

Regional Inspector General for Audit  
Cairo, Egypt

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Financial Audit of Local Costs Incurred by Family of  
the Future (FOF) Grant No. 263-0144-G-00-9056-00  
Under USAID/Egypt's Population/Family Planning  
Project for the Period January 1, 1990 to June 30, 1991

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Report No. 6-263-93-10-N  
February 21, 1993



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**INSPECTOR  
GENERAL**

**U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



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

February 21, 1993

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford

FROM : RIG/A/C, Philippe L. Darcy

SUBJECT : Financial Audit of Local Costs Incurred by Family of the Future (FOF) Grant No. 263-0144-G-00-9056-00 Under USAID/Egypt's Population/Family Planning Project for the Period January 1, 1990 to June 30, 1991.

The attached report dated November 30, 1992 by Hazem Hassan & Co. presents the results of a financial audit of Family of the Future (FOF) local costs incurred for Grant No. 263-0144-G-00-9056-00 under USAID/Egypt's Population/Family Planning Project No. 263-0144. FOF is an indigenous private voluntary association which markets high-quality, affordable contraceptives through private channels to assist in fulfilling the national population program goals.

We engaged Hazem Hassan & Co. to perform a financial audit of FOF's locally generated revenue of \$2,710,497 and incurred costs of \$1,203,284 for the period January 1, 1990 to June 30, 1991. The purpose of the audit was to evaluate the propriety of grant revenues and expenses during this period. In performing the audit, Hazem Hassan & Co. evaluated FOF's internal controls and compliance with applicable laws, regulations and grant terms as necessary in forming an opinion regarding the Fund Accountability Statements.

Hazem Hassan & Co. questioned \$20,591 in costs billed to A.I.D by FOF (including \$5,276 of unsupported costs). These questioned costs include sales, administrative, food and beverage expenses and costs lacking adequate supporting documentation. The auditors also noted instances of noncompliance with the agreement terms.

We have reviewed the comments submitted to RIG/A/C by the Mission stating that the grant and revenue funds agreements have been terminated and that the commodities have been transferred from FOF. Based on this information and the Mission's request, we are removing the recommendation to address the noncompliance issues stated in the report since it is no longer applicable (Appendix V).

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11

The report was discussed with FOF officials who expressed general agreement with the auditors findings and conclusions. The comments were considered in the preparation of this report and are presented as Appendix III to the report.

**Recommendation No. 1:** We recommend that USAID/Egypt resolve questioned costs of \$20,591 consisting of ineligible costs of \$15,315 and unsupported costs of \$5,276 as detailed on pages 38 through 40 of this report.

This recommendation 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 costs, Recommendation No. 1 is considered unresolved. This recommendation can be resolved when we receive the Mission's formal determination as to the amounts sustained or not sustained and can be closed when any amounts determined to be owed to A.I.D. are paid by FOF.

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.

**KPMG** Hazem Hassan & Co.

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**FINANCIAL AUDIT**  
**OF COSTS INCURRED BY**  
**FAMILY OF THE FUTURE PROJECT (FOF)**  
**GRANT NO. 263-0144-G-00-9056-00 UNDER**  
**USAID/EGYPT'S POPULATION/FAMILY PLANNING**  
**PROJECT NO. 263-0144**

**NOVEMBER 1992**

**FINANCIAL AUDIT**  
**OF COSTS INCURRED BY**  
**FAMILY OF THE FUTURE PROJECT (FOF)**  
**GRANT NO. 263-0144-G-00-9056-00 UNDER**  
**USAID/EGYPT'S POPULATION/FAMILY PLANNING**  
**PROJECT NO. 263-0144**

**Table of Contents**

	<b><u>Page</u></b>
<b><u>Summary</u></b>	
Background Information	1
Audit Objectives and Scope	2
Results of Audit	5
Brief Summary of Management Comments	6
<b><u>Fund Accountability Statement</u></b>	
Independent Auditor's Report	7
The Fund Accountability Statement	10
Details of Questioned Costs	16
<b><u>Internal Control Structure</u></b>	
Independent Auditor's Report	19
<b><u>Compliance with Grant and Revenue</u></b> <b><u>Agreements, and Applicable Laws</u></b> <b><u>and Regulations</u></b>	
Independent Auditor's Report	23
Findings and Recommendations	26
<b><u>Other required disclosures</u></b>	
Follow-up of prior audit findings and Recommendations	30
Subsequent events	31
<b><u>Appendices</u></b>	
I Supplementary Fund Accountability Statements	33
II Schedules of questioned and unsupported costs	38
III Management's comments	
IV Auditor's comments	

**SUMMARY**

# **KPMG** Hazem Hassan & Co.

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**Mr. Philippe L. Darcy**  
**Regional Inspector General for Audit**  
**United States Agency for**  
**International Development**  
**Mission to Egypt**  
**Cairo, Egypt**

Dear Mr. Darcy,

On May 25, 1992 we contracted with your office to perform a financial audit of costs incurred by the Family of the Future project, henceforth referred to as FOF, Grant No. 263-0144-G-00-9056-00 under USAID/Egypt's Population/Family Planning Project No. 263-0144 for the period January 1, 1990 to June 30, 1991.

## **Background**

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 the Egyptian Law No. 32 of 1964.

In 1980, FOF began to receive support from USAID/Egypt. FOF has been awarded a grant from USAID/Egypt for the period June 1, 1988 to May 31, 1993. The original grant amount was LE 21,174,976 and \$ 132,885. The grant was modified on December 26, 1991. This modification amended the grant amount to become LE 7,720,694 and \$ 123.

USAID provides FOF this 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 was to market high-quality, affordable contraceptives through private channels which assist in fulfilling national population program goals. FOF has set the following goals 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's operation and services in rural areas, to strengthen FOF's management structure, and to achieve financial self-sufficiency by 1993.

On January 23, 1984 a revenue agreement between USAID/Egypt and FOF was signed. The purpose of the revenue agreement is to cover the disposition and procedures for the use and expenditure of all revenues generated from the sales of contraceptives donated by the USAID/Egypt to FOF.

### Audit Objectives and Scope

We performed a financial audit to report on the Fund Accountability Statement of costs incurred by FOF. Accordingly, our audit included an examination of the grant revenues and expenses, compliance with grant terms and a review of the internal control structure. The objectives of this audit were to:

1. Express an opinion on whether FOF's Fund Accountability Statement, translated to US dollars, for the period January 1, 1990 through June 30, 1991 presents fairly, in all material respects, project revenues and costs incurred and reimbursed under the grant in conformity with generally accepted accounting principles or another comprehensive basis of accounting. The Fund Accountability Statement does not

include the cost of USAID direct procurement of vehicles, equipment, contraceptives and technical assistance provided by USAID/Egypt directly to FOF.

2. Determine if the costs reported as incurred under the grant are in fact allowable, allocable, and reasonable in accordance with the terms of the grant and OMB Circular A-122.
3. Evaluate and obtain a sufficient understanding of the internal control structure of FOF's organization, assess control risk, and identify reportable conditions, including material internal control weaknesses.
4. Perform tests to determine whether FOF complied, in all material respects, with the grant terms and applicable laws and regulations and express positive assurance on those items tested and negative assurance on those items not tested.
5. Perform a reconciliation and explain all variances between the schedule of FOF purchases of \$ 1,000 and over from June 1, 1988 to December 31, 1990 submitted by FOF to USAID/Egypt, and FOF's records.

The audit was conducted 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. The audit included selective examination and testing of supporting documents for selected revenues and costs charged to the grant.

Total revenue for the audited period is \$ 2,710,497 while total cost billed to and reimbursed by USAID is \$ 1,203,284. We audited \$ 1,263,250 out of total revenue and \$ 559,318 out of total cost.

Our selection of revenues and expenses to be tested was made on a judgemental basis. Our selection was structured to test the prescribed internal control procedures and the validity of the transactions. We tested 18% of total sales and collection transactions including the validity of sales invoices, and returned cheques. We tested 100% of interest income and the cash grant. We tested 100% of contraceptive shipments received. Our test of operating expenses represented 53% of total operating expenses and the payroll test covered 37% of total payroll cost. We performed a reconciliation between the schedule of FOF purchases of \$ 1,000 and over from June 1, 1988 to December 31, 1990 submitted by FOF to USAID/Egypt, and FOF's records. Additionally, we conducted substantive audit tests on procurement procedures, and on physical counts of project assets. We held several meetings with FOF's management and key personnel.

Our audit steps and procedures were designed so as to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the Fund Accountability Statement amounts or the results of this financial audit.

Our review and evaluation of the internal control system, and of compliance with the grant and revenue agreements, USAID regulations and applicable laws included interviews with FOF's management and key personnel, completion of an internal control environment questionnaire, and procedures designed to ascertain if the accounting system and control procedures established by FOF's management are sufficient for its needs and meet the principle of sound practice, and whether those procedures have been placed in operation.

The management reporting system, budgets and reports to USAID were reviewed in accordance with the grant provisions.

## Results of Audit

### Fund Accountability Statement

We found ineligible and unsupported sales, communication, administrative and financial affairs costs. Aggregation of the questioned costs does not cause the Fund Accountability Statement to be materially misstated.

### Ineligible and Unsupported Costs

Our findings include \$ 15,315 (L.E 44,413) of ineligible costs and \$ 5,276 (LE 15,300) of unsupported costs. Appendix II includes details of ineligible and unsupported costs.

### Internal Control Structure

We noted certain matters that have been reported to FOF's management in a separate letter dated November 30, 1992. None of the matters noted which involve the internal control structure and its operation are considered to be material weaknesses.

### Compliance with Grant and Revenue Agreements Terms, and Applicable laws and Regulations

We found that interest earned on the revenue account was added to "other revenue" rather than to the USAID/Egypt revenue account, and no separate bank account for USAID/Egypt revenue was maintained as required by the Revenue Agreement. In addition, we were unable to ensure that FOF complied with the terms of the grant agreement which specifies that the cash reserve should not exceed six months cash requirements. Furthermore, we noted instances of noncompliance with labor and income tax laws in Egypt.

### Follow-up of Prior Audit

We followed-up the status of prior audit findings and recommendations and noted that FOF has implemented most of the prior recommendations. The current status of unimplemented recommendations is fully described in the "Status of Prior Audit Findings and Recommendations" section of this report.

Subsequent Events

On December 26, 1991 USAID/Egypt and FOF signed modification No. 2 to the grant agreement. The purpose of this modification was to terminate the grant agreement in its entirety as of December 31, 1991 and de-obligate all funds remaining in the grant as of the completion date.

On December 31, 1991 USAID/Egypt and FOF signed a new revenue agreement which re-regulated the disposition and procedures for the disbursement of all revenues generated from the sale of contraceptives donated by USAID/Egypt to FOF.

On May 28, 1992 the Ministry of Social Affairs in Egypt issued a ministerial decree to merge FOF with the Egyptian Society of Family Planning Services. Thereby, FOF no longer exists as a separate legal entity.

Management Comments

Family of Future management comments have been obtained and are included in Appendix III of this report. This response did not change our understanding of the facts underlying the questioned costs on the Fund Accountability Statements except for the financial affairs. We subsequently reviewed the response and supporting documentation related to the financial affairs (\$2,343 in ineligible costs) and agree with the auditee that these costs are allowable, allocable and reasonable with regards to the Family of the Future project. Therefore, these costs have been removed from the final report.

Hazem Hassan & Co.

*Said Hashem*

Cairo, Egypt

January 3, 1993

**FUND ACCOUNTABILITY STATEMENT**



# Hazem Hassan & Co.

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## Independent Auditor's Report

Mr. Philippe L. Darcy  
Regional Inspector General for Audit  
United States Agency for  
International Development  
Mission to Egypt  
Cairo, Egypt.

We have audited the accompanying consolidated Fund Accountability Statement of revenues and costs incurred and reimbursed, translated to US Dollars, of the Family of the Future project (FOF), grant No. 263-0144-G-00-9056-00 under USAID/Egypt's Population/Family Planning Project No. 263-0144 for the period January 1, 1990 to June 30, 1991. The Fund Accountability Statement is the responsibility of FOF's management. Our responsibility is to express an opinion on this financial statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (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 Fund Accountability Statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Fund Accountability Statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall presentation of the Fund Accountability Statement. We believe that our audit provides a reasonable basis for our opinion.

Within the last two years we have met the 80 hours of Continuing Professional Education (CPE) requirement, and have attended 14 of the 24 hours of US Government related courses. We did not have an external quality control review by an unaffiliated audit organization, as required by Paragraph 46 of Chapter 3 of Government Auditing Standards (1988 Revision), since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards (1988 Revision), is not material because we participate in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

As described in Note 2, the accompanying Fund Accountability Statement was prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

The Fund Accountability Statement referred to above, presents costs incurred and reimbursed only, and does not include the cost of USAID/Egypt direct procurement of vehicles, equipment, contraceptives and technical assistance provided by USAID/Egypt directly to FOF or total revenues of and costs incurred by FOF on an organization-wide basis.

In our opinion, the Fund Accountability Statement of revenues and costs incurred and reimbursed, referred to above, presents fairly, in all material respects, revenues and costs incurred and reimbursed, translated to US Dollars, of the Family of the Future project (FOF), grant No. 263-0144-G-00-9056-00 under USAID/Egypt's Population/Family Planning Project No. 263-0144 for the period January 1, 1990 to June 30, 1991, on the basis of accounting described in Note 2.

As discussed in Note 8, the Ministry of Social Affairs has issued a decree to merge FOF with the Egyptian Society of Family Planning Services.

Our audits were conducted for the purpose of forming an opinion on the consolidated Fund Accountability Statement, translated to US dollars, for the period January 1, 1990 to June 30, 1991. The other Fund Accountability Statements included in Appendix I are presented for the purpose of additional analysis.

Hazem Hassan & Co.

*Said Hashem*

Cairo , Egypt

November 30, 1992

Family of the Future Project  
Fund Accountability Statement  
Grant No. 263-0144-G-00-9056-00  
Under USAID/Egypt's Population/Family Planning  
Project No. 263-0144  
For the Period January 1, 1990 to June 30, 1991

Revenue

	<u>\$</u>
- Cash Grant	1,283,182
- Sales Proceeds	1,323,166
- Interest Income	104,149
	<hr/>
Total Revenue	2,710,497
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<u>Costs</u>	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Schedule</u>
	<u>\$</u>	<u>\$</u>	<u>Cost</u>	<u>Cost</u>	<u>No</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	
- Sales Affairs	431,076	160,097	1,877		(1)
- Communication Affairs	473,658	87,383	4,618	5,276	(2)
- Scientific Affairs	202,882	25,253			
- Health Education Affairs	792,746	385,547			
- Administrative Affairs	813,619	321,587	8,820		(3)
- Medical Services Affairs	163,588	46,015			
- Information Affairs	75,374	25,489			
- Financial Affairs	454,964	126,257			
- Innovation Cost	215,517	9,574			
- Physicians Cost	27,241	16,082			
	<hr/>	<hr/>	<hr/>	<hr/>	
Total Costs	3,650,665	1,203,284	15,315	5,276	
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\* The accompanying footnotes are an integral part of the Fund Accountability Statement.

**Note 1: Background and Description of the agreements**

FOF is a voluntary association with the objective of promoting family planning services in Egypt. FOF was established under provision of the Law No.32 for 1964 and commenced its activities in December 1980 in Greater Cairo, and later expanded to cover the East and West Delta and Upper Egypt. Its principal sources of revenue arise from a cost sharing grant provided by the USAID/Egypt dated April 30, 1988. Apart from the sales proceeds of contraceptives which are donated by USAID/Egypt according to the revenue agreement of January 23, 1984, FOF generates revenue from the sale of commodities not donated by USAID/Egypt, as well as from other FOF activities, including clinics revenues.

In January 1984, USAID/Egypt and FOF signed a revenue agreement. The agreement established procedures for the use of all revenue generated from sales of in-kind donation (contraceptives) granted by USAID/Egypt.

On April 30, 1988 USAID approved estimates of USAID's share of FOF's five year program as LE 21,174,976 and \$ 132,885 of which LE 6,322,980 and \$ 80,750 was obligated. The purpose of this grant is to provide financial assistance and technical support to FOF and its program of activities, including financial self-sufficiency within five years. The grant agreement divided the cost of such a program between FOF and USAID/Egypt as 49% and 51% respectively. The FOF share of 49% should be made up by non-federal funds.

On December 26, 1991 the grant agreement was modified and the total estimated amount became LE 7,720,694 and \$ 123.

**Note 2: Accounting Basis**

The Fund Accountability Statement of FOF is prepared on the basis of cash receipts and disbursements. Consequently, costs are recognized when paid rather than when the obligation is incurred and revenues are recognized when received rather than when earned. The accounting basis of cash receipts and disbursements is a comprehensive basis of accounting other than generally accepted accounting principles. Additionally, the amounts in the Fund Accountability Statement present USAID/Egypt's funded program only and do not present total revenues and costs incurred by FOF on an organization-wide basis.

**Note 3: Reporting Currency**

FOF maintains its books and accounts in Egyptian pounds (LE) as a functional currency. The functional currency was translated into US Dollars (\$) as the reporting currency. The period average exchange rate method was used to translate the Fund Accountability Statement. The exchange rate is \$ 1 = LE 2.90.

**Note 4: Cash Grant**

The cash grant represents costs paid by FOF and reimbursed by USAID/Egypt. The reimbursements are based on vouchers submitted to USAID/Egypt on a monthly basis.

**Note 5: Sales Proceeds**

This amount represents sales proceeds of USAID/Egypt donated contraceptives.

**Note 6: Interest income**

Interest income represents interest earned and received on an interest bearing bank account entitled "USAID revenue account".

**Note 7: Costs Classification**

Costs include the following categories which correspond with FOF's departmental organization:

1. Sales affairs: sales activities are conducted by medical representatives and sales distributors who, through the use of promotional materials and samples, sell contraceptives directly to doctors in their private practices, hospitals or clinics.
2. Communication affairs: the responsibility of this department is to manage and continue to develop the existing Management Information System.
3. Scientific affairs: scientific activities include conferences and training for physicians, publications and educational booklets.
4. Health education affairs: the health education department collects, maintains, and disseminates all scientific and product information relevant to the work and objectives of FOF.
5. Administrative affairs: the administrative department oversees six major administrative functions: personnel, vehicle maintenance, purchasing, warehousing, customs clearance and general administration.

6. **Medical services affairs:** the medical services department is responsible for the oversight and management of FOF clinics; co-operation with other agencies to operate non-FOF clinics; management of the religious centre program, and the provision of contraceptives, medical supplies, and educational material to these clinics.
7. **Information affairs:** The information affairs cost is mainly represented by publications and educational materials.
8. **Financial affairs:** this department provides the financial planning, accounting, budgeting, operational and control functions for FOF.
9. **Innovation and Physicians Costs:** these mainly represent bonuses paid to physicians who have visited patients in the field.

**Note 8: Subsequent events**

On May 28, 1992, the Egyptian Minister of Social Affairs issued ministerial decree No.48. which merged FOF with the Egyptian Society of Family Planning Services. Thereby, FOF no longer exists as a separate legal entity.

**Note 9: Ineligible and Unsupported Costs**

Ineligible and unsupported costs consist of audit findings proposed on the basis of the terms of the grant, and the accounting principles described in note No. 2. The findings are detailed in the findings section of this report.

**Note 10: Basis of Presentation**

The first two columns of the Fund Accountability Statement are the representation of FOF's management and are the responsibility of the said management. The last two columns represent the audit results and are included in the Fund Accountability Statement for presentation purposes only.

Details of Questioned Costs

I. The allowability of certain sales costs is questionable

1. FOF billed and reimbursed by USAID/Egypt the costs of periodic meetings. As a result of miscalculation the reimbursed amount exceeded the amount recorded in FOF's books by \$ 1,716.

We question the allowability of this cost because it resulted an excess billing to USAID/Egypt.

2. FOF charged USAID/Egypt an amount of \$ 161 for tips.

Tips are unallowable under OMB Circular No.A-122, Attachment B paragraph 12 which states that the "cost of social activities and gratuities are unallowable". We question the \$ 161 as a violation of the above clause.

II. The allowability of certain communications costs is questionable

1. Our audit identified \$ 282 of advertising material costs which was reimbursed from USAID/Egypt twice. We also identified \$ 556 which was reimbursed from USAID/Egypt although this was represented by a voided payment voucher.

We question the allowability of this cost because it resulted an excess billing to USAID/Egypt.

2. Our audit revealed that FOF was reimbursed by USAID an amount of \$ 856 representing the cost of a party held for a USAID/Egypt official, and gifts to FOF employees on Mother's Day. We also noted that FOF was reimbursed by USAID/Egypt an amount of \$ 2,924 representing gratuities paid to directors in the Television Broadcasting Corporation.

OMB Circular No. A-122, Attachment B paragraph 12, states that "costs of social activities and gratuities are unallowable". We question \$ 856 of social activities costs and \$ 2,924 of gratuities as these amounts were reimbursed in violation of OMB Circular No. A-122.

### III. The allowability of certain administrative costs is questionable

We noted that FOF collected subscriptions from its employees to allow them use FOF's vehicles. In FOF's books the vehicles maintenance expenses were reduced by the subscriptions.

FOF was reimbursed the total maintenance expenses without netting off the subscriptions. FOF did not remit to the USAID/Egypt its share of the subscriptions.

OMB Circular No. A-122, Attachment A paragraph A.5. states that "applicable credits related to allowable cost shall be credited to the USAID either as a cost reduction or cash refund as appropriate". Subscriptions are considered to be credits to the allowable cost of vehicles maintenance, therefore, we question \$ 8,820 representing the USAID share of the vehicles subscriptions.

IV. Documents supporting Advertising Expenses are inadequate

FOF paid \$ 5,276 to an advertising company for the production of three films on FOF's products. No quotations from other suppliers were available for audit or to support the conclusion that this advertising company submitted the best offer.

Attachment 3 of the grant agreement page 12 clause 5.0 paragraph A (2) states that "all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition". In addition to noncompliance with the grant agreement, we question this cost because of inadequate supporting documents.

**INTERNAL CONTROL STRUCTURE**



# Hazem Hassan & Co.

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## Independent Auditor's Report

Mr. Philippe L. Darcy  
Regional Inspector General For Audit  
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Cairo, Egypt.

We have audited the accompanying consolidated Fund Accountability Statement of revenues and costs incurred and reimbursed, translated to US Dollars, of the Family of the Future project (FOF) grant No. 263-0144-G-00-9056-00 under USAID/Egypt's Population/Family Planning Project No. 263-0144 for the period January 1, 1990 to June 30, 1991, and have issued our report thereon dated November 30, 1992.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards (1988 Revision) issued by the Comptroller General of the United States.

Within the last two years we have met the 80 hours of Continuing Professional Education (CPE) requirement, and have attended 14 of the 24 hours of US Government related courses. We did not have an external quality control review by an unaffiliated audit organization, as required by Paragraph 46 of Chapter 3 of Government Auditing Standards (1988 Revision), since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards (1988 Revision), is not material because we participate in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

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

The management of FOF is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of a Fund Accountability Statement in accordance with the cash basis of accounting.

Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject

to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

- Financial accounting system;
- Sales, receivables and collections;
- Cash and banks;
- Equipment;
- Procurement and inventory;
- Wages and salaries; and
- Operating expenses.

For all of the control categories listed above, we obtained an understanding of the design of relevant policies and procedures, whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a 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 Fund Accountability Statement being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

~~XXXX~~ Hazem Hassan & Co.

However, we noted certain immaterial weaknesses involving the internal control structure and its operation, that we have reported to FOF's board of directors in a separate letter dated November 30, 1992

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

Hazem Hassan & Co.

*Said Hashem*

Cairo, Egypt

November 30, 1992

**COMPLIANCE WITH GRANT AND REVENUE  
AGREEMENTS, AND APPLICABLE LAWS AND  
REGULATIONS**



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## Independent Auditor's Report

Mr. Philippe L. Darcy  
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Mission to Egypt  
Cairo, Egypt

We have audited the accompanying consolidated Fund Accountability Statement of revenues and costs incurred and reimbursed, translated to US Dollars, of the Family of the Future project (FOF) grant No. 263-0144-G-00-9056-00 under USAID/Egypt's Population/Family Planning Project No. 263-0144 for the period January 1, 1990 to June 30, 1991 and have issued our report thereon dated November 30, 1992.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in the 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 Fund Accountability Statement of FOF is free of material misstatement.

Compliance with laws, regulations, contracts, grants and binding policies and procedures applicable to FOF is the responsibility of FOF management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of FOF's compliance with certain provisions of laws, regulations, contracts, grants, and binding policies and procedures. However, our objective was not to provide an opinion on compliance with such provisions.

Within the last two years we have met the 80 hours of Continuing Professional Education (CPE) requirement, and have attended 14 of the 24 hours of US Government related courses. We did not have an external quality control review by an unaffiliated audit organization, as required by Paragraph 46 of Chapter 3 of Government Auditing Standards (1988 Revision), since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards (1988 Revision), is not material because we participate in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

Material instances of noncompliance are violations of laws, regulations, contracts, grants or binding policies and procedures that cause us to conclude that the aggregation of misstatements resulting from those violations, is material to the Fund Accountability Statement. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which have been corrected in FOF's Fund Accountability Statement for the period ended June 30, 1991.

The material instances of FOF's noncompliance are with the revenue and grant agreements: FOF did not maintain a separate revenue account and did not credit interest earned to an USAID revenue account. We also noted instances of noncompliance with the Labor and Income Tax laws in Egypt.

We considered these material instances of noncompliance in forming our opinion on whether FOF's Fund Accountability Statement is presented fairly, in all material respects, in conformity with the cash basis of accounting. This report does not affect our report dated November 30, 1992 on the Fund Accountability Statement.

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

Except as described above, the results of our tests of compliance indicate that with respect to the items tested, FOF complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that FOF had 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.

*Said Hashem*

Cairo, Egypt

November 30, 1992

**Findings and Recommendations**

1. **Noncompliance with Egyptian Labor and Income Tax Laws**

1. FOF has not withheld income taxes from its employees or from consultants to the board of directors. This is a violation of part 3 chapter 2 Article No 57 of Income Tax Law No 157 of 1981.
2. FOF has not paid to the Social Insurance Organization the required contribution for four of its employees, and also has not accurately calculated the variable portion of the Social Insurance contribution for all employees according to Law No. 54 of 1975 and Law No. 64 of 1980.
3. Some personnel files lack documents required by the Egyptian Labor Law.

Noncompliance with Income Tax and Labor Laws may result in a contingent liability, and may affect the fair presentation of the Fund Accountability Statement.

**Recommendation**

We recommend that FOF take the necessary corrective action in order to comply with the Social Insurance Law and solve the current dispute with the Tax Department over the appropriateness of income tax deductions at source.

2. FOF failed to segregate USAID from non-USAID funds

During the audited period FOF maintained an interest bearing bank account entitled "revenue account" in its books. This account however, was not limited to USAID funds, but also it was commingled with FOF own funds. This account was credited with all revenues, i.e, cash from sales of USAID and local contraceptives, reimbursed costs, earned interest, and other non-USAID revenues.

The revenue agreement article 2.3. states that "The revenue fund account shall be maintained separate and distinct from all other FOF financial accounts".

Effect of noncompliance with the revenue and grant agreements

As a result of noncompliance with the revenue agreement article 2.3 the revenue account balance did not only represent USAID funds, but also included other FOF revenues. Also, due to noncompliance with the grant agreement attachment one article I which states "FOF shall expend from non-federal funds an amount of at least equal to 49% of the total program expenditures". FOF was unable to report the cash balance attributable to the USAID fund and to assert that it financed its cost share from non-federal funds.

Since FOF did not report the cash balance attributable to USAID funds, we were unable to ascertain whether FOF complied with the grant agreement article 7 which states that "FOF shall maintain not more than the equivalent of six months of Egyptian pounds in the revenue account".

As mentioned in the "Subsequent Events" section of this report, FOF hired a consultant to determine the cash balance attributable to USAID and to design the appropriate financial system for handling the sales proceeds of USAID donated contraceptives in order to comply with the terms of the revenue agreement. However, the new financial system has not been fully implemented because of insufficient funds in FOF's bank account.

### Recommendation

We recommend that FOF comply with the revenue and grant agreement and maintain a revenue account of USAID funds separate from that holding (FOF) non-USAID funds.

### 3. Noncompliance with the revenue and grant agreements

3.1 It was noted that in the quarterly reports sent to the USAID, FOF did not distinguish between cash proceeds from sales of USAID donated contraceptives and from sales of local contraceptives.

Article 3 of the Revenue Agreement states that "FOF shall report to USAID cumulative revenue associated with AID funding, quarterly revenue earnings and expenditures during the quarter".

3.2 We also noted that in the quarterly reports FOF reported interest income earned on the revenue account as 'other income', not 'USAID income'.

Article 3 of the Mandatory Standard Provisions attached to the agreement paragraph (a) states that "The grantee shall remit to AID all interest earned on funds provided by AID".

As a result of noncompliance with the aforementioned articles, the quarterly reports did not accurately reflect the revenue associated with AID funding.

Recommendation

We recommend that FOF comply with the revenue and grant agreements and that the quarterly reports reflect accurately the amounts associated with USAID funding.

**OTHER REQUIRED DISCLOSURES**

**FOLLOW-UP OF PRIOR AUDIT  
FINDINGS AND RECOMMENDATIONS**

We conducted a financial audit of FOF for the years 1989 and 1990 and issued our report on March 31, 1990. The report included 19 findings and recommendations relating to deficiencies in FOF's accounting system, sales and products distribution, inventory and purchases, vehicles use and employee bonding. Instances of noncompliance with revenue and grant agreements were also identified.

As part of our current audit of FOF's Fund Accountability Statement, we have followed-up managements's action taken on those findings and recommendations. The purpose of the follow-up is to determine whether findings and recommendations from prior audits have an effect on the current audit objectives, and to determine whether prompt and appropriate corrective actions have been taken by FOF's management.

FOF's management has taken, in general, the appropriate corrective action on prior audit findings and recommendations, except in relation to the following findings which remain unresolved:

1. We previously recommended that FOF credit the USAID revenue account with interest income earned on the revenue account rather than report this as "other income".
2. We previously recommended that FOF maintain a separate interest bearing bank account for USAID funds only.

These two instances of noncompliance with the grant and revenue agreements are described in detail in the "Compliance with grant and revenue agreements" section of this report.

**SUBSEQUENT EVENTS**

1. On December 26, 1991 USAID/Egypt and FOF signed modification No.2 to the grant agreement. The purpose of this modification is to terminate the grant agreement in its entirety as of December 31, 1991 and de-obligate all funds remaining in the grant as of the completion date. Thereby, the total amount of the grant and total amount obligated in support of the grant were modified to LE 7,720,694 and \$ 123. The modification stated that FOF would continue to receive USAID/Egypt support for its Contraceptive Social Marketing Program (CSMP) in the form of commodity donations.
  
2. On December 31, 1991 USAID/Egypt and FOF signed a new revenue agreement. This new revenue agreement re-regulates the disposition, and procedures for the use and expenditure, of all revenues generated from the sales of contraceptives donated by USAID/Egypt to FOF. According to the new revenue agreement the AID cost-sharing ratios shall be computed quarterly based on USAID commodity revenues divided by total revenue.
  
3. FOF engaged with a consulting firm to restructure the accounting and the internal control system, and to design policies and procedures manuals. In 1992 FOF implemented the new accounting and internal control system, and adhered to the policies and procedures manuals.

FOF also hired a consultant to design a financial system for handling the sales proceeds of USAID donated contraceptives in order to comply with the terms of the new revenue agreement. The new financial system for handling USAID sales proceeds however, has not been fully implemented, because of insufficient funds in FOF bank account. The

consultant has determined LE 4,772,749 for FOF's AID-donated revenue fund balance as of December 31, 1991 while FOF deposited LE 4,000,000 on September 21, 1992.

4. On May 28, 1992 the Egyptian Minister of Social Affairs issued a ministerial decree No.48, which merged FOF with the Egyptian Society of Family Planning Services. Thereby, FOF no longer exists as a separate legal entity.

**APPENDIX I**

**SUPPLEMENTARY FUND ACCOUNTABILITY**  
**STATEMENTS**

Family of the Future Project  
Supplementary Fund Accountability Statement  
Grant No. 263-0144-G-00-9056-00  
Under USAID/Egypt's Population/Family Planning  
Project No. 263-0144  
For the Period January 1, 1990 to June 30, 1990

Revenue

	<u>\$</u>
- Cash Grant	676,191
- Sales Proceeds	408,082
- Interest Income	32,739
	<hr/>
Total Revenue	1,117,012
	*****

<u>Costs</u>	<u>Budget</u>	<u>Actual</u>	<u>Unsupported</u>	<u>Schedule</u>
	<u>\$</u>	<u>\$</u>	<u>cost</u>	<u>No.</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	
- Sales Affairs	109,661	42,267		
- Communication Affairs	151,728	34,523	5,276	(2)
- Scientific Affairs	64,982	5,868		
- Health Education Affairs	210,709	102,499		
- Administrative Affairs	258,537	72,481		
- Medical Services Affairs	54,513	11,782		
- Information Affairs	23,202	9,394		
- Financial Affairs	153,599	33,650		
- Innovation Cost	77,586	4,996		
- Physicians Cost	27,241	16,082		
	<hr/>	<hr/>	<hr/>	
Total Costs	1,131,758	333,542	5,276	
	*****	*****	*****	

Family of the Future Project  
Supplementary Fund Accountability Statement  
Grant No. 263-0144-G-00-9056-00  
Under USAID/Egypt's Population/Family Planning  
Project No. 263-0144  
For the Period July 1, 1990 to June 30, 1991

Revenue

	<u>\$</u>
- Cash Grant	606,991
- Sales Proceeds	915,084
- Interest Income	71,410
	1,593,485
	-----
<b>Total Revenue</b>	<b>1,593,485</b>

<u>Costs</u>	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Schedule</u>
	<u>\$</u>	<u>\$</u>	<u>Cost</u>	<u>No.</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	
- Sales Affairs	321,415	117,830	1,877	(1)
- Communication Affairs	321,930	52,860	4,618	(2)
- Scientific Affairs	137,900	19,385		
- Health Education Affairs	582,037	283,048		
- Administrative Affairs	555,082	249,106	8,820	(3)
- Medical Services Affairs	109,075	34,233		
- Information Affairs	52,172	16,095		
- Financial Affairs	301,365	92,607		
- Innovation Cost	137,931	4,578		
	2,518,907	869,742	15,315	
	-----	-----	-----	
<b>Total Costs</b>	<b>2,518,907</b>	<b>869,742</b>	<b>15,315</b>	

44

Family of the Future Project  
Supplementary Fund Accountability Statement  
Grant No. 263-0144-G-00-9056-00  
Under USAID/Egypt's Population/Family Planning  
Project No. 263-0144  
For the Period January 1, 1990 to June 30, 1991

Revenue

	<u>LE</u>
- Cash Grant	3,721,228
- Sales Proceeds	3,837,182
- Interest Income	302,033
	-----
Total Revenue	7,860,443
	=====

<u>Costs</u>	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Schedule</u>
	<u>LE</u>	<u>LE</u>	<u>Cost</u>	<u>Cost</u>	<u>No</u>
	<u>LE</u>	<u>LE</u>	<u>LE</u>	<u>LE</u>	
- Sales Affairs	1,250,122	464,283	5,442		(1)
- Communication Affairs	1,373,609	253,410	13,393	15,300	(2)
- Scientific Affairs	588,358	73,234			
- Health Education Affairs	2,298,961	1,118,085			
- Administrative Affairs	2,359,495	932,601	25,578		(3)
- Medical Services Affairs	474,406	133,443			
- Information Affairs	218,584	73,919			
- Financial Affairs	1,319,394	366,146			
- Innovation Cost	625,000	27,765			
- Physicians Cost	79,000	46,639			
	-----	-----	-----	-----	
Total Costs	10,586,929	3,489,525	44,413	15,300	
	=====	=====	=====	=====	

45

Family of the Future Project  
Supplementary Fund Accountability Statement  
Grant No. 263-0144-G-00-9056-00  
Under USAID/Egypt's Population/Family Planning  
Project No. 263-0144  
For the Period January 1, 1990 to June 30, 1990

Revenue

	<u>LE</u>
- Cash Grant	1,960,953
- Sales Proceeds	1,183,438
- Interest Income	94,944
	3,239,335
	*****
<b>Total Revenue</b>	<b>3,239,335</b>

<u>Costs</u>	<u>Budget</u>	<u>Actual</u>	<u>Unsupported</u>	<u>Schedule</u>
	<u>LE</u>	<u>LE</u>	<u>cost</u>	<u>No.</u>
	<u>LE</u>	<u>LE</u>	<u>LE</u>	
- Sales Affairs	318,017	122,575		
- Communication Affairs	440,011	100,116	15,300	(2)
- Scientific Affairs	188,447	17,018		
- Health Education Affairs	611,056	297,246		
- Administrative Affairs	749,758	210,194		
- Medical Services Affairs	158,088	34,168		
- Information Affairs	67,284	27,244		
- Financial Affairs	445,437	97,586		
- Innovation Cost	225,000	14,487		
- Physicians Cost	79,000	46,639		
	3,282,098	967,273	15,300	
	*****	*****	*****	
<b>Total Costs</b>	<b>3,282,098</b>	<b>967,273</b>	<b>15,300</b>	

2/6

Family of the Future Project  
Supplementary Fund Accountability Statement  
Grant No. 263-0144-G-00-9056-00  
Under USAID/Egypt's Population/Family Planning  
Project No. 263-0144  
For the Period July 1, 1990 to June 30, 1991

Revenue

	<u>LE</u>
- Cash Grant	1,760,275
- Sales Proceeds	2,653,744
- Interest Income	207,089
	<hr/>
Total Revenue	4,621,108
	*****

<u>Costs</u>	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Schedule</u>
	<u>LE</u>	<u>LE</u>	<u>Cost</u>	<u>No.</u>
	<u>LE</u>	<u>LE</u>	<u>LE</u>	
- Sales Affairs	932,105	341,708	5,442	(1)
- Communication Affairs	933,598	153,294	13,393	(2)
- Scientific Affairs	399,911	56,216		
- Health Education Affairs	1,687,905	820,839		
- Administrative Affairs	1,609,737	722,407	25,578	(3)
- Medical Services Affairs	316,318	99,275		
- Information Affairs	151,300	46,675		
- Financial Affairs	873,957	268,560		
- Innovation Cost	400,000	13,278		
	<hr/>	<hr/>	<hr/>	
Total Costs	7,304,831	2,522,252	44,413	
	*****	*****	*****	

**APPENDIX II**

**SCHEDULES OF QUESTIONED AND UNSUPPORTED COSTS**

Schedule (1)

FOF  
SALES AFFAIRS

	<u>LE</u>	<u>Exchange</u> <u>Rate</u>	<u>\$</u>
<u>Ineligible Sales Affairs costs</u>			
Periodic meeting cost:			
Difference between			
USAID reimbursement and			
amount recorded in FOF's books	4,975	2.9	1,716
Tips paid by FOF and reimbursed			
from USAID	467	2.9	161
	<u>5,442</u>		<u>1,877.</u>
	=====		=====

49

Schedule (2)

FOF  
Communication Affairs

	<u>LE</u>	<u>Exchange</u> <u>Rate</u>	<u>\$</u>
<u>Ineligible Communication</u>			
<u>Affairs Costs</u>			
Advertising material costs reported and reimbursed twice	818	2.9	282
Advertising expenses reported and reimbursed by USAID, although later recovered from supplier	1,612	2.9	556
A party for USAID official, and gifts to FOF employees on Mother's Day	2,484	2.9	856
Gratuities paid to television corporation personnel	8,479	2.9	2,924
	<u>13,393</u>		<u>4,618</u>
	=====		=====

Unsupported Communication Affairs Costs

Costs of three advertisements on FOF's products; no quotations from other advertisers were found	15,300	2.9	5,276
	=====		=====

Schedule (3)

FOF  
Administrative Affairs

	<u>LE</u>	<u>Exchange</u> <u>Rate</u>	<u>\$</u>
<u>Ineligible Administrative</u> <u>Affairs Costs</u>			
Subscriptions received for use of vehicles, not remitted to the USAID	25,578 -----	2.9	8,820 -----

51

**APPENDIX III**

**MANAGEMENT COMMENTS**

الجمعية المصرية لتنظيم الأسرة  
مشروع التسويق الاجتماعي لوسائل تنظيم الأسرة

**EGYPTIAN FAMILY PLANNING ASSOCIATION**  
Contraceptive Social Marketing Project

December 26, 1992

Hazem Hassan & Company  
74 Mohi Eldin Abul Ezz Street  
Mohandessin, Cairo

Gentlemen:

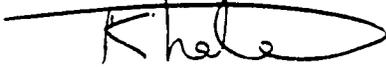
Thank you for sharing the draft report on your audit of the Contraceptive Social Marketing Project (formerly FOF), conducted on behalf of the United States Agency for International Development, and for giving us the opportunity to respond to your draft.

After a review of our records, we have found that your audit of the CSMP from January 1, 1990 through June 30, 1991, represents a reasonable and equitable accounting of our management procedures and financial transactions during that period.

In the enclosed pages, we have responded where appropriate to the major subject areas of the report: Compliance with Grant and Revenue Agreements, and Applicable Laws and Regulations; and Details of Questioned Costs under the Fund Accountability Statement. In the former category, you will see that changes and improvements have been made since the end of the audit period covered while, in the latter, only two findings are questioned with an additional two the subject of additional comments.

Thank you very much for your cooperation.

Sincerely,



Dr. Khaled Abdel Aziz  
CSMP Executive Director

cc: Mr. Mohamed Youssef Ebeid, Chairman, CSMP  
Dr. Carol Carpenter-Yaman, Director, Office of Population,  
USAID Mission to Egypt

Compliance with Grant and Revenue Agreements, and Applicable Laws and Regulations

1. Noncompliance with Egyptian Labor and Income Tax Laws (Page 26)

1. The CSMP implemented the withholding of income taxes from its employees and consultants to the board of directors as of July 1, 1991 and consequently is now in compliance with part 3, chapter 2, Article No. 57 of the Income Tax Law No. 157 of 1981. It should be noted here that a government tax lien for \$1.2 million of unpaid income taxes was lifted earlier in 1992 and that the CSMP anticipates a favorable final ruling on this issue.

2. The CSMP will take the appropriate steps to recalculate both the required contribution to the Social Insurance Organization for the four employees cited, and the variable portion of the Social Insurance contribution for all employees according to Law No. 54 of 1975 and Law No. 64 of 1980.

3. The CSMP will review its personnel files to ensure the inclusion of documents required by the Egyptian Labor Law.

2 CSMP failed to segregate USAID from non-USAID funds (Page 27)  
Effect of nocompliance with the revenue and grant agreements

As of November 1, 1992, the CSMP maintains a separate account for USAID funds and is, therefore, now in compliance with the terms of the revenue agreement.

3. Noncompliance with the revenue and grant agreements (Page 28)

In regard to points 3.1 and 3.2, the CSMP is now in compliance with the revenue and grant agreements with quarterly reports accurately reflecting the amounts associated with USAID funding. The CSMP agrees that the amount of \$104,149 (cited on page 10 as Interest Income) was earned on income generated by the sale of USAID-donated commodities. Although it was not included in the revenue report, this total has been credited to the USAID revenue account. As of the initiation of the separate USAID revenue account, all interest is credited to the USAID account.

CSMP Response to Questionable Costs Cited in 1992 Audit Report

1. Ref.: II The allowability of certain communications costs is questionable (pages 16 and 17)

The questionable cost cited under 2., "gifts to FOF employees on Mother's Day", refers to investment certificates presented to employees in the total amounts of 690 LE (Voucher 718, March 25, 1991) and 800 LE (Voucher 1096, June 30, 1991), respectively. The presentation of investment certificates is an accepted custom at the CSMP and other organizations, to its understanding, would be permissible under No. 11, Employee morale, health, and welfare costs, of OMB Circular No. A-122, Attachment B.

2. Ref.: IV The allowability of certain financial costs is questionable (page 18)

The amount questioned, \$2,343 ("reimbursed costs of printed material returned to supplier, not remitted to the USAID") represents 51% of 11,722 LE paid by check with voucher 9015 on January 12, 1991. This amount was not reimbursed to the CSMP which has documents on file supporting this claim.

Additional Comments

1. Ref.: II The allowability of certain communications costs is questionable. (pages 16 and 17). The questionable cost cited under 2., page 17, "the cost of a party held for a USAID/Egypt official", refers to two farewell events, a dinner and luncheon, respectively, held in 1990 for two departing USAID employees. To include the costs of these two events in a voucher to USAID was clearly a regrettable error in judgement.

2. Ref.: V Documents supporting Advertising Expenses are inadequate. (page 18) This expense was incurred in 1989 at the direction of a former FOF Executive Director who clearly remembers that proper procurement procedures were followed, a claim supported by employees still with the organization. However, these documents cannot be located and, if they still exist, are presumably with the Central Accounting Authority which removed many original FOF documents in the course of its investigation.

**APPENDIX IV**

**AUDITOR'S COMMENTS**

**AUDITOR'S COMMENTS**

**I. Auditor's Comments on the Financial Findings:**

**1. The allowability of certain communications costs is questionable:**

Ref. (Report finding No. II 2, Management Questionable Costs Comment No. 1.)

FOF's management replied that gifts to its employees are permissible under No. 11. of OMB circular No. A-122, Attachment B, Employee morale, health, and welfare costs. In our opinion the aforementioned clause does not apply to gifts to FOF employees. Accordingly, these costs are still questionable.

**2. The allowability of certain financial costs is questionable:**

Ref. (Management Questionable Costs Comment No. 2)

FOF's management provided us with supporting documentation on the aforementioned costs. We agree with the auditee that these costs are allowable, allocable and reasonable. Therefore, these costs have been removed from the final report.

**3. Documents supporting advertising expenses are inadequate:**

Ref. (Report finding No. IV, Management ref. Additional Comments No. 2)

FOF's management could not locate the documentation supporting these costs. Accordingly, these costs are still questionable.

**II. Auditor's Comments on FOF's Compliance with Grant and Revenue Agreements, and Applicable Laws and Regulations:**

FOF's management concurs with our findings. FOF is currently in the process of ensuring compliance with the aforementioned provisions.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

FEB 16 1993

RECEIVED

**MEMORANDUM**

TO: Phillippe Darcy, RIG/A/C

FROM: Douglas S. Franklin, AD/FM

SUBJECT: Draft Report on the Financial Audit of Cost Incurred by  
Family of the Future (FOF)  
Grant No. 263-0144-G-00-9056-00

Mission has reviewed subject draft NFA report for Family of the Future. At this time, we believe that recommendation No. 2 which requires FOF to address the inadequate procedures in place to insure compliance with applicable agreement terms is not applicable. The reason being that the Ministry of Social Affairs has recently sequestered from the Egyptian Family Planning Association/Contraceptive Social Marketing Project (EFPA/CSMP) (ex Family of the Future) all AID funded commodities and revenue funds (see attached letter from the Minister of Social Affairs for details). Presently, USAID and the GOE are in the process of transferring these assets to another organization for implementation purposes. Since the Mission has terminated subject grant and the revenue funds and commodities have been transferred from the EFPA/CSMP (ex-FOF), we request that Recommendation No. 2 be withdrawn by RIG/A/C.

DIR/CS is presently discussing Recommendation No. 1 with the authorized signatory of MOSA for the EFPA/CSMP (ex-FOF) in order to determine the amount of questioned costs to be sustained. Based on the above comments, please issue the final report.

Att: a/s above

54

Date: January 3, 1993

DOCTOR, MAURICE MAKRAMALLAH  
MINISTER OF INTERNATIONAL COOPERATION

GREETINGS,

This is to advise that the Ministry had formerly issued a directive to merge the Family of the Future Association with the Egyptian Family Planning Association because of the infractions of the Family of the Future Association, the similarity of purposes and objectives, and the enhancement of family planning activities. This was followed by the issuance of a Ministerial Decree to assign the Contraceptive Social Marketing Project to the Egyptian Family Planning Association, and the formation of an Executive Committee to supervise and manage said project.

The Agency for International Development was notified and has concurred with these actions, asserting that the primary responsibility for safeguarding this grant and the revenues generated from the Social Marketing Project lies with the Ministry of Social Affairs.

The Chairman of the merged Association filed a case in the administrative court requesting the annulment of the directive to merge the Family of the Future Association, as well as the decree to assign the Social Marketing Project to the Egyptian Association, and the court ruled in his favor.

The Agency for International Development subsequently requested that the Ministry of Social Affairs assume full responsibility for managing and safeguarding all the financial and tangible assets of the Social Marketing Project in compliance with the terms of the agreement.

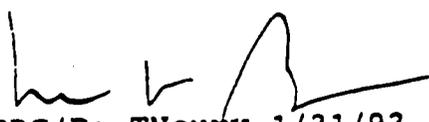
The Agency for International Development held the Ministry totally responsible for the Project since it was the Ministry that signed the agreement, and requested that the Ministry of International Cooperation be advised to sequester all the possessions of the Project, for otherwise the Ministry of Social Affairs will be fully responsible for their loss.

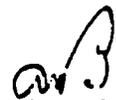
In view of this, the Ministry (itself) sequestered all the funds and contraceptives that belong to the Project until this case is researched and studied again for a new agreement with the Agency for International Development, since the activities of the Project have completely ceased as a result of these actions.

Therefore, we hope that you will take the expeditious and necessary actions regarding this matter, and advise us of the results in the public welfare.

Peace be upon you and God's Blessings.

Her Excellency  
Dr. Amal Osman  
Minister of Insurance  
and Social Affairs

  
Translated: HRDC/P: TNoury 1/31/93

  
Corrected:HRDC/P:CCarpenter-Yaman/ABraunstein:mk:1/31/93 (FOFTRANS)

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السيد الاستاذ الدكتور / موريس كسرم اللب

نحبه طيبه . . .

اشرف بالاخاطه ان الوزارة قد سبق ان اصدرت قرارا بدمج جمعية اسرة المستقبل في الجمعية المصرية لتأمين الاسرة لوجود مآلات بجمعية اسرة المستقبل وتشابه الغراض والاهداف ولتدعيم النشاط في مجال تنظيم الاسرة اعقب ذلك صدور القرار الوزاري باصدار مشروع التصديق الاجتماعي لتنظيم الاسرة التي الجمعية المصرية لتنظيم الاسرة وتم تشكيل لجنة تنفيذية لتهيئة وادارة العمل بالمشروع المشار اليه .  
تم اخطار هيئة التنمية الدولية بذلك حيث اقرت تلك الاجراءات وأكدت ان حماية هذه المنحة والامدادات الناتجة عنها والتي تمت من خلال مشروع التصديق الاجتماعي هي مسؤولية وزارة الشؤون الاجتماعية بالدرجة الاولى .

قام رئيس مجلس ادارة الجمعية المدعوه برفع دعوى بالفضاء الاداري طالبا الفاء قرار الجبهه الاداريه بدمج جمعية اسرة المستقبل وكذا الفاء قرار اسناد مشروع التصديق الاجتماعي الى الجمعية المصرية - حيث حصل على حكم لصالحه .

عادت هيئة التنمية الدولية الامريكه وطلبت ان تتولى وزارة الشؤون الاجتماعيه مسئوليتها الكامله على كسمل الممتلكات الماليه والعينييه الخاصه بمشروع التصديق الاجتماعي والتي تصل الى ما يقرب من عشرين مليون جنيه مصري والحفاظ عليها تنفيذاً لاتفاقيه .

حملت هيئة التنمية الدولية ووزارة الشؤون الاجتماعيه المسئوليه الكامله عن كل ما يتصل بالمشروع بالتشاور ان الوزارة من التي واعدت الاتفاقية وطلبت ابلاغ وزارة التعاون الدولي للحفاظ على كل متعلقات المشروع والا تعتبر الوزارة مسئوله كامله عن تنفيذها .

وعلى ضوء ذلك قامت الوزارة بالحفاظ على الاموال والمسائل المتعلقه بالمشروع لحين اعاده بحث ودراسة المشروع من خلال اتفاق جديد مع هيئة التنمية الدولية الامريكه حيث ان نشاط المشروع على ضوء تلك الاجراءات قد توقف تماما .

وطالبه لاننا نأمل اتخاذ الاجراءات السريعه واللازمه حيال هذا الموضوع والفضل بالاعادتنا بما يتم نسي هذا الشأن تحقيقاً لمصالح العام .

والسلام عليكم ورحمة الله وبركاته

وزارة  
التأمينات والشؤون الاجتماعية  
لشؤون  
د / آمال عثمان



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