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Statement of
J. Kenneth Fasick
Director, International Division
before the
Subcommittee on Foreign Operations
of the
Senate Appropriations Committee
on
General Operations of the American University
in Cairo, Egypt



Mr. Chairman and Members of the Subcommittee:

We are pleased to have this opportunity to discuss the results of our review of the general operations of the American University in Cairo, Egypt, with particular emphasis on the University Educational Endowment Fund. Our report was issued last week.

Since 1960, AID has granted the University over \$15 million, mostly in dollars, under the American Schools and Hospitals Abroad Program. This money was used to cover a

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continuing deficit between the University's income and operating expenses and for construction of a new library. In 1969, AID signed an agreement granting the University an additional LE 25 million--equivalent to about \$36 million at the present exchange rate--to set up an endowment fund. In 1975 the Fund was given an additional LE 1,250,100 (\$1.7 million) to replenish Egyptian pounds used for University operating expenses.

The Fund was to be invested in business ventures and enterprises in Egypt in order to produce income to offset the University's Egyptian pound operating deficits. No investments were made until December 1974 and from then until December 1977 about LE 5.6 million (\$8 million) were invested. The Fund was also used, with AID approval, to pay University operating expenses of LE 12.5 million (\$17.9 million) and the balance was deposited in bank accounts. At December 31, 1977, the balance of the Fund on deposit in banks was LE 8.1 million (\$11.6 million).

In July 1976, AID auditors issued a report strongly criticizing the operations of the Fund. It cited questionable investments indicating a lack of investment ability, deficient managerial and administrative practices, and an improper and unreceipted cash transaction in the purchase of real estate which left LE 613,368 (about

\$1.1 million) unaccounted for. The AID report also called for reconsideration of the endowment fund concept.

Because of the serious deficiencies cited in the audit report, AID "froze" the Fund and prohibited further investments by it.

Based on our review, we believe that AID's severe criticism of the Fund was justified. In the year and a half since the audit, however, the Fund and the University Board of Trustees have made numerous changes that have corrected many of the deficiencies cited in the report. For example, two new loan agreements have been negotiated to replace and improve existing loans, and the Fund has assured itself that it will get full title to the property it purchased in the criticized real estate transaction. This will allow development of the property to proceed under new financing arrangements. Also, the Board of Trustees has made personnel and organizational changes in the Fund, including replacement of the former Fund staff. In addition, the Board of Trustees is exercising greater supervision and oversight of the Fund. Regular financial reports are required and investment proposals are reviewed and approved by the Finance Committee and by the full Board.

In our view, the basic cause of the Fund's problems was a lack of supervision by the Board of Trustees over Fund operations. The Trustees, who were mostly located in New York, met only three times a year and were not closely evaluating investment decisions or monitoring Fund operations. As we have said, changes have been made which should improve this situation. In our report we have called attention to a lack of investment criteria and some potential problems with investment goals set by the Fund. Both these areas are under study and will be discussed at the Board's meeting the first week in March.

We believe that economic and political conditions in Egypt may have improved sufficiently for the Fund to succeed now and that serious management deficiencies have been mostly corrected. A number of funding alternatives are under study by the University, the Fund, and by AID. Should the U.S. Government decide to continue financially supporting the University, we believe that the alternative which proposes a loan, rather than a grant of Egyptian pounds to the Fund has advantages over the other proposals and may be the best means of supporting the University's operational needs.

That concludes my statement, Mr. Chairman, and we will be pleased to answer any questions you may have.