accordance with the terms of the agreement

This report is intended for the information of the State Information Service (SIS) and the U S Agency for International Development (USAID/Egypt) However, upon release by USAID/Egypt, this report is a matter of public record and its distribution is not limited

  
KPMG Hazem Hassan  
Cairo, Egypt

August 19, 1999

State Information Service (SIS)  
Cost Sharing Schedule  
USAID/Egypt Project No 263-0227  
Project Implementation Letter (PIL) No 5B  
For the Period July 1, 1997 through June 30, 1998

	<u>Budget</u>	<u>Actual</u>	<u>Over (Under)</u>
	<u>LE</u>	<u>LE</u>	<u>LE</u>
<b><u>Cash Contributions</u></b>			
Salaries for IEC Center and LIC Staff	904,697	1,492,770	588,073
Incentives for IEC Center and LIC Staff	218,732	165,707	-53,025
Fuel and vehicle maintenance	425,779	0	-425,779
Office space rental, utilities, and operating costs	425,779	0	-425,779
<b><u>Subtotal</u></b>	<b>1,974,987</b>	<b>1,658,477</b>	<b>-316,510</b>
<b><u>In-kind Contributions</u></b>			
Radio Airtime	6,195,381	1,314,000	-4,881,381
Television Airtime	12,536,549	31,020,000	18,483,451
Press Space	4,277,037	0	-4,277,037
<b><u>Subtotal</u></b>	<b>23,008,967</b>	<b>32,334,000</b>	<b>9,325,033</b>
<b><u>Total</u></b>	<b>24,983,954</b>	<b>33,992,477</b>	<b>9,008,523</b>

APPENDIX I  
AUDITEE'S RESPONSE



الهيئة العامة للاستعلامات  
مركز الاعلام والتعليم والاتصال  
ت ٣٥٥.٨٦٥-٣٥٦.٥٦٠  
العنوان ٣ ميدان التحرير

November 24, 1999

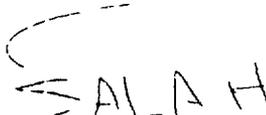
Mr Thomas L Malone, CPA  
Partner-In-Charge  
KPMG Hazem Hassan  
74 Mohi El Din Aboul Ezz Street,  
Mohandseen,  
Cairo, Egypt

Dear Mr Malone

Regarding your financial audit report fund accountability statement of the State Information Services (SIS) under P1 No 5B for the period July 1, 1997 through June 30, 1998, I would like to conform that we do agree with the results of the audit as indicated in the above report

If you have any questions and/or comments please do not hesitate to contact me

Sincerely yours,

  
Dr Salah El Toukhy  
Executive Director

APPENDIX II  
MISSION COMMENTS

USAID/Egypt had no comments on the audit report