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AUDIT OF  
SUEZ CANAL AREA MEDICAL EDUCATION  
AND HEALTH SERVICES DEVELOPMENT  
USAID/EGYPT PROJECT NO. 263-0136  
Audit Report No. 6-263-86-3  
February 12, 1986

## memorandum

DATE: February 12, 1986  
 RPLY TO: Joseph R. Ferri, RIG/A/Cairo  
 ATTN OF:  
 SUBJECT: Audit Report No. 6-263-86-3 dated February 12, 1986  
 Audit Of Suez Canal Area Medical Education  
 TO: And Health Services Development  
 Project No. 263-0136

Mr. Frank B. Kimball, Director USAID/Egypt

This report presents the results of the audit of the Suez Canal Area Medical Education and Health Services Development Project. The audit objectives were to determine whether the project was accomplishing its objectives, assure compliance with governing regulations, and test internal controls.

The audit showed the project objective of improving urban and rural health care was being accomplished in three of the five designated governorates in Egypt. Additional efforts, however, were needed in the governorates of North Sinai and South Sinai. The project was being carried out in conformance with AID regulations except for unauthorized incentive payments and a lack of accountability over the expected Government of-Egypt -pounds- contribution equivalent to \$55.4 million.

Government of Egypt, Boston University, and USAID/Egypt project officials believe this is a landmark project in medical education in Egypt, accomplished despite many difficulties. Health care has already been improved by services offered in medical clinics being run in the Suez Canal area. The project also was expected to produce qualified physicians when the first students graduate from the Suez Canal University Faculty of Medicine in 1987. The main problem we found was that project activities have yet to be directed to the governorates of North Sinai and South Sinai. These governorates were in the original concept of the project and were in need of improved medical assistance. Plans were needed to address how to provide this assistance. Also, a plan was needed to strengthen the capabilities of the Suez Canal University, Faculty of Medicine to direct activities over the longer term.

The audit disclosed two other matters that warranted attention. First, incentive payments of about \$126,000 were made without specific authorization to physicians involved in the project. Second, there was no system in place to adequately account for the expected Government of Egypt



Buy U.S. Savings Bonds Regularly on the Payroll Savings Plan

pounds contribution equivalent to \$55.4 million. We were concerned that USAID/Egypt expenditures may have substituted for the expected contributions in some cases, and that the Government of Egypt was not adequately supporting the project's operating expenses.

We recommended USAID/Egypt develop a plan for improving health service delivery in the governorates of North Sinai and South Sinai; improve the management system at the Suez Canal University, Faculty of Medicine; resolve the question of unauthorized incentive payments; and account for and report on Government of Egypt contributions. We also pointed out three other pertinent matters for management's attention, but did not make specific recommendations in these instances.

USAID/Egypt generally agreed with the findings and recommendations except for the incentive payments. It requested each recommendation be closed. The Office of Inspector General considered the comments in finalizing the report. It concluded that corrective actions were incomplete and inadequate for purposes of closing the recommendations. USAID/Egypt and Office of Inspector General comments are discussed in the report on pages 8, 11, 15, and 18. USAID/Egypt comments are attached as Appendix 1.

Please advise us within 30 days of any actions taken or planned to implement our recommendations.

We appreciated the courtesies extended our staff during the audit by Government of Egypt personnel, particularly by the Suez Canal University, Faculty of Medicine, as well as Boston University and USAID/Egypt project officials of the Human Resources and Development Cooperation Division.

## EXECUTIVE SUMMARY

USAID/Egypt signed a grant agreement with the Government of Egypt on March 2, 1980, to finance the Suez Canal Area Medical Education and Health Services Development Project. Project activities are now scheduled for completion in July 1987. The project purposes were to develop an innovative problem-solving mode of medical education and to promote integration of Suez Canal University/Faculty of Medicine and Ministry of Health resources in the five governorates of the Suez Canal area. The project implementing agencies were the Suez Canal University/Faculty of Medicine and the Ministry of Health. The technical consultant was Boston University. The project budget totaled \$71.3 million, including a \$15.9-million grant from AID and the Egyptian pound equivalent of \$55.4 million from the Government of Egypt. As of May 31, 1985, USAID/Egypt had committed \$10.6 million and disbursed \$6.1 million.

This project with its concept of placing university medical students in health clinics is unique in Egyptian medical education, and is expected to help produce qualified physicians. Due to its success, the program is being replicated at Menoufia University in Egypt.

The objectives of this program results audit were to determine whether the project was accomplishing its objectives, assess compliance with AID regulations, and test internal controls.

The project was meeting its objectives, except that more coverage needed to be afforded the Sinai governorates, a management plan drawn up for the Faculty of Medicine, and better control exercised over Government of Egypt contributions. The project was being carried out in general compliance with AID regulations except for unauthorized incentive payments, and a misappropriation of funds which took place as a result of the weak internal controls in Phase I of the project.

Activities including student training at Ministry of Health clinics and renovation of those clinics were to cover the five governorates of Ismailia, Suez, Port Said, South Sinai and North Sinai. Project activities did not cover the two

Sinai governorates because university resources were inadequate to cover all five governorates. Also, the two Sinai governorates required a different approach to accomplishing project objectives than the other governorates. Thus, the project had not materially improved health services in the Sinai governorates.

We recommended that USAID/Egypt cooperate with the Faculty of Medicine and the Ministry of Health to develop a plan for accomplishing project objectives in the North Sinai and South Sinai governorates.

Boston University was responsible for assisting the Faculty of Medicine in developing an organizational design and detailed management plan by July 1985. This project objective was not achieved because project designers did not consider that the Faculty of Medicine was governed by Egyptian law that could only be changed by passing another law. As a result, the faculty continued to operate under a management system that was not particularly suited to project needs.

We recommended that USAID/Egypt coordinate with the Faculty of Medicine and Boston University to establish a responsive management system that is consistent with GOE laws and regulations.

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The project grant agreement prohibited making any incentive payments out of project funds to grantee personnel. Boston University paid incentives to Faculty of Medicine staff members who participated in the Group Practice Plan. These incentive payments totaling \$126,136 were made on the basis of an understanding with AID officials, but without written approval from USAID/Egypt. These payments replaced the Government of Egypt's responsibility for such payments.

We recommended that USAID/Egypt recover \$126,136 from Boston University for unauthorized incentive payments.

The Government of Egypt agreed to provide the Egyptian pound equivalent of \$55.4 million to the project. USAID/Egypt did not account for or receive reports on the actual contributions made. USAID/Egypt did not have this information

and had not requested it from the Government of Egypt. As a result, USAID/Egypt may have financed certain costs that were supposed to be covered by the Government of Egypt.

We recommended that USAID/Egypt coordinate with the Government of Egypt to account for and report on the host country contributions, and to assure that local currency needed for the project will be available.

*Office of the Inspector General*

AUDIT OF  
SUEZ CANAL AREA MEDICAL EDUCATION  
AND HEALTH SERVICES DEVELOPMENT

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AUDIT OF  
SUEZ CANAL AREA MEDICAL EDUCATION  
AND HEALTH SERVICES DEVELOPMENT

PART I - INTRODUCTION

A. Background

USAID/Egypt signed a grant agreement with the Government of Egypt (GOE) on March 2, 1980, to finance the project. The project had two main objectives. The first objective was to develop an innovative problem solving mode of medical education. Attaining this objective would produce community physicians qualified to provide primary and preventive health care, and trained in the management and delivery of basic community health services. The second objective was to promote integration of Suez Canal University/Faculty of Medicine (SCU/FOM) and Ministry of Health (MOH) resources in the five governorates of Ismailia, Suez, Port Said, South Sinai and North Sinai. Integrating these resources would develop a more effective delivery of high quality health services at MOH urban and rural health facilities used by the SCU/FOM to train its medical students.

The project implementing agencies were the SCU/FOM and the MOH. The principal contractor was Boston University (BU), which, under a cooperative agreement with AID, provided technical services, training and equipment to the project. The BU contracts were valued at \$9.4 million.

The project budget totaled \$71.3 million including a \$15.9 million grant from AID and the Egyptian pound (LE) equivalent of \$55.4 million from the GOE. The GOE contribution was to cover salaries, construction, renovations, land, buildings, operating expenses, equipment, and vehicles. 1/

As of May 31, 1985, USAID/Egypt had committed \$10.6 million and disbursed \$6.1 million. The project assistance completion date is July 31, 1987.

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1/ The dollar equivalents in this report were computed at the rate of .83 LE = \$1.

## B. Audit Objectives And Scope

This program results audit covered project activities from March 2, 1980, through May 31, 1985. The audit objectives were to:

- determine whether the project was accomplishing the objectives stated in the project agreements;
- assess compliance with AID regulations; and
- test internal controls.

We verified compliance with AID regulations, project agreements, and project implementation letters. Methods and procedures used to account for project funds were tested, and pertinent files, records and reports were reviewed. We interviewed officials from USAID/Egypt, GOE Ministry of Planning and International Cooperation, GOE Ministry of Health in Cairo and in five governorates, and SCU/FOM and BU officials in Ismailia.

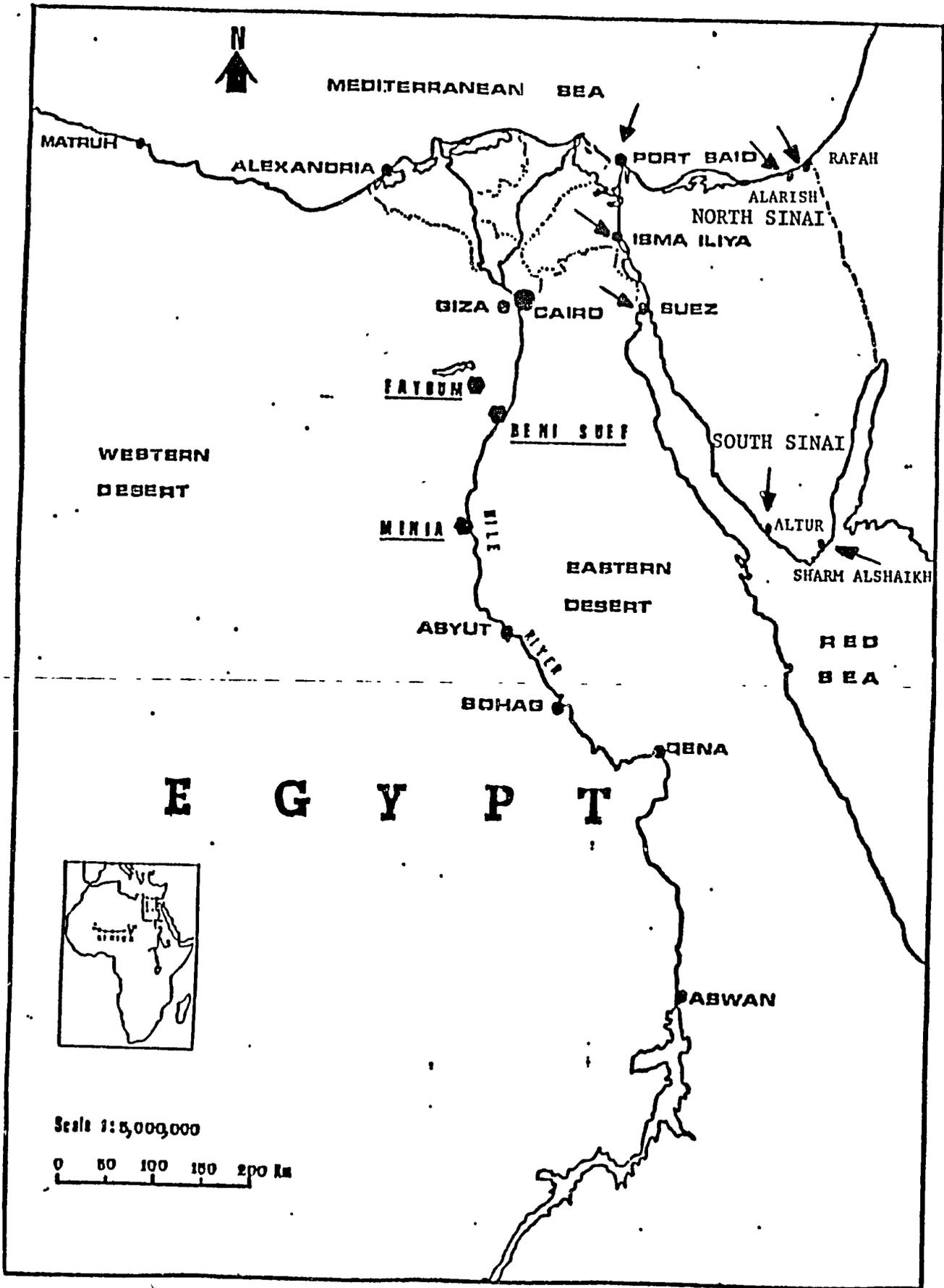
The audit work was done in the cities of Ismailia, Suez, Port Said, Al Arish, Rafah, Sharm Alshakh and Altur in Egypt, and covered project activities from inception to May 31, 1985. Visits were made to project facilities in the five governorates (See Figure 1, page 3).

The review covered the \$6.1 million disbursed by USAID/Egypt through May 31, 1985, under its grant agreement with the Government of Egypt. We requested the U.S. Department of Health and Human Services to make an audit of BU local currency and dollar expenditures because the records and supporting documentation were in the BU head office in Boston, Massachusetts. However, we reviewed some of the project local expenditures. As of May 31, 1985, BU expenditures totaled \$5.8 million.

The findings and conclusions were discussed with USAID/Egypt officials at informal meetings as well as at an exit conference. A draft report was submitted to management for review and comment.

No previous audits of this project were made. An AID evaluation was made in October 1983. The audit work was done between July and October 1985. The audit was made in accordance with generally accepted government audit standards.

FIGURE NO. 1



—▶ Indicates the project sites visited in the five governorates during the audit work.

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PART II - RESULTS OF AUDIT

The audit showed the project objective of improving urban and rural health care was being accomplished in three of the five designated governorates in Egypt. Additional efforts, however, were needed in the governorates of North Sinai and South Sinai. The project was being carried out in conformance with AID regulations except for unauthorized incentive payments totaling \$126,136 and a lack of accountability over the expected Government of Egypt pounds contribution equivalent to \$55.4 million.

The project with its innovative nature and new concept in medical education is unique in Egypt. According to GOE and USAID/Egypt project officials and a 1983 evaluation report, the project is progressing satisfactorily and will produce qualified physicians. The first class of Suez Canal University medical students trained under this project will graduate in 1987. Due to its success the SCU/FOM program is being replicated at Menoufia University in its new medical school.

On the other hand, key project activities were not carried out in two governorates, and a management plan for strengthening SCU/FOM was not developed. Incentive payments were made to grantee personnel without specific authorization. Also, Government of Egypt contributions to the project were not accounted for as required for control purposes.

This report makes four recommendations directed to ensuring that project activities are undertaken to cover the two excluded governorates; an appropriate management system is developed; recovery is made of unauthorized incentive payments; and there is accounting for and reporting on host country contributions provided to the project in cash or in kind.

## A. Findings And Recommendations

### 1. Project Activities Covered Only Three Governorates Out Of Five Planned

The project was designed to improve urban and rural health services by initiating an integrated medical education and health services program in the five governorates of Ismailia, Suez, Port Said, South Sinai and North Sinai. Program activities, however, were concentrated in Ismailia, with some activities in Port Said and Suez. Health clinics were not established nor were students being trained in such clinics in the governorates of North Sinai and South Sinai because university resources were inadequate to cover all five governorates. FOM students were conducting some field research in an area of the Sinai fronting Ismailia and plans were being made to place some students in a hospital that was being built in North Sinai. So, students were getting some exposure to the Sinai area. The nature of the two Sinai governorates, however, was different from the other governorates and plans recognizing these differences were needed to accomplish project goals. In addition, supplementary training for physicians was unevenly distributed among SCU/FOM and MOH physicians. Without coverage under the project, health services were not materially improved by the project in the Sinai, and medical students did not get the experience of working in the Sinai health environment.

#### Recommendation No. 1

We recommend that USAID/Egypt, in cooperation with the Suez Canal University/Faculty of Medicine and the Ministry of Health, develop a plan for accomplishing project objectives in the North and South Sinai governorates.

#### Discussion

The project was designed to assist the Government of Egypt in improving health services by initiating an integrated medical education and health services program which related educational investment directly to the health needs of the population in the five governorates of Ismailia, Suez, Port Said, South Sinai and North Sinai. The program objectives were to be accomplished through establishing training programs for MOH physicians of these governorates, renovating MOH clinics, and providing SCU/FOM students practical training at the MOH clinics in the five governorates.

Student's training at MOH clinics, renovation of facilities, and training programs for MOH physicians were primarily concentrated in Ismailia, with some activities undertaken in Port Said and Suez. These activities were not being conducted in the governorates of North Sinai and South Sinai. Table No. 1 illustrates the distribution of those project activities among the five governorates.

Table No. 1

Renovation Activities Of MOH Clinics

	<u>Governorates</u>				
	<u>Ismailia</u>	<u>Suez</u>	<u>Port Said</u>	<u>North Sinai</u>	<u>South Sinai</u>
Already Renovated	4	0	0	0	0
Under Renovation	2	2	2	0	0
Proposed for Renovation	<u>10</u>	<u>5</u>	<u>3</u>	<u>0</u>	<u>0</u>
Totals	16	7	5	0	0
	==	=	=	=	=

	<u>MOH Clinics Made Available For FOM Students Training</u>				
	<u>Ismailia</u>	<u>Suez</u>	<u>Port Said</u>	<u>North Sinai</u>	<u>South Sinai</u>
Rural	20	6	3	0	0
Urban	<u>2</u>	<u>1</u>	<u>2</u>	<u>0</u>	<u>0</u>
Totals	22	7	5	0	0
	==	=	=	=	=

Inadequate project resources were the main reason for not conducting project activities in North Sinai and South Sinai. Also, the different environment between the Sinai and the canal cities governorates was not taken in consideration when the project was designed in 1979.

Suez Canal University officials told us that, given their limited staff and financial resources, it was necessary to prioritize where the project activities would be first undertaken. Since Ismailia, Suez, and Port Said were more urban areas with concentrated populations, and were close to

the project center (in Ismailia), it was decided to concentrate project efforts on these areas. The North Sinai and South Sinai governorates posed a different problem for project officials. These governorates were characterized by a small bedouin population scattered over a large area. Some of the people in these governorates tended to be long distances from the main cities with different traditions regarding medical help. Moreover, it was difficult to assign and retain medical doctors in the Sinai areas. In effect, the North Sinai and South Sinai governorates required a different approach to delivering health services than used in the other governorates. A specific approach to addressing health problems of the area had not been developed although the need had been recognized for some time.

As a result of not having training activities in the two Sinai governorates, the project objective of improving health services in Sinai was not being accomplished. Also, FOM medical students were not exposed to the bedouin environment in Sinai which is much different than the industrial environment in Suez, the agricultural environment in Ismailia, or the commercial environment in Port Said.

Under the project, the health clinic training of Ministry of Health and Suez Canal University physicians and non-physicians was to be supplemented by other training in Egypt and in the United States, if necessary. Boston University was required by the Cooperative Agreement to develop a comprehensive training plan within three months after the arrival of the Chief of Party in Egypt. This plan was to be approved by USAID/Egypt and by the project's Permanent Committee. The purpose of the plan was to provide a structure for guiding staff development and continuing education of project participants.

No comprehensive training plan was prepared by Boston University at the beginning of the project, as required by the Cooperative Agreement. Instead, short-term plans for three or six months were prepared. Training outside Egypt was heavily weighted towards Suez Canal University staff members. About 95 percent of all the training provided outside of Egypt was for these staff members. Ministry of Health members, including those responsible for the Sinai, accounted for only 5 percent of the training (See Table No. 2, page 8). The training provided did not specifically relate to the health needs of the Sinai governorates. Without a comprehensive training plan there was no way to

determine the necessity for the training. Also, the benefits received were not evaluated in terms of contributing to staff development.

Table No. 2

Distribution Of Training Outside Egypt  
SCU/FOM Staff And MOH Physicians

<u>Training</u>	<u>Total</u>	<u>SCU/FOM</u>	<u>%</u>	<u>MOH Physicians</u>	<u>%</u>
Phase I (5/80-8/81)	49	44	90	5	10
Phase II (7/82-7/85)	<u>83</u>	<u>81</u>	<u>98</u>	<u>2</u>	<u>2</u>
Total	132	125	95	7	5
	===	===	==	===	===

Management Comments

USAID/Egypt agreed that project activities in the Sinai were delayed for a variety of reasons. It pointed out the SCU/FOM is involved in the Sinai and that the Sinai is considered to be an integral part of the program. Specific activities underway were mentioned to support this position. It concluded that project activities in the Sinai were progressing as well as can be expected and that the recommendation should be closed.

Office Of Inspector General Comments

We agree some activities are taking place that affect medical care in the Sinai. Some of these activities were mentioned in the draft report. These activities, however, are focused on North Sinai and are nowhere near the level of activity in the other governorates in renovating clinics, assigning students to these clinics, and training physicians. We considered these to be the core activities of the program. A specific plan for delivering improved health services to the Sinai governorates, as contemplated in the project agreements, has not been developed. A plan should be developed or USAID/Egypt should revise its project objectives accordingly.

## 2. Management Plan Was Needed To Improve Project Implementation

The major project objective of strengthening the management capability of the Faculty of Medicine was not achieved; the faculty continued to operate under a management system that was not particularly suited to project needs. Boston University was responsible for assisting the Faculty of Medicine in developing the organizational design and a detailed management plan by July 1985. Improvements were needed in the management capability of the faculty in order for it to implement a complex medical curriculum that included a strong relationship with MOH for training medical students at MOH health clinics in five governorates. This medical study program, by placing students in health clinics, represented a significant departure from the way in which medical education was handled in Egypt. The required design and plan were not developed, in part, because project designers did not consider that the Faculty of Medicine was governed by Egyptian laws and regulations and that its organizational structure could only be changed by passing other laws. Also, BU and the Faculty of Medicine were unable to identify and appoint a senior management advisor who was to help develop and implement a management plan.

### Recommendation No. 2

We recommend that USAID/Egypt coordinate with the Suez Canal University/Faculty of Medicine and Boston University to contract with a qualified management consultant familiar with Government of Egypt laws and regulations to establish a responsive management system for the Suez Canal University/Faculty of Medicine that is consistent with Government of Egypt laws and regulations.

### Discussion

The objective of strengthening Faculty of Medicine management capabilities was not achieved, in part, because project designers did not consider that the Faculty of Medicine was governed by the General Egyptian Government Regulations and the Universities law that could only be changed by passing other laws. BU project officials in Egypt told us that another reason for not developing the required organization design and management plan was because BU and FOM were unable to identify and appoint a senior management advisor whose principle task would have been the development of the required plan.

One of the outputs of the project logical framework was the development of a written organization design and a management plan for the Suez Canal University/Faculty of Medicine (SCU/FOM). The organization design and the management plan were to be done by July 1985. Boston University was to assist the Faculty of Medicine under its Cooperative Agreement with AID. The purpose of BU's work was to help strengthen the management capabilities of the SCU/FOM to meet the difficult and complex requirement of managing a new medical school with a totally new curriculum operating in a decentralized manner in five governorates, and of working closely with the Ministry of Health.

The agreement indicated that this was to be realized mainly by BU assisting in:

Coordinating inputs, basically money and people;

Developing a plan for establishing a dynamic system of management that facilitated start-up and fostered flexibility and accountability; and

Monitoring overall performance for the development of FOM.

BU sent two consultants to Egypt for seven weeks at a cost of \$13,446 to work on management issues. Also, a number of BU consultants came to Egypt to work on specific technical assignments including management. Moreover, BU hired an Egyptian field manager to serve as a management advisor to the Dean. The Faculty of Medicine had been discussing the hiring of a management consulting firm since 1981, but these efforts had not resulted in developing the required organization design and management plan.

An aspect of the existing management system that the new organizational design and plan was supposed to address was that the Faculty of Medicine did not have relevant functional statements that detail the authority and responsibilities of its personnel. As a practical matter, high-ranking officials tend to be more involved in the day-to-day affairs of the project than they should be. The Dean and the Vice Dean of the Faculty of Medicine, for example, are overworked and administrative responsibilities take much of their time. The Secretary General is involved in much of the routine work, and there is no trained middle management staff. Moreover, there is poor distribution of duties among staff members. Some members are overloaded

while others have little to do. Job descriptions are needed as well as a system of personnel supervision, evaluation and reward.

A SCU/FOM project official told us that the problem was how to build a new management system under existing laws and regulations that were not well-suited to directing the medical education project. In Egypt, for example, all universities, except the American University in Cairo, are government-owned and operate under the same law 1/. Also, general government regulations apply uniformly to all faculties within the universities such as the Faculties of Medicine, Commerce, Engineering, and Education. There is one standard organization chart for all university faculties regardless of the different nature and activities of each faculty. Thus, the SCU/FOM organization chart does not fit the project needs very well. For example, the chart does not provide a specific position for the relationship with MOH with regard to student's training which is a major component of the AID project. In this connection, neither the University nor the MOH has a line item in their budgets for the costs of students practicing in MOH clinics and medical centers.

As a result of not having the required organizational design and management plan, the Faculty of Medicine has continued to operate under the same management system that it has had since the university was founded. That system is outmoded as far as the project purposes are concerned. Thus, the output of the logical framework to have a new organizational design and a management plan for the Faculty of Medicine has not been achieved.

#### Management Comments

USAID/Egypt acknowledged the shortcomings of the present SCU/FOM management system, but said the system functioned effectively. It said it had approved contracting with a consultant to develop and refine the SCU/FOM management system over the next 18 months. Also, USAID/Egypt stated that the consultants' scope of work requires that a

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1/ This law, No. 49 issued in 1972, covers such matters as the organization and general structures of the universities and faculties.

management plan be developed within the first 60 days of his employment. The work would cover all the audit points in this report. On this basis USAID/Egypt requested the recommendation be closed.

Office Of Inspector General Comments

The actions taken are consistent with the thrust of our recommendation. We are keeping the recommendation open until a contract is finalized and a responsive management plan is established.

### 3. Incentive Payments Were Made In Violation Of The Grant Agreement

Boston University paid \$126,136 to supplement the income of Faculty of Medicine members who participated in the Group Practice Plan (GPP). BU made these payments under its Cooperative Agreement on the basis of a verbal understanding with USAID/Egypt and AID/Washington officials. The payments were not consistent with the Project Grant Agreement which prohibited making any incentive payments out of project funds to the Government of Egypt personnel engaged in the project. The Cooperative Agreement between AID and BU did not specifically provide for such payments. According to the Grant Agreement, the Government of Egypt should have covered any incentive payments to its personnel. As a result, USAID/Egypt funds were used for unauthorized purposes and relieved the Government of Egypt from its responsibilities.

#### Recommendation No. 3

We recommend that USAID/Egypt either:

- a. ratify the incentive payments totaling \$126,136 made by Boston University under its Cooperative Agreement; or
- b. proceed to collect such payments from Boston University or the Government of Egypt.

#### Discussion

Under the Cooperative Agreement, BU developed and implemented in 1982 a Group Practice Plan for Faculty of Medicine physicians. The plan addressed the inadequate salary structure of government employment by providing faculty members the opportunity to have private practice patients.

The Group Practice Plan was designed to retain SCU/FOM medical staff at university headquarters in Ismailia by supplementing their income. The plan also was to provide a source of revenue to the SCU/FOM, and to help improve the health services of the Suez Canal area.

Under the BU Cooperative Agreement, USAID/Egypt financed through BU \$735,368 for renovations, equipment, operating expenses and incentive payments for the Group Practice Plan. During the period March 1981 through April 1984, BU made

payments totaling \$126,136 to about 26 FOM medical staff members who participated in the plan. These payments began about 21 months before the plan actually started in December 1982.

A FOM official stated that payments to FOM personnel were necessary for the period March 1981 through November 1982 because the faculty did not want to lose the medical staff committed to work in the plan when it started. This official said the payments were not incentives, but compensation to FOM physicians because the Group Practice Plan was delayed in starting. Also, payments were necessary for the period December 1982 through April 1984 because the revenues generated by the plan were inadequate to cover expenses.

BU allowed these incentive payments on the basis of a verbal understanding with USAID/Egypt and AID/Washington officials. There was, however, no formal authorization or approval from USAID/Egypt or from AID/Washington. BU terminated all subsidy payments to the Group Practice Plan by the end of April 1984 when they received a letter to that effect from USAID/Egypt.

The Grant Agreement between USAID/Egypt and the Government of Egypt prohibited any incentive payments to be made out of the grant funds to personnel engaged in the implementation of the project. The Grant Agreement required that the Government of Egypt arrange for local currency needed for any incentive payments to its personnel. In the second amendment to the Grant Agreement, dated January 14, 1982, a condition precedent was added to authorize incentive payments to Government of Egypt personnel. The condition precedent required a comprehensive plan of the incentive payments issue, including who would receive the payments, and the rate schedules. This condition was never met. On the contrary, the Faculty of Medicine in its response, dated October 7, 1982, stated that "All incentive-like elements in the project will be supported by University, MOH or other funds or will be self-supporting."

Mission Order No. 3-10, dated December 4, 1978, prohibited any incentive payments to the cooperating Egyptian entity officials without a written approval from the USAID/Egypt Director if the obligation documents did not provide for payments of such costs. In this case the obligation document (the grant agreement between AID and the GOE) did not provide for such payments and no written approval was made by the USAID/Egypt Director.

Inadequate enforcement of the Grant Agreement provisions by USAID/Egypt, therefore, resulted in BU using \$126,136 of USAID/Egypt funds for unauthorized purposes. These payments had the effect of replacing the GOE's responsibility for such payments.

#### Management Comments

USAID/Egypt took exception to our recommendation in the draft report that it recover the unauthorized costs from Boston University. USAID/Egypt's position was based on advice from its Legal Counsel that the Mission knew all along that payments were being made by Boston University to physicians participating in the Group Practice Plan. It requested the recommendation be dropped from the report.

#### Office Of Inspector General Comments

We agree that USAID/Egypt knew about the payments. Knowing about the payments alone does not provide sufficient basis on which to make payments. Acceptance of these payments should be based on reasonableness, allowability, and allocability of the costs to the agreement purposes. USAID/Egypt is in the unique position of simultaneously having (a) an agreement with the Government of Egypt that the Government of Egypt would pay all incentive-like payments under the project, (b) "authorized" Boston University to make such payments, and (c) ignored a Mission Order that required written approval of the Mission Director, before such payments could be made out of AID funds. At a minimum this situation demonstrates poor project management.

After evaluating USAID/Egypt's written comments, we believe the Mission has three choices. USAID/Egypt can ratify the payments by Boston University. It can pursue reimbursement action against Boston University. Or, it can seek reimbursement from the Government of Egypt for costs that were to be covered by them. We changed our report recommendation to reflect these choices.

#### 4. Accounting For And Reporting On Host Country Contributions Is Needed

According to the grant agreement, the GOE was to provide the local currency equivalent of \$55.4 million to the project. USAID/Egypt did not account for and report on Government of Egypt contributions to the project, and the GOE could not provide us with an accounting or breakdown of what was provided to the project. This information was not available at the implementing agencies, and USAID/Egypt project officials did not have a procedure for requesting it for accountability purposes. As a result of not having specific information on what was provided by the GOE, USAID/Egypt probably financed certain costs that were supposed to be covered by the GOE. Other project support activities were inadequately financed by the GOE.

#### Recommendation No. 4

We recommend that USAID/Egypt:

- a. coordinate with the Government of Egypt to account for and report on all Government of Egypt contributions provided to the project in cash or in-kind; and
- b. assure that local currency needed for the project will be available.

#### Discussion

Under the grant agreement, as amended, USAID/Egypt provided \$15.9 million and the GOE agreed to provide the Egyptian pound (LE) equivalent of \$55.4 million to carry out project activities. USAID/Egypt funds were to cover technical assistance, training, vehicles, equipment, renovation, overhead, evaluation, and other direct and miscellaneous costs.

The GOE contribution provided through the Ministry of Health (MOH) and the Suez Canal University (SCU) would pay for:

GOE Proposed Contributions

<u>Item</u>	<u>LE equivalent</u>
	(\$ 000)
Salaries	\$ 5,246
Construction	15,860
Renovations	1,822
Land	4,490
Buildings	11,236
Operating Expenses	6,612
Equipment	9,485
Vehicles	672
Total	<u>\$55,423</u>
	=====

The GOE contribution included costs borne on an "in-kind" basis.

The GOE project director could not provide an accounting or breakdown of what was provided for the project. Also, this information was not available in the USAID/Egypt project files, or at the Ministry Of Planning And International Cooperation, the Ministry of Health or the Suez Canal University/Faculty of Medicine. GOE officials told us that they had provided operating expenses, including salaries for personnel working on the project; and that land, buildings, equipment and vehicles were provided as in-kind contributions. Records were not available to show how much the GOE provided or whether or not it was adequate to meet project needs.

USAID/Egypt paid \$983,246 for the extension and renovation of MOH and SCU/FOM buildings and facilities. Also, USAID/Egypt paid \$80,049 for purchasing and leasing housing for faculty members, and paid \$15,871 to cover 33 months back rent for a building allocated by the Ismailia Governorate for the SCU/FOM Group Practice Plan. (See Figure 2, page 20 for renovation of a typical facility.)

These expenditures were for the same types of costs for which the GOE agreed to provide funds. We were unable to identify any GOE contributions in these instances raising the likelihood that the USAID/Egypt expenditures merely substituted for GOE contributions.

The lack of accountability of host country contributions to the project happened because: (1) there was no system in place when the project began to account for and report on the GOE contributions; (2) there was no specific identification of what was to be provided in cash or in-kind; and (3) in the four times the project was amended increasing the USAID/Egypt and GOE contributions, USAID/Egypt did not determine whether the host country had met its previous obligations.

Because of the lack of accountability, there was no assurance that the host country had met their financial commitment, as required by the grant agreement, for certain project operating expenses. For example, according to an FOM official, only LE500 (about \$600) were allocated annually to the Faculty of Medicine for gasoline. This amount was not enough for one month because FOM vehicles had to run several hundred miles every day to transport students and faculty members to the different training locations in three governorates. In some cases, transportation of students to training locations was delayed because of the lack of available funds for gasoline.

Another example was the lack of LE5,600 (about \$6,747) needed to repair two FOM vehicles which were out of order for several months. This problem decreased the capacity of the FOM motor pool to serve the project.

In addition, the FOM salary levels were inadequate to get and retain qualified personnel, and the Faculty of Medicine was suffering shortages in some specialities such as secretaries, mechanics and electricians.

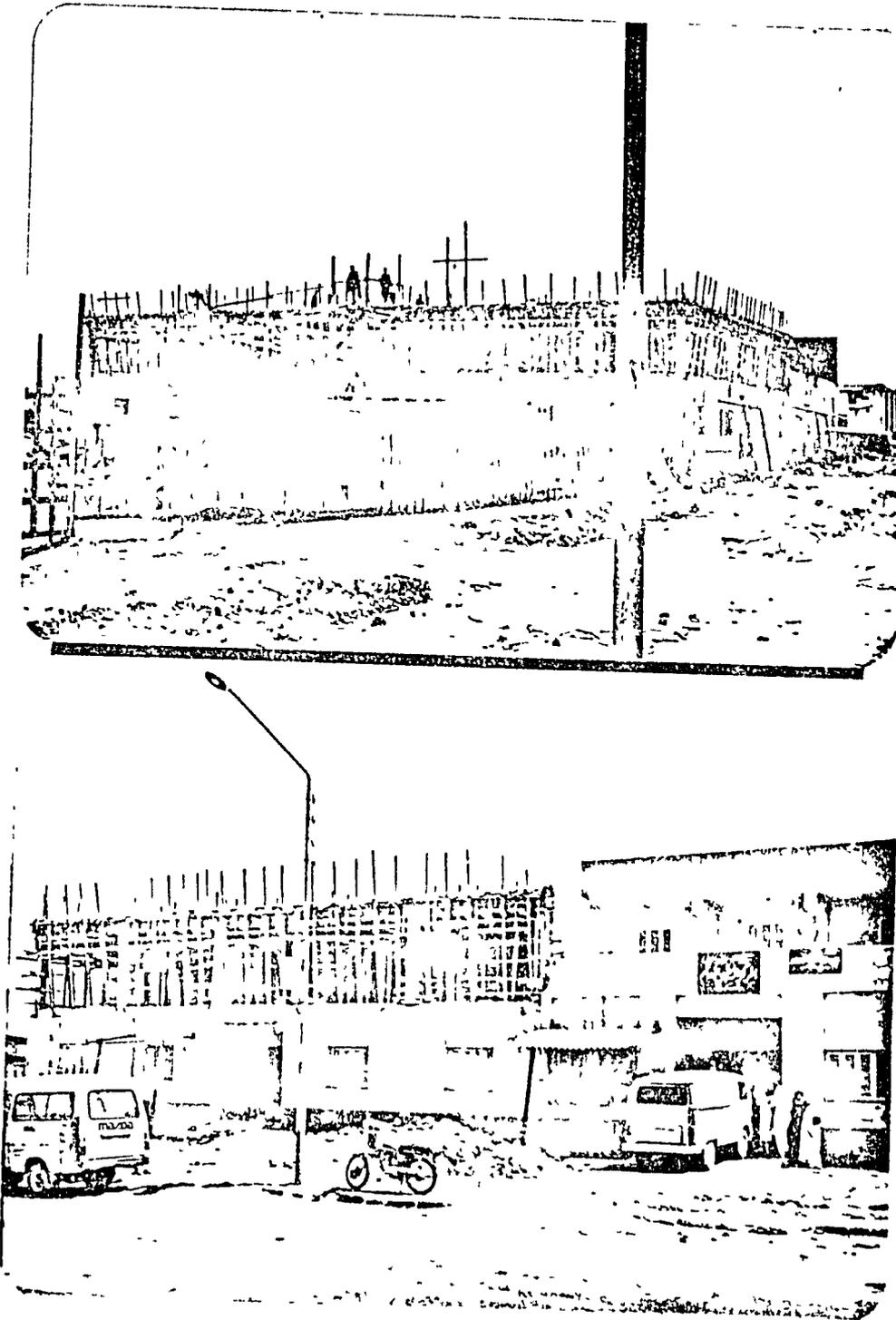
#### Management Comments

USAID/Egypt agreed it had been remiss concerning the recording and verification of GOE contributions. It advised that a financial analysis would be done as soon as possible to track and record past and present contributions. Also, it said a method would be developed to monitor future contributions. USAID/Egypt cited a SCU letter reaffirming its commitment to fund the project. It requested that Part b of this recommendation be closed.

Office Of Inspector General Comments

Until the financial analysis is completed and a method established to monitor GOE contributions, there is no assurance the terms of the grant agreement are being met. With respect to the local currency needed for the project, the audit indicated problems with the SCU/FOM receiving appropriate levels of operating expenses support. Monitoring actual GOE support levels through an established system should provide a basis for knowing whether the needed support is being provided.

FIGURE NO. 2



Al-Sabah Medical Center Extension

One Of The MOH Facilities Renovated In Suez Governorate

Financed By AID

## B. Compliance And Internal Control

### Compliance

In general, the project was being carried out in conformity with the applicable laws and AID regulations. Nothing came to the auditors' attention that caused them to believe the untested items were not in compliance with applicable laws and regulations.

### Internal Control

Administrative internal controls were weak in several areas. Controls at the beginning of the project did not provide for an adequate separation of duties and responsibilities for an employee responsible for project funds. A loss of a relatively minor amount took place. This case was referred to the Regional Inspector for Investigations and Inspections. The case was resolved by Egyptian authorities and the monies were returned. Inadequate internal controls by USAID/Egypt over project expenditures permitted unauthorized incentive payments to be made by Boston University to project participants. Also, controls were not in place at the USAID/Egypt level or at the project level to adequately account for Government of Egypt contributions to the project.

### C. Other Pertinent Matters

During the audit work, the following matters were brought to the attention of management:

#### (1) Project Equipment

The USAID/Egypt project office did not have a complete list of equipment procured and received by the project. USAID/Egypt should have the grantee submit receiving reports in order to assure that all equipment procured for the project has been received.

#### (2) Revenue generated by the Group Practice Plan

One of the objectives of the Group Practice Plan was to provide a source of revenue for the Faculty of Medicine. This objective was not realized because Suez Canal University management insisted that revenues should be shared with other faculties. As a result, more than LE18,000 (about \$21,643) was frozen. AID should encourage the University to release these funds for Faculty of Medicine use.

#### (3) Faculty Of Medicine Class Size

A small class size was a Faculty of Medicine objective to ensure quality graduate medical students. We noted a significant increase in the class sizes: 47 students were accepted in the first class in 1980, more than 80 students were accepted in the latest class in 1985.

The project paper stated that between 50 to 75 students would be appropriate. If the class size continues to increase, the chances for success are reduced. USAID/Egypt should urge the Faculty of Medicine to maintain control over the class size and stay within appropriate limits.

AUDIT OF  
SUEZ CANAL AREA MEDICAL EDUCATION  
AND HEALTH SERVICES DEVELOPMENT

PART III - APPENDICES

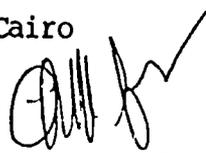


CAIRO, EGYPT

**UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT**

MEMORANDUM

TO: Mr. Joseph Ferri, RIG/A/Cairo

FROM: Frank B. Kimball, DIR 

SUBJECT: Response to Draft Audit Report on Suez Canal Area Medical  
Education and Health Services Development Project

Attached is the subject response prepared by the project officer.  
We request these comments be included in the final report. Based on this  
response we request that recommendations 1, 2, and 4b be closed, and that  
recommendation number 3 be deleted from the final report.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

M E M O R A N D U M

TO: FM: J. Johnstone 28 JAN 1986

THRU: HRDC/H: W. Oldham *W. Oldham*

FROM: HRDC/H: C. Mantione *C. Mantione*

SUBJECT: Official Draft Audit Report comments on the Suez Canal Area Medical Education/Health Services Development Project No. 0136.

Following are comments on the four recommendations of the subject draft audit report. We recommend that you consider them prior to issuing the final audit report.

Recommendation No. 1: States that "USAID/Egypt in Cooperation with the Suez Canal University/Faculty of Medicine and the Ministry of Health develop a plan for accomplishing project objectives in the North and South Sinai Governorates".

Comment: While it is true that project activities in the Sinai have been delayed for a variety of project implementation considerations, there is no lack of evidence that the FOM/SCU is involved in the Sinai and that the Sinai is considered to be an integral part of the FOM/SCU program of Education, Service and Community Oriented Research, For example:

1) The Permanent Committee (established by Ministerial Decree in 1981) for Health Services and Medical Education in the Suez Canal Area and Sinai, has among it's members the Project Director and the Directors of Health in both the North and South Sinai Governorates.

2) The Sinai section of the Health committee of the Academy of Sciences has an FOM/SCU representative on the committee (Dr. Zohair Nooman).

Note: Both committees above are directly concerned with meeting the Health Care needs of the Sinai and allocation of resources to that purpose.

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- 3) All Students who apply from Port Said, Ismailia, Suez, North and South Sinai who are qualified for admission to medical schools must be accepted by FOM/SCU. To date there are ten students enrolled in the school and one faculty member from the North Sinai.
- 4) All MOH physicians from the Sinai (N & S) who are sent for post graduate education and training are exclusively sent to FOM/SCU unless their area of specialization is not available at the school.
- 5) In August - September 1985, 7 students from the 4th year class conducted a study in the newly reclaimed area of Sinai "East of the Bitter Lakes Regions" where they documented for the first time the spread of schistosomiasis to Sinai inhabitants. The work was done in collaboration with the regional MOH staff and the report was officially submitted to the Minister of Health.
- 6) At present a joint research project is being planned by FOM/SCU, MOH and NAMRU - 3 to survey schistosomiasis and other endemic parasitic diseases in the population to two villages in North Sinai: Rabaa and Negila, as a base - line study for taking prophylactic action against the spread of schistosomiasis after the extension of El-Salam Canal from the Damietta branch of the Nile Delta across the Suez Canal to North Sinai. FOM/SCU students sit on the planning committee of this project.
- 7) As of the Academic Year 1986/87 student training will be extended to include Beer El-Abd Hospital in North Sinai. Faculty will also be involved in services and training in that Hospital.
- 8) The Academic Year 1987/88 will witness further expansion of student training in other N. Sinai Health Units. Some rotations of the newly graduated Interns are expected to take place there as well.
- 9) At present no activities are taking place in the South Sinai. However, this area of project activity is understudy, so that a plan can be developed to allow students to electively develop relevant research projects there, perhaps as soon as this academic year and to foster Faculty Training activities in the South Sinai as soon as practical.

Based on the above, it is our judgement that project activities in the Sinai are progressing as well as can be expected and that this recommendation should be closed.

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Recommendation No. 2 States that "USAID/Egypt coordinate with Suez Canal University/Faculty of Medicine and Boston University and contract with a qualified management consultant familiar with government of Egypt laws and regulations to establish a responsive management system that is consistent with government of Egypt laws and regulations".

Comment: The report states that Boston University (BU) was to assist the SCU/FOM in developing an organizational design and management plan by July 1985, as envisioned in the Cooperative Agreement (CA). Implementation Letter SCU/FOM-3 (the Management PIL.) dated December 5, 1983 relieved BU of this management responsibility. The purpose of the PIL. was and is to provide resources to the FOM so that it can develop and strengthen its management office which is staffed both by University employee's and consultants provided by the CA and the management PIL.

In a recent discussion regarding this recommendation with the project manager, the shortcomings of the management system and the audit findings were acknowledged. However, that does not mean that the management system is absent or not functioning. This is best expressed by Dr. Zohair Nooman in a letter dated January 13, 1986 to C. Mantione stating:

"We must and have always been deeply concerned with managing our own resources wisely. This is not a simple task in an innovative program that is also geographically dispersed. I think there is much evidence of our effective development of management systems. After all, do you really believe, that on a daily basis we can have five classes of students, in 25 clinical sites, in three governorates on a complex schedule involving faculty, students, Ministry personnel and vehicles without a management system. This is not mere chance, or random events resulting in a complex system that works day after day, year in and year out. And, many other similar examples could be cited. However, there is always room for improving management and with USAID's approval of Dr. Shehata as a senior advisor for further developing and refining our management systems over the next 18 months, I believe we are ready to improve still further".

USAID notified the FOM/SCU by letter dated January 16, 1986 that Dr. Shehata's consultancy was approved and that the FOM could contract with Dr. Shehata. This consultant is an Egyptian National who has demonstrated expertise in management systems and in particular health management systems by past professional assignments and activities.

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The consultants scope of work requires that a management plan be developed (within the 1st 60 days of his employment) that will describe activities required to strengthen the FOM Management Systems and which covers all of the audit recommendation concerns (see Attachment A). It is our opinion that the FOM/SCU is now ready to tackle management issues and that much energy and resources will be directed to implement the audit Recommendation.

In view of the above, we request that recommendation no. 2 be closed.

Recommendation No. 3: States that "USAID/Egypt recover \$ 126, 136 from Boston University for unauthorized incentive payments.

Comments: The mission takes strong exception to this recommendation in it's entirety. The reasons and rational for this decision are explained in the O'Donnell memo of 12-24-85 and were discussed during the exit meeting on 1-12-86.

Further discussions were held by the HRDC staff and the Legal staff after the audit exit meeting in an attempt to more clearly deliniate the issues involved. As a result, the mission is taking a firm position of exception to this recommendation as now stated in the 1-27-86 O'Donnell (SLA) memo which states "the mission considers the proposed refund claim without merit and requests closure of this recommendation". (See attachment B).

Based on the above, it is requested that recommendation no. 4 be deleted from the audit report in it's entirety.

Recommendation No. 4: States that "USAID/Egypt, "a) Coordinate with the government of Egypt to account for and report on all government of Egypt contributions provided to the project in cash or in-kind and b) assure that local currency needed for the project will be available."

Comments:

1) In discussions held with the SCU/FOM concerning GOE contributions, USAID and SCU/FOM acknowledged that we have been remiss concerning the recording and verification of GOE contributions.

Auditor's Note:

Attachments B and C referred to here and on Page 6 of 6 were not included by the auditors as part of the final report package.

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In view of the seriousness of this issue, USAID and FOM/SCU have agreed that a financial analysis be done by a professional as soon as possible to track and record past and present GOE contributions and develop a method to monitor future contributions. We will forward to the auditors the financial analysis report when completed that will both account for past/present GOE contributions and also describe how future contributions will be monitored to ensure compliance with the bilateral Grant Agreement.

2) A letter from the Vice President of the Suez Canal University reaffirms the GOE's commitment to fund the FOM/SCU now and in the future. Based on this commitment, HRDC/H requests that part B of Recommendation No. 4 be closed. (See attachment C).

cc:

LEG: K.O'Donnell,  
AD/HRDC: B.Wilder,  
DD: A.Handly,

LIST OF RECOMMENDATIONS

	<u>Page</u>
<u>Recommendation No. 1</u>	5
<p>We recommend that USAID/Egypt, in cooperation with the Suez Canal University/Faculty of Medicine and the Ministry of Health, develop a plan for accomplishing project objectives in the North and South Sinai governorates.</p>	
<u>Recommendation No. 2</u>	9
<p>We recommend that USAID/Egypt coordinate with the Suez Canal University/Faculty of Medicine and Boston University to contract with a qualified management consultant familiar with Government of Egypt laws and regulations to establish a responsive management system for the Suez Canal University/Faculty of Medicine that is consistent with Government of Egypt laws and regulations.</p>	
<u>Recommendation No. 3</u>	13
<p>We recommend that USAID/Egypt either:</p> <ul style="list-style-type: none"><li>a. ratify the incentive payments totaling \$126,136 made by Boston University under its Cooperative Agreement; or</li><li>b. proceed to collect such payments from Boston University or the Government of Egypt.</li></ul>	
<u>Recommendation No. 4</u>	16
<p>We recommend that USAID/Egypt:</p> <ul style="list-style-type: none"><li>a. coordinate with the Government of Egypt to account for and report on all Government of Egypt contributions provided to the project in cash or in-kind; and</li><li>b. assure that local currency needed for the project will be available.</li></ul>	

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