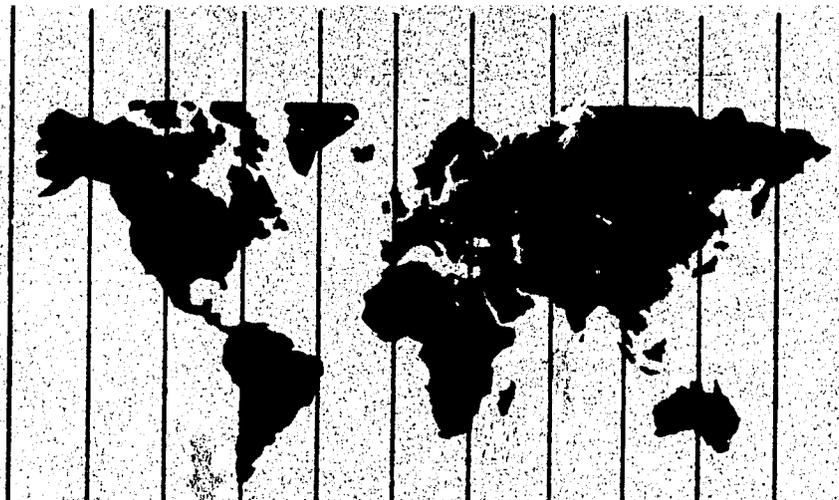


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UNITED STATES  
AGENCY FOR INTERNATIONAL DEVELOPMENT

THE  
INSPECTOR  
GENERAL



Regional Inspector General for Audit  
CAIRO

"FINANCIAL INFORMATION CONTAINED IN THIS  
REPORT MAY BE PRIVILEGED. THE RESTRICTIONS  
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PD-ABD-760

**Audit of Local Expenditures by Family  
of the Future Association under  
USAID/Egypt's Population/Family  
Planning Project No. 263-0144**

**Audit Report 6-263-91-05-N  
April 4, 1991**

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

April 4, 1991

MEMORANDUM FOR D/USAID/Egypt, Marshall D. Brown

FROM : RIG/A/C, F.A. Kalhammer 

SUBJECT: Audit of Local Expenditures by Family of the Future Association under USAID/Egypt's Population/Family Planning Project No. 263-0144

The attached report dated March 31, 1990 by Hazem Hassan & Co. presents the results of a financial audit of Family of the Future Association's (FoF) expenditures under USAID/Egypt's Population/Family Planning Project No. 263-0144. FoF's mission is to facilitate the introduction and marketing of high quality, affordable contraceptives through various distribution channels.

We had Hazem Hassan & Co. (KPMG) make an audit of FoF's expenditures totaling \$3,287,000 for the two-year period January 1, 1988 to December 31, 1989 under USAID/Egypt's grant agreement No. 263-0144-G-00-9056-00. Hazem Hassan & Co. concluded that operating costs equivalent to \$68,750 are questionable because they may be unallowable or are unsupported by valid documentation. Also, rental security deposits of \$7,197 should be collected.

FoF did not comply with the USAID/FoF revenue agreement or grant standard provisions which require separate bank accounts for depositing USAID/Egypt cash grants and FoF's revenue from contraceptive sales. FoF deposited grant and sales revenues in one account.

Regarding the entity's internal control structure, Hazem Hassan & Co. found that FoF had made little progress in implementing the internal control recommendations of a 1988 preaward survey (see RIG/A/C Report No. 6-263-88-07-N). The preaward survey listed 16 major findings related to deficiencies in FoF's accounting system, procurement procedures, inventory, and administrative/financial procedures. In response to the preaward survey, FoF stated it would implement the recommendations resulting from the survey.

U.S. Mailing Address:  
Box 10, RIG/A/C  
APO New York 09674-0006

Eleventh Floor  
Cairo Center Building  
Garden City, Cairo, Egypt

Tel. Country Code (202)  
No. 357-3345/6/7  
FAX: (011-202) 355-43.8

The current audit uncovered 18 major internal control weaknesses related to: (1) sales accountability, (2) management reporting on sales and inventory, (3) safeguarding inventory, (4) procurement, and (5) vehicle usage, bonding, and insurance. Considering FoF's apparent lack of commitment to rectifying its major internal control, accounting system, and management deficiencies, it seems unlikely that FoF will achieve a level of financial self-sufficiency that would allow USAID/Egypt to reduce or eliminate its support to it in the foreseeable future. Financial self-sufficiency is one of FoF's major objectives.

**Recommendation No. 1**

We recommend that USAID/Egypt resolve the questioned and unsupported costs listed in the schedule at report Appendix I.

**Recommendation No. 2**

We recommend that USAID/Egypt:

- 2.1 bring AID support for FoF to an expeditious and orderly conclusion, or
- 2.2 formally notify FoF that, as a condition for continued AID assistance, FoF must provide USAID/Egypt, within 30 days of the end of each calendar quarter, a written report of verifiable actions designed and taken to address the findings and recommendations contained in the following CPA report, until such time as USAID/Egypt notifies FoF that no further quarterly reports are required.

These recommendations will be included in the Inspector General's audit recommendation follow-up system. Until we are advised of USAID/Egypt's determination regarding the questioned and unsupported costs, recommendation No. 1 is considered "unresolved". This recommendation can be resolved when we are notified by the grant officer that he has formally sustained or allowed all or part of the costs questioned. It can be closed when any amounts determined to be owed to A.I.D. are paid by Family of the Future.

Recommendation No. 2 is considered "resolved" at report issuance based on the Mission's stated intention to implement alternative Recommendation No. 2.2. It can be closed when the Mission provides us with a copy of FoF's first quarterly report due April 30, 1991.

USAID/Egypt has provided a separate set of comments on this report. They are contained in Report Appendix III. RIG/A's evaluation of those comments follows in Appendix IV.

Please advise this office within 30 days of any actions planned or taken to close the recommendations. We appreciate the courtesies extended to the staff of Hazem Hassan & Co. and to our office.

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AUDIT OF LOCAL EXPENDITURES OF FAMILY OF THE FUTURE  
ASSOCIATION UNDER USAID/EGYPT  
PROJECT NO. 263-0144

**HAZEM HASSAN & Co.**  
CHARTERED PUBLIC ACCOUNTANTS

AUDIT OF LOCAL EXPENDITURES OF FAMILY OF THE FUTURE  
ASSOCIATION UNDER USAID/EGYPT  
PROJECT NO. 263-0144

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# HAZEM HASSAN & CO.

ACCOUNTANTS AND CONSULTANTS

72, MOHEDDINE ABUL EZZ ST., MOHANDISEEN - CAIRO

MEMBER FIRM OF

KPMG-KLYNVELD PEAT MARWICK GOERDELER

H. HASSAN  
M. RAGHEB  
M. FAWKY  
A. EL-SABAAWI  
R. MANSOUR  
M. YEHA  
H. SAMY  
M. HASSAN  
M. EL KHADEM  
M. NASSIF  
M. KHALIFA  
S. ABDEL NAIM  
G. MOKHEIMAR  
M. EL GAZZAR  
H. HAMZA  
A. ABOU SHANAIF  
M. SULTAN  
M. SALEM  
M. KAMEL

TELEPHONES

3499588

3499677

(10 LINES)

TELEXES

93796

20457

(MHCO-UN)

TELEFAX

(202)

3497224

3487819

Mr. Frederick A. Kalhammer  
Regional Inspector General  
United States Agency for  
International Development  
Mission to Egypt  
Cairo  
EGYPT

March 31, 1990

Dear Mr. Kalhammer:

On January 22, 1990, we contracted with your office to perform a financial and compliance audit of Family of the Future Association's locally incurred expenditures under USAID Grant No. 263-0144-G-00-9056-00 for the years ended December 31, 1988 and 1989.

## 1. BACKGROUND

Family of the Future (FOF) is an indigenous private voluntary association established on June 3, 1980 and approved on December 1, 1980 by the Ministry of Social Affairs in accordance with Law 32. In 1980, it began to receive support from USAID/Egypt. FOF has been awarded a grant of LE 21,174,976 and US\$ 132,995 from USAID/Egypt for the period June 1, 1988 through May 31, 1993 for use in accordance with the grant terms. USAID provides FOF such a grant to facilitate the introduction and marketing of contraceptive products in Egypt. The purpose of this grant is to provide financial assistance and technical support to FOF, and to help FOF achieve its organizational mission, goals, and objectives.

FOF's mission is to market high-quality, affordable contraceptives through private channels which will assist in fulfilling national population program goals. FOF has set the following goals for the next five years as stated in the grant agreement program description:

- To contribute to the achievement of the national population program target of 51% contraceptive prevalence by the year 2002.
- To expand FOF operations and services in rural areas.
- To strengthen FOF's management structure.
- To achieve financial self-sufficiency by 1993, excluding the financing of contraceptives.

2. AUDIT SCOPE, OBJECTIVES AND METHODOLOGY

We performed a financial and compliance audit of Family of the Future (FOF) to report on the allowability of incurred costs, adequacy of internal controls and compliance with USAID regulations, grant terms and applicable laws. Accordingly, the audit included an examination of the grant revenues and expenses, and review of the internal control structure. The objectives of this audit are to determine whether:

- The costs reported as incurred are allowable, allocable, and reasonable in accordance with the terms of the grant, USAID Handbook 13, and OMB Circular A-110;
- The internal control structure and management practices of FOF are adequate for USAID/Egypt grants;
- The levels of cash reserves are maintained in accordance with USAID's policy;

- Revenues are fairly stated; and
- FOF complied with the grant provisions.

The audit was conducted in accordance with the "Government Auditing Standards" (1988 revision) issued by the Comptroller General of the United States. The audit included selective examination and testing of supporting documentation for selected revenues and costs charged to the grant. The auditors were alert to situations or transactions that could be indicative of fraud, abuse, and/or illegal expenditures and acts.

In order to review, evaluate and report on internal control systems, costs incurred and compliance with grant terms, regulations and applicable laws, we designed our audit methodology to initiate the examination by dividing FOF's activities and operations into the following categories:

- a. Sales and collections
- b. Purchasing and inventory
- c. Operating expenses
- d. Budgeting and reports to USAID
- e. Internal control structure and accounting system
- f. Management reporting

Our selection of revenues and expenses to be tested was made on a judgmental basis. It was structured to test compliance with the prescribed internal control procedures and to test the validity of the transactions. Our tests of sales and collection activities were designed to permit a thorough examination of FOF's system. We examined sales and collection transactions for a three consecutive month-period (15% of total sales and collection transactions) and

emphasised testing the validity of sales invoices and returned cheques. We tested 100% of contraceptive shipments received. The inventory test was based on three randomly selected months of inventory transactions (representing 15% of total inventory transactions) and testing year-end inventory physical count. Our test of operating expenses, including the payroll, covered four randomly selected months of transactions (20% of expense transactions). Additionally, we conducted substantive testing on procurement, operating expenses, and procedures.

Our audit procedures as they relate to internal accounting control, included procedures designed to ascertain if the accounting system utilized is sufficient for FOF's needs, whether detailed written procedures are available and followed, and if FOF's management is assuring adherence to sound administrative control practices.

The management reporting system was reviewed in accordance with USAID's regulatory requirements. Budgets and reports to USAID were reviewed in accordance with USAID regulations and grant requirements.

3. RESULTS OF AUDIT

Funds Accountability Statement

Our findings include unsupported and questionable advertising, salaries and rent expenses. Additionally, FOF's procurement procedures for commodities and equipment need to be written and adhered to by entity officials.

Internal Control Structure

Our findings include improper segregation of duties, untimely accounting for sales proceeds, deviations from policies and written instructions, lack of control over vehicle utilization, irregularities in purchases and rent contracts, lack of appropriate procedures for controlling inventory stocks, and inappropriate procedures in accounting for inventories consigned to sales personnel.

The evaluation of FOF's internal accounting control structure disclosed conditions which resulted from the absence of internal controls and from a lack of compliance with prudent business practices.

Compliance with agreement terms and applicable laws and regulations

We found that accrued interest was added to "other revenue" which is in noncompliance with grant agreement terms. In addition, we were unable to ascertain the allowability of non-US goods purchases because separate bank accounts were not used to deposit self-generated cash and grant cash. Separate bank accounts were not maintained in compliance with the grant's standard provisions and provisions of FOF's revenue agreement with USAID/Egypt. However, FOF complied with the six-month cash reserve and cost-sharing requirements of its grant.

Questioned and Unsupported Costs

Our findings include approximately \$ 66,667 (LE 160,000) of questioned costs and \$ 2,083 (LE 5,000) of unsupported costs out of total incurred costs of \$ 3,287,000 (LE 7,888,000) for 1988 and 1989.(1). We also found that FOF did not collect \$ 7,197 (LE 17,273) paid as rental security deposit. See Appendix I for details of questioned and unsupported costs.

Management Comments

An exit conference was conducted on October 10, 1990 in which FOF's management responded to the audit findings. Management comments are included in Appendix II.

Hazem Hassan & Co.

*M. Kamel*

Cairo, Egypt

March 31, 1990

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(1) Using an average exchange rate of \$ 1 = LE 2.400.

# HAZEM HASSAN & CO.

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Mr. Frederick A. Kalhammer  
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EGYPT

## Funds Accountability Statement

### Report of Independent Accountants

We have audited the accompanying comparative funds accountability statement for the years ended December 31, 1988 and 1989 of Family of the Future Association (FOF). The funds accountability statement is the responsibility of Family of the Future Association's management. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and Government Auditing Standards (1988 Revision), 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 financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As disclosed in the findings section, FOF has incurred approximately L.E. 160,000 of questioned costs and L.E. 5000 of unsupported costs out of total incurred costs of L.E. 7,888,000 for 1988 and 1989.

In our opinion, except for the effects of the questioned and unsupported expenditures as discussed in the preceding paragraph, if any, the comparative funds accountability statement referred to above presents fairly, in all material respects, FOF's revenues and incurred costs for the years ended December 31, 1988 and 1989, in conformity with generally accepted accounting principles and in accordance with the provisions of the grant agreement referred to above.

This report is intended solely for use by the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Hazem Hassan & Co.



Cairo, Egypt

March 31, 1990

**FAMILY OF THE FUTURE ASSOCIATION**  
**FUNDS ACCOUNTABILITY STATEMENT (NOTE 1)**  
**FOR THE YEARS ENDED DECEMBER 31, 1988 AND 1989**

All figures are in Egyptian Pounds

Description	1988	1989
<b><u>Receipts</u></b>		
USAID cash grant (Note 2)	638	2,780,894
Sales revenue (Note 3)	2,364,895	2,885,790
Miscellaneous revenues	219,148	204,654
Other receipts		
Commodity grant (Note 4)	<u>5,101,429</u>	<u>3,704,030</u>
	7,686,110	9,575,368
<b><u>Deductions</u></b>		
Cost of merchandise purchased (Note 5)	706,121	614,831
Value of USAID donated contraceptives (Note 4)	<u>5,101,429</u>	<u>3,704,030</u>
	5,807,550	4,318,861
Excess of receipts over deductions	<u>1,878,560</u>	<u>5,256,507</u>
<b><u>Expenses</u></b>		
Sales and communication affairs	1,541,201	1,147,840
Health education affairs	748,940	291,649
Research and medical training affairs	158,714	1,287,184
Administrative affairs	988,095	1,205,752
Depreciation	100,126	118,418
Medical service affairs	-	148,712
Information affairs	-	57,065
Finance affairs	-	94,277
Total expenses	<u>3,537,076</u>	<u>4,350,897</u>
Surplus (Deficit) for the year	(1,658,516)	905,610
	=====	=====

See accompanying notes to the funds accountability statement.

FAMILY OF THE FUTURE ASSOCIATION  
NOTES TO FUNDS ACCOUNTABILITY STATEMENT

Note 1: Accounting Basis

The comparative funds accountability statement of FOF for the years ended December 31, 1988 and 1989 was prepared by FOF's management for statutory requirements. FOF, being a private voluntary organization, is required to file its annual financial statement with the Egyptian Ministry of Social Affairs. This statement is prepared on the accrual basis of accounting which is in conformity with generally accepted accounting principles.

Note 2: USAID Cash Grants

USAID/Egypt provides local currency grants to FOF. The amount of each year's grant is based upon expanding program needs and cash balances resulting from product sales. The infusion of grant funds reflects time lags because historical cost data are necessary to determine FOF's eligibility for additional grant funds.

Note 3: Sales Revenue

Sales revenue reflects amounts collected and accrued for contraceptive products sold during the fiscal year. The amounts shown on the funds accountability statement constitute sales of donated and purchased products.

Miscellaneous revenue is composed of clinic revenue, interest earned on bank balances and miscellaneous receipts.

Note 4: USAID Contraceptive Donations

USAID provides FOF with contraceptive products that are donated free of charge. The amounts of such donations are reflected on the funds accountability statement at the bill of lading value plus related direct

expenses such as shipping/handling. Accordingly, the funds accountability statement reflects commodity grants at the above stated values of LE 5,101,429 and LE 3,704,030 for 1988 and 1989, respectively. Because the products are free of charge to FOF, such products are not inventoried with an assigned value at year end. Therefore, to refrain from materially distorting the funds accountability statement, the corresponding value has been deducted in the statements. Such presentation allows FOF to reflect the receipt of donated goods as is required by generally accepting accounting principles and to refrain from overstating net income.

Note 5: Merchandise Purchased

According to the grant terms, FOF is permitted to purchase either US or foreign produced contraceptive products from self-generated cash. Such products are marked up and sold at the same prices as USAID donated contraceptives. Such pricing policy allows FOF to maintain sales price continuity.

Note 6: Expense Classifications

Expenses include the following categories:

1. Sales affairs: sales activities are conducted by medical representatives and sales representatives who, through the use of promotional materials and samples, sell contraceptives directly to doctors in their private practice, hospitals or clinics.
2. Research affairs: the activities of the research department are to plan, implement, and analyze FOF's market research and conduct baseline surveys to measure current knowledge, attitude, and practices of workers in factories where FOF plans to establish a clinic and to measure the success of that clinic after one year of operation.

3. Communication affairs: the responsibility of this department is to manage and continue to develop the existing MIS.
4. Health education affairs: the health education section collects, maintains, and disseminates all scientific and product information relevant to the work and objectives of FOF.
5. Medical service affairs: medical services is responsible for the oversight and management of the five FOF clinics; cooperation with other agencies to operate non-FOF clinics; management of the religious centre program; and the provision of contraceptives, medical supplies, and educational materials to these clinics.
6. Administrative affairs: the administrative department oversees six major administrative functions: personnel, vehicle maintenance, purchasing, warehousing, customs clearance, and general administration.
7. Financial affairs: this department provides the financial planning, accounting, budgeting, operational and control functions for FOF.

FAMILY OF THE FUTURE

FINDINGS

1. Rent of Headquarters Office

In 1982, FOF leased a building at 53 Oman Street which served as the association headquarters. In 1988, the lease was renewed for 5 years and rental for the first year was paid in advance along with a security deposit (LE 17,273). An undated amendment was agreed upon which increased rent by 10% and required advance rental payments for 2 more years. A new building was leased in August 1989 and LE 37,202 in advance rentals paid on the old building were forfeited through an agreement with the lessor. The security deposit has not been collected.

Recommendation

We recommend that FOF management collect \$ 7,197 (LE 17,273) paid as rental the security deposit.

2. Questionable and Unsupported Expenses

The following expenses were authorized and paid without adequate supporting documentation:

- a. FOF paid monthly between LE 2,500 and LE 2,700 as total salaries to all personnel working on the Ultra Sonic Waves project at Ain Shams University. Details of those efforts were not specified. Payment was authorized by a monthly letter signed by the chairman of FOF.
- b. A contribution of LE 2,000 was made to a Gynecology and Maternity Diseases conference held at Alexandria University.

- c. Remuneration of 500 - 600 L.E. per month per person was paid to FOF advisors who are also advisors to the National Population Council. Those advisors are: legal, financial and administrative, chairman's office manager, clinical activities expert and advertising.
- d. FOF management authorized payment of LE 500 for miscellaneous expenses without any documentation.
- e. FOF's chairman of the board of directors authorized payments for advertising expenses of LE 8,400 to the Dar-Hilal Co., LE 4,000 to the Al Ahram newspaper, and LE 3,500 to the Egyptian Medical Journal. Such advertisements were for activities related to the National Population Council. Invoices for these payments were reproduced which means that the original invoices were not available. Additionally, an invoice for LE 5,000 from the Al Ahrar newspaper for advertising was not supported by a publishing order.

We were unable to ascertain the allowability, reasonableness or necessity of these expenditures in accordance with the grant terms.

Recommendation

We recommend that USAID/Egypt resolve questioned costs of LE 160,000 and unsupported costs of LE 5,000. The details of questioned and unsupported costs are scheduled in Appendix I.

3. Printing Contract with FOUK Co.

A purchase order was issued in October 1987 to FOUK Co. (Arabian Company for Trading and Procurements) to provide 10,000 gross golden tops condom packages for L.E. 1,800. In January 1988 the covers were received and an inspection revealed that the materials did not comply with weight specifications and contained inappropriate gumming. Accordingly, the inspection committee recommended that a discount of 25% of the purchase order amount be taken and the deduction was made. However, after payment was made, FOF's general manager approved payment of the amount deducted to the supplier.

Recommendation

We recommend that a written procurement procedures manual be developed in accordance with OMB Circular A-110, Attachment F.

4. Purchasing of Telephone Center

In 1989, the general manager instructed his staff to purchase an electronic telephone center although it was not budgeted for. Quotations were obtained through personal contacts. No technical evaluation was made. The general manager entered into a contract with the Five Stars Company for LE 37,297 although the Middle East Company quoted LE 30,156. Terms of payment of Five Star's quotation were:

- 10% downpayment against a letter of guarantee
- 80% upon procurement
- 5% after installation
- 5% after one year.

The contract was signed as indicated above in August 1989. However, an undated contract amendment was made to pay 90% in advance. After installation, technical defects and breakdowns were frequent, thereby, impacting FOF's ability to conduct business efficiently.

In November 1989, the general manager left FOF. Moreover, in January 1990 the board of directors approved leave with pay for the legal advisor, who participated in the purchase, until the completion of the investigation of this contract by FOF's legal department. As of the conclusion of our audit fieldwork, the problem was not resolved.

Recommendation

We recommend that USAID/Egypt and FOF management investigate the unusual circumstances attendant upon this transaction.

Reserve for Egyptian Income Tax

The Egyptian tax department estimated income taxes due from FOF in the amount of LE 1,117,322. This amount represents income taxes on employees' salaries from 1979 to 1986. FOF disputes the taxes due because FOF contends the salaries were paid from USAID grant funds rather than self-generated revenue and are, therefore, tax exempt. The dispute is still unresolved and FOF has not made a provision for any contingency reserve to pay the taxes due, in the event the GOE may rule against FOF's position.

Recommendation

We recommend that FOF make the necessary provisions for any contingent liability.

# HAZEM HASSAN & CO.

ACCOUNTANTS AND CONSULTANTS

72, MOHEDDINE ABUL EZZ ST., MOHANDISEEN - CAIRO

MEMBER FIRM OF

KPMG-KLYNVELD PEAT MARWICK GOERDELER

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Mr. Frederick A. Kalhammer  
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## Report on Internal Control Structure

### Report of Independent Accountants

We have audited the comparative funds accountability statement of Family of the Future Association (FOF) for the years ended December 31, 1988 and 1989, and have issued our report thereon dated March 31, 1990.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 revision), issued by the Comptroller General of the United States.

In planning and performing our audit, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control structure.

The management of FOF is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control procedures. The objectives of an internal control system 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 management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any system of internal accounting control, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- a. Sales and collection
- b. Purchasing and inventory
- c. Operating expenses
- d. Budgeting and reports to USAID
- e. Management reporting

For all of the control categories listed above, 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.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our findings include inadequate inventory records, untimely accounting for sales proceeds and sales discounts, deviations from policies and written instructions, inadequate control over consigned goods, improper segregation of duties, and lack of control over the use of vehicles. Our detailed audit findings accompany this report.

A material weakness is a condition in which the design or operation 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 financial statements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

This report is intended solely for use by the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Hazem Hassan & Co.

M. Kamal

Cairo, Egypt

March 31, 1990

FAMILY OF THE FUTURE

According to USAID Handbook 13 and OMB Circular A-110, a recipient who receives a grant from USAID should have financial management systems that provide for effective control over and accountability for all funds, property, and other assets. Recipients should adequately safeguard all such assets and ensure that they are used solely for authorized purposes.

An entity's internal control structure consists of the control environment, the accounting system and the control procedures. The control environment represents the collective effect of various factors on establishing or enhancing the effectiveness of specific policies and procedures. The accounting system consists of the methods and records established to identify, assemble, analyze, classify, record and report an entity's transactions and to maintain accountability for the related assets and liabilities. Control procedures are those policies and procedures in addition to the control environment and accounting system that management has established to provide reasonable assurance that specific entity objectives will be achieved.

Sales and Product Distribution

FOF markets a broad array of contraceptive products throughout Egypt. The customer base of FOF includes pharmacies, doctors, public hospitals and other medical institutions such as family planning clinics. FOF maintains regional sales offices in various cities which stock contraceptive inventories. These sales offices sell to pharmacies, hospitals, doctors and other medical institutions in the region. The regional sales offices are supplied from the central warehouse in Cairo. These facilities serve as sales outlets and supply sources concurrently with the distributors and medical representatives who serve the regional

customers. The primary sales staff is composed of medical representatives (24 persons) who sell to public hospitals and other medical institutions, and eleven distributors who sell to pharmacies and doctors. Medical representatives and distributors conduct sales activities and, simultaneously, deliver products to customers.

These two classes of salespersons are consigned goods from the central warehouse in Cairo. The consigned products are transported with the sales staff and it is from these stocks that deliveries to the customer are made. Under current operating practices, the salesperson accounts for product units sold and is resupplied with products every three months.

FOF's written procedures prescribe that every distributor receives contraceptives on consignment at the beginning of each month. The distributor conducts sales activities, issues invoices, collects cash and returns unsold contraceptives to inventory. He is accountable for sales proceeds whether in cash, cheques, post-dated cheques or unpaid sales invoices. In addition, he is also responsible for preparing inventory and sales activity reports on a monthly basis.

#### FINDINGS

1. In practice, distributors conduct inventory and sales accountability quarterly rather than monthly. Written procedures require the distributor to return the unsold goods and require distributors to account for cash sales and unpaid sales invoices on a monthly basis. Management accepts this deviation from written procedures and conducts sales and inventory accountability on a quarterly basis. When merchandise and sales activities are accounted for on an untimely basis, inventory and sales records are difficult to control. Records retained by distributors for long periods are susceptible to loss and destruction, therefore, problems are difficult to resolve on a timely basis.

When sales accountability is delayed for long periods of time, FOF is unable to collect cash promptly as good business practice dictates. Consequently, distributors could be tempted to "lap" cash, which is receiving cash for sales, reporting the sales as unpaid in the records and using such cash until the end of the quarterly reconciling period. In December 1988, unpaid sales invoices represented 32% of sales and in February 1990, the percentage had increased to 50% (unpaid invoices are invoices which will be collected later, but at the time of accountability, neither cash nor post-dated cheques were submitted). Generally accepted accounting principles require that transactions be recorded in the month of occurrence.

Recommendation

We recommend that FOF account for sales activities monthly in order to adhere to the written sales procedures and generally accepted accounting practices.

2. Management reports are not prepared for sales and related items, such as accounts receivable, post-dated cheques, returned cheques, returned goods, and sales distribution and monthly sales information by distributor/medical representative. Prudent business practice requires the development and utilization of such information if FOF is to reach a stage of financial independence. FOF's management appears to be underutilizing such vital information to direct sales activity in a manner which will enhance the opportunity for reaching financial self-sufficiency.

The following data show sales percentages by type of transaction:

<u>Type</u>	<u>Dec. 88</u>	<u>Feb. 90</u>
Cash sales	12	10
Post-dated cheques	53	39
Unpaid invoices	32	50
Returned goods	<u>3</u>	<u>1</u>
	100	100
	==	==

The above data reflects the changing pattern of financing sales to customers. Within the 15 month period shown above, the type of sales transaction declines from 65% cash/32% accounts receivable to 49% cash/ 50% accounts receivable. This trend could impact cash flows because sales on account are slower to collect.

Recommendation

We recommend FOF's management coordinate the accumulation and analysis of sales information to enhance FOF's efforts in achieving financial self-reliance.

3. FOF does not have an effective system for processing dishonored cheques. From the time of the credit sale to the time the distributor receives the dishonored cheque for collection, four months have elapsed (two months for receiving and depositing the cheque, one month for the bank's processing, one month of FOF processing). Written instructions require the distributor to collect the dishonored cheque within a two-month period. When collection efforts fail, the distributor forwards the cheque to FOF's legal department for follow up. Our findings cause us to

believe that there is not a coordinated effort to track and collect dishonored cheques. The balance of returned cheques is increasing. This balance was L.E. 6,992 as of January 1988, L.E. 23,228 as of January 1989 and L.E. 43,235 as of December 1989.

Recommendation

We recommend that a separate credit and collection department be formed and entrusted with the responsibility to enforce internal control on the collection of dishonored cheques and manage the credit function.

4. Marketing procedures of FOF permit distributors to sell to pharmacies and doctors, whereas medical representatives market to public hospitals and other medical institutions. A commercial discount (10%) is available on sales to public hospitals and medical institutions. Doctors and pharmacies are not afforded such a discount. Medical representatives do not follow these procedures in that they sell to any interested buyer and issue the invoice in the name of a hospital in order to justify the discount. FOF's management is aware of this discrepancy but has failed to take appropriate action.

Recommendation

We recommend that FOF review its marketing procedures in order to alleviate discrepancies regarding sales discount policies applicable to medical representatives and distributors. Management should devise a coherent policy which, when adhered to by medical representatives and distributors, will provide assurance that future discrepancies do not occur.

5. The distributor assumes conflicting duties which lead to an improper segregation of duties. He acts as a salesperson, collection agency, and credit officer, simultaneously. Proper internal control over the sales function requires segregation between making the sale and having custody of the credit and accounts receivable collection function. A distributor should not assume the function of a credit officer and a collection agency.

Recommendation

We recommend that an adequate internal control structure be designed and implemented to ensure proper segregation of duties.

Inventory and Purchases

FOF's business activity centers around acquiring, storing, selling, and accounting for a substantial contraceptive product inventory. FOF's central warehouse is located in Cairo. Regional offices and salespersons are consigned product inventories to sell and deliver to customers.

FOF's inventory of products is acquired from two sources: USAID donated contraceptives and contraceptives purchased by FOF. USAID donated products are only inventoried and recorded in units because there is no cost to FOF. Products are purchased from self-generated revenue and expensed in the year of acquisition and, as with donated commodities, are inventoried and recorded in units with no assigned cost.

The selling price of various USAID donated products is coordinated with the Ministry of Health. Products purchased for resale are marked-up to the extent possible, while maintaining sales price compatibility with donated products.

On occasion, other family planning programs or suppliers will consign inventory to FOF for storage. The products will eventually be used as samples or provided free of charge to other family planning programs. FOF inventories and records such products as part of their inventory.

At year end, FOF conducts a physical count of the contraceptive units on the warehouse shelves. Neither donated or purchased products are assigned a monetary value.

An inventory such as contraceptives consists of products that have critical expiration dates and conditions under which they can be stored. Therefore, an intensive effort must be exerted to assure that inventory procedures are rigidly followed. Because expiration dates are critical, data on the quantities and turnover of various products must be available to management in order to facilitate rational procurement decisions. Likewise, records of sales activity must be accurately maintained for the integration of such data into the procurement process. The levels of inventory and sales activity reported by the warehouse should be managed by an inventory tracking system in the warehouse operation and reconciled with accounting department records monthly.

In order to accurately assess the profitability of FOF's operation, physical inventory counts must be conducted periodically, monetarily valued for purchased products, and the results compared to records maintained in the accounting department. To determine if the sales activities are profitable, the aforementioned process must be administered through well designed/managed integrated inventory and accounting systems.

**FINDINGS**

1. The accounting system does not provide any management information concerning shortages or the cause of such shortages. Prudent business practice requires that management receive periodic inventory reports, including shortage reports, to be used in decision making. The absence of such reports weakens management's ability to make prudent business decisions.

Currently, FOF's inventory and accounting systems are not sufficiently integrated to provide management with the information necessary to make informed marketing and procurement decisions nor are adequate data available to assess profitability levels.

**Recommendation**

We recommend that monthly inventory reports be prepared and reconciled with accounting records, and the results be furnished to management.

2. Neither the first-in first-out (FIFO) pricing method nor FIFO flow of products is applied to purchased or donated inventory. The FIFO costing method leads to the proper valuation of cost of goods sold (historical cost) and reflects the proper valuation of ending inventory. The FIFO flow of products prevents spoilage of contraceptives due to their expiration dates. Selecting this method is appropriate because contraceptives are perishable products.

**Recommendation**

We recommend that FOF's management adhere to the usage of FIFO inventory pricing for purchased products and products utilized from inventory.

3. There is inadequate insurance coverage for inventory items. Insurance should have been acquired to cover the total value of inventory at cost. Present insurance covers about one fourth of such value. Prudent business practice requires that assets be insured against theft and loss.

Recommendation

We recommend that FOF increase its insurance coverage for inventory to cover its total value.

4. Goods consigned by third parties to FOF were included in its inventory count. Generally accepted accounting principles require that such goods be accounted for in the consignor's inventory rather than in FOF's inventory. This practice inflates ending inventory physical count.

Recommendation

We recommend that FOF exclude consigned goods from its inventory for accounting purposes.

5. Contraceptives amounting to L.E. 152,032 represent the cost of certain products delivered to other medical institutions. This cost is included in FOF's medical training expenses. Generally accepted accounting principles require that costs and expenses should be properly classified. This misclassification leads to misleading financial statements.

Recommendation

We recommend that FOF properly classify cost of its operations.

6. FOF received 10,000 Depo-provera injections from a supplier and of this quantity, 2,944 had expired. The supplier did not replace the injections or refund payment, nor did management pursue further action.

Recommendation

We recommend that FOF either obtain replacement injections or seek a refund.

7. FOF accepted an offer from a supplier to provide a specific quantity of Gravigard loops. The supplier delivered only 50% of the contract quantity four months late. Management did not take any action against the supplier for the delayed delivery and did not require a written guarantee of supply.

Recommendation

We recommend that management follow the provisions of OMB Circular A-110 and the standardized regulations when procuring products.

8. Stock records are not used in the warehouse. Good business practice requires that stock be properly identified and stock records used to show the quantities on hand, pricing, and transfer of inventory.

Recommendation

We recommend that FOF implement written procedures and an inventory records system to ensure quantities on hand and control over perishable products are adequate.

9. Detailed written instructions for conducting year-end physical inventory counts do not exist. FOF's management is responsible for providing instructions to enable the staff to conduct an accurate physical inventory.

Recommendation

We recommend that physical inventory instructions be issued when year-end inventories are taken.

10. During the grant pre-award survey conducted in 1988, we identified an excessive level of NORMINEST contraceptive which we believed was going to be scrapped. The inventory level of this product and usage rates indicated the supply far exceeded the usage. In 1989 Norminest and other contraceptive stock valued at LE 546,032 were disposed of because they were damaged or had exceeded product expiry dates.

Recommendation

We recommend that FOF's management maintain appropriate levels of inventory.

11. The consigned inventories of both the distributor and the regional sales office are commingled and accountability is difficult. The distributor gives part of his consigned contraceptives to the regional office which sells the items on the distributor's behalf. Consequently, the necessity of a distributor to sell goods through the regional office is questioned. We were unable to determine the basis for such a procedure, especially since the regional office is supplied from the central warehouse in Cairo. In addition, written instructions or procedures for such a practice do not exist.

Recommendation

We recommend that the practice of commingling inventories be thoroughly reviewed for necessity. If such a practice is deemed necessary, written procedures and forms should be supplied to provide adequate documentation for inventory control purposes.

12. The procedure FOF uses to administer consigned inventory enables a distributor, who is short of inventory at the end of the quarterly reconciliation period, to pay for these goods at a discount of 12% - 13%. Therefore, a distributor can sell the products without discount and later report the same products as short, thereby profiting to the extent of the discount.

Recommendation

We recommend that FOF implement procedural revisions regarding consigned inventory shortages. Shortages should be paid at gross sales price.

C. Vehicle Use

FOF does not maintain records that assure vehicles are used for authorized purposes. Also historical operating expense records for each vehicle do not exist. Additionally, the number of unserviceable vehicles is high as are the annual operating costs for those vehicles in service.

Recommendation

We recommend that FOF evaluate the vehicle fleet serviceability and dispose of unserviceable vehicles. Also, a record keeping system should be developed which will record depreciation and operating costs affiliated with each vehicle. Management should prepare and review a monthly fleet usage and operating cost report.

D. Employee Bonding

Each distributor and medical representative was bonded (insured against dishonesty) for L.E. 5,000 and L.E. 3,000, respectively. However, in September 1989 the general manager cancelled all such insurance policies because FOF would take legal action against dishonest employees.

Recommendation

We recommend all distributors, medical representatives and individuals who have control over the company's liquid assets be bonded.

# HAZEM HASSAN & CO.

ACCOUNTANTS AND CONSULTANTS

72, MOHEDDINE ABUL EZZ ST., MOHANDISEEN - CAIRO

MEMBER FIRM OF

KPMG-KLYNVELD PEAT MARWICK GOERDELER

H. HASSAN  
M. RAGHEB  
M. FAWKY  
A. EL-SABAAWI  
R. MANSOUR  
M. YEMIA  
H. SAMY  
M. HASSAN  
M. EL KHADEM  
M. NASSIF  
M. KHALIFA  
S. ABOEL NAIM  
G. MOKHEIMAR  
M. EL GAZZAR  
H. HAMZA  
A. ABOU SHANAIF  
M. SULTAN  
M. SALEM  
M. KAMEL

TELEPHONES

3499588

3499677

(10 LINES)

TELEXES

93796

20457

(HACO-UNI)

TELEFAX

(202)

3497224

3487819

Mr. Frederick A. Kalhammer  
Regional Inspector General  
United States Agency for  
International Development  
Mission to Egypt  
Cairo  
EGYPT

Report on Compliance with Agreement Terms  
and Applicable Laws and Regulations  
Report of Independent Accountants

We have audited the comparative funds accountability statement of Family of the Future Association (FOF) for the years ended December 31, 1988 and 1989, and have issued our report thereon dated March 31, 1990. We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in 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 material noncompliance with the requirements referred to above occurred.

Compliance with applicable laws, regulations, contracts, grants, and binding policies and procedures applicable to FOF is the responsibility of FOF's management. As part of our audit, we performed tests of FOF's compliance with certain provisions of laws, regulations, contracts, grants, and binding policies and procedures. An audit includes examining, on a test basis, evidence about FOF's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

HAZEM HASSAN & CO.

Our testing of FOF transactions and records disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found are identified in the accompanying schedule of findings.

The results of our tests indicate that with respect to the items tested FOF complied, in all material respects, with the provisions referred to above. With respect to items not tested, nothing came to our attention that caused us to believe that FOF has not complied, in all material respects, with those provisions.

This report is intended solely for use by the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Hazem Hassan & Co.

M. KASSAB  
Cairo, Egypt

March 31, 1990

FAMILY OF THE FUTURE

FINDINGS

1. USAID regulations require payment for non-US product purchases or staff incentives from self-generated cash. However, no separate bank account exists for grant funds obtained from USAID or for self-generated cash, therefore, our audit could not ascertain compliance with such regulations. FOF purchased non-US products without obtaining the necessary USAID waivers. Accordingly, FOF did not comply with the separate bank account provisions of the revenue agreement between USAID/Egypt and FOF.

Recommendation

We recommend that FOF comply with USAID regulations, standard contract provisions and provisions of the revenue agreement.

2. In 1989, earned interest of L.E. 146,734 on bank balances was added to miscellaneous revenue rather than to the grant cash account. This procedure is not in compliance with USAID regulations (OMB Circular A-110, USAID Handbook 13 - 1J Program Income).

Recommendation

We recommend that FOF comply with USAID regulations and OBM Circular A-110.

3. Pre-award Survey

In 1988, prior to receiving its current five-year grant, FOF underwent a pre-award survey by the USAID Regional Inspector General for Audit in Cairo (RIG/A/C). The survey examined FOF's management organization, internal control structure, accounting system, cost proposal, and compliance with OMB Circular A-110.

The preaward survey reported sixteen major findings related to deficiencies in FOF's accounting system, procurement procedures, inventory, and administrative/financial procedures. One of the 1988 preaward recommendations was for FOF to engage a professional accounting firm to assist in the design of an effective accounting system and internal control implementation. FOF hired an accounting firm to provide such a system, however, upon subsequent review by a RIG/A/C auditor (in 1988), the system and its related administrative procedures were still deficient. FOF did not take appropriate action to correct the continuing problems.

Our audit indicates that the accounting system and internal control procedures have not improved significantly since the pre-award survey. This audit produced findings in administering and accounting for sales, inventory, procurement, disbursement documentation, and the overall maintenance of accounting records.

Prudent business practice requires management to be vitally concerned with the monthly and annual financial health of an organization whose major goal is to become financially self-sufficient.

Recommendation

We recommend that FOF implement an accounting system and effective internal control structure and issue a manual for policies/procedures which FOF management and administrative personnel can follow in the conduct of the entity's business.

Appendices

Summary of Questioned and Unsupported Costs

	<u>LE</u>	<u>U.S.\$</u>
<u>Questioned Costs:</u>		
1. Salaries paid to personnel with Ain Shams University Ultra Sonic Waves Project (LE 2,600 x 24 months)	62,400	
2. Contribution to gynecology and maternity diseases conference	2,000	
3. Remuneration to FOF advisors (LE 550 x 6 x 24 months)	79,200	
4. Miscellaneous expense	500	
5. Advertising expenses	15,900	
	<u>160,000</u>	66,667 (1)
	=====	=====
<u>Unsupported Costs:</u>		
1. Adversiting in Al Ahrar newspaper not supported by publishing order	5,000	2,083 (1)
	=====	=====
<u>Amounts to be Collected:</u>		
Rental security deposit	LE 17,273	\$ 7,197 (1)
	=====	=====

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(1) Using an average exchange rate of \$ 1 = LE 2.40.

APPENDIX II  
FOF'S MANAGEMENT COMMENTS



12/24/90  
جمعية  
أسرة المستقبل

## FAMILY OF THE FUTURE

Association

December 22nd, 1990

Mr. Arthur Braunstein  
Population Officer  
USAID Mission to Egypt

Dear Mr. Braunstein:

After reviewing the USAID/FOF audit report submitted August 15th, 1990, I have met over the past month with relevant staff here at Family of The Future to assess and follow up on the findings and recommendations submitted by the auditors. The substance of this follow up is embodied in the enclosed draft document, which is a point-by-point response to the specific findings and recommendations, with documentation as appropriate.

On a more general level, I would like to state at the outset that I really appreciate the results of the auditors' efforts. Their analysis of FOF operations will be very helpful in helping all of us here at The Association make FOF a more effective and efficient organization in carrying out our national family planning mandate.

The subject areas in the audit report included Statement of Revenues and Incurred Costs, Internal Accounting Controls, and Compliance with Agreement Terms. In our response to the concerns expressed in these areas, we have attempted to provide as much detail as possible. As you will notice in the draft, a number of the recommendations had been addressed prior to the audit, while others have been implemented since the auditors' visit.

Page 30 of The Audit Report contains six recommendations for implementation by USAID/Egypt that I would like to address in this letter. First, I would welcome both a review by RIG/A of the modifications of our procedures as recommended in the audit, and an annual audit "until such time as FOF attains self-sufficiency." We can discuss timing on these two steps, as well as the feasibility of monthly financial statements. In reference to OMB Circulars A-110 and A-133, FOF does not have these documents and would appreciate receiving them from USAID. We will then review the Circulars and adjust our procedures as appropriate. And, as procedures are finalized, FOF will consider the need for additional technical assistance through the hiring of a public accounting firm.

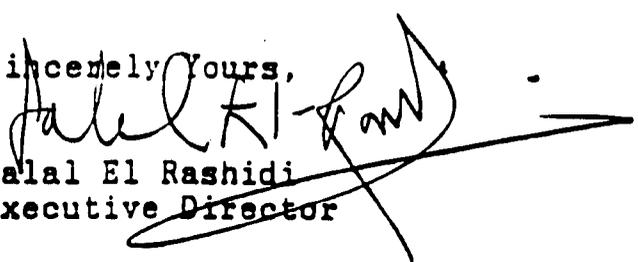
BB

As you know, the two most recent USAID/FOF audits (1988 and 1990) were conducted over a time span which saw Family of The Future headed by three different Executive Directors. Against this background of uncertainty, FOF has, nevertheless, managed to grow and continue to make a significant impact on the Egyptian population problem. This is reflected by steadily increasing revenues and a contribution to CYP which reached 38% of the national total in the past fiscal year. In recent months, the focus on sustainability has resulted in the ongoing development of a marketing plan, exploration of new product potential, and imminent development of a business plan, all of which we consider encouraging indicators for FOF's future prospects.

I look forward to discussing the draft response after you have had a chance to review.

Thank you for your continuing support.

Sincerely Yours,



Galal El Rashidi  
Executive Director

cc: Dr. Carol Carpenter-Yaman, Director, Office of Population  
(Letter only)

Encl.

Draft - December 20, 1990

Family of The Future Response to USAID/Egypt Audit Report

The following is the Family of The Future (FOF) response to the specific findings of the financial and compliance audit conducted early in 1990 under the direction of the USAID Mission to Egypt.

Internal Control Structure (General Comments in Audit Report)

Page 4

In 1985 FOF developed administrative procedures which were approved by the Board of Directors, but not by the Ministry of Social Affairs. Consequently, FOF followed Government of Egypt regulations and procedures. Because of the unique nature of FOF, the BOD is now in the process of developing new regulations specific to the Association. A blueprint is scheduled for completion by Dec. 31, 1990, with approved regulations in place by Jan. 31, 1991. The process includes completion of a draft by the Financial Committee, submission to the BOD for approval, then final approval by MOSA. Since MOSA is included in the development process, timely approval is expected. Areas covered in the new regulations will include monitoring and control mechanisms for finance, administration, procurement, warehouse operations, and personnel (hiring, job descriptions), etc.

Accompanying Notes to Comparative Statement of Revenues and Incurred Costs of FOF

Note 3, Page 10

Egyptian Income Tax

This subject was considered by the Minister of Social Affairs in 1989. It should be noted that in 1986 FOF received a letter from the Egyptian Tax Department which stated that FOF employee salaries are exempt from taxes. On the other hand, FOF could possibly, if the need arises, collect taxes and keep the amounts collected in a separate account. This subject is under study.

Response to Specific Findings and Recommendations

1. Rent of Headquarters Office (Page 11)

The FOF Legal Advisor is taking appropriate action on this issue and will push for collection of the security deposit. FOF will keep USAID informed on progress.

2. Questionable and Unsupported Expenses (Pages 11 and 12)

a. Ultrasound Research Project -- The ultrasound research project is a scientific research project studying the application of ultrasonic waves in the IUD insertion process, a subject of direct concern to FOF. Supervised by medical staff of the Ultrasound Unit at Ain Shams University, the project involves three Cairo-based FOF family planning clinics and includes in its study 10,000 ultrasound scans for 3,000 patients. The project began April 1, 1989 and is scheduled for completion on March 31, 1991. This effort was funded under the Innovative Costs category of the grant. Full details on the project, including a project description and budget which identifies monthly salaries of LE 2,500, are attached as Appendix A.

b. The Gynecology and Maternity Disease Conference in Alexandria -- FOF support of, and participation in, the Conference is directly related to the FOF mission to encourage and enhance medical leadership in the field of family planning. In Egypt, as in the U.S., leading specialists have a great deal of influence with their peers in the selection of contraceptive products. This expenditure was approved by the Finance and Executive Committees of The Board of Directors to support the publication costs of the Conference report. The check has not been paid pending determination by FOF of progress in publishing the report. Committee approvals are attached as Appendix B.

c. Consultants to The Board of Directors -- The FOF Board of Directors formed in 1988 was requested to review the FOF situation, as FOF management had not followed regulations. Accordingly, the Chairman of the Board was delegated to take prompt action to rectify the management situation which, in his view, did not improve under a new FOF director throughout 1989. In view of the circumstances, he decided that it was necessary to review and monitor management practices. These consultants will continue their activities until July 1991 when the terms of the current members of the Board expire. Authorizing documents for employment of the consultants, signed by the Chairman of The Board, are attached as Appendix C.

d. Payment of LE 500 for Miscellaneous Expenses -- This amount was approved by the Board of Directors (document on file) and paid as an advance against miscellaneous expenses at the Ain Shams Ultrasound Center. FOF has requested and will receive documentation of expenditures from the payee.

FOF Audit Response, 12/20 Draft...3

e. Advertising -- These expenditures for what can more accurately be termed as "indirect" advertising, since the ads were basically supportive articles, were paid by the FOF Director in March, 1989. It should be noted that FOF and NPC activities are integrated efforts. In the public opinion area, cooperation with and support from various influential publications are needed, including the opposition press. The ads referred to in the audit report were all related to family planning and FOF efforts. The NPC thus offered an opportunity of positive exposure for the benefit of the FOF project which from time to time has been a target of criticism for no apparent logical reasons. The publications included the Egyptian Medical Journal; El Ahrar, a weekly opposition newspaper; and El Messawar, a weekly magazine. Copies of the vouchers and the ads are attached as Appendix D.

3. Printing Contract with Fouk Co. (Page 13)

This matter was within the jurisdiction and judgement of the FOF Executive Director and was resolved by him. On March 26, 1988, FOF paid LE 3,046.25 for 100,000 Tops packages with 25% deducted from all vouchers as decided by the BOD. Contrary to the audit finding, FOF did not pay back the 25% deducted by the supplier. The letter of apology and explanation from Fouk for missing the delivery deadline (for which an additional penalty is usually invoked) was accepted by the BOD, and is attached as Appendix E to this report. In the future, FOF will endeavor to follow the procurement guidelines of OMB Circular A-110, Attachment E.

4. Purchase of Telephone Center (Page 13)

An inspection team consisting of two engineers from the Telephone Company under the Government of Egypt evaluated the FOF telephone center on November 26, 1990, and reported it as technically sound. FOF has been unable to obtain information on the selection process for installing the center, which was approved by the then Executive Director in 1988. A copy of the inspecting engineers' report is attached as Appendix F.

FOF Audit Response, 12/20 draft...4

Internal Accounting Controls (Pages 18-23)

A.1. Pages 18-20, Sales and Collection Activity

A monthly reporting system for sales and collections has been in effect since November 1, 1988. A credit system took effect in September, 1988 and is attached as Appendix G to this report. The system operates as follows:

- 1) For Physicians -- Cash payment on all transactions.
- 2) For Pharmacists -- Cash up to LE 150, 2% discount on LE 150-400 for cash, and 3% discount over LE 400 for cash, with a two-month grace period on all transactions.

A.2. Page 20, Management Reports for Sales and Related Items

While a monthly sales reporting system has been in effect for the past four years, the system has been expanded to include the items cited, i.e., accounts receivable, post-dated and returned cheques, returned goods, etc. The new system will have a test run from January-March, 1991 and is expected to be fully operative by April, 1991.

A.3. Page 21, Credit and Collection Procedures

The Audit Report has raised a valid point and FOF is now developing a functional description for credit and collection procedures, with completion by February, 1991. In developing these procedures, FOF does not envision the creation of a separate credit and collection department, though it will assign staff for this specific responsibility. This is in view of both cost considerations and, more important, the nature of its business which calls for effective and friendly distributor/pharmacist relationships. Tasking separate staff to go out in the field to follow up with problem customers, now the province of the distributors, would have an adverse effect on these relationships. Currently, distributors collect payments and are instructed to collect only in cash in the case of dishonored cheques or bad payment records. These steps will be formalized and included with other instructions in the new procedures.

FOF Audit Response, 12/20 draft...5

A.4. Page 21, Consistent Price Policies for Doctors and Hospitals

As of November 30, 1990, FOF has set the same price levels on products, principally IUDs, for doctors and hospitals. The current pricing policy for all FOF products is attached as Appendix H to this document. For purposes of clarification, it should be pointed out that distributors sell only to pharmacies (not "and doctors" as stated in the Audit Report), while medical representatives sell to doctors, pharmacies, public hospitals and medical institutions.

A.5. Page 22, Segregation of Distributor Duties

As stated in A.3., FOF is developing credit and collection procedures that will be monitored at the headquarters level. Actual implementation will remain the responsibility of the distributors.

Purchasing and Inventory Activity (Pages 23-30)

1. Page 24. Monthly inventory reports have been in effect since May, 1984 and will be reconciled with accounting records for information provided to management.
2. Page 24. FOF now maintains FIFO procedures for inventory flow but would welcome guidance and clarification from RIG/A on the pricing method aspect.
3. Page 24. Full Value Insurance Coverage.

FOF is in the process of applying full value insurance coverage to inventory and is taking appropriate steps for qualification in consultation with the Industrial Safety Board. These steps include installation of a telephone line, additional lighting, construction of new barriers, 24-hour guard service, etc. This will be presented for review and approval by the BOD Finance Committee early in 1991.

4. Page 25, Consigned Goods Included in Inventory Count

As of January 1st, 1991, FOF will exclude consigned goods from its inventory for accounting purposes.

5. Page 25, Cost Classification

FOF is now following the recommended classification process.

44

**FOF Audit Reponse, 12/20 Draft...6**

**6. Page 25, Expired Depo Provera**

FOF received a cheque and deposited it on November 26th, 1990 for the full amount of the expired Depo Provera injectables. A copy of the cheque is attached as Appendix I to this report.

**7. Page 25, Late Delivery of Gravigard IUDs**

FOF endeavors to follow prudent business practice in its product procurement. While the point raised is a valid one, there were extenuating circumstances in this case and a management decision was made not to penalize the supplier.

**8. Page 26, Warehouse Stock Records**

The FOF warehouse maintains stock records. A copy of the relevant form is attached as Appendix J to this document. Prenumbered tags will be used.

**9. Page 26, Written Instructions for Year-End Inventory Counts**

FOF will review its instruction procedures for taking year-end inventory and will prepare written instructions as appropriate.

**10. Page 26, Overstocking Resulting in Damaged, Expired Products**

A problem in the past, the stocking situation is now under control and appropriate inventory levels are maintained.

**11. Page 27, Consigned Inventory**

The procedure of giving part of the distributors' consigned contraceptives to regional offices was reviewed in December, 1989 and cancelled in February, 1990 as it indeed led to a product shortage for the distributors and to problems with the Financial Department.

**12. Page 27, Consigned Inventory Shortages/Discount Issue**

After review, FOF does not consider this to be a problem area but will monitor to ensure compliance with standard practices.

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FOF Audit Response, 12/20 draft...7

C. Page 27, Vehicle Record Keeping/Unserviceable Vehicles

FOF disposed of 5 vehicles and has contacted AID for approval to dispose of 4 other unserviceable vehicles. FOF is in the process of completing a record system for each vehicle in service.

D. Page 28, Employee Bonding

FOF will evaluate this issue and its impact on self-sufficiency needs.

Compliance with Agreement Terms. Page 33

1. FOF maintains a separate log for self-generated cash. Opening a separate bank account would subject FOF to taxes as a commercial business enterprise.
2. This procedure was recommended by the FOF external accountant and will be discussed with him for changes as appropriate.

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

MAR 27 1991

**TO:** Fred Kalhammer, RIG/A/C

**FROM:** Marshall D. Brown, Mission Director

**SUBJECT:** Draft NFA Report on Family of the Future Association  
under USAID/Egypt's Population/Family Planning Project  
No. 263-0144

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We thank you for the work performed in bringing this audit to a conclusion. In addition to the two recommendations, your cover memo addresses two issues. The first is FoF's noncompliance with the standard provisions of its agreements. On February 20, 1991 we notified FoF of the requirement for separate bank accounts (see attachment A). Although a requirement of the Revenue Agreement, we do not believe that the existence or non-existence of separate bank accounts constitutes a valid scope limitation. As FoF's accounting systems differentiated between the generation and use of restricted and unrestricted funds, Hazem Hassan & Co. could have used other audit procedures to verify the source/origin of products purchased through either. As such, we request that the last sentence of paragraph 3 be deleted. The second issue, the weaknesses in internal controls is a more serious one, and we will take steps to address it as we implement the recommendations.

Recommendation No 1:

We recommend that USAID/Egypt resolve the questioned and unsupported costs listed in the schedule at report Appendix I.

Mission Response:

We are at present unable to comment on this recommendation. The audit report has raised questions, but has not provided us with documentation from which we can readily draw conclusions. Because of the incomplete nature of the report, further review and audit work must be performed by USAID/Cairo. For instance, FoF's comments, have not been taken into account in the audit report. We have reviewed FoF's comments, Appendix II to the draft report, and commenced discussions with FoF on all issues

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raised in the report as well as issues of our own. Based on our initial work, it appears that audit resolution will take time. We assure you, however, we are working towards resolution as quickly as possible, as the issues raised are very serious.

Recommendation No. 2:

We recommend that USAID/Egypt:

2.1 bring AID support for FoF to an expeditious and orderly conclusion, or

2.2 formally notify FoF that, as a condition for continued AID assistance, FoF must provide USAID/Egypt, within 30 days of the end of each calendar quarter, a written report of verifiable actions designed and taken to address the findings and recommendations contained in the following CPA report, until such time as USAID/Egypt notifies FoF that no further quarterly reports are required.

Mission Response:

We have opted to implement recommendation 2.2, and, accordingly notified FoF of this requirement on March 14, 1991. Based on this action, (see attachment B) we request that this recommendation be closed. We will provide you with a copy of the first quarterly report as well as others if requested.

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February 20, 1991

Mr. Galal El Rashidi  
Executive Director  
Family of the Future  
15, El Qods El Sherif Street  
Mohandessin  
Egypt

Dear Mr. Galal:

I am writing to follow up on our two meetings with you and FOF staff on February 5 and 10, 1991 to review the first and second Quarterly Reports of FOF for the 1990/1991 Grant Year (July - September and October - December 1990.)

On those two occasions we had an opportunity to review these reports in light of the attached Issues Paper. Sales achievements remain impressive, against expenditure levels that are way below budget. More analysis of this gap is required. Overall, the Issues Paper points to our general concern that the quarterly reports do not provide for optimum management and monitoring by objectives, both those approved in the Annual Work Plan and those set by FOF management for each subsequent quarter. Such quarterly reporting detail is clearly required by the 1989 Grant Agreement under its section on Technical Reporting (p. 3 of Attachment 1): a comparison of actual accomplishments with the goals established; reasons why established goals were not met; status of finances and expenditures; and analysis of significant variance.

The quarterly report also provides a means for FOF to fulfill its reporting requirements under the Revenue Agreement of January 23, 1984, attached. A special account is required for all revenue generations separate and apart from any other monies received by FOF and from the USAID grant. The records of such a special and separate account should allow you to fulfill on a quarterly basis the requirements of Article 3 with regard to reporting on revenue received, earnings, expenditures, balance, purpose of expenditures, and revenue projections. It is not sufficient to provide only some of these details.

It was agreed at the meetings of February 5 and 10, that the Quarterly Report would be revised in keeping with the above considerations and the attached issues paper. As a first step in this regard, it was agreed that a version II of the Second Quarterly Report, i.e., that for October - December 1990, would be done and submitted to USAID within 30 days, i.e., by March 10, 1991, and that this would serve as a model for preparation of the Third Quarterly Report and those thereafter.

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We look forward to working with you in the further improvement of FOF management systems and tools.

Sincerely yours,



Arthur H. Braunstein  
Population Officer

Clearance: HRDC/P:CCarpenter-Yaman (Draft)  
HRDC/P:TNoury (Draft)  
FM/FA:HPangan (Draft)  
DIR/CS:MNicholas (Draft)  
Drafted: HRDC/P:ABraunstein:CE:2/19/91 (2926H)

## FOF Quarterly Report for July - September, 1990 - Issues

### General Comments:

The structure and content of the Quarterly Reports do not appear to provide for optimum USAID monitoring and FOF management control. They currently appear to represent a compilation of activities of each of the FOF Departments with little ability (a) to track accomplishments by objectives, (b) to review deadlines, and (c) to consider management constraints and proposed solutions. It would therefore be useful to redesign the FOF Quarterly Report to include an overall management summary review of progress and problems. This would be followed by a statement by each department/cost center of (a) the objectives for the quarter from the approved Workplan, (as updated by the planned objectives stated in the previous quarterly report), (b) the degree of accomplishment, and (c) a commentary section with proposed actions for the next quarter. In sum, we should be able to understand what was supposed to be done, what was and was not done, and why.

This should then be correlated against the actual expenditures by quarter explaining expenditure short-falls when compared to budget projections.

### 1. Sales Department:

This section should provide absolute numbers as well as percentages compared to objectives for the quarter and for the year. It should also compare these to the previous quarter and the year earlier quarter.

The objectives with regard to number of sales visits should track with accomplishments so that we can see how many physicians, pharmacists and hospitals were actually visited during the quarter, how many of these visits resulted in actual sales.

It would also be good to have back-up information on each FOF customer as to date of last visit, and date of last sale.

Since expenditures are very low against budget projections and sales are near target, there may be reasons to either increase targets or reduce budget, hopefully the former. The new marketing plan will be dealing with this question and should lead to Workplan revision.

Also, the financial statement should disaggregate Raica Reffeya sales.

### 2. Communication

More information is needed on accomplishments, not just activity, e.g. "reports were printed" and "questionnaire forms were designed", but what was the result/follow-on?

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The research activities do not all track with those planned for the quarter. Report should explain why.

### 3. Scientific Affairs

Again, need better identification of targets and their scheduling, with explanation. Also certain objectives in the Work Plan are not carried forward into the Quarterly Report. Also, such statements from the Department that it "participated in developing..." tell us little about FOF accomplishments.

### 4. Health Education (Raida Rifeyya)

We need more information on how the RR visits and sales track with each other. The average appears to be five visits per week. What percentage were to current users vs new users? What percentage of sales revenue was generated by RR's, by region, by direct sales/by referral? (Note: the report says that some 41,000 Norminest cycles were "distributed" by the RR's.)

### 5. Medical Services

The FOF clinics only generated LE 13,184 during the quarter whereas department expenses were more than three times as high (le 42,377). No case-load targets are provided.

### 6. Information

Need to better formulate objectives here.

### Financial Data

- Schedule 2 should break out RR sales and any bonuses.
- An extra column should be added to Schedule 3 showing Planned Quarterly Budget not just Annual Budget.
- Should consider also abstracting cost of free contraceptives so that we can have a better feel for actual costs verses actual revenue. They look in balance.
- What is basis for high level of Bonus Goods disposed of (Tops - 25%; Norminest - 20%; IUDs - 6%.)?

Drafted:HRDC/P:ABraunstein:CE:2/4/91 (2900H)

*AB.*

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

March 14, 1991

Mr. Galal El Rashidi  
Executive Director  
Family of the Future  
15, El Qods El Sherif Street  
Mohandessin, Egypt

SUBJECT: Grant No. 263-0144-G-00-9056

Dear Mr. El Rashidi:

I am writing concerning the audit report prepared by Hazem Hassan and Co. on the operations of the Family of the Future (FOF). This report indicates that there are major internal control weaknesses with FOF systems. Your preliminary response to this audit, dated December 22, 1990, provides some clarification on a number of points and indicates a willingness to make all the necessary management improvements set down in the audit report. Unless these improvements are made, FOF cannot hope to achieve the agreed project objectives, including the placing of FOF on a viable self-financing basis. If such improvements cannot be achieved on a timely basis, we will not be in a position to continue our financial support to Family of the Future.

We expect to seek with FOF a new, more comprehensive understanding of the mutual responsibilities of our two agencies for the management and approval of all proposed activities under the project. As a first condition for continued A.I.D. support, please provide USAID/Egypt, within 30 days of the end of each calendar quarter, a written report of verifiable actions taken by FOF to address the findings and recommendations contained in the audit report.

The first such written quarterly report on these actions should be submitted to USAID not later than April 30, 1991. We shall be writing to you separately on those items with which you have taken exception in your letter of December 22, 1990. Please let me know if you have any questions.

Sincerely,

Fred Will  
Grant Officer  
Contracts Office

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**RIG/A/C's Evaluation of  
USAID/Egypt's Comments on  
Family of the Future Audit Report**

The Mission's response to the draft audit report of Family of the Future alleges that comments on Recommendation No. 1 are not possible because of insufficient documentation. The initial draft report was issued to the Project Officer in November 1990 and to the Audit Liaison on February 28, 1991. We were not appraised of any alleged documentation deficiencies until March 27, 1991.

The audit of FoF was advanced on our NFA schedule because Mission personnel provided us with several invoices which they believed indicated unallowable charges by FoF. The summary of questioned and unsupported costs in Appendix I lists includes the following invoices which were provided to RIG/A/C by Mission personnel prior to the audit:

1. Questioned contribution to Ob/Gyn diseases conference	LE 2,000
2. Questioned miscellaneous expense	500
3. Questioned advertising expenses	15,900
4. Unsupported advertising expenses	5,000

We believe the Mission's project staff is in possession of supporting documentation and can assist the grant officer to assess the allowability of these costs so that appropriate action can be taken. Likewise, the rental security deposit is readily ascertainable, and can be collected by FoF's management.

Resolving questioned salary costs related to the Ultrasonic Waves Project and to FoF's advisors similarly involves a determination as to allowability, and recovering such amounts as are deemed unallowable. FoF should be able to provide detailed monthly schedules regarding these payments from its accounting records.

Lastly, we have included FoF's final management comments in the audit report as Appendix II for the sake of completeness. However, these are not the first comments provided by FoF, nor do we believe they warrant any changes in the audit report whose cutoff date is **December 31, 1989**.

**APPENDIX V**

**Report Distribution**

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