

PD ABH -764

Regional Inspector General for Audit  
Cairo, Egypt

---

**Audit of the Ministry of Health (MOH) Local Expenditures Related to the Systems Development Project (SDP) under Project Implementation Letter (PIL) No. 15, a Sub-Project of USAID/Egypt Population/Family Planning Project No. 263-0144**

---

Report No. 6-263-94-009-N  
February 8, 1994



**FINANCIAL INFORMATION CONTAINED IN THIS REPORT MAY BE PRIVILEGED. THE RESTRICTIONS OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE ANY INFORMATION IS RELEASED TO THE PUBLIC.**



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

February 8, 1994

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford  
FROM: RIG/A/Cairo, Philippe L. Darcy  
SUBJECT: Audit of the Ministry of Health (MOH) Local Expenditures Related to the Systems Development Project (SDP) under Project Implementation Letter (PIL) No. 15, a Sub-Project of USAID/Egypt Population/Family Planning Project No. 263-0144

The attached report dated September 8, 1993, by Price Waterhouse presents the results of a financial audit of the Ministry of Health Systems Development Project locally incurred costs under Project No. 263-0144 funded by USAID/Egypt. The MOH is the principal public institution for delivery of family planning services. SDP supports comprehensive "up-grading" of the MOH Family Planning Service System in 21 governorates to increase contraceptive prevalence and effectiveness of contraceptive use.

We engaged Price Waterhouse to perform a financial audit of MOH/SDP's locally incurred expenditures of LE10,294,840 (equivalent to \$3,798,835) for the period July 1, 1987 through May 31, 1992 for PIL No. 15. The purpose of the audit was to evaluate the propriety of costs incurred during that period. In performing the audit, Price Waterhouse evaluated MOH/SDP's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Consolidated Fund Accountability Statement.

Price Waterhouse questioned \$691,063 in costs billed to USAID by MOH/SDP (including \$622,635 of unsupported costs). These questioned costs included fees for unauthorized consultants, training of non-project employees, salaries for unauthorized staff, excess construction costs, unauthorized local procurements and renovations of MOH facilities where documentation was not provided. Price Waterhouse noted internal control weaknesses related to MOH/SDP's controls over fixed assets, authorization for disbursements at the central office and governorates, evidence of reviews of research operations, personnel records for MOH appointees and the need to implement accounting standards and

U.S. Mailing Address  
USAID-RIG/A/C Unit 64902  
APO AE 09839-4902

Tel. Country Code (202)  
357-3909  
Fax # (202) 355-4318

#106, Kasr El Aini St.  
Cairo Center Building  
Garden City, Eg/pt

2

controls at the governorate and district levels. Additionally, they noted seven instances of non-compliance related to advance payments billed to USAID, the need for separate books and records for USAID funds at the district level in the Beheira and Cairo governorates, use of non-competitive procurement procedures, payments in excess of specified amounts authorized, taxes and customs duties billed to USAID, the unapproved 1989 project implementation plan and the lack of adequate project books and records.

As you can see, the amount of costs questioned is significant. Therefore, we strongly urge you to give priority to ensuring that the deficiencies identified by the auditors as the cause of this problem are resolved. Such action will not only protect U.S. Government interest in the funds already spent, but future expenditures as well.

Price Waterhouse has reviewed MOH/SDP's response to the findings. Where applicable they made adjustments in their reports or provided further clarification of their position. For those items not addressed, the response provided by MOH/SDP has not changed their understanding of the facts underlying the questioned costs of the Consolidated Fund Accountability Statement or the reportable conditions in the Reports on Internal Controls and Compliance.

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

**Recommendation No. 1:** We recommend that USAID/Egypt resolve questioned costs of \$691,063 consisting of ineligible costs of \$68,428 and unsupported cost of \$622,635 as detailed on pages 14 through 40 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 USAID are paid by MOH/SDP.

**Recommendation No. 2:** We recommend that USAID/Egypt require MOH/SDP to address the inadequate internal control procedures as detailed on pages 44 through 50 of the audit report.

This recommendation is considered resolved as USAID has requested MOH/SDP to address the internal control weaknesses identified in the report. The recommendation can be closed when RIG/A/C has assessed MOH/SDP's response and USAID/Egypt's follow-up for adequacy.

**Recommendation No. 3: We recommend that USAID/Egypt require MOH/SDP to address the non-compliance issues as detailed on pages 54 through 60 of the audit report.**

This recommendation is considered resolved as USAID has requested MOH/SDP to take the necessary actions to correct the compliance deficiencies. The recommendation can be closed when RIG/A/C has assessed MOH/SDP's response and USAID/Egypt's follow-up for adequacy.

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 Price Waterhouse and to our office.

**SYSTEMS DEVELOPMENT PROJECT**  
**CONSOLIDATED FUND ACCOUNTABILITY**  
**STATEMENT AND ADDITIONAL**  
**INFORMATION**

**PROJECT IMPLEMENTATION LETTER**  
**NUMBER 15, A SUB-PROJECT**  
**OF USAID/EGYPT PROJECT**  
**NO. 263-0144**

**FOR THE PERIOD FROM JULY 1, 1987**  
**THROUGH MAY 31, 1992**

*h*

**SYSTEMS DEVELOPMENT PROJECT**

**PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144**

**FOR THE PERIOD FROM JULY 1, 1987  
THROUGH MAY 31, 1992**

**TABLE OF CONTENTS**

	<u>PAGE</u>
<u>INTRODUCTION</u>	
Background	1
Audit objectives and scope	2
Results of audit	5
Management comments	7
<u>CONSOLIDATED FUND ACCOUNTABILITY STATEMENT</u>	
Report of independent accountants	9
Consolidated fund accountability statement and notes	12
Audit findings	15
<u>INTERNAL CONTROL STRUCTURE</u>	
Report of independent accountants	41
<u>COMPLIANCE WITH LAWS AND REGULATIONS</u>	
Report of independent accountants	51
<u>APPENDICES</u>	
Appendix A: Consolidated fund accountability statement expressed in Egyptian pounds	
Appendix B: Questioned costs expressed in Egyptian pounds	
Appendix C: SDP management comments on the financial- related audit	
Appendix D: Auditor's response	

December 7, 1993

Mr. Philippe Darcy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

Dear Mr. Darcy:

This report presents the results of our financial cost-incurred audit of Systems Development Project's disbursements in the central office and the governorates of Behera, Cairo, Dakahlya, Giza and Gharbeya ("SDP") under Project Implementation Letter ("PIL") No. 15, a sub-project of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Project No. 263-0144 ("Umbrella Grant Agreement"), funded by USAID/Egypt. The audit encompassed all disbursements for the period from July 1, 1987 through May 31, 1992.

#### Background

The Ministry of Health ("MOH") is the principle public institution for the delivery of family planning services. SDP supports comprehensive "up-grading" of the MOH Family Planning Service System in 21 Egyptian governorates during the years 1987 through 1992. The umbrella grant agreement's primary goal is to contribute to a reduction in the Egyptian birth-rate; SDP's specific directive is to increase contraceptive prevalence and effectiveness of contraceptive use.

PIL No. 15, amended 19 times through December 2, 1992, specifies a USAID/Egypt budget of LE 24,870,524 through December 31, 1992 and approves project implementation plans and other plans to achieve the objectives of the grant.

Audit objectives and scope

The principle objective of this engagement was to perform a financial cost-incurred audit of USAID/Egypt funds provided to SDP on PIL No. 15, a sub-project of USAID/Egypt Project No. 263-0144 for the period from July 1, 1987 through May 31, 1992.

Specific objectives were to determine whether:

1. The consolidated fund accountability statement for SDP presents fairly, in all material respects, project revenues and costs incurred and reimbursed pursuant to PIL No. 15 in conformity with generally accepted accounting principles or another comprehensive basis of accounting;
2. The costs reported as incurred under PIL No. 15 are in fact allowable, allocable, and reasonable in accordance with the terms of the PIL, USAID regulations and the umbrella grant agreement;
3. The internal controls, accounting systems and management practices of SDP are adequate for USAID/Egypt agreements; and

4. SDP is in compliance, in all material respects, with the PIL, the umbrella grant agreement terms and applicable laws and regulations.

Preliminary planning and review procedures were started in October 1992 and consisted of discussions with RIG/A/C personnel, SDP officials and a review of the umbrella grant agreement and PIL No. 15. Fieldwork commenced in November 1992 and was completed in September 1993.

The scope of our work was all costs incurred under PIL No. 15 in the central office and the following governorates: Behera, Cairo, Dakahlya, Giza and Gharbeya. Within each budget line item, we selected disbursements for testing on a judgmental basis to test a majority of expenditures. We tested expenditures of LE 7,829,747 out of total expenditures of LE 10,294,840, or seventy-six percent of project costs incurred during the period from July 1, 1987 through May 31, 1992.

Our tests of disbursements included, but were not limited to, the following:

1. Reconciling SDP's accounting records to invoices submitted to USAID/Egypt, and testing of costs for allowability, allocability, reasonableness, and appropriate support;
2. Determining that personnel costs were appropriate and conformed with the terms of the PIL, the umbrella grant agreement, and relevant procedures and regulations;

3. Determining that per diem and travel charges were adequately supported and approved; and
4. Establishing the adequacy of SDP's control over USAID/Egypt funded project equipment.

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 consolidated fund accountability statement is free of material misstatement.

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 control 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 Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

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

Results of audit

Consolidated fund accountability statement:

Our audit identified LE 1,872,780 (converted to \$ 691,063 at applicable exchange rates) in questionable costs, including LE 1,687,340 (converted to \$ 622,635 at applicable exchange rates) of unsupported costs.

Internal control structure:

We recommended that SDP adopt procedures to 1) improve the system of internal controls surrounding fixed assets, 2) require the proper authorization for disbursements for all budget line items at both the central office and the governorates, 3) maintain accomplishment reviews for research operations, 4) maintain a register and attendance records for MOH personnel appointed to SDP, 5) maintain a status report of documents and plans to be submitted to USAID/Egypt for approval, 6) and ensure accounting standards and controls are implemented and reviewed at the governorate and district levels by an internal auditor.

Compliance with agreement terms and applicable laws and regulations:

Our audit found 1) assets funded by USAID/Egypt are not marked with the USAID emblem, 2) various amounts were charged to USAID/Egypt in advance of payment, 3) a separate set of books and records for USAID/Egypt funds are not maintained at the district levels in the governorate of Behera and Cairo, 4) competitive bidding procedures on a number of goods and services procurement transactions have not been followed, 5) payments were made in excess of amounts specified in the project implementation plans or agreement, 6) employer social security taxes, customs duties and other GOE taxes were billed to USAID/Egypt, 7) approval for the 1989 project implementation plan was not obtained, and 8) the project failed to maintain adequate books and records.

Other matters:

In addition to the above mentioned matters, our audit found that a project vehicle (government license #1205/1) funded by USAID/Egypt was taken by the governor of Dakahlya for his own use on May 18, 1993 and was returned on July 31, 1993 after we brought the matter to the attention of SDP and subsequently, SDP requested that the governor return the vehicle to the project. The current governor changed the car license from government to personal and later traded the car with one from a Ministry of Irrigation project. The previous governor of Dakahlya followed this same practice from May 14, 1989 through May 5, 1991.

As noted above, our audit scope included only the SDP central office and five of twenty-one governorates in which we identified LE 1,872,780 (converted to \$ 691,063 at applicable exchange rates) in questionable costs, including LE 1,687,340 (converted to \$ 622,635 at applicable exchange rates) of unsupported costs, or 18% of total costs incurred of LE 10,294,840 (converted to \$ 3,798,835 at applicable exchange rates). It may be in USAID/Egypt's interest to consider auditing the remaining sixteen governorates, an additional LE 6,781,103 (converted to \$ 2,502,252 at applicable exchange rates) in costs incurred, not included in this report.

#### Management comments

We have reviewed SDP's response to the financial cost-incurred audit which are included as Appendix C. Where applicable we have made adjustments in our reports or provided further clarification of our position in Appendix D. For those items not addressed in Appendix D, the response provided by SDP have not changed our understanding of the facts underlying the questioned costs of the fund accountability statement, reportable conditions in the Report on Internal Control Structure or findings in the Report on Compliance with Law and Regulations.

This report is intended solely for the use of United States Agency for International Development and may not be suitable for any other purpose.

**REPORT OF INDEPENDENT ACCOUNTANTS**

September 8, 1993

Mr. Philippe Darcy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

We have audited the accompanying consolidated fund accountability statement of the Systems Development Project ("SDP") related to costs incurred for Project Implementation Letter ("PIL") No. 15, a sub-project of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Project No. 263-0144, for the period from July 1, 1987 through May 31, 1992. This statement is the responsibility of SDP's management. Our responsibility is to express an opinion on this statement based upon 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. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated fund accountability statement. An audit also includes assessing the

accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated fund accountability statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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 control 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 Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

As described in Note 3, the accompanying consolidated fund accountability statement has been prepared on the basis of cash disbursements. Consequently, disbursements are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying consolidated fund accountability statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.

Included in the consolidated fund accountability statement are questioned costs of \$ 691,063. The basis for questioning these costs is more fully described in the "Consolidated 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 consolidated fund accountability statement referred to above presents fairly, in all material respects, SDP's disbursements related to PIL No. 15, a sub-project of USAID/Egypt's Project No. 263-0144 for the period from July 1, 1987 through May 31, 1992 in conformity with the basis of accounting described in Note 3.

Our audit was conducted for the purpose of forming an opinion on the consolidated fund accountability statement described in the first paragraph. The supplemental information included in appendices A and B is presented for purposes of additional analysis and is not required as part of the basic consolidated fund accountability statement of SDP. Such information has been subjected to the auditing procedures applied in the audit of the basic consolidated fund accountability statement and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated fund accountability statement taken as a whole.

**SYSTEMS DEVELOPMENT PROJECT**  
**PROJECT IMPLEMENTATION LETTER NUMBER 15**  
**A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144**  
**CONSOLIDATED FUND ACCOUNTABILITY STATEMENT**  
**FOR THE PERIOD FROM July 1, 1987 THROUGH MAY 31, 1992**

	Actual Expenditures (Note 2)	Reclassification (Note 6)	Questioned Costs		Audit Findings Reference
			Ineligible (Note 5)	Unsupported (Note 5)	
Technical assistance	\$ 57,540	\$ (105)	\$ -	\$ 15,683	Finding A, Pg 14
Training	692,486	(28,470)	13,373	25,435	Finding B, Pg 15
Recruitment & incentives	993,149	26,177	1,810	32,315	Finding C, Pg 20
Commodities	1,298,762	(49,443)	35,779	13,959	Finding D, Pg 28
Minor renovations	109,223	58,610	2,564	71,241	Finding E, Pg 32
Project management & administration	153,175	(6,320)	14,847	2,410	Finding F, Pg 35
Evaluation	9,084	(449)	-	399	Finding G, Pg 37
Contingency	3,355	-	-	-	
Hospital services	<u>482,061</u>	<u>-</u>	<u>55</u>	<u>461,193</u>	Finding H, Pg 38
Total expenditures	\$ <u>3,798,835</u>	\$ <u>-</u>	\$ <u>68,428</u>	\$ <u>622,635</u>	

See accompanying notes to the consolidated fund accountability statement.

SYSTEMS DEVELOPMENT PROJECT

NOTES TO THE CONSOLIDATED FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF AUDIT:

The consolidated fund accountability statement includes all costs incurred in SDP's central office and the governorates of Behera, Cairo, Dakahlya, Giza, and Gharbeya and reimbursed by USAID/Egypt for PIL No. 15, a sub-project of USAID/Egypt project No. 263-0144 for the period from July 1, 1987 through May 31, 1992.

NOTE 2 - SOURCE OF DATA:

The column labeled "Actual Expenditures" is the responsibility of SDP and represents the cumulative costs billed to and reimbursed by USAID/Egypt for the period from July 1, 1987 through May 31, 1992 for the central office and the Behera, Cairo, Dakahlya, Giza, and Gharbeya governorates.

NOTE 3 - BASIS OF PRESENTATION:

The consolidated fund accountability statement has been prepared on the basis of cash disbursements. Consequently, disbursements are recognized when paid rather than when the obligation is incurred.

NOTE 4 - EXCHANGE RATE:

Costs incurred in Egyptian pounds have been converted to U.S. dollars at the monthly average exchange rate over the audit period. The rate approximates 2.71 Egyptian pounds to 1 U. S. dollar for the period from July 1, 1987 through May 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 PIL No. 15, the umbrella grant agreement and USAID regulations. 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 PIL, the umbrella grant agreement, or applicable laws and regulations. Costs in the column labeled "Unsupported" are also formally included in the classification of "questioned costs" and relate to costs that are not supported with adequate documentation or did not have the required prior approvals or authorizations. All questioned costs are detailed in the "Consolidated Fund Accountability Statement - Audit Findings" section of this report.

NOTE 6 - RECLASSIFICATION:

Amounts included in the consolidated fund accountability statement have been reclassified to reflect the proper classification of costs incurred.

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NO. 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144

CONSOLIDATED FUND ACCOUNTABILITY STATEMENT  
AUDIT FINDINGS

Our audit procedures identified the following invoiced costs that are ineligible or unsupported:

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<b>A. <u>Technical Assistance</u></b>		
<b><u>Central Office</u></b>		
1. Two amounts were billed to USAID/Egypt without adequate supporting documentation. In September 1987 a payment of LE 1,800 was made and there is no evidence of receipt. In September 1988 a payment of LE 3,210 was made and there is no disbursement voucher.	\$ -	\$ 1,849
2. Salaries were paid to four consultants in excess of the number of consultants allowed for the project. These amounts are considered unsupported.	-	<u>13,834</u>
<b>Total Technical Assistance</b>	<u>-</u>	<u>15,683</u>

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
B. <u>Training</u> <u>Central Office</u>		
1. Training expenses for non-project employees were paid in September and October 1987. These amounts are considered ineligible.	\$ 12,245	\$ -
2. Advances were paid by SDP to training institutions during 1987 through 1990. Upon settlement of the advances, amounts were returned to SDP. These amounts were not returned to USAID/Egypt and therefore are considered unsupported.		3,245
3. Training sessions were conducted at the governorates during the period 1988 through 1990. Items related to the training sessions such as per diem, lecturer fees, rental fees for facilities, etc. were billed to USAID/Egypt. Supporting documents for the expenditures are not available. Based on information presented subsequent to the issuance		

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
B. <u>Training</u>		
<u>Central Office (Con't)</u>		
of the draft report, a portion of the questioned costs previously reported as unsupported are considered ineligible. These are amounts for drinks and snacks which were purchased for training sessions and charged to USAID/Egypt. These amounts are considered ineligible.	\$ 396	\$ 12,418
4. Based on information presented subsequent to the issuance of the draft report, this finding has been removed.	-	-
5. During 1987 and 1988, monthly rewards were paid to participants in training sessions. This occurred in the subcenters of the first seven governorates. This is unsupported as there are no attendance sheets available for the training sessions.	-	4,579
<u>Giza</u>		
6. Soft drinks were purchased for a training session held in January 1991. No invoice or receipt was found.	-	55

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
B. <u>Training (Con't)</u>		
<u>Giza</u>		
7. Training sessions were conducted during 1991 and fees were paid to the trainees and supervisors. No supporting documents were found including attendance sheets or authorization for payment. These amounts are considered unsupported.	-	\$ 1,784
8. Management training courses were held in November 1991 and fees were paid to the trainees and supervisors. The project implementation plans do not allow for any management training. Furthermore, these amounts are unsupported by an attendance list. These amounts are considered ineligible.	697	-
9. Check no. 3816325 was billed to USAID/Egypt in November 1991. This check was cancelled and replaced by check no. 3916338 in December 1991 and again billed to USAID/Egypt. The cancelled check amount is unsupported.	-	55

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
B. <u>Training (Con't)</u>		
<u>Gharbeya</u>		
10. In January 1990, a bank deposit was erroneously recorded as an expense and billed to USAID/Egypt. This amount is considered unsupported.	\$ -	\$ 761
11. In February 1991, an amount was billed to USAID/Egypt in excess of the total expenditures amount recorded in the general ledger. There are no supporting documents or explanation for this variance, therefore this amount is considered unsupported.	-	2,108
12. Toner for the photocopier was purchased in November 1989. Office expenditures of this nature are not included in the implementation plans or project papers. These costs are considered ineligible.	35	-
13. Check No. 99325 for the amount of LE 800 was mistakenly billed to USAID/Egypt as LE 900. The difference is unsupported.	-	37

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
B. <u>Training (Con't)</u> <u>Behera</u>		
14. In January and November 1989, November 1991, and January 1992, amounts were billed to USAID/Egypt in excess of the total expenditure amounts in the general ledger. There were no supporting documents or explanations for these variances, therefore these amounts are considered unsupported.	\$ -	\$ 142
15. Four payments were made in 1989 and 1991 for training expenditures. Disbursement vouchers for these payments could not be located and are therefore considered unsupported.	-	251
16. Based on information presented subsequent to the issuance of the draft report, this finding has been removed.	-	-
<b>Total Training</b>	<b><u>13,373</u></b>	<b><u>25,435</u></b>

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
C. <u>Recruitment and Incentives</u>		
<u>Giza</u>		
1. Incentives were paid to Information, Education and Communication ("IE&C") specialists and nursing supervisors for attending monthly doctors' meetings. These individuals were not among the authorized participants for the meetings as specified in the project implementation plan. These amounts were paid in 1987 and 1988 and are considered ineligible.	\$ 273	\$ -
2. Incentives were paid to IE&C specialists at the rate of LE 5 per visit. The project implementation plan of 1992 states that the rate should be only LE 3.5 per visit. The difference between the approved rate and the rate paid is therefore considered ineligible.	93	-
3. On two occasions, nurses or doctors were paid incentives for attending meetings or seminars. Their signatures are not included on the attendance lists. These payments are unsupported.	-	6

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
C. <u>Recruitment and Incentives</u>		
<u>Giza (Con't)</u>		
4. Various amounts were charged for seminars and no adequate supporting documentation is available (such as location, date, and names of people attending the seminars). These amounts are considered unsupported.	\$ -	\$ 2,571
5. Check no. 408369 was billed to USAID/Egypt. This check was cancelled and replaced by check no. 408349 which was also billed to USAID/Egypt. The cancelled check amount is considered unsupported.	-	125
6. Incentives were paid to doctors for attending meetings but attendance sheets were not available. These amounts are considered unsupported.	-	253
7. Various amounts such as salaries and soft drink expenses were billed to USAID/Egypt. These expenditures lack adequate supporting documentation.	-	1,391

		<u>Questioned Costs</u>	
<u>Item Description</u>		<u>Ineligible</u>	<u>Unsupported</u>
C. <u>Recruitment and Incentives</u>			
<u>Giza (Con't)</u>			
8.	In July 1988 and October 1989, amounts were billed to USAID/Egypt in excess of the total expenditures recorded in the general ledger. There are no supporting documents or explanations for these variances. As such they are considered unsupported.	\$ -	\$ 284
9.	Cancelled checks in October 1988 and October 1989 were billed to USAID/Egypt. These amounts are considered unsupported.	-	254
 <u>Dakahlya</u>			
10.	Committee meetings were held more often than the one meeting per month allowed by the project implementation plan. Fees for these additional meetings were billed in January and February 1990 and are considered ineligible.	181	-

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
C. <u>Recruitment and Incentives</u>		
<u>Dakahleya (Con't)</u>		
11. An amount of LE 54 for salary supplements for two employees was billed in April 1989 and again in June 1989. The June 1989 amount was double-billed and is considered unsupported.	\$ -	\$ 20
<u>Cairo</u>		
12. Employees' salaries were not reduced during periods of absence as was stipulated in the project salary reduction schedule. The salary amounts were paid and billed in full to USAID/Egypt. These amounts are considered unallowable.	24	-
13. Various items billed under this line item were not supported with adequate documentation, including an invoice, check copy or receipt. The amounts were incurred in June and December 1990, October and December 1991, and January and April 1992.	-	997

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<u>C. Recruitment and Incentives</u>		
<u>Cairo (Con't)</u>		
14. Incentives were paid at the rate of LE 5 per visit while the project implementation plan states that the rate should be only LE 3.5 per visit. The difference between the approved rates and the rate paid is considered ineligible.	\$ 13	\$ -
15. Fees were paid for the Maadi District Family Planning Meeting in July 1991. No attendance sheet or other support is available to verify that the meeting was held and/or the number of SDP participants. These amounts are considered unsupported.	-	11
<u>Gharbeya</u>		
16. In October and December 1988 and May 1992, amounts were billed to USAID/Egypt in excess of the expenditures in the general ledger. There are no supporting documents or explanations for these variances, therefore, these amounts are considered unsupported.	-	2,417

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<u>C. Recruitment and Incentives</u>		
<u>Gharbeya (Con't)</u>		
17. Numerous recruitment and incentives payments were made without supporting attendance sheets or absentee reports. These expenditures occurred from 1988 through 1990.	\$ -	\$ 1,243
<u>Behera</u>		
18. The assistant manager was paid incentives at the manager's rate during November and December 1991. The allowed rates per training course for an assistance manager is LE 10 and for a manager is LE 20. The difference is considered ineligible.	37	-
19. Supporting documentation, such as attendance lists and receipts, was not available for numerous payments made at the districts. (Five of the fifteen districts were selected for our audit sample). These amounts are considered unsupported.	-	10,923

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
C. <u>Recruitment and Incentives</u>		
<u>Behera (Con't)</u>		
20. Project IE&C personnel were paid for certain supervisory visits and courses. No documentation was available to verify these visits or courses and therefore to support payment. As such, these payments are considered unsupported.	\$ -	\$ 2,344
21. Fees were paid to participants of committee and doctors' meetings from 1989 to 1992. There were no attendance sheets for these meetings, therefore these payments are considered unsupported.	-	2,173
22. Salaries were paid to staff for whom no personnel records exist, including vacation and sick leave records. These payments were made in September and October 1988 and are considered unsupported.	-	2,375
23. An income tax payment was billed to USAID/Egypt in September 1988. As no taxes should be paid with USAID/Egypt funds, this amount is considered ineligible.	498	-

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
C. <u>Recruitment and Incentives</u>		
<u>Behera (Con't)</u>		
24. Three expenditures were recorded in the general ledger and billed to USAID/Egypt without any supporting documentation. These amounts are considered unsupported.	\$ -	\$ 502
25. Incentives were paid to IE&C specialists at the district level for attending monthly doctors meetings. IE&C specialists are not authorized to participate in such meetings as specified in the project implementation plans and the budget. As such, these payments are considered unallowable.	557	-
26. Incentives were paid to IE&C specialists at the rate of LE 5 per visit. The project implementation plan states that the rate should be only LE 3.5 per visit. The difference between the approved rate and the rate paid is therefore considered ineligible.	75	-
27. Incentives were paid to IE&C specialists for supervisory visits in excess of the eight visits allowed per month. The incentives paid for the excess visits is considered unallowable.	59	-

		<u>Questioned Costs</u>	
<u>Item Description</u>		<u>Ineligible</u>	<u>Unsupported</u>
<b>C. <u>Recruitment and Incentives</u></b>			
<b><u>Behera (Con't)</u></b>			
28.	Various payments were made at the district level for which no evidence of receipt was available. These amounts are considered unsupported.	\$ -	\$ 146
29.	Amounts were billed to USAID/Egypt in excess of the total expenditures recorded in the general ledger. There are no supporting documents or explanations for these variances. As such they are considered unsupported.	<u>-</u>	<u>4,280</u>
	<b>Total Recruitment and Incentives</b>	<b><u>1,810</u></b>	<b><u>32,315</u></b>
<b>D. <u>Commodities</u></b>			
<b><u>Central Office</u></b>			
1.	Expenditures in excess of the amount approved for the construction of the SDP office were charged to the commodities budget line item. This over spending should have been properly approved and charged in the renovations budget line item. This amount is considered unsupported.	-	5119

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
D. <u>Commodities</u>		
<u>Central Office (Con't)</u>		
2. Several items such as a water cooler, desk fans, air heaters, shelves, and air conditioners were purchased in 1988 through 1991. These items were not included in the procurement plan or the project implementation plan nor was approval obtained. As such, these amounts are considered to be ineligible.	\$ 12,586	\$ -
3. Rent was paid for three apartments in the Beni-Souef governorate for two months in 1983. These expenses were incurred by the previous family planning project and are not related to PIL No. 15. These amounts are considered ineligible.	55	-
4. A 6% penalty was imposed on a printing invoice for poor quality. However, the total amount of the invoice was billed to USAID/Egypt. The amount of the penalty is therefore considered ineligible.	108	-

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
D. <u>Commodities</u>		
<u>Central Office (Con't)</u>		

5. Advances were paid to hospitals located in the governorates to purchase commodities in June and November 1991. Supporting documents for these amounts are kept at the hospitals and are GOE property, to which we do not have access. These amounts are considered unsupported.

	\$ -	\$ 3,855
--	------	----------

6. Several amounts were billed which were not supported with adequate documentation, including an invoice, check, or copy of receipt. These amounts were incurred during the period October 1987 through June 1988 and are considered unsupported.

Based on information presented subsequent to the issuance of the draft report, a portion of the questioned costs previously reported as unsupported are considered ineligible. These are amounts which were charged for incentives paid to laborers for their assistance in the renovation of the central office and to the staff for

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
D. <u>Commodities (Con't)</u> <u>Gharbeya</u>		
<p>their "extra effort" in performing normal procurement procedures. Additionally, an amount was charged for a payment to a contractor in excess of the contract amount to compensate for an increase in the price of wood, which can be purchased on the free market, due to inflation. As tenders were not obtained, proper procurement procedures were not followed. As such, these amounts are considered ineligible.</p>	\$ 1,774	\$ 4,166
7. An amount was billed to USAID/Egypt in December 1987 for the purchase of a paper shredder. The check was cancelled and the paper shredder was not received. This amount was not returned to USAID/Egypt and is considered unsupported.	-	166
8. LE 914 was paid for moving furniture (a desk, sofas, a table, and 90 chairs). In consideration of the service, any amount above LE 100 is considered unreasonable.	300	-

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
D. <u>Commodities (Con't)</u>		
<u>Behera</u>		
9. Bonus payment for performing normal procurement procedures was paid to GOE employees. These payments are not included in the incentive plan, PIL or project papers and are considered ineligible.	185	-
10. A photocopier was purchased for a price in excess of the budget amount and without USAID approval. The difference is considered unsupported.	-	653
11. Invoices for commodities purchases are addressed to the MOH. These assets are then commingled with MOH property and therefore cannot be identified as program related. As such, these payments are considered ineligible.	<u>20,771</u>	<u>-</u>
<b>Total Commodities</b>	<b>\$ <u>35,779</u></b>	<b>\$ <u>13,959</u></b>

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
E. <u>Minor Renovations</u>		
<u>Central Office</u>		
1. Supporting documents for check no. 977488 dated January 16, 1992 were not available. These vouchers were said to be kept at the Mounira Hospital and are GOE property to which we do not have access. This amount is considered unsupported.	\$ -	\$ 1,177
2. Total expenditures for construction of the SDP office were approved for LE 65,000. Actual costs incurred and billed to USAID/Egypt in the minor renovation budget like item totalled LE 77,202. The difference is considered unsupported.	-	4,503
<u>Giza</u>		
3. A cash advance was made to a district in November 1988 by check no. 407895. There is no supporting documentation available for this expenditure.	-	59

		<u>Questioned Costs</u>	
<u>Item Description</u>		<u>Ineligible</u>	<u>Unsupported</u>
E.	<u>Minor Renovations</u>		
	<u>Giza (Con't)</u>		
	4. Supporting documents for 76% of total expenditures for minor renovations in Giza were located at the district offices. These vouchers were considered to be GOE property and we were not allowed access to the documents. This portion of the expenditures is considered unsupported.	\$ -	\$ 20,531

Dakahlyya

5. Supporting documentation for this budget line item are kept at city council offices and we were not allowed access to the documents during our audit. Based on information submitted subsequent to the issuance of the draft report, this finding was reduced by LE 55,671 (\$20,543) to LE 98,236 (\$36,249), including LE 97,354 (\$35,924) unsupported costs. Included in these questioned costs are amounts totalling LE 882 (\$325) paid as penalties. These amounts are considered ineligible. Also included in these questioned costs are advances made to the districts and subcenters for renovations and charged to USAID/Egypt. Upon settlement of these

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<u>E. Minor Renovations</u>		
<u>Dakahlya (Con't)</u>		
<p>advances, remaining amounts were not returned to USAID/ Egypt. These amounts total LE 17,427 (\$6,431) and are included in the unsupported costs. The remainder of this budget line item is considered unsupported.</p>	\$ 325	\$ 35,924
<u>Cairo</u>		
<p>6. Advances were made to district offices in May 1991. Upon settlement of these advances, amounts were returned to the Cairo office. These amounts were not returned to USAID/ Egypt and therefore are considered unsupported.</p>	-	516
<p>7. Revenues were received from selling bids for renovations. The revenues were not added to USAID/Egypt funds or deducted from the cost of the related renovation. These amounts are therefore considered ineligible.</p>	52	

Questioned Costs

<u>Item Description</u>	<u>Ineligible</u>	<u>Unsupported</u>
E. <u>Minor Renovations</u>		
<u>Gharbeya</u>		
8. Supporting documentation for this budget line item are kept at city council offices and we were not allowed access to the documents during our audit. Based on information submitted subsequent to the issuance of the draft report, this finding was reduced by LE 22,243 (\$8,208) to LE 12,534 (\$4,625), including LE 12,484 (\$4,607) unsupported costs. Included in these questioned costs are amounts totalling LE 50 (\$18) paid as penalties. These amounts are considered ineligible. Also included in the questioned costs are advances made to the districts and subcenters for renovations and charged to USAID/Egypt. Upon settlement of these advances, remaining amounts totalling LE 90 (\$33) were not returned to USAID/Egypt. These amounts are included in the unsupported costs. The remainder of this budget line item is considered unsupported.	\$ 18	\$ 4,607

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
E. <u>Minor Renovations</u> <u>Behera</u>		
9. Supporting documentation for this budget line item are kept at city council offices and we were not allowed access to the documents during our audit. Based on information submitted subsequent to the issuance of the draft report, this finding was reduce by LE 5,709 (\$2,107) to LE 10,735 (\$3,961), including LE 10,635 (\$3,924) unsupported costs. Amounts totalling LE 100 (\$37) were paid as penalties and are considered ineligible. The remainder of this budget line item is considered unsupported.	\$ 37	\$ 3,924
10. Invoices for minor renovations are addressed to the MOH. These assets are then commingled with MOH property and cannot be identified as program related. As such, these payments are considered ineligible.	<u>2,132</u>	<u>-</u>
<b>Total Minor Renovations</b>	<b><u>2,564</u></b>	<b><u>71,241</u></b>

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
F. <u>Project Management and Administration</u> <u>Central Office</u>		
1. Various expenditures relating to PIL No. 29 were incurred in 1987 and 1988 and billed under PIL No. 15. Of these PIL No. 29 expenditures, three amounts are billed to USAID/Egypt twice. The total of those amounts are considered ineligible.	\$ 6,039	\$ -
2. In June 1988, February 1990, and May 1991, amounts were billed to USAID/Egypt in excess of the total expenditures recorded in the general ledger. There were no supporting documents or explanations for these variances. Therefore these amounts are considered unsupported.	-	931
3. Rewards were paid to employees for "extra effort." The contract allows salary supplements to be paid by the central office for governorate level employees only. Therefore, these amounts are considered ineligible.	2,272	

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
F. <u>Project Management and Administration</u> <u>Central Office (Con't)</u>		
4. Various amounts were billed to USAID/Egypt without adequate supporting documentation, such as evidence of receipt. These amounts were incurred throughout 1987 and 1988 and in June 1991.	\$ -	\$ 1,479
5. Taxes and customs clearance fees for project vehicles were paid from USAID/Egypt funds. These amounts were paid in November and December 1987 and are considered ineligible.	3,467	-
6. Employer's share of social security was billed to USAID/Egypt. These payments occur from the inception of the project until the present time. The total amount paid during our audit period of LE 8,316 is considered ineligible.	<u>3,069</u>	<u>-</u>
<b>Total Project Management and Administration</b>	<b><u>14,847</u></b>	<b><u>2,410</u></b>

		<u>Questioned Costs</u>	
<u>Item Description</u>		<u>Ineligible</u>	<u>Unsupported</u>
G.	<u>Evaluation</u> <u>Central Office</u>		
	1. Various amounts were not supported with adequate documentation, including an invoice, check copy or receipt. These amounts were incurred January, February and March 1991.	\$ -	\$ <u>399</u>
H.	<u>Hospital Services</u> <u>Central Office</u>		
	1. During our audit, vouchers for the entire budget line item were said to be kept at the respective GOE hospitals to which we did not have access. Subsequent to the issuance of the draft report, management provided documentation relating to LE 83,971 (\$30,986). Upon our review of these documents we found LE 149 (\$55) paid as sales tax which we consider ineligible and LE 27,419 (\$461,193) unsupported. The remainder of the budget line item is considered unsupported.	<u>55</u>	<u>461,193</u>
	<b>Total Questioned Costs</b>	<b>\$ <u>68,428</u></b>	<b>\$ <u>622,635</u></b>

**REPORT OF INDEPENDENT ACCOUNTANTS**  
**ON INTERNAL CONTROL STRUCTURE**

September 8, 1993

Mr. Philippe Darcy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

We have audited the consolidated fund accountability statement of the Systems Development Project ("SDP") related to costs incurred for Project Implementation Letter ("PIL") No. 15, a sub-project of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Project No. 263-0144, for the period from July 1, 1987 through May 31, 1992 and have issued our report thereon dated September 8, 1993.

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 consolidated fund accountability statement is free of material misstatement.

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 control 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 Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

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

The management of SDP 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 reliable financial reports and to maintain accountability over the entity's assets. 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 determined the significant internal control structure policies and procedures to be in the categories of cash receipts and disbursements, project accounting, payroll, and fixed asset procurement. For these internal control structure categories cited, 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 specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements 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:

## **MATERIAL WEAKNESSES**

1. The project controls surrounding the recording, accounting for, and safeguarding of project assets contains weakness that impair the project's ability to adequately monitor project assets. In particular we noted that no records are maintained to trace the disbursement and receipt of property to the governorates from the central office. Additionally, we noted that in some governorates the project's property is kept in a warehouse shared with the Ministry of Health.

### **Recommendation 1**

We recommend that the project improve the system of control surrounding the project assets. Specifically, the project should:

- 1.a. Perform periodic counts of all project property on an annual basis by individuals independent of the fixed asset recording or custodial functions. Accordingly project assets should be labeled as such for easy identification during these counts.
- 1.b. Ensure that all project assets are recorded in the project assets registers with their corresponding values and that period reconciliations are performed between the asset registers and the financial ledgers.

These asset registers should be maintained for both the central office and all governorates. The central office asset register should include a control total of all project assets and account for all assets located at the

governorates. The governorates' asset registers should distinguish assets received from the central office from assets purchased directly by the governorate.

- 1.c. Ensure that all movements, disbursements or receipts, of property are recorded in the assets register.
- 1.d. Require all project property to be stored separately from other property and labelled with the USAID emblem.

\* \* \* \* \*

2. The project did not obtain approval of the project director for disbursement of funds from the contingency budget line item. The only evidence of approval for these disbursements are the Ministry of Health officials' signatures on the checks. While the project maintained its responsibility not to exceed the approved budget regarding the contingency funds and USAID approval was obtained for expenditures made in our audit sample, all USAID/Egypt fund expenditures should have the project director's approval. Additionally, we found a number of expenditures from other budget line items at the governorate level that did not have the local manager's approval. By not requiring these approvals, unauthorized or inappropriately classified expenditures may be billed to USAID/Egypt.

#### Recommendation 2

We recommend that the project require all disbursements from the contingencies budget line item to have the project director's approval. Additionally, we recommend that the

project ensure that all disbursements from other budget line items at both the central office and the governorates should have proper prior approval by an authorized project official.

\* \* \* \* \*

3. The project does not maintain accomplishment reviews for participants in the research operations. These accomplishment reviews evidence the work completed and the participants involved. By not maintaining adequate accomplishment reviews, funds may be disbursed for unauthorized, inappropriate, or incomplete research or to inappropriate personnel.

#### Recommendation 3

We recommend that the project maintain accomplishment reviews for all research operations. These reviews should be subject to review by project management and include information regarding the participants involved, the work accomplished, and the date completed. This would ensure that payments are made only for the deserving participants upon completion of approved research operations.

\* \* \* \* \*

4. With the exception of Behera governorate, the project does not maintain a register of MOH personnel at the governorate. MOH personnel appointed to the SDP project change frequently and no records are kept of those persons currently assigned to SDP. Additionally, the Giza governorate does not maintain absentee, vacation, and sick leave records for these employees. Without

authorized personnel register and attendance records, payments to unauthorized personnel who have not fully contributed to accomplishing the objectives of the grant may be billed to USAID/Egypt.

#### Recommendation 4

We recommend that the project maintain a current register of MOH personnel appointed to SDP and update the register on a monthly basis. The individual responsible for preparing and maintaining the register should be independent of the person responsible for preparing the salaries. Additionally, the project should ensure that all governorates maintain attendance registers and that these registers are reviewed before payments are made to personnel.

\* \* \* \* \*

5. The project did not obtain approval for the 1989 project implementation plan prior to disbursement of funds. These plans specify activities and detailed budgets for the project. The project agreement states that annual financial and implementation plans detailing the activities to be undertaken by the project must be approved by USAID prior to initiation of any project-financed activity for that year. Additionally, it is the responsibility of the project to submit these plans in a form and substance satisfactory to USAID to obtain approval. By not obtaining the appropriate approvals prior to the disbursement of funds, the project may bill USAID/Egypt for unauthorized expenditures.

## Recommendation 5

The project should maintain a status report of documents and plans to be submitted to USAID for approval. This status report should include the type of document to be submitted for approval, the person responsible for preparing the document, the expected completion date, and the last date for obtaining USAID approvals. The project should ensure that the status report is updated monthly and that USAID/Egypt approvals are obtained on a timely basis.

\* \* \* \* \*

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

### REPORTABLE CONDITIONS

6. The system of internal accounting controls surrounding the accounting activities of the project at the governorate contains several weaknesses. In particular, we noted the following:

- 6.a. In the Cairo governorate under the recruitment and incentives budget line item, check numbers were not recorded on some vouchers. This made it impossible to trace the expenditure to the bank statement.
- 6.b. In the Giza governorate under the training budget line item, incorrect rates were used to calculate participants' fees for attending training courses. These payments had been approved but apparently the rates and mathematical accuracy were not appropriately reviewed. Without proper reviews during the approval process, the project may bill USAID/Egypt for unauthorized rates.
- 6.c. In the Giza governorate under the commodities budget line item, payments (in the form of checks) for commodities purchases were given to MOH employees to deliver to the vendors. As such, no evidence of receipt of payment by the vendor is available in the project's records.
- 6.d. In the Cairo governorate under the recruitment and incentives budget line item, incentives payments were made between one and six months after being incurred. Without a process to issue incentive payments on a timely basis, the project's controls are weakened. Supporting documentation could be misplaced, forgotten, altered, or the payments may be billed to USAID/Egypt twice.

6.e. In the Behera governorate under the recruitment and incentives budget line item, checks were written to the district offices for a variety of expenditures. The breakdown of this amount is recorded in various locations in the general ledger. This made it impossible to trace the total amount of expenditures incurred for the check amount without the assistance of a project accountant. During our audit, this assistance was not available.

#### Recommendation 6

We recommend that the project ensure that accounting standards and controls are implemented and reviewed by an internal auditor for the governorate and district levels. The auditor should be well read in USAID/Egypt rules and regulations and the project's accounting policies and procedures. Regular internal audits of the governorate would reasonably ensure that project does not bill USAID/Egypt for unauthorized or unallowable expenditures.

\* \* \* \* \*

This report is intended for the information of the audit committee, management, and others within the organization and the United States Agency for International Development. The restriction is not intended to limit the distribution of this report which is a matter of public record.

**REPORT OF INDEPENDENT ACCOUNTANTS**  
**ON COMPLIANCE WITH LAWS AND REGULATIONS**

September 8, 1993

Mr. Philippe Darcy  
Regional Inspector General for Audit/Cairo  
United States Agency for  
International Development

We have audited the consolidated fund accountability statement of the Systems Development Project ("SDP") related to costs incurred for Project Implementation Letter ("PIL") No. 15, a sub-project of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Project No. 263-0144, for the period from July 1, 1987 through May 31, 1992 and have issued our report thereon dated September 8, 1993.

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 consolidated fund accountability statement is free of material misstatement.

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 control 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 Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices.

Compliance with laws, regulations, grants, agreements, and binding policies and procedures applicable to SDP is the responsibility of SDP's management. As part of our audit we performed tests of SDP's compliance with certain provisions of laws, regulations, grants, agreements, and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Our testing of transactions and records disclosed eight instances of noncompliance with those laws and regulations, which are identified in the accompanying "Report On Compliance - Audit Findings" section of this report.

The result of our tests indicate that with respect to the items tested SDP 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 SDP had not complied, in all material respects, with those provisions.

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

SYSTEMS DEVELOPMENT PROJECT  
PROJECT IMPLEMENTATION LETTER NO. 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144

REPORT ON COMPLIANCE

AUDIT FINDINGS

The following instances of noncompliance with laws and regulations and agreements came to our attention during the audit:

1. Assets funded by USAID/Egypt are not marked with the USAID emblem. According to USAID rules, all equipment and vehicles funded with USAID resources should be labeled with the USAID emblem in a prominent place to give proper recognition to USAID. We noted during our audit that the project is not labeling all equipment purchased with USAID/Egypt funds.

Recommendation 1

The project should comply with USAID/Egypt regulations that require all items purchased with USAID funds display the USAID emblem.

\* \* \* \* \*

2. The project billed USAID/Egypt in advance of payment for various items. Specifically, the project billed USAID/Egypt for:
  - taxes withheld relating to vendor taxes and employees' share of stamp and payroll taxes. The project pays these amounts on a cumulative periodic basis and not as incurred. USAID/Egypt regulations state that billings are to be paid on a cash basis and not on an accrual basis.

- the total price of LE 61,000 for a commodity purchased in September 1988 although the project had entered into an installment payment agreement to pay LE 27,175 in September 1988 and LE 35,825 in February 1989. Amounts should not be billed to USAID until actually disbursed.
  
- an amount of LE 6,079 under the hospital services budget line item in May 1992 in excess of the expenditures recorded in the general ledger. This amount was then deducted from the August 1992 billing, in effect making this amount an advance billing.

During our audit of the hospital services line item, we found that SDP advances USAID/Egypt funds to the hospitals for renovations and charges USAID/Egypt for the amount of the advance at the time the advance is made. The hospitals either procure the goods and services necessary for the renovations or delegate this responsibility to the housing authority or city council. In either case, we found instances where advances remain outstanding for approximately two years. Furthermore we were not able to verify that any amounts returned to SDP upon settlement of these advances were refunded to USAID/Egypt.

#### Recommendation 2

We recommend that SDP follow the grant agreement policy and bill USAID/Egypt for only those amounts actually disbursed to maintain the appropriate cash basis of accounting. Additionally, we recommend that SDP implement a system to follow up on advances in a timely manner and ensure that USAID/Egypt is billed only for the actual amount of costs incurred when advances are made.

\* \* \* \* \*

3. The project does not maintain a separate set of books and records for USAID/Egypt funds at the district levels in the Behera and Cairo governorate. In Behera, the accounting records and documents are commingled with the GOE accounting records. In Cairo, this condition exists for the minor renovations budget line item only. Standard provisions of P/L No. 15 state that the grantee will maintain a separate set of books and records relating to the project and the agreement.

Recommendation 3

The project should comply with the agreement and maintain a separate set of books and records for USAID funds at both the governorate and district levels.

\* \* \* \* \*

4. The project has not followed competitive bidding procedures on a number of goods and services procurement transactions. During our audit we noted that no competitive bids were obtained for a number of purchases and consulting services that should have been covered under the procurement provisions of the project.

Recommendation 4

We recommend that SDP follow project policy that requires competitive bidding procedures in purchasing goods and hiring consultants.

\* \* \* \* \*

5. The project has expended funds for a number of payments that are not included or in excess of the number or amount stated in the project implementation plans or grant agreement approved by USAID/Egypt. These documents

specify how the project will meet grant objectives on an annual basis. Certain expenditures made by the project were in excess of the number or amount of payments stated in the plans. These items, numbered as they are presented in the "Fund Accountability Statement - Audit Findings" section of this report, are presented below:

Training expenses paid to non-project employees:	
Finding B.1	\$12,245
Bonuses paid to GOE employees:	
Finding D.9	185
Fees paid for management training:	
Finding B.8	697
Amounts paid to seminar/meeting participants not included in the list of participants in the plans:	
Finding C.1	273
Finding C.25	557
Fees paid in excess of amount stated in the plans:	
Finding C.2	93
Finding C.14	13
Finding C.18	37
Finding C.26	75
Fees paid for meetings in excess of the number stated in the plans:	
Finding C.10	181
Finding C.27	59
Amounts paid for office items and appliances:	
Finding D.2	12,586
Finding B.12	35
Amounts paid for expenditures not related to PIL No. 15:	
Finding D.3	55
Finding F.1	<u>6,039</u>
	<u>\$ 33,130</u>

Recommendation 5

The project should ensure that all expenditures are within the scope of the project as defined in the grant agreement and annual project implementation plans.

\* \* \* \* \*

6. The project has charged USAID/Egypt for the employers' share of social security taxes under the project management and administration budget line item of the central office for contracted employees and for customs duties and taxes related to project vehicles. Agreements between the GOE and USAID/Egypt exempt such items from taxation or specify that such amounts should be paid from sources other than USAID/Egypt funding. The amounts as presented in the "Fund Accountability Statement Audit Findings" section of this report, are represented as below:

Employer's share social security taxes	
Finding F.6	\$ 3,069
Vehicle customs duties and taxes	
Finding F.5	<u>3,467</u>
	\$ <u>6,536</u>

Recommendation 6

We recommend that SDP establish procedures related to invoice processing to ensure that taxes are not billed to USAID/Egypt. By making the accounting staff aware of the provision of exempting project expenditures from taxation and other GOE customs duties and taxes, the project can insure that these and other amounts related to such taxes are not paid or billed to USAID/Egypt.

\* \* \* \* \*

7. The project did not obtain approval for the 1989 project implementation plan. These plans are prepared on an annual basis and specify how the project intends to fulfill the grant agreements, including a detail budget of all budget line items. The agreement requires that USAID/Egypt approval be obtained for these annual plans prior to related disbursements of funds.

Recommendation 7

We recommend that SDP comply with agreement terms and obtain USAID approval for the project implementation plans prior to disbursement of fund.

\* \* \* \* \*

8. The project did not properly maintain books and records relating to the project which were adequate to show, without limitation, the receipts and use of goods and services acquired under the grant. The details of the questioned costs relating to \$ 622,635 of unsupported costs are identified in the "Consolidated Fund Accountability Statement - Audit Findings" section of this report. Additionally, the project did not afford our auditors the opportunity at all locations to inspect the supporting documentation for expenditures incurred under the grant.

Recommendation 8

We recommend that the project maintain, books and records in accordance with generally accepted accounting principles and practices. The project should also maintain documentation to verify maintain the receipt and use of goods and services acquired under the grant. Furthermore, the project should ensure that oversight agency representatives, including

USAID/Egypt, are afforded the opportunity to inspect the books, records, and other documents relating to the project and the grant.

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144

FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

ADDITIONAL INFORMATION

CONSOLIDATED FUND ACCOUNTABILITY STATEMENT EXPRESSED IN EGYPTIAN POUNDS

	<u>Actual Expenditures</u>	<u>Adjustment/Reclassification</u>	<u>Questioned Costs</u>	
			<u>Ineligible</u>	<u>Unsupported</u>
Technical assistance	LE 155,934	LE (285)	LE -	LE 42,500
Training	1,876,636	(77,154)	36,241	68,930
Recruitment & incentives	2,691,434	70,938	4,905	87,573
Commodities	3,519,644	(133,988)	96,961	37,828
Minor renovations	295,993	158,833	6,949	193,063
Project management and administration	415,105	(17,128)	40,235	6,532
Evaluation	24,618	(1,216)	-	1,081
Contingency	9,091	-	-	-
Hospital services	<u>1,306,385</u>	<u>-</u>	<u>149</u>	<u>1,249,833</u>
Total	LE <u>10,294,840</u>	LE <u>-</u>	LE <u>135,440</u>	LE <u>1,687,340</u>

5

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144

ADDITIONAL INFORMATION  
QUESTIONED COSTS EXPRESSED IN EGYPTIAN POUNDS

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as incurred in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
A. <u>Technical Assistance</u> <u>Central Office</u>			
1. Two amounts were billed to USAID/Egypt without adequate supporting documentation. In September 1987 a payment of LE 1,800 was made and there is no evidence of receipt. In September 1988 a payment of LE 3,210 was made and there is no disbursement voucher.	\$ -	\$ 1,849	LE 5,010
2. Salaries were paid to four consultants in excess of the number of consultants allowed for the project. These amounts are considered unsupported.	<u>-</u>	<u>13,834</u>	<u>37,490</u>
<b>Total Technical Assistance</b>	<u>-</u>	<u>15,683</u>	<u>42,500</u>

61

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as incurred in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
B. <u>Training</u>			
<u>Central Office</u>			
1. Training expenses for non-project employees were paid in September and October 1987. These amounts are considered ineligible.	\$ 12,245	\$ -	LE 33,184
2. Advances were paid by SDP to training institutions during 1987 through 1990. Upon settlement of the advances, amounts were returned to SDP. These amounts were not returned to USAID/Egypt and therefore are considered unsupported.	-	3,245	8,793
3. Training sessions were conducted at the governorates during the period 1988 through 1990. Items related to the training sessions such as per diem, lecturer fees, rental fees for facilities, etc. were billed to USAID/Egypt. Supporting documents for the expenditures are not available. Based on information presented subsequent to the issuance of the draft			

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as incurred in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
B. <u>Training</u> <u>Central Office (Con't)</u>			
report, a portion of the questioned costs previously reported as unsupported are considered ineligible. These are amounts for drinks and snacks which were purchased for training sessions and charged to USAID/Egypt. These amounts are considered ineligible.	\$ 396	\$12,418	LE 34,726
4. Based on information presented subsequent to the issuance of the draft report, this finding has been removed.	-	-	-
5. During 1987 and 1988, monthly rewards were paid to participants in training sessions. This occurred in the subcenters of the first seven governorates. This is unsupported as there are no attendance sheets available for the training sessions.	-	4,579	12,409

64

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as incurred in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
B. <u>Training</u> <u>Giza</u>			
6. Soft drinks were purchased for a training session held in January 1991. No invoice or receipt was found.	\$ -	\$ 55	LE 150
7. Training sessions were conducted during 1991 and fees were paid to the trainees and supervisors. No supporting documents were found including attendance sheets or authorization for payment. These amounts are considered unsupported.	-	1,784	4,835
8. Management training courses were held in November 1991 and fees were paid to the trainees and supervisors. The project implementation plans do not allow for any management training. Furthermore, these amounts are unsupported by an attendance list. These amounts are considered ineligible.	697	-	1,888

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>incurred</u> <u>in LE</u>
B. <u>Training</u> <u>Giza (Con't)</u>			
9. Check No. 3816325 was billed to USAID/Egypt in November 1991. This check was cancelled and replaced by check no. 3916338 in December 1991 and again billed to USAID/Egypt. The cancelled check amount is unsupported.	\$ -	\$ 55	LE 150
<u>Gharbeya</u>			
10. In January 1990, a bank deposit was erroneously recorded as an expense and billed to USAID/Egypt	-	761	2,062
11. In February 1991, an amount was billed to USAID/Egypt in excess of the total expenditures amount recorded in the general ledger. There are no supporting documents or explanation for this variance, therefore this amount is considered unsupported.	-	2,108	5,714

1/16

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>incurred</u>
			<u>in LE</u>
B. <u>Training</u>			
<u>Behera (Con't)</u>			
12. Toner for the photocopier was purchased in November 1989. Office expenditures of this nature are not included in the implementation plans or project papers. These costs are considered ineligible.	\$ 35	\$ -	LE 94
13. Check No. 99325 for the amount of LE 800 was mistakenly billed to USAID/Egypt as LE 900. The difference is unsupported.	-	37	100
14. In January and November 1989, November 1991, and January 1992, amounts were billed to USAID/Egypt in excess of the total expenditure amounts in the general ledger. There were no supporting documents or explanation for this variance, therefore this amount is considered unsupported.		142	386

01

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>incurred</u>
			<u>in LE</u>
<b>B. <u>Training</u></b>			
<b><u>Behera (Con't)</u></b>			
15. Four payments were made in 1989 and 1991 for training expenditures. Disbursement vouchers for these payments could not be located and are therefore considered unsupported.	\$ -	\$ 251	LE 680
16. Based on information presented subsequent to the issuance of the draft report, this finding has been removed.	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Training</b>	<b><u>13,373</u></b>	<b><u>25,435</u></b>	<b><u>105,171</u></b>

**C. Recruitment and Incentives**  
**Giza**

1. Incentives were paid to Information, Education and Communication ("IE&C") specialists and nursing supervisors for attending monthly doctors' meetings. These individuals were not among the authorized participants for the meetings as specified in the project implementation plan.

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>incurred</u>
			<u>in LE</u>
C. <u>Recruitment and Incentives</u>			
<u>Giza</u>			
These amounts were paid in 1987 and 1988 and are considered ineligible.	\$ 273	\$ -	LE 740
2. Incentives were paid to IE&C specialists at the rate of LE 5 per vist. The project implementation plan of 1992 states that the rate should be only LE 3.5 per visit. The difference between the approved rate and the rate paid is therefore considered ineligible.	93	-	252
3. On two occasions, nurses or doctors were paid incentives for attending meetings or seminars. Their signatures are not included the attendance lists. These payments are unsupported.	-	6	15

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as incurred in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
C. <u>Recruitment and Incentives</u>			
<u>Giza (Con't)</u>			
4. Various amounts were charged for seminars and no adequate supporting documentation is available (such as location, date, and names of people attending the seminars). These amounts are considered unsupported.	\$ -	\$ 2,577	LE 6,969
5. Check no. 408369 was billed to USAID/Egypt. This check was cancelled and replaced by check no. 408349 which was also billed to USAID/Egypt. The cancelled check amount is considered unsupported.	-	125	340
6. Incentives were paid to doctors for attending meetings but attendance sheets were not available. These amounts were considered unsupported.	-	253	685

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>incurred</u>
			<u>in LE</u>
<b>C. <u>Recruitment and Incentives</u></b>			
<b><u>Giza (Con't)</u></b>			
7. Various amounts such as salaries and soft drink expenses were billed to USAID/Egypt. These expenditures lack adequate supporting documentation.	\$ -	\$ 1,391	LE 3,769
8. In July 1988 and October 1989, were billed to USAID/Egypt in excess of the total expenditures recorded in the general ledger. There are no supporting documents or explanations for these variances. As such, these amounts are considered unsupported.	-	284	770
9. Cancelled checks in October 1988 and October 1989 were billed to USAID/Egypt. The numbers, amounts, and dates are:			
407835    10/5/88    LE 256			
424341    10/19/88        98			
424342    10/19/88        84			
424343    10/19/88        60			
424344    10/19/88        84			
424345    10/19/88       108			
These amounts are considered unsupported.	-	254	688

<u>Item Description</u>	<u>Questioned Costs</u> <u>Ineligible</u>	<u>Unsupported</u>	<u>Costs as</u> <u>incurred</u> <u>in LE</u>
<b>C. <u>Recruitment and Incentives</u></b>			
<b><u>Dakahlya</u></b>			
10. Committee meetings were held more often than the one meeting per month allowed by the project implementation plan. Fees for these additional meetings were billed in January and February 1990 and are considered ineligible.	\$ 181	\$ -	LE 490
11. An amount of LE 54 for salary supplements for two employees was billed in April 1989 and again in June 1989. The June 1989 amount was double-billed and is considered unsupported.	-	20	54
<b><u>Cairo</u></b>			
12. Employees's salaries were not reduced during periods of absence as was stipulated in to the project salary reduction schedule. The salary amounts were paid and billed in full to USAID/Egypt. These amounts are considered unallowable.	24	-	66

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as incurred in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
C. <u>Recruitment and Incentives</u>			
<u>Cairo (Con't)</u>			
13. Various items billed under this line item were not supported with adequate documentation, including an invoice, check copy or receipt. The amounts were incurred in June and December 1990, October and December 1991, and January and April 1992.	\$ -	\$ 997	LE 2,702
14. Incentives were paid at the rate of LE 5 per visit while the project implementation plan states that the rate should be only LE 3.5 per visit. The difference between the approved rate and the rate paid is considered ineligible.	13	-	34
15. Fees were paid for the Maadi District Family Planning Meeting in July 1991. No attendance sheet or other support is available to verify that the meeting was held and/or the number of SDP participants. These amounts are considered unsupported.	-	11	30

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as incurred in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
C. <u>Recruitment and Incentives (Con't)</u>			
<u>Gharbeya</u>			
16. In October and December 1988 and May 1992, amounts were billed to USAID/Egypt in excess of the expenditures in the general ledger. There are no supporting documents or explanations for these variances, therefore, these amounts are considered unsupported.	\$ -	\$ 2,417	LE 6,550
17. Numerous recruitment and incentives payments were made without supporting attendance sheets or absentee reports. These expenditures occurred from 1988 through 1990.	-	1,243	3,370
<u>Behera</u>			
18. The assistant manager was paid incentives at the manager's rate during November and December 1991. The allowed rates per training course for an assistance manager is LE 10 and for a manager is LE 20. The difference is considered ineligible.	37	-	100

1/0

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as incurred in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
C. <u>Recruitment and Incentives</u>			
<u>Behera (Con't)</u>			
19. Supporting documentation such as attendance lists and receipts, was not available for numerous payments made at the districts (Five of the fifteen districts were selected for our audit sample). These amounts are considered unsupported.	\$ -	\$ 10,923	LE 29,601
20. Project IE&C personnel were paid for certain supervisory visits and courses. No documentation was available to verify these visits or courses and therefore to support payment. As such, these payments are considered unsupported.	-	2,344	6,351
21. Fees were paid to participants of committee and doctors' meetings from 1989 to 1992. There were no attendance sheets for these meetings, therefore these payments are considered unsupported.	-	2,173	5,890

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as incurred in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
C. <u>Recruitment and Incentives</u>			
<u>Behera (Con't)</u>			
22. Salaries were paid to staff for whom no personnel records exist, including vacation and sick leave records. These payments were made in September and October 1988 and are considered unsupported.	\$ -	\$ 2,375	LE 6,435
23. An income tax payment was billed to USAID/Egypt in September 1988. As no taxes should be paid with USAID/Egypt funds, this amount is considered ineligible.	498	-	1,349
24. Three expenditures were recorded in the general ledger (entry nos. 25, 28 and 111) and billed to USAID/Egypt without any supporting documentation. These amounts are considered unsupported	-	502	1,360
25. Incentives were paid to IE&C specialists at the district level for attending monthly doctors meetings. IE&C specialists are not authorized to participate in such meetings as specified in			

<u>Item Description</u>	<u>Questioned Costs</u> <u>Ineligible</u> <u>Unsupported</u>		<u>Costs as</u> <u>incurred</u> <u>in LE</u>
C. <u>Recruitment and Incentives</u> <u>Behera (Con't)</u>			
the project implementation plans or the budget. As such, these payments are considered unallowable.	\$ 557	\$ -	LE 1,510
26. Incentives were paid to IE&C specialists at the rate of LE 5 per visit. The project implementation plan states that the rate should be only LE 3.5 per visit. The difference between the approved rate and the rate paid is therefore considered ineligible.	75	-	204
27. Incentives were paid to IE&C specialists for supervisory visits in excess of the eight visits per month allowed. The incentives paid for the excess visits is considered unallowable.	59	-	160
28. Various payments were made at the district level for which no evidence of receipt was available. These amounts are considered unsupported.	-	146	395

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>incurred</u>
			<u>in LE</u>
<b>C. <u>Recruitment and Incentives</u></b>			
<b><u>Behera (Con't)</u></b>			
29. Amounts were billed to USAID/Egypt in excess of the total expenditures recorded in the general ledger. There are no supporting documents or explanations for these variances:			
January 1989	LE	568	
March 1989		60	
August 1989		190	
November 1989		250	
January 1990		90	
May 1990		10,075	
August 1991		75	
May 1992		291	
These amounts are considered unsupported.		\$ -	\$ 4,280 LE 11,599
<b>Total Recruitment &amp; Incentives</b>		<b><u>1,810</u></b>	<b><u>32,315</u></b> <b><u>92,478</u></b>

**D. Commodities**  
**Central Office**

1. Expenditures in excess of the amount approved for the construction of the SDP office were charged to the commodities budget line item. This overspending should have been

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>incurred</u> <u>in LE</u>
D. <u>Commodities</u> <u>Central Office</u>			
properly approved and charged in the renovations budget line item. This amount is considered unsupported.	\$ -	\$ 5,119	LE 13,872
2. Several items such as a water cooler, desk fans, air heaters, shelves, and air conditioners were purchased in 1988 through 1991. These items were not included in the procurement plan or the project implementation plan nor was approval obtained. As such, these amounts are considered to be ineligible.	12,586	-	34,107
3. Rent was paid for three apartments in the Beni-Souef governorate for two months in 1983. These expenses were incurred by the previous family planning project and are not related to PIL No. 15. These amounts are considered ineligible.	55	-	150

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>incurred</u>
			<u>in LE</u>
D. <u>Commodities</u>			
<u>Central Office (Con't)</u>			
4. A 6% penalty was imposed on a printing invoice for poor quality. However, the total amount of the invoice was billed to USAID/Egypt. The amount of the penalty is therefore considered ineligible.	\$ 108	\$ -	LE 292
5. Advances were paid to hospitals located in the governorates to purchase commodities in June and November 1991. Supporting documents for these amounts are kept at the hospitals and are GOE property, to which we do not have access. These amounts are considered unsupported.	-	3,855	10,446
6. Several amounts were billed which were not supported with adequate documentation, including an invoice, check, or copy of receipt. These amounts were incurred during the period October 1987 through June 1988 and are considered unsupported.	1,774	4,166	16,098

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as incurred in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
D. <u>Commodities</u>			
<u>Central Office (Con't)</u>			
7. An amount was billed to USAID/Egypt in December 1987 for the purchase of a paper shredder. The check was cancelled and the paper shredder was not received. This amount was not returned to USAID/Egypt and is considered unsupported.	\$ -	\$ 166	LE 450
<u>Gharbeya</u>			
8. LE 914 was paid for moving furniture (a desk, sofas, a table, and 90 chairs). In consideration of the service, any amount above LE 100 is considered unreasonable.	300	-	814
<u>Behera</u>			
9. Bonus payment for performing normal procurement procedures was paid to GOE employees. These payments are not included in the incentive plan, PIL or project papers and are considered ineligible.	185	-	500

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>incurred</u> <u>in LE</u>
D. <u>Commodities (Con't)</u> <u>Behera (Cont.)</u>			
10. A photocopier was purchased for a price in excess of the budget amount and without USAID approval. The difference is considered unsupported.	\$ -	\$ 653	LE 1,770
11. Invoices for commodities purchases are addressed to the MOH. These assets are then commingled with MOH property and therefore cannot be identified as program related. As such, these payments are considered ineligible.	<u>20,771</u>	<u>-</u>	<u>56,290</u>
<b>Total Commodities</b>	<b><u>35,779</u></b>	<b><u>13,959</u></b>	<b><u>134,789</u></b>

E. Minor Renovation:  
Central Office

1. Supporting documents for check no. 977488 dated January 16, 1992 were not available. These vouchers were said to be kept at the Mounira Hospital and are GOE property to which

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>incurred</u> <u>in LE</u>
E. <u>Minor Renovations</u> <u>Central Office (Cont.)</u>			
we do not have access. This amount is considered unsupported.	\$ -	\$ 1,177	LE 3,191
2. Total expenditures for construction of the SDP office were approved for LE 65,000. Actual costs incurred and billed to USAID/Egypt in the minor renovations budget line item totalled LE 77,202. The difference is considered unsupported.	-	4,503	12,202
<u>Giza</u>			
3. A cash advance was made to the Betra district in November 1988 by check no. 407895. There is no supporting documentation available for this expenditure.	-	59	160
4. Supporting documents for 76% of total expenditures for minor renovations in Giza were located at the district offices. These vouchers were considered to be GOE property and we were not allowed			

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as incurred in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
E. <u>Minor Renovations</u>			
<u>Giza</u>			
access to the documents. This portion of the expenditures is considered unsupported.	\$ -	\$ 20,531	LE 55,639

Dakahlya

5. Supporting documentation for this budget line item are kept at city council offices and we were not allowed access to the documents during our audit. Based on information submitted subsequent to the issuance of the draft report, this finding was reduced by LE 55,671 (\$20,543) to LE 98,236 (\$36,249), including LE 97,354 (\$35,924) unsupported costs. Included in these questioned cost are amounts totalling LE 882 (\$325) paid as penalties. These amounts are considered ineligible. Also included in these questioned costs are advances made to the districts and subcenters for renovations and charged to USAID/Egypt. Upon settlement of these advances, remaining amounts were not returned to USAID/Egypt. These amounts

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as incurred in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
E. <u>Minor Renovations (Con't)</u> <u>Dakahlya (Cont.)</u>			
total LE 17,427 (\$6,431) and are included in the unsupported costs. The remainder of this budget line item is considered unsupported.	\$ 325	\$ 35,924	LE 98,236
<u>Cairo</u>			
6. Advances were made to district offices in May 1991. Upon settlement of these advances, amounts were returned to the Cairo office. These amounts were not returned to USAID/Egypt and therefore are considered unsupported.	-	516	1,398
7. Revenues were received from selling bids for renovations. The revenues were not added to USAID/Egypt funds or deducted from the cost of the related renovation. These amounts are therefore considered ineligible.	52	-	140

6

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as incurred in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
E. <u>Minor Renovations (Con't)</u> <u>Gharbeya</u>			
8. Supporting documentation for this budget line item kept at city council offices and we were not allowed access to the documents during our audit. Based on information submitted subsequent to the issuance of the draft report, this finding was reduced by LE 22,243 (\$8,208) to LE 12,534 (\$4,625), including LE 12,484 (\$4,607) unsupported costs. Included in these questioned costs are amounts totalling LE 50 (\$18) paid as penalties. These amounts are considered ineligible. Also included in the questioned costs are advances made to the districts and subcenters for renovations and charged to USAID/Egypt. Upon settlement of these advances, remaining amounts totalling LE 90 (\$33) were not returned to USAID/Egypt. These amounts are included in the unsupported costs. The remainder of this budget line item is considered unsupported.	\$ 18	\$ 4,607	LE 12,534

56

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as incurred in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
E. <u>Minor Renovations (Con't)</u> <u>Behera</u>			
9. Supporting documentation for this budget line item are kept at city council offices and we were not allowed access to the documents during our audit. Based on information submitted subsequent to the issuance of the draft report, this finding was reduce by LE 5,709 (\$2,107) to LE 10,735 (\$3,961), including LE 10,635 (\$3,924) unsupported costs. Amounts totalling LE 100 (\$37) were paid as penalties and are considered ineligible. The remainder of this budget line item is considered unsupported.	\$ 37	\$ 3,924	LE 10,735
10. Invoices for minor renovations are addressed to the MOH. These assets are then commingled with MOH property and cannot be identified as program related. As such, these payments are considered ineligible.	<u>2,132</u>	<u>-</u>	<u>5,777</u>
<b>Total Minor Renovations</b>	<b><u>2,564</u></b>	<b><u>71,241</u></b>	<b><u>200,012</u></b>

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as incurred in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
F. <u>Project Management and Administration</u> <u>Central Office</u>			
1. Various expenditures relating to PIL No. 29 were incurred in 1987 and 1988 and billed under PIL No. 15. Of these PIL No. 29 expenditures, three amounts are billed to USAID/ Egypt twice. The check numbers and amounts are as follows:			
185852      547			
385853      3983			
385854      105			
The total of those amounts are considered ineligible.	\$ 6,039	\$ -	LE 16,366
2. In June 1988, February 1990, and May 1991, amounts were billed to USAID/Egypt in excess of the total expenditures recorded in the general ledger. There were no supporting documents or explanations for these variances. Therefore these amounts are considered unsupported.	-	931	2,524
3. Rewards were paid to employees for "extra effort." The contract allows salary supplements to be paid by the			

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as incurred in LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
F. <u>Project Management and Administration</u> <u>Central Office (Cont.)</u>			
2 central office for governorate level employees only, therefore, these amounts are considered ineligible.	\$ 2,272	\$ -	LE 6,158
4. Various amounts were billed to USAID/Egypt without adequate supporting documentation such as evidence of receipt. These amounts were incurred throughout 1987 and 1988 and in June 1991.	-	1,479	4,008
5. Taxes and customs clearance fees for project vehicles were paid from USAID/Egypt funds. These amounts were paid in November and December 1987 and are considered ineligible.	3,467	-	9,395
6. Employer's share of social security was billed to USAID/Egypt. These payments occur from the inception of the project until the present time. The total amount paid during our audit period of LE 8,316 is considered ineligible.	<u>3,069</u>	<u>-</u>	<u>8,316</u>
<b>Total Project Management &amp; Administrative</b>	<b><u>14,847</u></b>	<b><u>2,410</u></b>	<b><u>46,767</u></b>

<u>Item Description</u>	<u>Questioned Costs</u>		<u>Costs as</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>incurred</u>
			<u>in LE</u>
G. <u>Evaluation</u>			
<u>Central Office</u>			
1. Various amounts were not supported with adequate documentation, including an invoice, check copy or receipt. These amounts were incurred January, February and March 1991.	\$ -	\$ 399	LE 1,081
H. <u>Hospital Services</u>			
<u>Central Office</u>			
1. During our audit, vouchers for this entire budget line item were said to be kept at the respective GOE hospitals to which we did not have access. Subsequent to the issuance of the draft report, management provided documents relating to amounts totalling LE 83,971 (\$30,986). Upon our review of these documents, we found LE 149 (\$55) paid as sales tax which we consider ineligible and LE 27,419 (\$10,118) unsupported. The remainder of the budget line item is considered unsupported.	55	461,193	1,249,982
<b>Total questioned costs</b>	<b>\$ 68,428</b>	<b>\$ 622,635</b>	<b>LE 1,872,780</b>

(1)

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

MINISTRY OF HEALTH  
SDP

November 23, 1993

Jeffery Hentges, Senior Manager  
Jill Kidd, In-Charge  
Price Waterhouse  
4, Road 261  
New Maadi

Re: The Formal response to the financial audit report of project costs on the USAID funded Systems Development Project.

Dear Mr. Hentges and Ms. Kidd,

The Ministry of Health/Systems Development Project (MOH/SDP) has thoroughly examined the Price Waterhouse report of the financial audit of project costs on the Systems Development Project. Our response to the audit report is attached to this letter.

If you have any questions regarding our response, please contact us for clarification.

Sincerely,

*Dr. Hassan El Gebaly*

Dr. Hassan El Gebaly  
Executive Director  
Ministry of Health  
Systems Development Project

c.c.: Carol Carpenter - Yaman, Population Office Director  
Connie Johnson, USAID/SDP Population Officer  
Turhan Noury, USAID Population Officer  
Amanda Levenson, FM/FA USAID (2)

**SYSTEMS DEVELOPMENT PROJECT**

**PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992**

**SDP MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT**

**THE MINISTRY OF HEALTH'S RESPONSE TO THE PRICE  
WATERHOUSE AUDIT REPORT OF THE SYSTEMS  
DEVELOPMENT PROJECT**

The Ministry of Health (MOH) provides family planning services in over 3500 clinics throughout Egypt. The Systems Development Project (SDP) is a USAID funded project designed to "upgrade" the provision of family planning services within the MOH. The activities of the SDP are integrated to the extent possible within the MOH. SDP activities are conducted by MOH employees, with assistance from a resident technical advisor. The MOH is responsible for administering the SDP grant and accomplishing the goals of the project.

The management of the MOH/SDP is committed to ensuring that the funds provided by USAID are safeguarded and spent on activities and items which have been authorized by the USAID grant award. Maintaining a sound effective financial management system is an essential component of ensuring that grant funds are protected and spent appropriately. The MOH/SDP management's commitment to providing a system of sound financial management began early in the project. The Executive Director issued financial and administrative instructions to the Central Office staff and governorate personnel detailing procedures regarding approval for expenditures, documentation for disbursements, description of lines of authority and responsibility, and specified amounts to be paid for training, incentives, salary supplements etc. Over the life of the project, detailed manuals have been written to expand and clarify policies and procedures relating to the financial management of the project. The following manuals have been produced:

- A. Policy & Procedure Manual SDP Incentive System: This manual provides detailed financial procedures regarding:
1. Salary Supplements
  2. Payments for attending Committee meetings
  3. Payments for IEC seminars
  4. Training incentives
  5. Incentives for clinical staff regarding revenues earned from USAID provided contraceptives.

This manual was completed in 1990. Relevant MOH/SDP personnel were trained to use this manual in 1991/1992.

- B. Commodities Management System Policy and Procedure Manual, Part A and Part B. This manual includes financial procedures regarding the following:
1. The planning, budgeting and monitoring of contraceptives.
  2. Quarterly USAID Revenue Reports
  3. The auditing of contraceptives.
  4. Relevant GOE laws and USAID regulations regarding procurement of commodities.
  5. Procedures for the maintenance and repair of commodities.
  6. Policy and procedures regarding the annual physical audit.

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

This manual was completed in 1991. Relevant MOH/SDP staff were trained in the use of this manual between September 1991 and May of 1992.

C. Financial Management System Policy and Procedure Manual. This manual includes financial procedures regarding the following:

1. Description of Organizational Structure along with job descriptions.
2. Accounting Recordkeeping Procedures.
3. Financial Reporting and Monitoring Procedures.
4. Planning/Budgeting/Monitoring Procedures
5. USAID Policies and Procedures.

This manual was completed in 1993. Relevant financial staff were trained on the Accounting Recordkeeping procedures during 1992/93. Training which will include the material in the entire manual is scheduled to take place during the first quarter of 1994.

After all financial staff are trained to use the Financial Management System Manual, the MOH/SDP management envision that relevant recommendations made by Price Waterhouse will be addressed. In addition, the MOH/SDP is hiring a well qualified Financial Manager who will coordinate and monitor all financial activities of the SDP at the Central office as well as the governorates.

The MOH/SDP's response to the Price Waterhouse Audit report is comprised of four sections:

1. Response to the recommendations on the Internal Control Structure.
2. Response to the recommendations on Compliance with Laws and Regulations.
3. Response to "other matters".
4. Response to the questioned costs.

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

RESPONSE TO THE RECOMMENDATIONS  
ON THE INTERNAL CONTROL STRUCTURE

The format of the MOH/SDP's response to the Price Waterhouse audit recommendations will include the following:

- A. Price Waterhouse's statements explaining the reasons for the recommendation.
- B. The recommendation of Price Waterhouse.
- C. The MOH/SDP's response to Price Waterhouse statements and recommendation.

The following is our response to the audit report on Internal Control Structure:

Price Waterhouse audit report:

- 1. The project controls surrounding the recording, accounting for, and safeguarding of project assets contains weakness that impair the project's ability to adequately monitor project assets. In particular we noted that no records are maintained to trace the disbursement and receipt of property to the governorates from the central office. Additionally, we noted that in some governorates the project's property is kept in a warehouse shared with the Ministry of Health.

Recommendation 1

We recommend that the project improve the system of control surrounding the project assets. Specifically, the project should:

- 1.a. Perform periodic counts of all project property on an annual basis by individuals independent of the fixed asset recording or custodial functions. Accordingly project assets should be labeled as such for easy identification during these counts.
- 1.b. Ensure that all project assets are recorded in the project assets registers with their corresponding values and that period reconciliations are performed between the asset registers and the financial ledgers. These asset registers should be maintained for both the central office and all governorates. The central office asset register should include a control total of all project assets and account for all assets located at the governorates. The governorates' asset registers should distinguish assets received from the central office from assets purchased directly by the governorate.
- 1.c. Ensure that all movements, disbursements or receipts, of property are recorded in the assets register.
- 1.d. Require all project property to be stored separately from other property and labelled with the USAID emblem.

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

MOH/SDP Response:

Currently the MOH/SDP maintains control over fixed assets of the project by adhering to the GOE procedures contained in the Stores Regulations, Edition 13, Revised 1991. These regulations contain strict rules regarding the recording of fixed assets, the transfer of the assets from one location to another and the retirement of the assets. The MOH/SDP also adheres to the Stores Regulation which requires that yearly physical inventories be conducted on all fixed assets.

The MOH/SDP management recognized the importance of safeguarding the assets of the project and developing standard procedures for maintaining control over the assets. The MOH/SDP management therefore commissioned technical consultants to write a policy and procedure manual regarding commodities. The manual entitled "Commodities Management System, Policy and Procedure Manual, Part B was completed in 1991 and the training of all relevant central office and governorate personnel took place between September 1991 and the second quarter of 1992. The manual contains procedures which conform to GOE regulations as well as USAID regulations.

Price Waterhouse's assertion that "no records are maintained to trace the disbursement and receipt of property to the governorates from the central office" is not true. Records exist at the central office as well as at the governorate offices detailing the type of asset and its location. The books used to record these assets conform to the GOE Stores Regulations procedures. The books contain information regarding the acquisition, the movement and disbursement of all fixed assets.

When the SDP purchases a fixed asset, a label identifying it as the property of the SDP is attached to the item. USAID does not require that all fixed asset items be labeled with the USAID emblem. According to AID Handbook 1B and 15, only imported commodities financed under the AID program are required to be marked with the USAID emblem. In addition, if the imported items are too small or otherwise unsuited for individual marking, the emblems do not have to be applied directly to the items. AID does not require marking of locally procured commodities which are not imported specifically for the project. In the case of the MOH/SDP, this means that only the imported project vehicles are required to bear the USAID emblem.

Price Waterhouse commented that the SDP project's control over fixed assets is weakened because in "some governorates the project's property is kept in a warehouse shared with the Ministry of Health". It is entirely reasonable that the SDP assets are warehoused at the MOH, the SDP is not separate from the MOH. The MOH is the agency which manages and administers the funds provided by USAID to carry out the family planning activities specified under the SDP. The SDP activities are fully integrated into the MOH. They are not separate. The important issue is not that SDP property be housed separately, but whether assets funded by the SDP can be readily identified as being purchased by the SDP. The Financial Manager who will be hired by the SDP will assess the current system of identifying SDP fixed assets at the governorate level to determine if current procedures need to be modified to ensure that SDP assets are monitored adequately.

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

Price Waterhouse audit report:

Recommendation 2

We recommend that the project require all disbursements from the contingencies budget line item to have the project director's approval. Additionally, we recommend that the project ensure that all disbursements from other budget line items at both the central office and the governorates should have proper prior approval by an authorized project official.

MOH/SDP response:

Since the beginning of the project, MOH/SDP policy and procedures as written in the Executive Director's initial instructions to the financial personnel require that all disbursement of funds from the central office have the approval of the SDP Project Director and all disbursement of funds from the governorate offices have the approval of the Governorate Family Planning Director. This same policy and procedures are written in the Financial Management System Policy and Procedure Manual which has just been completed by the SDP. The MOH/SDP financial personnel are scheduled to be trained in the use of this manual in the first quarter of 1994. These particular procedures for approvals will be reinforced and emphasized during the training workshops to ensure that appropriate approvals are obtained before funds are disbursed.

Price Waterhouse audit report:

3. The project does not maintain accomplishment reviews for participants in the research operations. These accomplishment reviews evidence the work completed and the participants involved. By not maintaining adequate accomplishment reviews, funds may be disbursed for unauthorized, inappropriate, or incomplete research or to inappropriate personnel.

Recommendation 3

We recommend that the project maintain accomplishment reviews for all research operations. These reviews should be subject to review by project management and include information regarding the participants involved, the work accomplished, and the date completed. This would ensure that payments are made only for the deserving participants upon completion of approved research operations.

MOH/SDP response:

The MOH/SDP management does monitor and review the research activities of personnel chosen to conduct research for the project. A research committee appointed by the Executive Director conducts the monitoring and review process. Budget guidelines have been established for the research activities. The MOH/SDP requires interim draft reports as well as final reports from participants conducting research for the project before payments are made to the individuals involved. The Financial Manager who will be hired by the MOH/SDP will assess the current activities to determine if current procedures need to be

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

modified to ensure that payments are made only to participants who have completed approved research activities.

Price Waterhouse audit report:

4. The project does not maintain a register of MOH personnel at the governorate. MOH personnel appointed to the SDP project change frequently and no records are kept of those persons currently assigned to SDP. Additionally, the Giza governorate does not maintain absentee, vacation, and sick leave records for these employees. Without authorized personnel register and attendance records, payments to unauthorized personnel who have not fully contributed to accomplishing the objectives of the grant may be billed to USAID/Egypt.

Recommendation 4

We recommend that the project maintain a current register of MOH personnel appointed to SDP and update the register on a monthly basis. The individual responsible for preparing and maintaining the register should be independent of the person responsible for preparing the salaries. Additionally, the project should ensure that all governorates maintain attendance registers and that these registers are reviewed before payments are made to personnel.

MOH/SDP response:

The MOH/SDP assumes that Price Waterhouse is referring to salary supplements being paid to MOH personnel working on SDP activities. Basic salaries are the responsibility of the MOH.

The MOH/SDP does maintain a current register of MOH personnel appointed to the SDP. Each governorate has been required monthly to send a list of MOH personnel receiving salary supplements to the Central office in order for MOH/SDP management to monitor the payments of salary supplements at the governorate level.

GOE regulations & MOH/SDP procedures require that time and attendance records be maintained on all MOH personnel. These records are kept at the central office and governorate offices of the MOH.

It should also be noted that beginning July 1, 1993, salary supplements to MOH employees working on MOH/SDP activities are no longer being paid out of SDP grant funds. The GOE is responsible for paying salary supplements to staff working on SDP activities after July 1, 1993.

Price Waterhouse audit report:

5. The project did not obtain approval for the 1989 project implementation plan prior to disbursement of funds. These plans specify activities and detailed budgets for the project. The project agreement states that annual financial and implementation plans detailing the activities to be undertaken by the project must be approved by USAID

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

prior to initiation of any project-financed activity for that year. Additionally, it is the responsibility of the project to submit these plans in a form and substance satisfactory to USAID to obtain approval. By not obtaining the appropriate approvals prior to the disbursement of funds, the project may bill USAID/Egypt for unauthorized expenditures.

Recommendation 5

The project should maintain a status report of documents and plans to be submitted to USAID for approval. This status report should include the type of document to be submitted for approval, the person responsible for preparing the document, the expected completion date, and the last date for obtaining USAID approvals. The project should ensure that the status report is updated monthly and that USAID/Egypt approvals are obtained on a timely basis.

MOH/SDP response:

The SDP project as well as other USAID projects were not required to submit an implementation plan for 1989. Implementation plans became required for USAID funded projects beginning in 1990. The USAID procedures regarding "Project Implementation and Financial Plans" are first contained in a new Mission Order No. 3-35 issued December 7, 1989. Prior to this date, the documents used by USAID for approving activities and budgets were the original project paper and yearly PIL amendments. The SDP's approved project paper and PIL Amendment included the approval of activities and the budget for 1989.

The MOH/SDP has maintained an excellent record of submitting required reports and documents to USAID on a timely basis. The MOH/SDP management sees no need to modify or add to the current procedures regarding the submission of reports and documents to USAID. Once SDP documents are submitted to USAID, it is beyond the control of the MOH/SDP to ensure that USAID process the approvals on a timely basis.

Price Waterhouse audit report:

6. The system of internal accounting controls surrounding the accounting activities of the project at the governorate contains several weaknesses. In particular, we noted the following:
  - 6.a. In the Cairo governorate under the recruitment and incentives budget line item, check numbers were not recorded on some vouchers. This made it impossible to trace the expenditure to the bank statement.
  - 6.b. In the Giza governorate under the training budget line item, incorrect rates were used to calculate participants' fees for attending training courses. These payments had been approved but apparently the rates and mathematical accuracy were not appropriately reviewed. Without proper reviews during the approval process, the project may bill USAID/Egypt for unauthorized rates.
  - 6.c. In the Giza governorate under the commodities budget line item, payments (in

**SYSTEMS DEVELOPMENT PROJECT**

**PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992**

**SDP MANAGMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT**

the form of checks) for commodities purchases were given to MOH employees to deliver to the vendors. As such, no evidence of receipt of payment by the vendor is available in the project's records.

- 6.d. In the Cairo governorate under the recruitment and incentives budget line item, incentives payments were made between one and six months after being incurred. Without a process to issue incentive payments on a timely basis, the project's controls are weakened. Supporting documentation could be misplaced, forgotten, altered, or the payments may be billed to USAID/Egypt twice.
- 6.e. In the Behera governorate under the recruitment and incentive budget line item, checks were written to the district offices for a variety of expenditures. The breakdown of this amount is recorded in various locations in the general ledger. This made it impossible to trace the total amount of expenditures incurred for the check amount without the assistance of a project accountant. During our audit, this assistance was not available.

**Recommendation 6**

We recommend that the project ensure that accounting standards and controls are implemented and reviewed by an internal auditor for the governorate and district levels. The auditor should be well read in USAID/Egypt rules and regulations and the project's accounting policies and procedures. Regular internal audits of the governorate would reasonably ensure that project does not bill USAID/Egypt for unauthorized or unallowable expenditures.

**MOH/SDP response:**

- 6.a. Current SDP financial procedures require that a copy of the check be attached to the voucher to document the disbursement of funds. During the financial management training for governorate personnel which is scheduled for the first quarter of 1994, this important procedure will be emphasized and reinforced.
- 6.b. Current SDP financial procedures specify amounts to be paid to participants attending training courses. The procedures also require that vouchers be reviewed by appropriate personnel. This procedure will be emphasized and reinforced during the training of the governorate financial personnel scheduled for 1994.
- 6.c. Current SDP financial procedures require that checks made out to vendors for payment of commodities be picked up by a representative of the vendor at the governorate office. The representative is then required to sign the request for payment form (cash form) signifying that the check has been received. This procedure will be emphasized during the training for the governorate financial personnel which is scheduled for 1994.
- 6.d. The MOH/SDP agrees that it is important to disburse incentives payments on a timely

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

basis to avoid problems with documentation and subsequent billings to USAID. Governorate financial personnel will be instructed to expedite the processing of incentive payments during the financial training scheduled for 1994.

- 6.e. MOH/SDP management has been informed that accounting personnel were available to Price Waterhouse auditors in Behera governorate and therefore we do not understand why the audit report contains the comment that assistance in tracking expenditures in the general ledger was not available.

Recommendation 6.

The MOH/SDP recognizes the importance of proper monitoring of financial operations in the governorates. The SDP's financial system operates in a decentralized manner encompassing twenty-one governorates. It is crucial that standard procedures be used by all 21 governorates and the central office and that financial personnel comply with all of the procedures. In order to ascertain if compliance is taking place, monitoring procedures need to be in place. Monitoring procedures have been written into the Financial Management System Policy and Procedure Manual. In addition, the Financial Manager who will be hired by the SDP will assess the monitoring procedures and determine if they need to be strengthened. The manager will also assess whether enough manpower is available to provide appropriate monitoring of the system and make recommendations to MOH/SDP management regarding staffing.

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

RESPONSE TO THE RECOMMENDATIONS  
ON COMPLIANCE WITH LAWS  
AND REGULATIONS

Price Waterhouse audit report:

1. Assets funded by USAID/Egypt are not marked with the USAID emblem. According to USAID rules, all equipment and vehicles funded with USAID resources should be labeled with the USAID emblem in a prominent place to give proper recognition to USAID. We noted during our audit that the project is not labeling all equipment purchased with USAID/Egypt funds.

Recommendation 1

The Project should comply with USAID/Egypt regulations that require all items purchased with USAID funds display the USAID emblem.

MOH/SDP response:

When the SDP purchases a fixed asset, a label identifying it as the property of the SDP is attached to the item. USAID rules do not require that all fixed asset items be labeled with the USAID emblem. According to AID Handbook 1B and 15, only imported commodities financed under the AID program are required to be marked with the USAID emblem. In addition, if the imported items are too small or otherwise unsuited for individual marking, the emblems do not have to be applied directly to the items. AID does not require marking of locally procured commodities which are not imported specifically for the project. In the case of the SDP, this means that only the imported project vehicles are required to bear the USAID emblem.

Price Waterhouse audit report:

2. The project billed USAID/Egypt in advance of payment for various items. Specifically, the project billed USAID/Egypt for:
  - taxes withheld relating to vendor taxes and employees' share of stamp and payroll taxes. The project pays these amounts on a cumulative periodic basis and not as incurred. USAID/Egypt regulations state that billings are to be paid on a cash basis and not on an accrual basis.
  - the total price of LE 61,000 for a commodity purchased in September 1988 although the project had entered into an installment payment agreement to pay LE 27,175 in September 1988 and LE 35,825 in February 1989. Amounts should not be billed to USAID unit actually disbursed.
  - an amount of LE 6,079 under the hospital services budget line item in May 1992 in excess of the expenditures recorded in the general ledger. This amount was then deducted from the August 1992 billing, in effect making this

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

amount an advance billing.

Recommendation 2

We recommend that SDP follow the grant agreement policy and bill USAID/Egypt for only those amounts actually disbursed to maintain the appropriate cash basis of accounting.

MOH/SDP response:

Current MOH/SDP policy and procedures as written in the Financial Management System Policy and Procedure Manual explicitly state that any advance payments made by the SDP should be set up as an Accounts Receivable and only expensed when all commodities or renovations have been received and documentation obtained. The procedures also state that USAID should not be billed for any advance payment.

During the training for the financial personnel which will be held in 1994, these procedures will be emphasized and reinforced to ensure that USAID is only billed for actual disbursement for documented expenses of the project, not advance payments or future taxes payable.

Price Waterhouse audit report:

3. The project does not maintain a separate set of books and records for USAID/Egypt funds at the district levels in the Behera and Cairo governorate. In Behera, the accounting records and documents are commingled with the GOE accounting records. In Cairo, this condition exists for the minor renovations budget line item only. Standard provisions of PIL No. 15 state that the grants will maintain a separate set of books and records relating to the project and the agreement.

Recommendation 3

The project should comply with the agreement and maintain a separate set of books and records for USAID funds at both the governorate and district levels.

MOH/SDP response:

The SDP maintains separate books, records and bank accounts for USAID grant funds disbursed at the governorate level. These funds are advanced to the governorates from the central office in Cairo. The SDP project does not advance funds to the district level for disbursement. Any expenses relating to governorate and district activities are disbursed from the governorate level bank account. Therefore separate books and records are not needed at the district level.

The district level accounting personnel only process the revenue earned by the sale of the USAID donated contraceptives. These revenue funds are not USAID grant funds. Separate procedures apply to the revenue funds. The procedures are specified in the revenue agreement between USAID and the MOH.

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

Price Waterhouse audit report:

4. The project has not followed competitive bidding procedures on a number of goods and services procurement transactions. During our audit we noted that no competitive bids were obtained for a number of purchases and consulting services that should have been covered under the procurement provisions of the project.

Recommendation 4

We recommend that SDP follow project policy that requires competitive bidding procedures in purchasing goods and hiring consultants.

MOH/SDP response:

The MOH/SDP follows competitive bidding procedures for the procurement of goods as outlined in the SDP's Commodities Management System Policy and Procedure Manual Part B. These procedures conform to GOE and USAID regulations regarding procurement. For consulting services, the SDP evaluates candidates for consulting services and chooses the most qualified individual. The SDP is not required to advertise for services to be performed by individuals. USAID Handbook 11, Section 2.4.1.1, on Competition states the following: "In the following two cases, advertising and written requests for proposals are not required: (a) If the services are to be performed personally by an individual, consideration of a reasonable number of candidates is recommended. (b) If the estimated contract value does not exceed \$100,000, negotiation may be undertaken without formal solicitation of proposals from more than one source."

Price Waterhouse has not provided the MOH/SDP with specific examples to explain the basis for the comment that "The project has not followed competitive bidding procedures on a number of goods and services procurement transactions." Therefore the MOH/SDP cannot respond in further detail. No questioned costs specified by Price Waterhouse relate to problems with competitive bidding procedures.

Price Waterhouse audit report:

Recommendation 5

The project should ensure that all expenditures are within the scope of the project as defined in the grant agreement and annual project implementation.

MOH/SDP response:

The MOH/SDP recognizes that it is essential that only those expenditures which are within the scope of the project be paid out by the SDP. Several of the expenditures cited by Price Waterhouse as being in excess of the USAID approved amounts are being disputed by the MOH/SDP. These amounts will be addressed in the MOH/SDP response to the questioned costs.

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

The MOH/SDP is committed to ensuring that USAID funds are only used for the activities and items which have been approved by USAID. During the training for the financial personnel which will take place in 1994, the procedures relating to this issue will be stressed and their importance highlighted.

Price Waterhouse audit report:

Recommendation 6

We recommend that SDP establish procedures related to invoice processing to ensure that taxes are not billed to USAID/Egypt. By making the accounting staff aware of the provision of exempting project expenditures from taxation and other GOE customs duties and taxes, the project can insure that these and other amounts related to such taxes are not paid or billed to USAID/Egypt.

MOH/SDP response:

Current MOH/SDP policy, as stated in the Financial Management System Policy and Procedure Manual, specifically states that SDP grant funds cannot be used for taxation or fees imposed by the laws in effect in Egypt. The manual states that "If any taxes, tariffs, custom duties or other levies must be paid for any commodity procurement or contract, payment must be made with funds other than those provided through the SDP grant." This important policy will be emphasized during the financial management training which will be conducted for all MOH/SDP financial personnel in the first quarter of 1994.

Price Waterhouse audit report:

7. The project did not obtain approval for the 1989 project implementation plan. These plans are prepared on an annual basis and specify how the project intends to fulfill the grant agreements, including a detail budget of all budget line items. The agreement requires that USAID approval be obtained for these annual plans prior to related disbursements of funds.

Recommendation 7

We recommend that SDP comply with agreement terms and obtain USAID approval for the project implementation plans prior to disbursement of funds.

MOH/SDP response:

The SDP project as well as other USAID projects were not required to submit an implementation plan for 1989. Implementation plans became required for USAID funded projects beginning in 1990. The USAID procedures regarding "Project Implementation and Financial Plans" are contained in a new Mission Order No. 3-35 dated December 7, 1989. Prior to this date, the documents used by USAID for approving activities and budgets were the original project paper and yearly PIL Amendments. The SDP's approved project paper and PIL Amendment included the approval of activities and the budget for 1989.

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

Price Waterhouse audit paper:

8. The project did not maintain books and records relating to the project which were adequate to show, without limitation, the receipts and use of goods and services acquired under the grant. The details of the questioned costs relating to \$767,675 of unsupported costs are identified in the "Consolidated Fund Accountability Statement-Audit Findings" section of this report. Additionally, the project did not afford our auditors the opportunity at all locations to inspect the supporting documentation for expenditures incurred under the grant.

MOH/SDP response:

The above Price Waterhouse statement says the following:

1. There is a total of \$767,675 in unsupported costs.
2. The MOH/SDP did not maintain adequate records to show the receipts and use of goods and services acquired under the grant.
3. Price Waterhouse auditors were not afforded the opportunity at all locations to inspect the supporting documentation for expenditures incurred under the grant.

The following are MOH/SDP's responses to the above three issues:

1. The MOH/SDP asserts that the total amount of unsupported costs claimed by Price Waterhouse (\$767,675) is overstated. We assert this for the following reasons:
  - a. Price Waterhouse breaks down the questioned costs into two categories: 1) ineligible and 2) unsupported. Unsupported costs are not supported with adequate documentation or did not have the required prior approvals or authorizations. In the "Consolidated Fund Accountability Statement", unsupported costs are \$701,296 and ineligible costs are \$66,376.
  - b. Of the \$701,296 in unsupported costs, \$482,061 relate to the Hospital Services line item. (Hospital renovations expenses for all 21 governorates. These funds were sent from the central office to all 21 governorates). The Price Waterhouse audit only included five of the 21 governorates. The total amount of expenditures for these five governorates for hospital renovations was \$103,982 (LE 281,790). Therefore \$378,079 (\$482,061 - 103,982) in hospital renovations occurred in the 16 governorates which were not audited by Price Waterhouse and should not appear in this report. The amount of unsupported costs claimed by Price Waterhouse must be reduced by \$378,079. This results in the true figure of unsupported costs - \$323,217 (\$701,296 - 378,079 = \$323,217).
2. We assume that Price Waterhouse's statement regarding the lack of adequate records

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

related in large part to the documentation regarding the hospital services line item. The amount of \$103,982 relates to hospital renovations in the five audited governorates. This amount represents 32% of the total unsupported costs (\$103,982 ÷ \$323,217). Documentation for these expenditures does exist, but it is not located at the governorate offices. The documentation is found at the hospitals where the renovations took place and at various city council offices in the governorate where the funds were disbursed for the renovations. By GOE law, documentation must remain filed in the agency where the actual disbursements were made. Therefore, Price Waterhouse auditors would have to examine the documents at various locations within the governorates.

3. It is the MOH/SDP management's understanding from discussions with the five governorate financial personnel, that Price Waterhouse auditors were told about the location of the documentation regarding the hospital renovations. The governorate personnel offered to transport the Price Waterhouse auditors to the appropriate location to view the documents, but the Price Waterhouse auditors made the decision not to go where the documents were kept.

At the exit conference held on October 23, 1993, it was agreed that Price Waterhouse would return to all five audited governorates and review the documentation regarding the hospital renovations and unit renovations during the MOH/SDP audit response period.

As of the date of this response (Nov. 23, 1993), Price Waterhouse sent only one auditor to three of the five governorates (Gharbia, Dakahlia and Behara) (Price Waterhouse did not return to Cairo and Giza). The auditor was accompanied by a financial consultant who has worked with the SDP and an accountant from the SDP's Central office. It is anticipated that Price Waterhouse will make appropriate adjustments regarding the questioned costs associated with the hospital services and unit renovations in the audit report.

Price Waterhouse audit report:

Recommendation 8

We recommend that the project maintain books and records in accordance with generally accepted accounting principles and practices. The project should also maintain documentation to verify maintain the receipt and use of goods and services acquired under the grant. Furthermore, the project should ensure that oversight agency representatives, including USAID/Egypt, are afforded the opportunity to inspect the books, records, and other documents relating to the project and the grant.

MOH/SDP response:

The SDP's Financial Management System Policy and Procedure Manual has been written to conform to generally accepted accounting principles and practices. The manual includes a section regarding the importance of maintaining proper and appropriate documentation to verify and explain the disbursement of funds. The MOH/SDP management is committed to improving and monitoring the financial transactions of the project, that is why the manual

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A. SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

has been written. Financial personnel will be trained in the use of the manual and a competent, well qualified Financial Manager will be hired to coordinate and monitor financial transactions at the central office as well as at the governorates.

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

MOH/SDP's RESPONSE TO "OTHER MATTERS"

The Price Waterhouse audit report contains a section on the following issue:

Other matters:

In addition to the above mentioned matters, our audit found that a project vehicle (government license #1205/1) funded by USAID/Egypt was taken by the governor of Dakahlya for his own use on May 18, 1993. The current governor changed the car license from government to personal and later traded the car with one from a Ministry of Irrigation project. The previous governor of Dakahlya followed this same practice from May 14, 1989 through May 5, 1991.

MOH/SDP response:

The MOH/SDP has taken action on the above mentioned issue. The Minister of Health sent a letter on July 7, 1993 to the Governor of Dakahlya telling him to return the vehicle to the governorate office in Dakahlya so that it can be used by the MOH/SDP project there. The Minister of Health told the Governor that the agreement between the MOH and USAID requires that the USAID funded vehicle can only be used for implementing project activities of the SDP. The vehicle (government license # 12051) was returned to the Dakahlya governorate office for use by the MOH/SDP on July 31, 1993. The vehicle was returned in good condition. The MOH/SDP has given Price Waterhouse copies of documents relating to the return of this vehicle under separate cover.

**SYSTEMS DEVELOPMENT PROJECT**

**PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992**

**SDP MANAGMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT**

**THE MINISTRY OF HEALTH'S RESPONSE  
TO THE QUESTIONED COSTS IN  
THE PRICE WATERHOUSE AUDIT REPORT OF THE SYSTEMS  
DEVELOPMENT PROJECT**

The Price Waterhouse audit report of the Systems Development Project (SDP) listed in detail those costs which the auditors determined were ineligible or unsupported. The MOH/SDP has examined the questioned costs, to the extent possible since receiving the audit report, and has categorized these costs as follows:

1. Unallowable Costs

The MOH/SDP has make the determination that these costs are not allowable under the terms of the SDP grant and should not be charged to the SDP Project. The MOH will assume the financial responsibility for the unallowable amounts.

2. Allowable Costs

The MOH/SDP has make the determination that these costs are allowable under the terms of the SDP grant and has provided Price Waterhouse with detailed documentation and justification to explain why the costs are allowable. (These details have been provided to Price Waterhouse under separate cover).

3. Remaining Costs Under Investigation

Because of time constraints, the MOH/SDP has not been able to fully investigate all of the questioned costs in the audit report. Therefore, the MOH/SDP will continue to research and analyze the remaining costs over the next several weeks. The MOH/SDP will submit further reports and information to USAID in order to resolve all of the remaining questioned costs.

The attached table contains a breakdown showing the total amount questioned (column 3), the unallowable costs (column 4), the allowable costs (column 5) and the remaining costs under investigation (column 6). The amounts are in LE and taken from Appendix B of the audit report.

Note to Questioned Costs:

H-1- Hospital Services  
Central Office

Price Waterhouse has categorized the entire amount of this line item as unsupported. (LE 1,306,385) (\$482,061). This amount relates to hospital renovations which took place in all twenty ore governorates. Price Waterhouse only audited five of these governorates. The amount of hospital renovations taking place in the five governorates is LE 281,790

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

(\$103,982).

Dakahllya	LE	47,008
Cairo		104,973
Gharbia		35,000
Behera		39,371
Giza		<u>55,438</u>
Total	LE	<u>281,790</u>

The remaining LE 1,024,595 (\$378,079) relates to hospital renovations in the other 16 governorates. Since these governorates were not audited by Price Waterhouse, this amount should be removed from the questioned costs. (LE 1,024,595).

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

MINISTRY OF HEALTH  
SYSTEMS DEVELOPMENT PROJECT  
JULY 1, 1987 - MAY 30, 1992  
(AMOUNTS IN LE)

REFERENCE NUMBER (1)	PAGE NO. (2)	TOTAL AMOUNT QUESTIONED (3)	UNALLOWABLE COSTS (4)	ALLOWABLE COSTS (5)	REMAINING UNDER INVESTIGATION (6)
A1	1/28	5,010			5,010
A2	1/28	37,490		37,490	0
B1	2/28	33,184			33,184
B2	2/28	8,793			8,793
B3	2/28	34,808		28,572	6,236
B4	3/28	1,500		1,500	0
B5	3/28	70,329		68,875	1,454
B6	3/28	150			150
B7	4/28	4,835			4,835
B8	4/28	1,888			1,888
B9	5/28	150			150
B10	5/28	2,062			2,062
B11	5/28	5,714			5,714
B12	6/28	94			94
B13	6/28	100			100
B14	6/28	386		386	0
B15	7/28	680		680	0
B10	7/28	3,455		3,455	0
C1	8/28	740			740
C2	8/28	252			252
C3	9/28	15			15
C4	9/28	6,969			6,969
C5	9/28	340			340
C6	9/28	685			685
C7	10/28	3,769			3,769
C8	10/28	770			770
C9	10/28	688			688
C10	11/28	490		490	0
C11	11/28	54			54
C12	11/28	66			66
C13	12/28	2,702			2,702
C14	12/28	34			34
C15	12/28	30			30
C16	13/28	6,550			6,550
C17	13/28	3,370			3,370
C18	13/28	100			100
C19	14/28	29,601			29,601
C20	14/28	6,351			6,351
C21	14/28	5,890			5,890
C22	15/28	6,435			6,435
C23	15/28	1,349			1,349
C24	15/28	1,360			1,360

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144  
FOR THE PERIODS FROM JULY 1, 1987 THROUGH MAY 31, 1992

SDP MANAGEMENT COMMENTS ON THE FINANCIAL-RELATED AUDIT

REFERENCE NUMBER (1)	PAGE NO. (2)	TOTAL AMOUNT QUESTIONED (3)	UNALLOWABLE COSTS (4)	ALLOWABLE COSTS (5)	REMAINING UNDER INVESTIGATION (6)
C25	16/28	1,510			1,510
C26	16/28	204			204
C27	16/28	160			160
C28	17/28	395			395
C29	17/28	11,599			11,599
D1	18/28	13,872		13,872	0
D2	18/28	34,107	2,466	31,641	0
D3	19/28	150	150		0
D4	19/28	292	292		0
D5	19/28	10,446		10,446	0 ***
D6	20/28	18,533		18,533	0 ***
D7	20/28	450			450
D8	21/28	814			814
D9	21/28	500			500
D10	21/28	1,770			1,770
D11	22/28	56,290		56,290	0 **
E1	22/28	3,191		3,191	0 ***
E2	23/28	12,202		12,202	0
E3	23/28	160			160
E4	23/28	55,639		55,639	0 ***
E5	24/28	153,907		153,907	0 ***
E6	24/28	1,398			1,398
E7	24/28	140			140
E8	25/28	34,777		34,777	0 ***
E9	25/28	16,444		16,444	0 ***
E10	25/28	5,777		5,777	0 **
F1	26/28	16,366			16,366
F2	26/28	2,524			2,524
F3	27/28	6,158			6,158
F4	27/28	6,019		6,019	0
F5	27/28	9,395	9,395		0
F6	27/28	8,316	8,316		0
G1	28/28	1,261		1,261	0
H1	28/28	1,024,595 281,790		1,024,595 281,790	0 ***
TOTAL		2,080,389	20,619	1,867,832	191,938

\* Actual documents specify the amount as LE 20,572 not LE 34,808 as Price Waterhouse has listed in appendix B of the report. Therefore the difference of LE 6,236 should be removed from the costs, as this amount is an error.

\*\* These commodity purchases and minor renovations were made for the use of the MOH/SDP project and are allowable expenditures. The SDP is a fully integrated project of the MOH and as such, it is appropriate and reasonable for invoices to be addressed to the MOH.

\*\*\*According to the G.O.E. laws and regulations (financial regulation for Budgeting & Accounting - articles # 451 & 514. These amounts have been allocated to be allowable under the terms of the SDP grant. The original supporting documents are available in the Accounting units in the Hospitals, city councils and the health districts. (Refer to note on page 17 of the audit response)

**SYSTEMS DEVELOPMENT PROJECT**

**PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144**

**FOR THE PERIOD FROM JULY 1, 1987 THROUGH MAY 31, 1992**

**AUDITOR COMMENTS**

This appendix presents our comments on SDP's response to the draft audit report presented at our exit conference held on September 24, 1993. In response to the comments, we reviewed additional supporting documents and evaluated management's comments. Where applicable we have noted where adjustments were made in the final report or provided further clarification of our position relating to items discussed in Appendix C. Please note that the numbering of this appendix follows the numbering of the findings as presented in Appendices B and C.

Questioned Costs

- A.2 As the documentation provided with management's response relates to employees, not consultants, management appears to concur with this finding. As such, our position is unchanged.
- B.3 Management provided invoices or other documentation with their response for amounts totalling LE 12,532 (\$4,624). Upon our review of these documents we found only one invoice for stationary supplies which we consider both supported and eligible. As such we have removed the amount of this invoice of LE 82 (\$30) from the final report. Of the remaining documentation provided we found amounts totalling LE 1,072 (\$395) which we considered ineligible costs and LE 11,378 (\$4,199) as unsupported costs. We received no documentation for the remaining LE 22,276 (\$8,220).

The total amount of LE 34,808 is correct. The schedules we provided management detailed all questioned amounts in the findings. These schedules were actual copies of our working papers with clarifying notes written on them. If this documentation was illegible or unclear or if management required further clarification, such inquiries should have been made prior to their formal response provided on the thirtieth day of the response period so we could have specifically addressed those questions. In consideration of the above, we have reduced this finding by LE 82 (\$30) to LE 34,726 (\$12,814), including LE 33,654 (\$12,418) unsupported costs.

- B.4 Upon consideration of supporting documentation provided by management, this finding has been removed from the final report.
- B.5 Management provided invoices or other documentation with their response. Upon review of these documents we found LE 57,920 (\$21,373) to be supported but should be reclassified to the recruitment and incentives budget line item. However no documentation was provided for the remaining LE 12,409 (\$4,579). As such, we have reduced this finding by LE 57,920 (\$21,373) to (LE 12,409) (\$4,579) and have reclassified LE 57,920 (\$21,373) to the recruitment and incentives budget line item.

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144

FOR THE PERIOD FROM JULY 1, 1987 THROUGH MAY 31, 1992

AUDITOR COMMENTS

- B.14 Although management states that they have located documentation supporting the amounts questioned, this information was not included in their response or made available to us in the response period. As such, our position is unchanged.
- B.15 Management provided memos authorizing these training sessions and lists of signatures with their response however the lists are not dated or labeled to verify that this signature list is regarding a training session or any other function. As such, our position is unchanged.
- B.16 Upon review of supporting documentation presented with management's response, this finding has been removed from the final report.
- C.10 Although management states that they have located documentation supporting the amounts questioned, this information was not included in their response or made available to us in the response period. As such, our position is unchanged.
- D.1 Management provided us with a copy of table 19 "SDP Budget-Renovations" from the SDP project paper dated November 1989. The revised project paper indicates a budget for "Central Administration Renovation" for "Year 21/89 to 12/89" of LE 80,000. A breakdown or details of this total budget amount was not provided.

During our audit, we based this finding on a letter dated April 29, 1990 from the USAID project officer to the SDP executive director. This letter states that "an amount of up to LE 65,000 from the MOH/SDP line item renovation to be used to add an extension to the SDP central office provided all receipts related to materials and labor are submitted to justify this expenditure... USAID/Cairo engineering department has advised that a maximum of LE 65,000 should be sufficient to purchase the materials and to complete the work.."

As this letter specifically states that up to LE 65,000 is approved for the extension to the SDP central office our position is unchanged. Therefore, the amounts in excess of LE 65,000 which we found and reported in this finding and at finding E.2. remain as questioned costs in the fund accountability statement.

- D.2 Management provided a letter from the USAID/Egypt project officer dated August 2, 1993 providing for a retroactive approval of eligible items. These items, totalling LE 31,641 (\$11,676) were included as questioned costs in our draft report. This letter states that a previous letter dated April 20, 1993 from the USAID/Egypt project officer indicated that USAID/Egypt is prepared

11/11

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144

FOR THE PERIOD FROM JULY 1, 1987 THROUGH MAY 31, 1992

AUDITOR COMMENTS

to provide retroactive approval for eligible items. Unfortunately, the letter dated April 20, 1993 was not included in SDP's response.

Since we were not able to review this letter and since the date of this letter as well as the letter approving the items in question are five years after the items were purchased, our position concerning these costs is unchanged.

Supporting documentation was not received for the remaining LE 2,466 (\$910) questioned costs. As such, the total amount of LE 34,107 (\$12,586) remains as a questioned cost in the fund accountability statement.

- D.5 Management appears to concur with our finding as they have indicated that the original supporting documents are not available at SDP. As such, our position is unchanged.
- D.6 Management provided invoices or other documentation with their response. Upon our review of these documents we found amounts totalling LE 2,435 (\$899) which we consider both supported and eligible. However, we also found amounts totalling LE 4,809 (\$1,775) which we considered ineligible and LE 11,289 (\$4,166) inadequately supported.

As such, we have reduced this finding by LE 2,435 (\$899) to LE 16,098 (\$5,940), including LE 11,289 (\$4,166) unsupported costs.

- D.11 Management appears to concur with this finding.
- E.1 Management appears to concur with our finding as they have indicated that the original supporting documents are not available at SDP. As such, our position is unchanged.
- E.2 Our position is unchanged. See our comments at finding D.1.
- E.4 Management appears to concur with our finding as they have indicated that the original supporting documents are not available at SDP. As such, our position is unchanged.
- E.5 During the response period, management provided documentation relating to this finding for amounts totalling LE 76,597 (\$28,264). Upon our review of these documents, we found amounts totalling LE 55,671 (\$20,543) which we consider both supported and eligible. Of the remaining documentation provided we found amounts totalling LE 882 (\$325) which we consider ineligible and LE 20,044 (\$7,396) unsupported. No supporting documentation was received for the remaining LE 77,310 (\$28,528). As such, this finding has been reduced by LE 55,671 (\$20,543) to LE 98,236 (\$36,249), including LE 97,354 (\$35,924) unsupported costs.

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144

FOR THE PERIOD FROM JULY 1, 1987 THROUGH MAY 31, 1992

AUDITOR COMMENTS

- E.8 During the response period, management provided documentation relating to this finding for amounts totalling LE 28,503 (\$10,518). Upon our review of these documents, we found amounts totalling LE 22,243 (\$8,208) which we consider both supported and eligible. Of the remaining documentation provided we found amounts totalling LE 50 (\$18) which we consider ineligible and LE 6,210 (\$2,292) unsupported. No supporting documentation was received for the remaining LE 6,274 (\$2,315). As such, this finding has been reduced by LE 22,243 (\$8,208) to LE 12,534 (\$4,625), including LE 12,484 (\$4,607) unsupported costs.
- E.9 During the response period, management provided documentation relating to this finding for amounts totalling LE 22,221 (\$8,200). Upon our review of these documents, we found amounts totalling LE 11,486 (\$4,238) which we consider both supported and eligible. Of the remaining documentation provided we found amounts totalling LE 100 (\$37) which we consider ineligible and LE 10,635 (\$3924) unsupported. As such, this finding has been reduced by LE 5,709 (\$2,107) to LE 10,735 (\$3,961), including LE 10,635 (\$3,924) unsupported costs.
- E.10 Management appears to concur with this finding.
- F.4 Management provided invoices or other documentation with their response for amounts totalling LE 5,818 (\$2,147). Upon our review of these documents we found two amounts totalling LE 2,011 (\$742) which we consider both supported and eligible. Of the remaining documentation provided we found LE 3,807 (\$1,405) to be inadequately supported. No supporting documentation was received for the remaining LE 201 (\$74). As such, we have reduced this finding by LE 2,011 (\$742) to LE 4,008 (\$1,479).
- G.1 Management provided invoices or other documentation with their response. Upon our review of these documents we found only one voucher of LE 180 (\$66) which we consider both supported and eligible. We did not consider the documentation provided for the remaining LE 1,081 (\$399) as adequately supported. As such, we have reduced this finding by LE 180 (\$66) to LE 1,081 (\$399).
- H.1. Our audit scope included the central office and the five governorates mentioned elsewhere in this report. The entire hospital services budget line item is accounted for at the central office therefore the entire budget line item is considered in our audit scope. As we discussed in the closing meeting, we were willing to reduce our audit scope to include only those hospital services costs incurred in the five governorates included in our audit. However we were unable to verify the total amount of hospital services costs incurred for each governorate or conclude that a substantial portion of the supporting documentation is available at the hospitals.

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144

FOR THE PERIOD FROM JULY 1, 1987 THROUGH MAY 31, 1992

AUDITOR COMMENTS

Management provided the amounts of hospital renovations for each of the five governorates in their response. Unfortunately, this breakdown was not available during our audit and the project's accounting records are not maintained in a manner in which we could determine the amount of expenditures for each governorate.

As we also agreed in the closing meeting, a staff was provided to SDP to audit the hospital services budget line item during the period. Due to the limited time period, SDP agreed to make all documentation kept at the numerous district offices available at the governorate offices. However, during the response period management insisted that we visit the district offices because they were unable to make the documentation available at the governorate offices. It was understood by SDP management and us that this new approach would make it impossible to audit all five governorates during the response period. The decision to visit only three governorates was entirely the choice of SDP management. In keeping with the spirit of our commitment to view all documentation made available to us during the response period, we agreed to visit these 3 governorates.

During the response period we were able to test LE 83,971 <sup>mrw</sup> (\$30,986), or six percent of the total budget line item and found LE 27,419 (\$10,118), or 33 percent of the total amount tested, unsupported.

For these reasons, we are unable to reduce our audit scope. As such, this finding has been reduced only by LE 56,403 (\$20,813) to LE 1,249,982 (\$461,248), including LE 1,249,833 (\$461,193) unsupported costs.

Internal Control Findings

Recommendation 1:

We acknowledge the fact that the warehouse does maintain a register of commodities. However this register does not identify the location of assets once they are shipped out of the central office warehouse. As a result, there is no centralized listing of project commodities by location and therefore no records to trace the disbursement and receipt of property once it leaves the central office warehouse.

Upon further consideration of USAID/Egypt marking requirements, we agree with SDP management concerning the marking of project assets with USAID emblems and have removed this finding from our report. However, we did note that a large number of commodities are identified with SDP labels regardless of whether the items were purchased with USAID/Egypt funds or MOH resources. As such, these items may be used by the MOH for activities unrelated to the family planning activities included under the SDP grant agreement. Further, we noted that the general attitude

111

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144

FOR THE PERIOD FROM JULY 1, 1987 THROUGH MAY 31, 1992

AUDITOR COMMENTS

Recommendation 1: (Cont.)

presented in the response that everything purchased for SDP is under MOH control and may be used as the MOH sees fit is an incorrect interpretation of the grant agreement. We recommended a separate warehouse facility to emphasize that these commodities must be used to further the grant objectives only. As such our position concerning this recommendation is unchanged.

Recommendation 2:

Management's comments appear to support our position. We fully support management's efforts to continue to fully document policies and procedures and to train project staff concerning the implementation of these policies and procedures. We would also encourage close supervision by the USAID/Egypt Office of Population to ensure that actions outlined in this response are adequately followed.

Recommendation 3:

Although management states that such reviews are performed by a research committee appointed by the Executive Director, the project maintains no evidence of this review. The files maintained by the project for each participant in the research operation have only a statement of work performed signed by the participant and no evidence of review or approval by SDP management.

Recommendation 4:

The register of MOH personnel appointed to SDP is not prepared or authorized by MOH personnel responsible for assigning employees to the project. With the exception of the Behera governorate, the SDP payroll accountants prepare this listing based solely on memory of who worked for the project during the period or collect names from various sources. As such, the reliability of this listing is suspect. Our position on this item is unchanged.

Recommendation 5:

Requirements to submit an annual implementation plan are included in section V. of the SDP project paper dated June 1987. We believe that the project paper agreement terms should be followed in which it states "the MOH will submit the following reports to USAID/Egypt in a form and substance satisfactory to USAID:... (b) annual financial and implementation plans detailing the activities to be under taken through the project at all levels. The implementation plan will specify quantifiable targets to be achieved on an annual and quarterly basis and must be approved by USAID/Egypt prior to initiation of any project financed activity for that year." Management's comment that SDP was not required to submit an implementation plan does not seem consistent with the agreement they were working under.

16

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144

FOR THE PERIOD FROM JULY 1, 1987 THROUGH MAY 31, 1992

AUDITOR COMMENTS

Recommendation 5: (Cont.)

As a formal schedule of reporting requirements and due dates is usually considered an important part of any effective control system, our position on this finding is unchanged.

Recommendation 6:

Management's comments reinforce our findings for this item, therefore our position is unchanged.

Compliance Findings

1. We concur with management regarding marking requirements and have removed this finding from the final report.
2. We encourage SDP to continue its efforts to inform and train financial personnel regarding USAID/Egypt regulations and project agreement terms.
3. In other district offices we visited, books and records were maintained that adequately segregated project documents from other MOH records. This becomes critical when tracking vendor tax withholdings and in auditing project records. As a result our position is unchanged.
4. This finding addresses the procurement of two separate items: commodity purchases and consulting services. We included consultancy services under this item because although formal competitive bids are not required, we believe some sort of justification for hiring and evidence of the consultant's qualifications should be maintained by the project. With regard to commodity procurement, Law 9 of 1983 dictating GOE procurement rules should be followed. For almost all commodity procurements that were subject to Law 9 we were unable to view required documentation. As a result our position is unchanged.
5. No additional comments considered necessary.
6. Management appear to concur with our finding.
7. See auditor's comments relating to internal control recommendation No. 5.
8. We will address the three concerns raised by management separately.
  - 8.1. We agree that total unsupported costs are \$701,296. This change will be reflected on the final report. We questioned all the hospital services budget line item because the accounting for this item is concentrated in the central office. As the entire central office was included in our

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144

FOR THE PERIOD FROM JULY 1, 1987 THROUGH MAY 31, 1992

AUDITOR COMMENTS

8.1. (Cont.)

scope, we have included all the costs for hospital services in the report. It should also be noted that during our audit, the project was either unable or unwilling to provide a breakdown of hospital services by governorate or by hospital. The total of these factors led to our questioning the whole amount.

8.2. During our audit of the central office, we were told that the hospital services supporting documents "are kept in the governorates by the hospitals and these documents are GOE property, only to be viewed by GOE auditors." When we began our work at the governorate offices, we inquired about the hospital services expenditures again and we were told that they knew nothing about the hospital services budget line item and that these amounts were all coordinated between the central office and each respective hospital. The umbrella population project grant agreement stipulates in Annex II Section B.5. "report, record inspection, audit" that the grantee (SDP in this case) will furnish AID such information and reports relating to the project and that they will maintain books and records relating to the project that are adequate to show receipt and use of goods and services. By simply stating that all documents are somewhere in another GOE entity and not ensuring that such documentation is maintained properly and would be available for USAID/Egypt inspection, we believe that neither the form nor spirit of this project provision are being complied with.

8.3. Governorate employees told us during the audit that they knew nothing of the hospital services expenditures. These expenditures are not summarized, monitored or reported to the central office by the SDP governorate offices. Further, we were told that all documents must be at the respective hospitals and that it would be impossible to get access to them. Therefore we declined their offer to transport us to these hospitals. Regardless of whether access to documents could have been obtained from each hospital, we determined through our audit of financial data related to the hospitals line item that proper accounting records were not being maintained by the project. As we noted above, the project failed to adequately monitor expenditures, examine supporting documentation, inspect renovation work performed and insure that documentation (including bids, contracts and invoices from contractors) is properly filed and available for USAID/Egypt inspection. All of these functions were delegated to local hospitals, housing authorities or city councils without project oversight, direction or follow-up.

1/10

SYSTEMS DEVELOPMENT PROJECT

PROJECT IMPLEMENTATION LETTER NUMBER 15  
A SUB-PROJECT OF USAID/EGYPT PROJECT NO. 263-0144

FOR THE PERIOD FROM JULY 1, 1987 THROUGH MAY 31, 1992

AUDITOR COMMENTS

Management also states that we sent "only one auditor to three of the five governorates, " and that "it was agreed that Price Waterhouse would return to all five audited governorates.." In actuality, we agreed to provide a staff full-time, to SDP during their response period to the draft report. SDP was told that they could utilize this staff as they chose, wherever they wanted. We provided this staff member as a courtesy to the project to assist them in limiting the size of their formal response to the audit. It should be noted that our only responsibility during this time is to clarify findings presented in the draft report. The truly unfortunate aspect about auditing the hospital services line item is that the level of cooperation we received after the issuance of our draft report (and after we had completed our actual audit field work) was not available during the audit fieldwork.

"Other Matters"

We acknowledge the fact that the project vehicle has been returned and, in fact, we have been thanked by SDP management in Dakahlya for exposing this repeated misuse of the project vehicle. However, we recommend that in the future SDP ensure that the project vehicle be used only for project-related purposes.

121



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO EGYPT

January 26, 1994

MEMORANDUM

RECEIVED  
JAN 27 1994

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

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

SUBJECT: Audit of MOH Systems Development Subproject (SDP) under Project Implementation Letter (PIL) No. 15, a Sub-Project of the USAID/Egypt Population/Family Planning Project No. 263-0144 - Draft Report

Mission is working with the implementing agency to resolve the questioned/unsupported costs identified under Recommendation No. 1 of the subject audit report.

Attached is a copy of a letter dated December 23, 1993, from the AD/FM to MOH Undersecretary for Family Planning, requesting them to address Recommendation No. 2 regarding inadequate internal control procedures, and Recommendation No. 3 regarding non-compliance. Based on this action, Mission requests that Recommendation Nos. 2 and 3 be resolved.

MOH/SDP continues to maintain that certain of the Price Waterhouse recommendations regarding internal controls and non-compliance are not appropriate or required for their operations. The Mission is reviewing the MOH/SDP position, and will address these issues in closing the audit recommendations.

Your cover letter refers to a compliance finding regarding marking of USAID-funded assets. Please note that in the Report on Compliance, page 54, Audit Finding No. 1 was removed from the final Price Waterhouse Report. We request you delete mention of the finding from your transmittal memo.

Please issue the final report.

Att: a/s

*WV*



CAIRO, EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

APPENDIX E  
Page 2 of 2

December 23, 1993

SUBJECT: Audit of the MOH Systems  
Development Subproject (SDP) under  
Project Implementation Letter (PIL)  
No. 15, a Sub-Project of the  
USAID/Egypt Population/Family  
Planning Project No. 263-0144  
Draft Report

Dr. Moushira El Shaffei  
Undersecretary for Family Planning  
Ministry of Health  
Cairo-Egypt

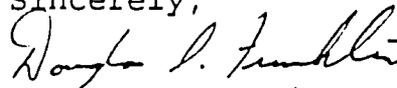
Dear Dr. Moushira:

Attached is a copy of the draft final report on the subject audit. The report contains three recommendations that will need to be satisfactorily addressed before the Regional Inspector General will close the recommendations. Recommendation No. 1 is detailed on pages 14 through 40 of the audit report. Please prepare, for review of the USAID Office of Financial Management (FM), the necessary documentation for the unsupported costs and any comments the Ministry of Health may have on the ineligible costs. Based on FM's review of this documentation, a determination will be made concerning the amount to be refunded to USAID.

Recommendation No. 2 is detailed on pages 44 through 50 and refer to strengthening the internal control procedures. We suggest that the Systems Development Project give special attention to these recommendations in order to improve the internal control environment of the SDP Subproject for the Population/Family Planning III Project.

Recommendation No. 3 on pages 54 through 60 explains instances of non-compliance that the SDP will need to address.

Sincerely,

  
Douglas Franklin  
Associate Director  
Financial Management

cc: Dr. Hassan El Gebaly, Executive Director, MOH/SDP (1 copy)

104

## APPENDIX F

REPORT DISTRIBUTION

	<u>No. of Copies</u>
U.S. Ambassador to Egypt	1
Administrator (A/AID)	1
Mission Director, USAID/Egypt	5
Assistant Administrator for Bureau for Near East, AA/NE	2
Associate Administrator for Finance and Administration, AA/FA	1
Associate Administrator for Operations, AA/OPS	1
Office of Press Relations, XA/PR	1
Office of Financial Management, FA/FM	1
Bureau for Legislative Affairs, LEG	1
Office of the General Counsel, GC	1
Country Desk	1
POL/CDIE/DI, Acquisitions	1
FA/MCS	1
IG	1
AIG/A	1
IG/A/PSA	1
IG/A/PPO	2
IG/LC	1
AIG/I	1
IG/RM/C&R	5
Other RIĠ/A's	1 each



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

February 8, 1994

**MEMORANDUM FOR POL/DIE/DI, Acquisitions, Maury D. Brown**

**FROM :**

RIG/A/C, *Philippe L. Darcy*

**SUBJECT:**

Audit Report No. 6-263-94-009-N dated February 8, 1994, Audit of the Ministry of Health (MOH) Local Expenditures Related to the Systems Development Project (SDP) under Project Implementation Letter (PIL) No. 15, a Sub-Project of USAID/Egypt Population/Family Planning Project No. 263-0144

Attached is one copy of the subject audit report for your information.

Attachments as stated

U.S. Mailing Address  
USAID-RIG/A/C Unit 64902  
APO AE 09839-4902

Tel. Country Code (202)  
357-3909  
Fax # (202) 355-4318

#106, Kasr El Aini St.  
Cairo Center Building  
Garden City, Egypt

125