

Regional Inspector General for Audit  
Cairo, Egypt

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**Audit of Health Insurance Organization (HIO) Local  
Expenditures Incurred Under Project Implementation  
Letter (PIL) No. 23 Related to USAID/Egypt  
Population Project No. 263-0144**

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Report No. 6-263-94-002-N  
October 26, 1993



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INFORMATION IS RELEASED TO THE PUBLIC.**



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

October 26, 1993

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford  
FROM : RIG/A/Cairo, Philippe L. Darcy  
SUBJECT : Audit of the Health Insurance Organization (HIO)  
Local Expenditures Incurred under Project  
Implementation Letter (PIL) No. 23, Relating to  
Project No. 263-0144.

The attached report dated May 12, 1993 by Farid S. Mansour & Co. presents the results of a financial audit of the Health Insurance Organization (HIO) locally incurred costs under PIL No. 23, related to Project No. 263-0144, funded by USAID/Egypt. HIO's directive is to provide family planning services through 40 of its polyclinics in 7 geographic regions throughout the nation.

We engaged Farid S. Mansour & Co. to perform a financial audit of HIO's locally incurred expenditures of \$846,2736 for the period April 1, 1988 through March 31, 1992. The purpose of the audit was to evaluate the propriety of costs incurred during this period. In performing the audit, Farid S. Mansour & Co. evaluated HIO's internal controls and compliance with applicable laws, regulations, grant and project terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Farid S. Mansour & Co. questioned \$218,457 in costs billed to A.I.D. by HIO (including \$197,744 in unsupported costs). These questioned costs include cost of renovations, medical equipment, salaries and incentives, travel, per diem, meals, beverages, tips and accruals and estimates. Farid S. Mansour & Co. noted weaknesses in HIO's internal controls such as lack of segregation of duties, inadequate bank reconciliation procedures, reported costs not reconciled with accounting records, lack of timesheets to support salaries and misclassification of project costs among budget line items. Additionally, they noted instances of non-compliance regarding USAID expenditure reporting and competitive bidding in connection with the procurement of goods and services.

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Farid S. Mansour & Co. has reviewed HIO's response to the findings. Where applicable they have made adjustments in their reports or provided further clarification of their position. For those items not addressed, the response provided by HIO has not changed their understanding of the facts underlying the questioned costs of the Fund Accountability Statement or the weaknesses described in the Reports on Internal Controls and Compliance.

The following recommendations are included in the Office of the Inspector General's recommendation follow-up system.

**Recommendation No. 1:** We recommend that USAID/Egypt resolve questioned costs of \$218,457 consisting of ineligible costs of \$20,713, and unsupported costs of \$197,744 as detailed on pages 11 through 16 of the audit report.

This recommendation is considered unresolved and can be resolved when we receive the Mission's formal determination as to the amounts sustained or not sustained. The recommendation can be closed when any amounts determined to be owed to A.I.D. are paid by HIO.

**Recommendation No. 2:** We recommend that USAID/Egypt require HIO to address its internal control weaknesses as detailed on pages 19 through 22 of the audit report.

This recommendation is considered unresolved and may be resolved when the Mission provides our office with a copy of its request that an assessment of HIO's internal control procedures be performed by the Mission assessment IQC or by the FAST Team as proposed in its response. This recommendation can be closed when RIG/A/C has received the internal control assessment report and USAID/Egypt's plan for follow-up corrective action of HIO's internal control weaknesses which have an on-going effect on current and future A.I.D.-funded projects.

**Recommendation No. 3:** We recommend that USAID/Egypt require HIO to address the non-compliance issues as detailed on pages 24 and 25 of the audit report.

As noted in the Mission's response dated October 19, 1993, the HIO project ended December 31, 1992. As a result, no additional goods or services will be procured under this project. However, the non-compliance issued reported should not be allowed to reoccur in current or future A.I.D.-funded projects and should be evaluated in the HIO assessment as proposed in the Mission's response to Recommendation No. 2. Therefore, because the project has terminated, we consider Recommendation No. 3 resolved and closed upon issuance of this report.

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 Farid S. Mansour & Co. and to our office.

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**FINANCIAL RELATED AUDIT  
OF LOCAL EXPENDITURES OF  
HEALTH INSURANCE ORGANIZATION**

**(HIO)**

**Project Implementation Letter No. 23**

**Project No 263 - 0144**

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**FOR THE PERIOD FROM APRIL 1, 1988  
THROUGH MARCH 31, 1992**

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**FINANCIAL RELATED AUDIT  
OF LOCAL EXPENDITURES OF  
HEALTH INSURANCE ORGANIZATION**

(HIO)

Project Implementation Letter No. 23  
Project No 263 - 0144

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our reference

September 9, 1993

Mr. Philippe L. Darcy  
Regional Inspector General for Audit/Cairo  
UNITED STATES AGENCY FOR  
INTERNATIONAL DEVELOPMENT  
MISSION TO EGYPT  
Cairo - Egypt

Dear Mr. Darcy

This report presents the results of our financial costs incurred audit of the Health Insurance Organization (HIO) on Project Implementation Letter (PIL) No. 23, under USAID/Egypt Project No. 263-0144.

This project implementation letter is cost reimbursable and funded by the United States Agency for International Development.

#### **PROJECT BACKGROUND**

The project is directly administered by the Health Insurance Organization (HIO).

The objective of this project implementation letter is to provide Family Planning Service through 40 of its polyclinics in 7 geographic regions throughout the nation.

Total funds committed under this project implementation letter is LE 3,374,907 (equivalent to \$ 1,194,572). Total expenditures reported as incurred and subsequently reimbursed by USAID for the period under audit amounted to LE 2,390,898 (equivalent to \$ 846,276).

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## **AUDIT OBJECTIVES AND SCOPE**

This is a financial audit of the Health Insurance Organization (HIO) of fund pursuant to PIL 23 under USAID/Egypt Project 263-0144. The audit encompassed all expenditures incurred in Egypt for the period from April 1, 1988 through March 31, 1992. Accordingly, the audit included an examination of HIO's expenses, compliance with PIL terms and a review of HIO's internal control.

The specific objectives of this audit were to:

1. Express an opinion on whether the fund accountability statement for HIO presents fairly, in all material respects, project costs incurred and reimbursed in conformity with the generally accepted accounting principles or other comprehensive basis of accounting including the cash receipts and disbursements basis and modifications of the cash basis;
2. Determine if costs reported as incurred under the PIL are in fact allowable, allocable, and reasonable in accordance with the terms of the PIL;
3. Evaluate and obtain sufficient understanding of the internal control structure of HIO's organization, assess control risk, and identify reportable conditions, including material internal control weaknesses; and
4. Perform tests to determine whether HIO complied in all material respects with PIL terms and applicable laws and regulations.

Preliminary planning and review procedures were performed during September 1992 and consisted of discussions with RIG/A/C personnel and HIO officials. We reviewed the PIL and all other relevant agreements. As well as the accounting system utilized during the period under examination. Audit work commenced in September 1992 at HIO's premises in Al Tayran St., Nasr City, Health Insurance Hospital and included trips to all the 7 regions of HIO in the governorates of Egypt. The work was completed in May 1993.

Our selection of disbursements to be reviewed was initially determined to be on the judgemental basis, but as a result of issues encountered during the fieldwork necessitating us to extend our procedures to cover 100% of all local expenditures on this project. This matter was communicated to USAID RIG/A/C and we mutually agreed to extend our coverage. The issues encountered during our audit related to the possible misstatement of the project expenditures. These issues are as follows:

- o The project reported its expenditures to USAID on the accrual basis as well as including estimates and not actual expenditures.
- o Inconsistent classification of the expenditures under budget line items
- o Numerous duplication in the recording of expenditures.
- o Numerous mathematical errors in preparing the monthly fiscal reports.

Our audit procedures included, but were not limited to, the following:

1. Reconciling HIO's accounting records pertaining to PIL 23 to invoices issued to USAID and reviewing costs for allowability, reasonability and allocability.
2. Determining that expenditures were appropriate and conformed with the terms of the PIL and relevant regulations.
3. Reviewing the costs for appropriate support.

Except as discussed in the next paragraph we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of *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 the fund accountability statement are free of material misstatement.

We did not meet the continuing education requirements, listed in Paragraph 6 of Chapter 3 of the *Government Auditing Standards*. Additionally, 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* 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* is not material because we participate in the Coopers & Lybrand (C&L) worldwide internal quality control program which requires the C&L Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other C&L offices.

As a part of our examination we performed a study and evaluation of relevant controls and reviewed HIO's compliance with applicable laws and regulations.

## **RESULTS OF AUDIT**

### **Fund Accountability Statement**

Our examination identified \$ 218,457 in questioned costs, consisting of \$ 20,713 of ineligible costs and \$ 197,744 of unsupported costs which include \$ 32,720 billed to USAID in excess resulting from accruals and estimates included in the billing.

### **Internal Control Structure**

Our examination of the internal control structure of HIO disclosed the following material weaknesses and reportable conditions:

1. Material weaknesses
  - o Inadequate internal controls over the accounting functions and cash disbursements
  
2. Reportable conditions
  - o No cancellation of invoice or other disbursement documentation upon payment
  - o Lack of safeguard over project property

**Compliance with Contract Terms and  
Applicable Laws and Regulations**

We noted that HIO did not comply with USAID regulations with regards to the monthly fiscal reporting to USAID and competitive bidding of vendors and suppliers.

**Management Comments**

We have reviewed HIO responses to the findings which are included in Appendix A. Where applicable, we have made adjustments in our position in relation to these findings.

For those items that remain as questionable in the fund accountability statement, other outstanding material weaknesses and reportable conditions in the report on the internal control structure and the non-compliance with PIL terms and applicable laws and regulations, the responses provided by HIO have not caused us to change our position as presented and discussed in Appendices C, D and E respectively.

our reference

Mr. Philippe L. Darcy  
Regional Inspector General for Audit  
UNITED STATES AGENCY FOR  
INTERNATIONAL DEVELOPMENT  
MISSION TO EGYPT  
Cairo - Egypt

**FUND ACCOUNTABILITY STATEMENT**  
**Report of Independent Accountants**

We have audited the Fund Accountability Statement of Health Insurance Organization (HIO) for the period from April 1, 1988 to March 31, 1992 relating to expenditures incurred in Egypt under PIL No. 23, Project No. 263-0144. The Fund Accountability Statement is the responsibility of HIO's management. Our responsibility is to express an opinion on the Fund Accountability Statement based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those 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 significant estimates made by the 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.

We did not meet the continuing education requirements listed in Paragraph 6 of Chapter 3 of the *Government Auditing Standards*. Additionally, 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* 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* is not material because we participate in the Coopers & Lybrand (C&L) worldwide internal quality control program which requires the C&L Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other C&L offices.

As described in Note 3, the accompanying Fund Accountability Statement has been prepared on the basis of cash receipts and disbursements which is comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Included in the Fund Accountability Statement are questioned costs of US \$218,457. The basis for questioning these costs is more fully described in the **Fund Accountability Statement - Audit Findings** section of this report.

In our opinion, except for the effects of the questioned costs, as discussed in the preceding paragraph, the Fund Accountability Statement referred to above presents fairly in all material respects HIO's expenditures pertinent to PIL 23 for the period from April 1, 1988 through March 31, 1992, in conformity with the cash basis of accounting.

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

Cairo, Egypt  
May 12, 1993



Farid S. Mansour & Co.

FINANCIAL RELATED AUDIT  
OF LOCAL EXPENDITURES OF  
HEALTH INSURANCE ORGANIZATION

(H I O)

PROJECT IMPLEMENTATION LETTER No. 23  
PROJECT NO. 263 - 0144

FUND ACCOUNTABILITY STATEMENT  
FOR THE PERIOD FROM APRIL 1, 1988 TO MARCH 31, 1992

	<u>BUDGET</u>	<u>BILLED &amp; REIMBURSED</u>	<u>QUESTIONED COSTS INELIGIBLE</u>	<u>UNSUPPORTED</u>	<u>AUDIT FINDINGS REFERENCE.</u>
<u>REVENUE</u>	<u>\$1,194,572</u>				
<u>EXPENDITURES</u>					
<u>CAPITAL &amp; START UP COSTS.</u>					
HEAD OFFICE EXPENDITURES	\$25,965	\$18,886			
MEDICAL EQUIPMENT	107,289	107,289		\$2,513	A
NON-MEDICAL EQUIPMENT	55,865	38,168			
RENOVATIONS.	139,148	134,900		10,679	B
START-UP TRAINING.	<u>38,491</u>	<u>38,491</u>	<u>\$19,748</u>	<u>239</u>	C
SUB TOTAL	<u>366,758</u>	<u>337,734</u>	<u>19,748</u>	<u>13,431</u>	
<u>RECURRING COSTS.</u>					
CLINIC SALARIES.	245,510	167,581	315	3,329	D
CONTINGENCY.	1,867	1,867	15		E
MAINTENANCE.	13,875	4,840		660	A
MARKETING.	43,657	7,986	150	109	F
RETRAINING COSTS.	67,572	35,294	34	5,786	G
SALARIES.	226,480	148,234		148,234	H
STATIONARY.	15,310	12,797		4,757	A
TRANSPORTATION.	<u>36,442</u>	<u>16,322</u>	<u>345</u>	<u>9,850</u>	I
SUB TOTAL	<u>650,713</u>	<u>394,921</u>	<u>859</u>	<u>172,725</u>	
<u>VARIABLE COSTS.</u>					
VARIABLE SALARY		63,465	106	1,992	J
MEDICAL		12,135		1,084	K
FORMS		<u>38,018</u>		<u>8,512</u>	A
SUB TOTAL	<u>177,101</u>	<u>113,618</u>	<u>106</u>	<u>11,588</u>	
TOTAL	<u>\$1,194,572</u>	<u>\$846,273</u>	<u>\$20,713</u>	<u>\$197,744</u>	

\* See accompanying notes to the Fund Accountability Statement.

**FINANCIAL RELATED AUDIT  
OF LOCAL EXPENDITURES OF  
HEALTH INSURANCE ORGANIZATION**

**(HIO)**

Project Implementation Letter No. 23

Project No 263 - 0144

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**NOTES TO THE FUND ACCOUNTABILITY STATEMENT**

**NOTE 1 - SCOPE OF AUDIT**

The Fund Accountability Statement of HIO includes all locally incurred expenditures under PIL No. 23, a sub-project of USAID/Egypt Project No. 263-0144, for the period from April 1, 1988 through March 31, 1992. The PIL does not allow for reimbursement of indirect costs.

**NOTE 2 - SOURCE OF DATA**

The column labeled "billed and reimbursed" is the responsibility of HIO's management and it should represent the cumulative local expenditures incurred for the period from April 1, 1988 to March 31, 1992. The total expenditures reported as incurred and subsequently reimbursed by USAID for the period under audit amounted to LE. 2,390,898 (equivalent to \$ 846,276).

### **NOTE 3 - BASIS OF PRESENTATION**

The Fund Accountability Statement has been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred.

### **NOTE 4 - EXCHANGE RATE**

Expenses incurred in Egyptian pounds have been converted to US dollars at an average exchange rate of 2.8252 Egyptian pounds to 1 US dollar for the period from April 1, 1988 through March 31, 1992.

### **NOTE 5 - QUESTIONED COSTS**

Questioned costs are presented in two separate categories - ineligible and unsupported costs - and consist of audit findings proposed on the basis of the terms of the grant. Costs in the column labeled **Ineligible** are supported by vouchers or other documentation but are ineligible for reimbursement because they are not program related, are unreasonable, or prohibited by the Agreement or applicable laws and regulations. Costs in the column labeled **Unsupported** are also formally included in the classification of **Questioned Costs** consisting of amounts which relate to costs that are not supported with adequate documentation or did not have the required prior approvals or authorizations as well as amounts billed to USAID in excess as a result of accruals and estimates being included in the billing. All questioned costs are detailed in the **Fund Accountability Statement - Audit Findings** section of this report.

**FINANCIAL RELATED AUDIT  
OF LOCAL EXPENDITURES OF  
HEALTH INSURANCE ORGANIZATION**

**(HIO)**

Project Implementation Letter No. 23  
Project No. 263 - 0144

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**FUND ACCOUNTABILITY STATEMENT  
AUDIT FINDINGS**

**A. Billing in Excess**

	QUESTIONED COSTS	
	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
Medical equipment		\$ 2,513
Maintenance		660
Stationery		4,757
Forms		<u>8,512</u>
		\$ 16,442
Note B		739
Note D		2,090
Note G		4,706
Note H		6,269
Note J		1,429
Note K		<u>1,045</u>
		<u>16,278</u>
		\$ <u>32,720</u>

\$ 32,720 This amount represents an excess billing to USAID as a result of accruals and estimates being included in the billing.

**B. Renovations**

<u>REGION</u>	QUESTIONED COSTS	
	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
Middle Delta		\$ 9,940
Billing in excess		<u>739</u>
TOTAL		<u>\$ 10,679</u>

\$ 9,940 This amount represents cost of renovation works for Middle Delta clinics which are not supported by payment certificates or invoices for the works achieved.

See Note 1, Appendix A.

**C. Start-up Training**

<u>REGION</u>	QUESTIONED COSTS	
	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
Headquarters	<u>\$ 19,748</u>	<u>\$ 239</u>

\$ 19,748 This amount represents food, beverage, unauthorized payments, taping the seminar events and tips.

\$ 239 This amount represents unsupported cost of per diem paid to trainees.

See Note 2, Appendix A.

**D. Clinic Salaries**

<u>REGION</u>	QUESTIONED COSTS	
	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
Assiut	\$ 315	\$ 1,239
Billing in excess		<u>2,090</u>
TOTAL	<u>\$ 315</u>	<u>\$ 3,329</u>

\$ 1,239 This amount represents clinic salaries unsupported by time sheets.

\$ 315 This amount represents cost of incentives for unauthorized employees.

See Note 3, Appendix A.

**E. Contingency**

<u>REGION</u>	<u>QUESTIONED COSTS</u>	
	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
Aswan	\$ 15	

\$ 15 This amount represents unallowable cost of soft drinks.

See Note 4, Appendix A.

**F. Marketing**

<u>REGION</u>	<u>QUESTIONED COSTS</u>	
	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
Alexandria		\$ 109
Assiut	\$ 150	
<b>TOTAL</b>	<u>\$ 150</u>	<u>\$ 109</u>

\$ 109 This amount represents cost of unsupported business trips.

\$ 150 This amount represents unallowable cost of meals and soft drinks.

See Note 5, Appendix A.

**G. Retraining Costs**

<u>REGION</u>	QUESTIONED COSTS	
	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
Cairo		\$ 42
Assiut		903
Canal	\$ 34	135
Billing in excess		<u>4,706</u>
TOTAL	<u>\$ 34</u>	<u>\$ 5,786</u>

\$ 34 This amount represents unallowable cost of meals and soft drinks.

\$ 903 This amount represents the total of several entries of unsupported travel costs.

\$ 42 & \$135

These amounts represent costs of unsupported per diem.

See Note 6, Appendix A.

**H. Salaries**

<u>REGION</u>	QUESTIONED COSTS	
	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
Cairo		\$ 16,315
Alexandria		19,298
Middle Delta		14,753
Assiut		9,166
Canal		15,745
Giza		11,299
Headquarter		54,141
Aswan		1,248
Billing in excess		<u>6,269</u>
TOTAL		<u>\$148,234</u>

\$ 148,234 This amount consists of \$ 6,269 billing in excess as explained under A. Billing in Excess (above) and \$ 141,965 representing total fixed salaries paid to the project employees for the period from April 1, 1988 to March 31, 1992 in all regions. All fixed salary disbursements are not supported by time sheets, attendance records or any other appropriate documentation.

**I. Transportation**

<u>REGION</u>	<u>QUESTIONED COSTS</u>	
	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
Assiut		\$ 2,517
Canal		15
Headquarters	\$ 345	5,618
Aswan		<u>1,700</u>
<b>TOTAL</b>	<u>\$ 345</u>	<u>\$ 9,850</u>

\$ 9,850 These amounts represent the aggregates of numerous entries for inadequately supported transportation costs.

\$ 345 This amount represents the cost of transportation of personnel from/to HIO and project headquarters.

**J. Variable Salaries**

<u>REGION</u>	<u>QUESTIONED COSTS</u>	
	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
Assiut	\$ 106	\$ 417
Aswan		147
Billing in excess		<u>1,429</u>
<b>TOTAL</b>	<u>\$ 106</u>	<u>\$ 1,992</u>

\$ 417 & \$ 147

These amounts represent incentives paid for contraceptive installation. These payments lack proper documentation to indicate their basis of calculation.

\$ 106

This amount represents the cost of incentives paid for unauthorized persons.

See Note 7, Appendix A.

**K. Medical Supplies**

<u>REGION</u>	<u>QUESTIONED COSTS</u>	
	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
Assiut		\$ 39
Billing in excess		<u>1,045</u>
TOTAL		<u>\$ 1,084</u>

\$ 39

This amount represents unsupported cost of medical supplies.

See Note 8, Appendix A.

our reference

Mr. Philippe L. Darcy  
Regional Inspector General for Audit  
UNITED STATES AGENCY FOR  
INTERNATIONAL DEVELOPMENT  
MISSION TO EGYPT  
Cairo - Egypt

**INTERNAL CONTROL STRUCTURE**  
**Report of Independent Accountants**

We have audited the Fund Accountability Statement of Health Insurance Organization (HIO) for the period from April 1, 1988 to March 31, 1992 relating to expenditures incurred in Egypt under PIL No. 23, Project No. 263-0144 and we have issued our report thereon dated May 12, 1993.

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* 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 the Fund Accountability Statement is free of material misstatement.

We did not meet the continuing education requirements listed in Paragraph 6 of Chapter 3 of the *Government Auditing Standards*. Additionally, 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* 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* is not material because we participate in the Coopers & Lybrand (C&L) worldwide internal quality control program which requires the C&L Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other C&L offices.

In planning and performing our audit of HIO 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 HIO 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 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 the 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: cash disbursements, payroll and

general ledger. For all the control categories cited 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of certified public accountants. A material weakness is a reportable condition in which the design or operation of one or more of the special 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 being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit disclosed the following conditions which we believe constitute material weaknesses.

HIO has inadequate control over the accounting functions and cash disbursements, as follows:

- o Improper segregation of duties exists in all regions including headquarters, since one individual bookkeeper prepares both cash disbursement vouchers and the entries recording those expenditures. He is also responsible for the bank and petty cash reconciliation, if prepared.
- o Bank account reconciliations are not periodically maintained and procedures for the preparation of such reconciliations are not adequate.
- o Costs reported as incurred are not reconciled to HIO accounting records.
- o Fixed salaries are not supported by timesheets or time records to substantiate that employees have been paid for the actual time worked and that the amounts paid were accurate.

- o We identified many instances of misclassification of expenditure items. The misclassification took place at two levels: the first one when the expenditures originally occurred in different regions and the second when the reports are sent from the regions to the headquarters by the accountant who tries to combine them due to the lack of a standard form of reporting.

**Recommendation:**

In order to improve internal control over accounting functions and cash disbursements, we have the following recommendations:

- o HIO should strengthen the segregation of duties by either hiring more staff to satisfy the proper segregation of duties or adopting other compensating procedures to insure that the work of each individual is reviewed and authorized properly.
  
- o Bank accounts should be reconciled on a monthly basis by a responsible official who is not involved in any cash processing or recording of activities. The adequate procedure for bank account reconciliation should include the following:
  - Comparison of deposited amounts and dates with cash receipt entries.
  - Comparison of payee name, date, and amount on check stubs with cash disbursement records.
  - Comparison of book balances used in reconciliation with cash disbursement records.
  - Listing of all outstanding amounts recorded in the cash records not appearing in the bank statement for follow up during the subsequent period.
  - Footing the cash records.
  
- o All amounts reported to USAID as incurred expenditures should be reconciled with expenditure records to ensure that all amounts are actual and no estimates were included.

- o All payroll sheets should be prepared and supported with timesheets or attendance records to determine that the amounts paid are accurate and time was actually spent on the project. Moreover, all timesheets or time attendance records should be reviewed and approved by a responsible official not involved in the payroll preparation. The review and approval of payroll should show the following:
  - all employees on the payroll are authorized employees
  - time worked is evidenced by appropriate time records
  - amounts paid are computed at authorized rates
  - calculations are accurate
  - amounts of net pay agree with pay checks and accounting books.
  
- o HIO should implement controls to ensure that all costs are properly classified, recorded and reported under the proper expenditure line item. We recommend that HIO adopt a detailed chart of accounts and a standard form of expenditure reports to be used by all regions and that all accounting entries be reviewed and authorized by the management before being processed into the accounting books.

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 judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statements.

Our audits disclosed the following reportable conditions:

- o During the disbursement process invoices and other supporting documentation are not cancelled upon payment (via 'paid' stamp or other cancellation mechanism).

**Recommendation:**

We recommend that cancellation of such documentation be made immediately upon payment to avoid the possibility of payment duplication.

- o We noted that the project property financed by USAID is not tagged with USAID labels.

**Recommendation**

We recommend that the project tag all property financed by USAID with special USAID labels.

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

Cairo, Egypt  
May 12, 1993



Farid S. Mansour & Co.

our reference

Mr. Philippe L. Darcy  
Regional Inspector General for Audit  
UNITED STATES AGENCY FOR  
INTERNATIONAL DEVELOPMENT  
MISSION TO EGYPT  
Cairo - Egypt

**COMPLIANCE WITH PIL TERMS  
AND APPLICABLE LAWS AND REGULATIONS  
Report of Independent Accountants**

We have audited the Fund Accountability Statement of Health Insurance Organization (HIO) for the period from April 1, 1988 to March 31, 1992 relating to expenditures incurred in Egypt under PIL No. 23, Project No. 263-0144 and have issued our report thereon dated September 5, 1993.

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* 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 the Fund Accountability Statement is free of material misstatement.

We did not meet the continuing education requirements listed in Paragraph 6 of Chapter 3 of the *Government Auditing Standards*. Additionally, 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* 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* is not material because we participate in the Coopers & Lybrand (C&L) worldwide internal quality control program which requires the C&L Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other C&L offices.

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

Material instances of noncompliance are violations of laws, regulations, contracts, grants, or bending 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 test of compliance disclosed the following material instances of non-compliance.

1. HIO did not comply with USAID requirements regarding reporting expenditures. Regional reports of expenditures include estimates resulting in misstatement of expenditures reported to USAID.
2. HIO did not comply with competitive bidding in connection with procurement of goods and services. HIO contracted directly in many cases with certain suppliers to provide goods or services without requesting other quotations.

We considered these material instances of non-compliance in forming our opinion on whether HIO's Fund Accountability Statement represented fairly, in all material respects, in conformity with the cash basis of accounting, and this report does not affect our report on the Fund Accountability Statement dated September 5, 1993.

Except as described above, the results of our tests of compliance indicated that with respect to the items tested HIO complied, in all material respects, with the provisions referred to in the fourth paragraph of this report.

With respect to items not tested, nothing came to our attention that caused us to believe that HIO had not complied, in all material respects, with those provisions.

This report is intended solely for the information of the United States Agency for International Development and HIO's management. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Cairo, Egypt  
May 12, 1993



Farid S. Mansour & Co.

**APPENDIX A**

**DETAIL OF AUDIT FINDINGS**

FINANCIAL RELATED AUDIT  
 OF LOCAL EXPENDITURES OF  
 HEALTH INSURANCE ORGANIZATION

(H I O)

AUDIT FINDINGS DETAILS

NOTE 1 - RENOVATIONS

J.V	DATE	ITEM DESCRIPTION	QUESTIONED COSTS	
			INELIGIBLE L.E	UNSUPPORTED L.E
20	29\07\89	THE FOLLOWING ARE THE DETAILS OF		3,458
26\11	19\08\89	THE COST OF RENOVATION WORKS FOR		6,316
26\12	19\08\89	MIDDLE DELTA CLINICS WHICH ARE NOT		3,763
26\13	19\08\89	SUPPORTED BY PAYMENTS CERTIFICATES		6,217
42\11	05\10\89	OR INVOICES FOR THE WORKS ACHEIVED.		2,337
42\12	05\10\89			4,172
42\13	05\10\89			386
21	30\07\89			1,433
		BILLING IN EXCESS		2,089
				<u>30,171</u>
			EQUIV.\$	10,679
				=====

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FINANCIAL RELATED AUDIT  
OF LOCAL EXPENDITURES OF  
HEALTH INSURANCE ORGANIZATION  
(HIO)  
AUDIT FINDINGS DETAILS

NOTE 2 - START-UP TRAINING

J.V #	DATE	ITEM DESCRIPTION	QUESTIONED COSTS	
			INELIGIBLE LE	UNSUPPORTED LE
15	30/01/91	THE FOLLOWING ARE THE COST OF FOOD & BEVERAGE SERVED FOR TRAINEES DURING TRAINING SEMINARS IN ADDITION TO FLAT RATE PERDIEM	3,360	
9	30/01/91		3,900	
10	06/02/89		952	
8	26/03/89		425	
15	27/07/89		1,104	
1	11/10/89		6,544	
10	31/12/89		623	
11	31/12/89		347	
12	31/07/90		97	
11	27/09/90		1,040	
4	19/11/90		115	
5	07/03/91		6,698	
20	24/08/91		520	
4	05/08/91		82	
8	02/10/91		111	
27	21/11/91		8,259	
9	16/12/91		1,271	
12	06/11/91		3,620	
15	29/12/91		2,420	
22	31/12/91		269	
20	31/12/91	276		
8	20/03/92	192		
24	16/11/91	1,002		
2	15/03/92	5,122		
3	15/03/92	280		
4	15/03/92	568		
3	11/11/90	2,520		
9	21/08/91	UNSUPPORTED COST OF PERDIEM PAID FOR TRAINEES		674
7	10/03/91	COST OF COMPENSATION PAID TO CERTAIN PERSONS FOR ADDITIONAL WORK	325	
10	28/10/91		400	
5	16/03/92		900	
21	31/12/91	COST OF PHOTOS & VIDEO TAPING THE EVENTS OF THE TRAINING SEMINARS	450	
		COST OF TIPS PAID TO HOTEL STAFF DURING TRAINING SEMINARS	2,000	
		TOTAL	55,792	674
		EQUIVALENT IN USS	19,748	239
			=====	=====

FINANCIAL RELATED AUDIT  
 OF LOCAL EXPENDITURES OF  
 HEALTH INSURANCE ORGANIZATION  
 (HIO)  
AUDIT FINDINGS DETAILS

NOTE 3 - CLINIC SALARIES

J.V #	DATE	ITEM DESCRIPTION	QUESTIONED COSTS	
			INELIGIBLE L.E	UNSUPPORTED L.E
19	NOV 90	THE FOLLOWING ARE THE COST OF CLINIC SALARIES UNSUPPORTED BY TIME SHEETS		326
21	NOV 90			493
13	DEC 90			375
14	DEC 90			521
38	DEC 91			482
3	01\11\89			430
6	01\11\89			455
7	01\11\89			419
				3.501
			EQUIV.\$	1.239
25	FEB 92	THE FOLLOWING ARE THE COSTS OF INCENTIVES FOR AUTHORIZED & NON EMPLOYEES	35	
31	FEB 92		427	
32	FEB 92		428	
		BILLING IN EXCESS		5.906
		TOTAL	890	9.407
		EQUIVALENT IN US\$	315	3.330
			-----	-----

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FINANCIAL RELATED AUDIT  
 OF LOCAL EXPENDITURES OF  
 HEALTH INSURANCE ORGANIZATION  
 (H I O)  
AUDIT FINDINGS DETAILS

NOTE 4 - CONTINGENCY

J.V #	DATE	ITEM DESCRIPTION	QUESTIONED COSTS	
			INELIGIBLE L.E	UNSUPPORTED L.E
38	30/05/91	COST OF SOFT DRINKS	41	
		EQUIVALENT IN USS	15	

FINANCIAL RELATED AUDIT  
 OF LOCAL EXPENDITURES OF  
 HEALTH INSURANCE ORGANIZATION

(H I O)

AUDIT FINDINGS DETAILS

NOTE 5 - MARKETING

J.V #	DATE	ITEM DESCRIPTION	QUESTIONED COSTS	
			INELIGIBLE L.E	UNSUPPORTED L.E
30&14	NOV& DEC 91	COST OF MEALS & SOFT DRINKS	423	
222	15\09\91	THE FOLLOWING ARE THE COST OF UNSUPPORTED TRIPS		153
223	15\09\91			156
TOTAL				<u>309</u>
EQUIVALENT IN US\$			<u>150</u> -----	<u>109</u> -----

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FINANCIAL RELATED AUDIT  
 OF LOCAL EXPENDITURES OF  
 HEALTH INSURANCE ORGANIZATION  
 (HIO)  
AUDIT FINDINGS DETAILS

NOTE 6 - RETRAINING COSTS

J.V	ITEM	QUESTIONED COSTS		
#	DATE	<u>DESCRIPTION</u>	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
			L.E	L.E
280	31\10\91	UNSUPPORTED COST FOR PERDIEM		120
			EQUIV.S	<u>42</u>
		THIS AMOUNT REPRESENTS THE TOTAL OF SEVERAL ENTRIES OF UNSUPPORTED TRAVEL COSTS		2.552
			EQUIV.S	<u>903</u>
16	31\12\91	COST OF MEALS & SOFT DRINKS	95	
2	14\10\90	THE FOLLOWING ARE THE COST OF UNSUPPORTED PERDIEMS		30
3	11\02\91			50
6	25\11\91			190
5	16\12\91			50
21	31\12\91			<u>60</u>
				<u>380</u>
			EQUIV.S	<u>135</u>
		BILLING IN EXCESS		13.294
		TOTAL	<u>95</u>	<u>16.346</u>
		EQUIVALENT IN US\$	<u>34</u>	<u>5.786</u>
			=====	=====

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FINANCIAL RELATED AUDIT  
OF LOCAL EXPENDITURES OF  
HEALTH INSURANCE ORGANIZATION  
(HIO)  
AUDIT FINDINGS DETAILS

NOTE 7 - VARIABLE SALARIES

J.V	ITEM		QUESTIONED COSTS	
#	<u>DATE</u>	<u>DESCRIPTION</u>	<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>
			L.E	L.E
11	NOV. 90	THE COST OF INCENTIVES PAID FOR UNAUTHORIZED PERSONS	300 EQUIV. 106	
21	AUG.90	THE FOLLOWING REPRESENT COSTS OF INCENTIVES PAID WITHOUT REPORTS OF CONTRACEPTIVES INSTALLATION		160
10	OCT.90			232
22	NOV.90	THE FOLLOWING REPRESENTS COSTS		90
23	NOV.90	RECORDED IN THE ACCOUNTING BOOKS		303
15	DEC.90	THE SUPPORTING ENTRIES WERE MISSING		303
16	DEC.90			90
				<u>1,178</u>
			EQUIV.\$	<u>417</u>
50	17/07/91	THE REPORT OF THE CLINIC CONFIRMING THE NUMBER OF CONTRACEPTIVES ACHIEVED THROUGH THE MONTH IS MISSING.		414
			EQUIV.\$	<u>147</u>
		BILLING IN EXCESS		4,037
		TOTAL	<u>300</u>	<u>5,529</u>
		EQUIVALENT IN US\$	<u>106</u>	<u>1,992</u>
			=====	=====

FINANCIAL RELATED AUDIT  
 OF LOCAL EXPENDITURES OF  
 HEALTH INSURANCE ORGANIZATION  
 (H I O)  
AUDIT FINDINGS DETAILS

NOTE 8 - MEDICAL SUPPLIES

J.V #	DATE	ITEM DESCRIPTION	QUESTIONED COSTS	
			INELIGIBLE L.E	UNSUPPORTED L.E
35	NOV.90	UNSUPPORTED COST OF MEDICAL SUPPLIES		109
		BILLING IN EXCESS		<u>2,953</u>
		TOTAL		<u>3,062</u>
		EQUIVALENT IN USS		<u>1,084</u> =====

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**APPENDIX B**

**MANAGEMENT RESPONSE TO  
REPORTABLE CONDITIONS AND FINDINGS**

**(Unedited)**

Health Insurance Organization  
Family Planning Project



هيئة العامة للتأمين الصحي  
شروع تنظيم الأسرة

Mr. Abd Elaziz  
Public Manager  
Farid S. Mansour, Sr.  
Cairo - Egypt

Dear Sir:

Please find the attached response of the Health Insurance Organization Family Planning SubProject funded by U.S.A. AID/Population Office, Project No. 263 - 0144 P/L No. 23 to the U.F.A. conducted by your firm.

We would like to thank you and your colleagues for your assistance and looking forward for future cooperation with you.

*Abd ElAziz*  
18.8.93

Dr. Mohamed A. Arafa  
R.I.C. Charmain  
*M. A. Arafa*  
08 - 25 - 1993

Health Insurance Organization  
Family Planning Project



الصحة العامة للتأمين الصحي  
شروع تنظيم الأسرة

Mr. Abdul Aziz Mahmoud  
FARID S. MANSOUR & CO.  
Tiba 2000 Centre  
Rahaa El Adaweya  
Nasr City - Cairo 11371

Dear Sir:

We have received your letter on 28 July 1993 in which you discuss the importance of controlling fixed salaries' disbursement and related procedures to be adopted and we have taken into consideration the issues raised in our meeting on August 15, 1993 during which we exchanged opinions and tried to clarify the reasons for discrepancies found and the ways to support the disbursing vouchers with proper documentation (as per your request) to comply with USAID regulations.

This meeting was attended by the following representatives

From Farid S. Mansour & Co:

Abdul Aziz Mahmoud  
Yasser El Farnawany  
Nader Fawzy  
Khaled Mahmoud

From HIO's Head Office:

Aly Dawood  
Fahima Ibrahim  
Adel Mustata Mahmoud  
Nader Louis  
Dr. El Sayed Hanaty



From the Assiut Region:

Gamil Abdel Rahman

From the Canal Region:

Ashraf Abdel Fattah

The above meeting was a completion of the previous one held on August 1, 1993 at the Family Planning premises in Nasr City which was attended by all above mentioned representatives in addition to the following:

From the Alexandria Region:

Ahmed El Kashef

Abdalla Emara

From the Cairo Region:

Sanaa Girgus

From the Giza Branch:

Rabia Abbas

We would like to express our thanks for your presence and your interpretation of HIO's draft response and comments on the Audit Findings and Remarks detailed in your report.

We are giving you hereunder a summary of our response as follows:

**I. Providing the missing supporting documents and completing appropriate documentation for disbursing vouchers**

The CPA firm's remarks were introduced to HIO's officials who facilitate the process of gathering the required documents and supporting the majority of missing documents in a way that seems acceptable to the Audit Firm.

**II. Procedures for maintaining attendance records to support fixed and variable salary disbursements**

During one meeting, you identified the importance of controlling the salary disbursements and you explained the appropriate procedures that should be followed in your letter dated July 28, 1993. Accordingly, we describe to you hereunder the system which was adopted to control the attendance, summarized as follows:



1. According to the contract with USAID, HIO comply with what is stated in the original project paper, Provision D, Page 10. Provision A, Page 18 describes the organizational structure and the method of activity management. Provision C, Page 20 stipulates that performance reports should be the basis for disbursing compensation.
2. Accordingly, the following system was applied:
  - a. The majority of project employees are originally HIO employees and are working on the project as part-timers. Therefore, HIO attendance records were the basis for disbursing salaries, based on the working hours for original and additional work, assessed to be from 8 am to 4 pm and their duties are assigned based on the annual plan of the project and salaries are disbursed based on monthly performance level and this complies with the main objective for the project and the need to integrate HIO services by including *family planning* to insure service continuity after project completion. The quarterly report details the level of performance for all employees on the project.
  - b. Monthly salaries disbursed to clinic doctors are based on performance level.
  - c. All employees having the title of *General Manager* are exempted by Egyptian Law from signing the attendance records as they are required to conduct their supervision activity even though work may continue or seminars held beyond specified working hours.
  - d. The staff of the clinic provides services during a specified period daily as attested on the attendance sheet sent to the financial officer at the end of the month. All clinic salaries are disbursed on the basis of the said attendance sheets.
  - e. All contracted employees on a regional level (the executive director and Alexandria Branch accountant) sign an attendance sheet.
  - f. All contracted employees at HQ level and all full and part-timers sign an attendance sheet.
3. Furthermore, a consulting CPA firm (Shawki & Co.) revised the salaries system



applied and presented no comments or objections.

4. We recognize that the attendance system applied even by USAID does not comply with the system recommended by the CPA firm.
5. The technical assistant of the project has not recommended any changes to be made to the system applied.
6. The project level of performance was evaluated by USAID and a report issued by Mr. Ernst Patrick on the final evaluation stating that the work done on the project was appreciated and that the actual level of performance reached 76% of 1992 budget (P. 43 of last performance report) and this complies with disbursement rates for incentives.

### III. System applied for travelling and lodging

You have kindly interpreted the rules and regulations followed by USAID which were used as a base for auditing by HIO. Accountant Aly Daoud has presented the rules and regulations followed by the project for disbursements and after the discussion we decided, according to your request, to set a meeting for Thursday August 19, 1993 during which all documents would be presented to HIO's financial team and the auditing team in our office.

Our response to the remarks related to per diem, lodging and meals presented during seminars and training courses can be summarized as follows:

HIO is required to follow the financial and administrative rules and those applying to per diem and lodging set forth as follows:

1. The original agreement and Amendment 1, Table E3 stipulates that HIO should follow a special policy developed for transportation disbursements within the budget for the line item. The USAID Family Planning office has assured this when Appendix No. 7 was issued in relation to authorization needed for transportation budget.



2. According to the system set by the General Accounting Bureau, we deducted 2/3 of applied per diem in cases where full accommodation was provided.
3. Meals and beverages presented during courses and seminars were programmed as being part of the executive plan authorized by USAID.
4. HIO's financial regulations regarding travel expenses, per diem etc. allow the use of the published Railways Price List instead of requiring the presentation of train tickets for the following reasons:
  - The majority of HIO supervisory staff use their own cars during field visits.
  - Train tickets do not bear the traveller's name and therefore cannot be considered as supporting documentation under the HIO system.
5. The consulting CPA firm (Sahwki & Co.) revised the applied system and had no comments or objections.
6. HIO was not advised by USAID that any specified procedures for travel and related per diem disbursements were to be applied.

**IV. Including accrual estimates in the reports**

Your office has noted a difference between the total expenditure report to the end of March 1992 and the total actual entries. According to the cash base an amount of \$32,721 representing accrued expenses was paid subsequently to settle printing costs of material and forms required. We had received the ordered material but could not settle in cash as we were short of hand money. We also had to settle maintenance costs for medical equipment, as well as performance incentives and other accrued expenses payment of which had been postponed.

On the other hand some cheques were issued for the branches but these are not considered payable before being recognized as actual expenditures by the branches.

Since several payments did not require immediate payment, they were accrued and paid during subsequent periods. Accordingly, the final situation upon project completion, at the



end of December 1992, balanced and all actual payments reconciled with the final disbursement record for the month of December 1992 as identified in the bank statement and its balance which approximates LE. 200,000 by the end of the project (no other cheques were issued after the end of December 1992). Therefore it is clear that these amounts have been included among payments made for subsequent periods, between April 1992 and December 1992.

Furthermore, the liquidity problem can be summarized in the fact that the advance of LE. 150,000 assigned to the project by USAID was insufficient to meet all obligations assumed until reimbursement procedures would be set up. The delay was usually caused by complicated banking procedures (clearing between different banks). Furthermore, it is obviously clear that the financial reviewing process carried out by USAID takes an extended duration of time.

Attached is a draft schedule detailing HIO's response to the audit report. Please do not hesitate to contact us should you need any further clarifications.

Very truly yours,

ALY M. DAWOOD

General Accounting Manager

August 25, 1993



مصلحة التأمين الصحي  
مشروع تنظيم الأسرة

Draft No. 1

HIO FP RESPONSE TO FARID S. MANSOUR  
FINANCIAL AUDIT

DOCUMENT NO.	DATE	QUESTIONED COST	COST DESCRIPTION	QUST. DESCRIPTION	HIO FP RESPONSE
		LE		KIND REASON	Statement
<b>GENERAL:</b>					
<b>HEADQUARTER:</b>					
8	1/2/89	315	990	Un Sp. Equip. Machine	Un Sp. = Unsupported costs In Cr. = Ineligible costs Discussed, satisfied & deleted.
<b>MEDICAL EQUIPMENT:</b>					
<b>HEADQUARTER:</b>					
13	21/6/89	1630	13081	Un Sp. Med. Equip.	One Unit Without Invoice or any support. Documents Discussed, satisfied & deleted.
<b>NON-MEDICAL EQUIPMENT:</b>					
<b>HEADQUARTER:</b>					
8	30/01/91	5728	16183	Un Sp. Non Med. Equip.	Diffnt. Equip. Without Invoice or any Support. Documents Discussed, satisfied & deleted.

Ali Mansour / J. Mansour  
19-08-93



STATEMENT NO.	DATE	QUESTIONED COST	COST DESCRIPTION	QUEST. DESCRIPTION	KIND	REASON	HEALTH RESPONSE Statement
<b>RENOVATION :</b>							
<b>DELTA REGION:</b>							
7	22/02/89	1155	1116	Renovation Works	Un sp.	Inadequately Supported	Discussed satisfied & deleted
<b>MIDDLE DELTA REGION:</b>							
1	23/02/89	2806	7928	Renovat. Works	Un sp.	Not Supported by Payments Certificates or Invoices for the Works Achieved.	Discussed Satisfied & deleted
2	02/02/89	2009	5675				
3	08/02/89	802	2257				
4	08/02/89	798	2255				
18	26/07/89	3057	8637				
20	29/07/89	1224	3458				
21	08/08/89	2685	7587				
25	15/08/89	1209	3417				
25 2	15/08/89	991	2528				
26 1	19/08/89	2236	6316				
26 2	19/08/89	1332	3732				
26 3	19/08/89	1201	3217				
27	25/10/89		1337				
			1477				
			137				
31	30/07/89	507	1433				
Sub total		21201.5	68374				
total		25656.5	72484				
<b>WEST AND SOUTH OF UPPER EGYPT REGION:</b>							
13	30/10/89	1646	1656	Non Items	in lg.	Not Related to the Project Activities.	Discussed satisfied & deleted

16/1/2000

17-08-13

Health Insurance Organization  
 Family Planning Project



هيئة التأمين الصحي  
 مشروع تنظيم الأسرة



DATE	QUESTIONED COST	COST DESCRIPTION	JUSTIFICATION	REASON	HIO FP RESPONSE	
<b>HEADQUARTERS</b>						
8-15-89	6300	17800	Trang.	In Sp.	No Trang. Sheet	I Discussed
1-9-89	5150	11550	Seminar			Satisfied
3-21-89	939	674	Trang.		No Trvl. Ticket Attached	II Deleted
			Per diem			An Approval Per Diem rates is Applied. Following establish HIO policies as it remained in Amend. No 7 regarding Sched. in the Subproject Modification. Since trvl. ticket is not properly documented the HIO Offices use a fixed train prices list instead.
<b>Total</b>	<b>11689.1</b>	<b>33024</b>				
15-30-91	1189	3360	The Cost of	In lg.	Payment	III An Approval
3-30-91	1380	3900	of			Per Diem Rates
10-6-89	337	952	Foods &		Addition	is Applied
9-26-89	150	425	Beverage		to	Following established
11-27-89	391	1104	Served		Flat	HIO policies as it
8-11-89	313	8544	Per		Rate	remained in Amend.
10-31-89	221	622	Travels		Per diem	No 7 about Sched. F-1
11-31-89	123	347	during			in the Subproject
12-31-89	1	31	Travelling			Modification.
11-7-90	360	1040	Seminars			& According to
1-18-91	11	115				the GOE reduction
3-7-91	351	3698				per diem rate
11-21-91	181	720				by 2-31%
1-5-91	29	92				Whole Meals &
9-7-91	29	111				soft drinks
11-21-91	923	3257				is offered during
2-16-91	150	1271				training seminars
11-3-91	1281	3620				& Work Shops
15-29-91	857	2420				which are programmed
12-31-91	35	269				& is included within
10-31-91	98	276				the average cost
9-29-92	68	192				of training budget
14-16-91	355	1002				related to the
1-15-92	1313	3122				implementation plan,
1-15-92	99	290				which is previously
1-15-92	301	768				Approved
1-11-93	392	1020				No other constraints
1-10-91	115	325				have been mentioned in
10-28-91	112	100				the Project Paper.
1-16-92	319	900				& CPA did not give
11-31-91	159	150				any notes in their
<b>Grand Total</b>	<b>708</b>	<b>2000</b>				previously audit reports
<b>Total</b>	<b>19718</b>	<b>55792</b>				

Health Research Organization  
Annual Planning Project



مينة العامة للتأمين الصحي  
مركز تنظيم الأبحاث

Account No.	Date	Budgeted Cost		Description	Actual Distribution		Remarks	
		E	LE		Un Sp.	Unsuprd		
<b>CAIRO REGION</b>								
118	31-12-90	155	438	Sessions	Un Sp.	Unsuprd	Discussed & satisfied	
117	31-12-90	116	328	Salaries		By		
288	12-3-91	120	338	For		Time	discussed & deleted	
332	7-12-91	89	252	Time		Sheets		
453	31-12-91	151	428	Team				
21	11-3-92	147	414					
21	11-3-92	110	311					
37	23-2-92	146	413					
51	9-2-92	145	410					
58	9-3-92	152	430					
58	12-3-92	79	223					
Sub Total		1111	3085					
<b>MIDDLE DELTA REGION</b>								
59	2-1-90	159	449	Sessions	Un Sp.	Unsuprd	Discussed & satisfied	
				Salaries		By		
				For		Time	discussed & deleted	
				Time		Sheets		
				Team				
<b>ASSISTANT GOVERNOR OF FOUR EGYPT REGION</b>								
13	11-90	115	323	Sessions	Un Sp.	Unsuprd	Discussed & satisfied	
20	11-90	80	85	Salaries		By		
21	11-90	175	493	For		Time	discussed & deleted	
11	12-90	29	82	Time		Sheets		
12	12-90	133	375	Team				
14	1-90	104	321					
23	12-91	171	482					
7	1-11-89	152	430					
8	1-11-89	161	455					
7	1-11-89	148	419					
Sub Total		1398	3668					
Sub Total		2868	8102					
25	2-92	12	35	Sal. for	Un Sp.	Incentives	Dedistribute the Assigned	
				St.C.Dr		Planed		
21	2-92	154	425	For		Unthr.	Discussed	
				Salary		Non		
22	2-92	154	428			Employees	discussed & deleted	
Sub Total		315	890					

*M. Mansour*  
*El-Halla*  
79-05-93  
46



ITEM NO.	DATE	QUESTIONED COST	COST DESCRIPTION	REASON	RESPONSE
<b>CONTINGENCY:</b>					
<b>SWAN REGION:</b>					
20	3/5/91	15	Soft drinks	In lg. Prohibited	V According to the orgn. & modif. Project Paper Soft meals & drinks are not Prohibited and it is included through the programmed implement. plans & its related Training & Market Budget Items.
<b>MARKETING:</b>					
<b>NORTH WEST OF DELTA REGION:</b>					
197	12/8/91	19	Top Costs	Un Sp. Inadqut. Support.	I Discussed Satisfied & deleted
222	15/9/91	51	Top Costs	Un Sp. No frvl. Ticket Attached	II AS previously mentioned
		158			
		147			
<b>ASSET AND SOUTH OF UPPER EGYPT REGION:</b>					
20	11/91	150	Meas & soft drinks	In lg. Prohibited	V AS previously mentioned
11	12/91	130	Meas & soft drinks	In lg. Not Related	I AS previously mentioned
		130			
		155			
		155			
<b>REMAINING COSTS:</b>					
<b>ASSET AND EAST OF DELTA REGION:</b>					
18	13/12/91	11	Meas & soft drinks	In lg. Prohibited	V AS previously mentioned
		11	Meas & soft drinks	Un Sp. No frvl. Ticket Attached	II AS previously mentioned
		18			
		35			
		190			
		18			
		50			
		21			
		135			
		390			
<b>MARSA REGION:</b>					
280	31/10/91	12	Meas & soft drinks	Un Sp. No frvl. Ticket Attached	II AS previously mentioned
<b>ASSET AND SOUTH OF UPPER EGYPT REGION:</b>					
Several Entries		903	Meas & soft drinks	Un Sp. No frvl. Ticket Attached	II AS previously mentioned
		1980			
		3952			

Handwritten signature and date: 5/17

Health Insurance Organization  
Family Planning Project



هيئة العامة للتأمين الصحي  
مدرع تنظيم الأسرة

Category	QUESTIONED COST		COST DESCRIPTION	COST DESCRIPTION		COMPTROLLER'S STATEMENT
Amount	LE	LE	Amount	REASON	Statement	
<b>SALARIES AND SALARY SUPPLEMENT</b>						
HEADQUARTER	34141	152959	Total	11	Not	VI The statement is attached
WEST	18315	46093.1	Amount		Supplied	
EAST	13290	34520.7	of fixed		in	
DELTA			salaries		time	
TOTAL EAST	15715	44482.8	and		Sheets	
MIDDLE DELTA			Salary			
SEA AND	11299	31921.9	Supplements			
WESTERN-EGYPT						
MIDDLE DELTA	11753	11680.2				
EAST AND	3166	35895.8				
WESTERN-EGYPT						
SWAN	1218	3526				
TOTAL	111965	401080				
<b>TRANSPORTATION</b>						
HEADQUARTER	45	975	Aggregates	15	Prohibited	VI An Approval Per Diem rates is Applied. Following established HIO policies as it remained in Amend. No 7 regarding Sub in the Subproject Modification. Since travel ticket is not properly documented the main offices use a fixed travel prices list instead. No other constraints have been mentioned in the Project Paper. The CPA did not give any notes in their previously audit reports in addition miscellaneous local travel costs related to the project activities were essential to the communication affairs and bank works.
			of			
			admission			
			entries			
			to			
			travel			
			particular			
TOTAL EAST	118	15872	costs		Attached	
MIDDLE DELTA						
SEA AND	11	1111				
WESTERN-EGYPT						
SWAN	1100	1803				
TOTAL	2850	37828				

*J. Le Newwood*  
*J. Le Newwood*  
11-08-72

Health Insurance Organization  
Family Planning Project



هيئة العامة للتأمين الصحي  
مشروع تنظيم الأسرة

NO.	MONTH	QUESTIONED COST		QUEST. DESCRIPTION	QUEST. DESCRIPTION		HMO FP RESPONSE
		DATE	AMOUNT		KIND	REASON	
<b>CONTRACEPTIVES:</b>							
<b>WEST OF DELTA REGION:</b>							
22	11/10/90	58	151	Performance incentives	Un Sp.	Lacks the signature of employees upon receiving incentives	Discussed, Satisfied & deleted
22	17/11/90	46	131				
251	22/12/91	168	475				
257	22/12/91	108	305				
1	21/01/92	137	387				
1	21/01/92	99	281				
22	11/02/92	77	217				
29	29/02/92	115	326				
349	10/12/91	170	508				
	Total	988	2792				
<b>WEST OF DELTA REGION:</b>							
29	2/1/90	8	22	Performance incentives	Un Sp.	Lacks the reports of contraceptives installed	Foundation: It belongs to mid-delta Region. Discussed, Satisfied & deleted
<b>WEST AND SOUTH OF UPPER EGYPT REGION:</b>							
11	11/90	106	300	Performance incentives	in lg.	Paid for unauthorized persons	Discussed, Satisfied & deleted
11	08/90	57	160	Performance incentives	Un Sp.	Lacks the reports of contraceptives installed or missing	Discussed, Satisfied & deleted
6	10/90	37	102				
12	11/90	22	60				
12	11/90	107	303				
17	12/90	107	303				
18	12/90	22	60				
	Total	415	1178				
<b>WEST:</b>							
23	15/01/91	115	314	Performance incentives	Un Sp.	Lacks the reports	Discussed, Satisfied & deleted
	Total	1560	4406				
<b>MEDICAL SUPPLIES:</b>							
<b>WEST AND SOUTH OF UPPER EGYPT REGION:</b>							
25	11/90	39	109	Medical Supply	Un Sp.		Discussed, Satisfied & deleted
Total of UN-REPORTED		205538	580686				
Total of ELIGIBLE		227668	61220				

A.R. Dawood  
7/7  
17-03-93

**APPENDIX C**

**AUDITORS' COMMENTS  
ON MANAGEMENT RESPONSE  
TO AUDIT FINDINGS**

FINANCIAL RELATED AUDIT  
OF LOCAL EXPENDITURES OF  
HEALTH INSURANCE ORGANIZATION  
(HIO)

Project Implementation Letter No. 23  
Project No 263 - 0144

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AUDITORS' COMMENTS  
ON MANAGEMENT RESPONSE  
TO AUDIT FINDINGS

A. **Billing in Excess**

\$ 32,720 HIO concurs that there is a difference between billings made to USAID and actual disbursements. Part of this difference was cleared out during the subsequent April/December 1992 period and the remainder included in the total amount of LE 200,000 representing the balance of the HIO account at the end of December 1992.

We are not in a position to verify the above statement since our audit covered only the period from April 1988 through March 1992 and we recommend that the Mission take action to verify these facts.

B. **Renovations - Note 1**

\$ 9,940 Although HIO provided us with extra documentation to support renovation expenditures, we still believe that this documentation is inappropriate and lacking legal

requirements to substantiate such costs. We need to obtain formal payment certificates from the contractor.

**C. Start-Up Training - Note 2**

\$ 19,748 HIO provided trainees with flat rate per diem in addition to full board accommodations during seminars. As long as the trainees were provided with full board accommodations, all food and beverage costs should have been borne by them. Moreover, Mr. Lawrence R. Eicher, Project Officer in his letter dated April 8, 1990 addressed to the Chairman of HIO states that ... *no per diem be paid to travellers if project funds are used to cover the full board expenses related to any official travel.*

HIO has addressed neither questioned costs relating to the video taping of training seminar events nor unallowable tips paid out.

\$ 239 HIO failed to provide any documentation to support this cost.

**D. Clinic Salaries - Note 3**

\$ 1,239 The absence of time sheets required to support any salary disbursements cannot be justified, especially that no adequate control procedures are applied.

\$ 315 Incentives should be paid only to authorized personnel of the project.

**E. Contingency - Note 4**

\$ 15 Soft drinks are not defined under the budget and entertainment expenses are unallowable costs under USAID regulations.

**F. Marketing - Note 5**

\$ 109 HIO failed to provide any documentation to support this cost.

\$ 150 Meals and soft drinks are not defined under the budget.

**G. Retraining Costs - Note 6**

\$ 34 Meals and soft drinks are not defined under the budget.

\$ 903, \$ 42 & \$ 135 HIO failed to provide any documentation to support these costs.

**H. Salaries**

\$ 148,234

o The fact that all personnel working on the USAID funded project are originally HIO employees creates the necessity that entirely separate attendance records be kept for the project. HIO general attendance records do not indicate the actual time spent on the project neither do they justify the cost of salary payment. Moreover we have our doubts regarding the accuracy of these records.

o USAID regulations require that attendance procedures be applied to all personnel assigned to a project regardless of position or title.

o As auditors, we are required to express our opinion independently, according to our understanding and regardless of different views which may have been offered by others.

o Finally, we are not in a position to form an opinion regarding the attendance procedures applied by USAID and referred to in HIO's response.

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**I. Transportation**

\$ 9,850 HIO failed to provide any documentation to support this cost.

\$ 345 As per HIO policy, transportation expenses from/to employee's residence and his work location are unallowable.

**J. Variable Salaries - Note 7**

\$ 417 & \$ 147 HIO failed to provide any documentation to support this cost.

\$ 106 Incentives should be paid only to authorized personnel of the project.

**K. Medical Supplies - Note 8**

\$ 39 HIO failed to provide any documentation to support this cost.

**APPENDIX D**

**AUDITORS' COMMENTS**

**ON MANAGEMENT RESPONSE**

**TO MATERIAL WEAKNESSES**

**AND REPORTABLE CONDITIONS**

**FINANCIAL RELATED AUDIT  
OF LOCAL EXPENDITURES OF  
HEALTH INSURANCE ORGANIZATION**

(HIO)

Project Implementation Letter No. 23  
Project No 263 - 0144

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**AUDITORS' COMMENTS  
ON MANAGEMENT RESPONSE  
TO MATERIAL WEAKNESSES AND REPORTABLE CONDITIONS**

We have no comment as HIO did not respond to our findings regarding the material weaknesses and reportable conditions identified and disclosed in our audit report on the Internal Control Structure, we have no comment.

**APPENDIX E**

**AUDITORS' COMMENTS  
ON MANAGEMENT RESPONSE  
TO NONCOMPLIANCE INSTANCES**

**FINANCIAL RELATED AUDIT  
OF LOCAL EXPENDITURES OF  
HEALTH INSURANCE ORGANIZATION**

(HIO)

Project Implementation Letter No. 23  
Project No 263 - 0144

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**AUDITORS' COMMENTS  
ON MANAGEMENT RESPONSE  
TO NON-COMPLIANCE INSTANCES**

We have no comment as HIO did not respond to our findings regarding non-compliance instances identified and disclosed in our audit report on compliance with PIL terms and applicable laws and regulations.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

OCT 19 1993

**MEMORANDUM**

RECEIVED  
20 OCT 1993

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

FROM: Amanda Levenson, OD/FM/FA *A. Levenson*

SUBJECT: NFA Report on Local Expenditures of the Health Insurance Organization/Family Planning Subproject Incurred under Project No. 263-0144, PIL No. 23 - Draft Report

Following is the Mission's response to the three Recommendations under the subject draft audit:

**Recommendation No. 1:**

We recommend that USAID/Egypt resolve questioned costs of \$218,457 consisting of ineligible costs of \$20,713 and unsupported cost of \$197,744 as detailed on pages 11 through 16 of the audit report.

**Mission Response:**

Mission is working closely with HIO to obtain the necessary documentation to help make its final determination regarding the questioned/unsupported costs. Therefore, Mission has no comments to offer at this time.

**Recommendation No. 2:**

We recommend that USAID Egypt require HIO to address its internal control weaknesses as detailed on pages 19 through 22 of the audit report.

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-2-

**Mission Response:**

Mission believes that since this activity was completed on December 31, 1992, and in the absence of other on-going activities under this PIL, it is not practical to request HIO to address the internal control procedures at this time. However, Mission realizes that HIO has an on-going activity under the Cost Recovery for Health Project No. 263-0170. In order to ensure that the internal control weaknesses identified in the audit do not exist under this activity, the Mission will request an assessment of HIO's internal control procedures under the health project, to be conducted either under the Mission assessment IQC or by the FAST Team. If weaknesses are identified, the Mission will request HIO to address them. Based on the above, Mission believes that this recommendation should be resolved and closed upon issuance of the final report.

**Recommendation No. 3:**

We recommend that USAID/Egypt require HIO to address the non-compliance issues as detailed on Pages 24 and 25 of the audit report.

**Mission Response:**

Mission agrees with this recommendation, however, as stated under Recommendation No. 2, the project has ended on December 31, 1992. Therefore, no further action can be taken.

Most of the HIO procurements were of small value, i.e., less than \$25,000. In certain cases, the project management used the same suppliers of goods and/or services that are dealing with HIO itself. These suppliers, mostly public sector companies, had earned their contracts through a bidding process to provide HIO with goods and/or services and the project bought into these contracts. The Mission recognizes that HIO could have expanded its competition for these small value procurement, however, since the project has ended, no remedial action is appropriate. The assessment referred to above will also look for similar compliance issues. The Mission requests that this recommendation be considered closed.

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**APPENDIX F****REPORT DISTRIBUTION**

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Associate Administrator for Operations, AA/OPS	1
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