

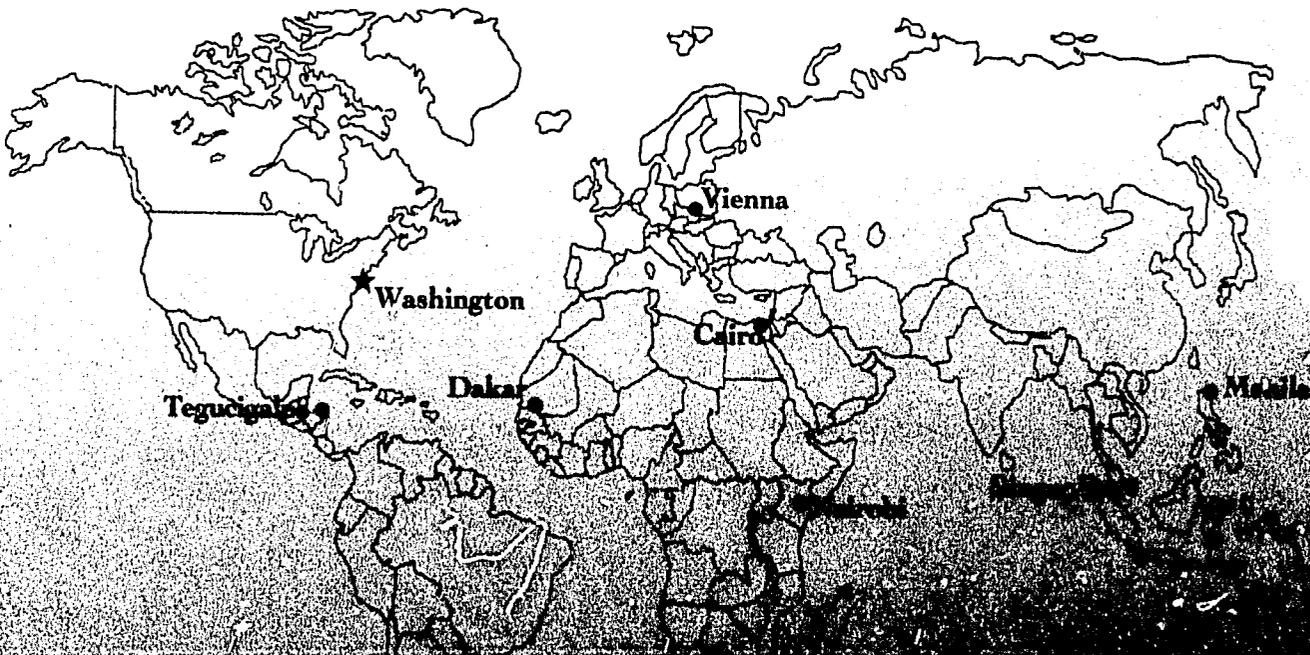
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Regional Inspector General for Audit
Cairo, Egypt

**Audit of The Teaching Hospitals Organization
(THO) Project Implementation Letter No. 26 under
the USAID/Egypt Population and Family Planning
Project No. 263-0144**

**Report No. 6-263-95-009-N
January 5, 1995**

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**INSPECTOR
GENERAL**

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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

January 5, 1995

MEMORANDUM FOR D/USAID/Egypt, John R. Westley

FROM : A/RIG/A/Cairo, Timothy E. Cox *Timothy E. Cox*

SUBJECT: Audit of the Teaching Hospitals Organization (THO)
Project Implementation Letter No. 26 under the
USAID/Egypt Population and Family Planning Project No.
263-0144

The attached report, dated June 28, 1994, by Price Waterhouse presents the results of a financial audit of the Teaching Hospitals Organization related to Project Implementation Letter (PIL) No. 26 under the Population and Family Planning Project No. 263-0144. The project's primary objective is to reduce the Egyptian population growth rate in accordance with the Government of Egypt's (GOE) Population and Family Planning Policy outlined in the "National Strategy Framework for Population, Human Resources Development and the Family Planning Program."

We engaged Price Waterhouse to perform a financial audit of THO incurred expenditures of LE1,813,945 (equivalent to \$594,735) for the period from June 1, 1989 through June 30, 1993. The purpose of the audit was to evaluate the propriety of costs incurred during that period. Price Waterhouse also evaluated THO's internal controls and compliance with applicable laws, regulations, and grant terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Price Waterhouse questioned LE385,016 (equivalent to \$126,235) in costs billed to USAID by THO. The questioned costs included cash, project and clinical management salary supplements and salaries, medical and office supplies, transportation, IEC materials, training, Egyptian technical assistance, contingencies, renovations, non-medical equipment, head office capital expenditures, and training equipment. The auditors also noted nine material weaknesses in THO's internal controls, and three material instances of noncompliance.

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In response to the draft report, THO provided documentation and/or gave more explanation to the questioned costs, and agreed with most of the internal control and compliance findings. Price Waterhouse reviewed THO's response to the findings and where applicable, made adjustments to the report or provided further clarification of their position.

The following recommendations are included in the Office of the Inspector General's Recommendation Follow-up System.

Recommendation No. 1: We recommend that USAID/Egypt resolve questioned costs of \$126,235 consisting of ineligible costs of \$66,335 and unsupported costs of \$59,900 as detailed on pages 7 through 14 of the audit report.

This recommendation is considered unresolved and can be resolved when RIG/A/C receives 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/Egypt are paid by THO.

Recommendation No. 2: We recommend that USAID/Egypt require THO to address the material internal control weaknesses as detailed on pages 16 through 23 of the audit report.

This recommendation is considered "resolved" as USAID/Egypt has requested THO to address its material internal control weaknesses. The recommendation can be closed when RIG/A/C has assessed THO's response and USAID/Egypt's follow-up for adequacy. With regard to the reportable conditions, they can be handled directly between the Mission and THO.

Recommendation No. 3: We recommend that USAID/Egypt require THO to address the material noncompliance issues as detailed on pages 27 and 28 of the audit report.

This recommendation is considered "resolved" as USAID/Egypt has requested THO to address its material noncompliance issues. The recommendation can be closed when RIG/A/C has assessed THO'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.

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TEACHING HOSPITALS ORGANIZATION
PROJECT IMPLEMENTATION LETTER NUMBER 26
UNDER THE USAID/EGYPT
POPULATION AND FAMILY PLANNING PROJECT
NO. 263-0144

FUND ACCOUNTABILITY
STATEMENT AND ADDITIONAL INFORMATION

FOR THE PERIOD FROM JUNE 1, 1989
THROUGH JUNE 30, 1993

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TEACHING HOSPITALS ORGANIZATION
PROJECT IMPLEMENTATION LETTER
NUMBER 26
UNDER THE USAID/EGYPT
POPULATION AND FAMILY PLANNING
PROJECT NO. 263-0144
FUND ACCOUNTABILITY
STATEMENT AND ADDITIONAL INFORMATION
FOR THE PERIOD FROM
JUNE 1, 1989 THROUGH JUNE 30, 1993

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Price Waterhouse



September 20, 1994

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-related cost-incurred audit of project costs incurred by the Teaching Hospitals Organization ("THO") related to Project Implementation Letter ("PIL") No. 26 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Population and Family Planning Project ("PFPP") No. 263-0144 ("grant agreement") funded by USAID/Egypt. The audit population included all project costs incurred by the THO and funded by USAID/Egypt for the period from June 1, 1989 through June 30, 1993.

Background

The grant agreement between USAID/Egypt and the Arab Republic of Egypt provided funding for population and family planning activities and was originated on June 30, 1983. The grant agreement's primary objective was to reduce the Egyptian population growth rate in accordance with the Government of Egypt's ("GOE") Population and Family Planning Policy outlined in the "National Strategy Framework for Population, Human Resource Development and the Family Planning Program." Strengthening nationwide family planning systems to deliver effective contraceptive services to increasing numbers of married couples was the goal by which the grant agreement's objective would be met. Assistance was provided to include: 1) development of private and public sector service delivery systems; 2) training programs; 3) community population development programs; 4) measurement and analysis activities; and 5) efforts to inform and motivate citizens to limit family size through a comprehensive information, education and communication program. The grant agreement has been amended seven times through May 15, 1991 with a project completion date of May 15, 1991 and financing of \$ 117,495,000 U.S. dollars.

The grant agreement's activities were to be accomplished through several PILs of which PIL No. 26 was one. THO was responsible for project activities in accordance with PIL No. 26 which was intended to provide funding to introduce family planning services in eight teaching hospitals within the THO hospital network. PIL No. 26 has been amended five times through May 20, 1993 with approved project costs of \$ 594,736. These amendments almost exclusively addressed increased budget and spending authorizations and time extensions.

Audit Objectives and Scope

The objective of this engagement was to perform a financial-related cost-incurred audit of project costs incurred by the THO related to PIL No. 26 under the USAID/Egypt's PFPP No. 263-0144 funded by USAID/Egypt for the period from June 1, 1989 through June 30, 1993. Specific objectives were to determine whether:



1. the fund accountability statement for the THO project presents fairly, in all material respects, project costs incurred by THO related to PIL No. 26 under the USAID/Egypt PFPP No. 263-0144 funded by USAID/Egypt for the period from June 1, 1989 through June 30, 1993 in conformity with applicable accounting principles;
2. the project costs reported as incurred by THO related to PIL No. 26 under the USAID/Egypt PFPP No. 263-0144 funded by USAID/Egypt are allowable, allocable, and reasonable in accordance with the terms of the grant agreement, PIL, and USAID/Egypt regulations;
3. the internal controls, accounting systems, and management practices of THO are adequate for USAID/Egypt agreements; and
4. THO is in compliance, in all material respects, with the grant agreement, PIL, and applicable laws and regulations.

Preliminary planning and review procedures began in October, 1993. These procedures consisted of discussions with personnel from the Office of the Regional Inspector General for Audit in Cairo and officials of the THO project and a review of the grant agreement and PIL No. 26. Audit fieldwork commenced in November, 1993 and was completed in June, 1994.

The scope of the financial-related cost-incurred audit included all project costs incurred by THO related to PIL No. 26 under the PFPP No. 263-0144 and funded by USAID/Egypt. On a judgmental basis, we selected and tested incurred project costs of LE 734,590 out of total incurred project costs of LE 1,632,220 for the period from June 1, 1989 through June 30, 1993.

Our tests of project costs incurred by THO related to PIL No. 26 under USAID/Egypt's PFPP No. 263-0144 and funded by USAID/Egypt for the period from June 1, 1989 through June 30, 1993 included, but were not limited to, the following:

1. reconciling project accounting records to invoices issued by THO to USAID/Egypt, and testing of project costs incurred and funded by USAID/Egypt for allowability, allocability, and appropriate support;
2. determining that fixed asset purchases were appropriate and conformed with the terms of the grant agreement, the PIL, and applicable laws and regulations;
3. determining that salary costs were adequately supported and approved; and
4. establishing the adequacy of the project's control procedures to safeguard 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 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 33 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 and firms.

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

Results of Audit

Fund accountability statement:

Our audit procedures identified \$ 126,235 in questionable project costs, including \$ 59,900 of unsupported project costs, both converted from Egyptian pounds as incurred to US dollars at the applicable exchange rate. The fund accountability statement, stated as incurred in Egyptian pounds, is included in Appendix A and the detail of the questionable costs as incurred in Egyptian pounds is included in Appendix B of this report.

Internal control structure:

Our audit procedures identified twelve reportable conditions in the internal control structure. Reportable conditions numbered one through nine below are also considered to be material weaknesses. We recommend that THO adopt procedures to: 1) strengthen controls surrounding the payroll system; 2) maintain adequate personnel files; 3) maintain adequate attendance records for headquarter employees; 4) correct deficiencies in the project's accounting system; 5) properly segregate incompatible job duties; 6) adequately address prior financial reports' findings and recommendations; 7) establish adequate control over expenditure authorizations; 8) account for and monitor renovation expenditures and advances; 9) adequately safeguard and control USAID/Egypt-financed assets; 10) perform proper bank reconciliation procedures; 11) improve the fixed asset receiving process; and 12) improve the reliability of the fixed asset register.

Compliance with agreement terms and applicable laws and regulations:

Our audit procedures identified three material instances of noncompliance related to THO's failure to: 1) apply proper procurement procedures in accordance with Law No. 9; 2) maintain adequate books and records that are in accordance with the grant agreement requirements; and 3) bill incurred project costs rather than estimated project costs to USAID/Egypt.

Management Comments

THO project management comments have been obtained and are included in Appendix C of this report. We have either provided further clarification of our position, where necessary, in Appendix D of this report or have adjusted the final report.

Mission Response

The mission response is included in Appendix E of this report.

This report is intended for the information of THO 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.

Price Waterhouse

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REPORT OF INDEPENDENT ACCOUNTANTS

June 28, 1994

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

We have audited the accompanying fund accountability statement of the project costs incurred by the Teaching Hospitals Organization ("THO") related to Project Implementation Letter ("PIL") No. 26 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Population and Family Planning Project ("PFPP") No. 263-0144 ("grant agreement") funded by USAID/Egypt for the period from June 1, 1989 through June 30, 1993. The fund accountability statement is the responsibility of THO's management. Our responsibility is to express an opinion on this statement based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the fund accountability statement. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 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 and firms.

As described in Note 2 to the accompanying fund accountability statement, the fund accountability statement has been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying fund accountability statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.

As detailed in the accompanying fund accountability statement and more fully described in Note 4 thereto, the results of our tests disclosed \$ 66,335 of ineligible and \$ 59,900 of unsupported project costs. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program-related or are prohibited by either the PIL, the grant agreement, or applicable laws and regulations. Unsupported project costs are those that are not supported with either adequate documentation or do not have the required USAID/Egypt approval or authorization.



In our opinion, except for the effects of the questioned project costs as discussed in the preceding paragraph, the fund accountability statement referred to above presents fairly, in all material respects, project costs incurred by THO related to PIL No. 26 under the USAID/Egypt's PFP No. 263-0144 funded by USAID/Egypt for the period from June 1, 1989 to June 30, 1993 in conformity with the basis of accounting described in Note 2 to the fund accountability statement.

Our audit was conducted for the purpose of forming an opinion on the fund accountability statement described in the first paragraph of this report. The supplemental information included in Appendices A and B is presented for purposes of additional analysis and not as a required part of the fund accountability statement. This information has been subjected to the auditing procedures applied in the audit of the fund accountability statement and, in our opinion, except for the effects of the questioned project costs detailed in Note 4 to the fund accountability statement, such information is fairly stated, in all material respects, in relation to the fund accountability statement taken as a whole.

This report is intended for the information of THO 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.

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TEACHING HOSPITALS ORGANIZATION

PROJECT IMPLEMENTATION LETTER NUMBER 26
 UNDER THE USAID/EGYPT POPULATION AND FAMILY PLANNING
 PROJECT NO. 263-0144

FUND ACCOUNTABILITY STATEMENT
 CASH DISBURSEMENT BASIS
 FOR THE PERIOD FROM JUNE 1, 1989
 THROUGH JUNE 30, 1993

	Budget (Note 1)	Actual (Note 1)	Questioned Costs		Finding Reference (Note 4)
			Ineligible (Note 4)	Unsupported (Note 4)	
Cash	\$ -	\$ -	\$ 226	\$ 7,318	Pg. 7, A
Project Management Salary Supplements and Salaries	67,452	63,132	8,487	3,522	Pg. 8, B
Clinical Salary Supplements and Salaries	180,921	207,191	27,851	31,685	Pg. 8, C
Medical Records	18,192	13,904	-	-	
Medical Supplies	23,218	18,056	3,148	190	Pg. 10, D
Office Supplies	7,616	4,472	-	-	
Transportation	19,748	16,355	551	2,013	Pg. 10, E
IEC Materials	25,509	10,101	814	28	Pg. 11, F
Training	52,539	51,313	2,908	5,472	Pg. 11, G
Egyptian Technical Assistance	25,818	18,310	2,545	3,921	Pg. 12, H
Operations Research	14,756	1,522	-	-	
Training Office Supplies	2,330	1,251	-	-	
Contingencies	-	328	328	-	Pg. 12, I
Renovations	39,742	38,836	9,185	5,571	Pg. 12, J
Maintenance	2,295	2,127	-	-	
Non-medical Equipment	20,527	23,318	2,776	180	Pg. 13, K
Medical Equipment	39,552	18,455	-	-	
Head Office Capital Expenditures	31,277	31,277	5,737	-	Pg. 13, L
Training Equipment	10,912	7,793	1,779	-	Pg. 14, M
Audio Visuals	12,331	7,413	-	-	
TOTALS	\$594,735	\$ 535,154	\$ 66,335	\$ 59,900	

The accompanying notes are an integral part of this fund accountability statement.

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TEACHING HOSPITALS ORGANIZATION
PROJECT IMPLEMENTATION LETTER NUMBER 26
UNDER THE USAID/EGYPT POPULATION AND FAMILY PLANNING
PROJECT NO. 263-0144

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF STATEMENT:

The accompanying fund accountability statement of THO includes all project costs incurred by THO related to PIL No. 26 under the USAID/Egypt PFPP No. 263-0144 funded by USAID/Egypt for the period from June 1, 1989 through June 30, 1993. The fund accountability statement is the responsibility of THO management. The actual costs include all project costs incurred by THO related to PIL No. 26 under the USAID/Egypt PFPP No. 263-0144 funded by USAID/Egypt for the period from June 1, 1989 through June 30, 1993. The budget includes all USAID/Egypt-approved project costs related to PIL No. 26 and is based on the most recent budget amendment dated May 20, 1993. Budget amounts are presented for informational purposes only and have been converted to U.S. dollars at the average exchange rate of 3.05 Egyptian pounds to one U.S. dollar as explained in Note 3 below.

NOTE 2 - BASIS OF PRESENTATION:

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

NOTE 3 - FOREIGN EXCHANGE:

Egyptian pound costs have been converted to U.S. dollars using the average monthly exchange rate of 3.05 Egyptian pounds to one U.S. dollar for the period from June 1, 1989 through June 30, 1993.

NOTE 4 - QUESTIONED COSTS:

Questioned project costs are presented in two separate categories - ineligible and unsupported - and consist of audit findings proposed on the basis of the terms of the PIL No. 26, the grant agreement and USAID/Egypt regulations. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program-related or are prohibited by either the PIL, the grant agreement, or applicable laws and regulations. Unsupported project costs are those that are not supported with either adequate documentation or do not have the required USAID/Egypt approval or authorization. All questioned project costs identified as either ineligible or unsupported are detailed below:

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
A. Cash:		
(1) Two checks were written on the project bank account and were billed to USAID/Egypt. However, both checks were later canceled by project management, but were not reduced from the USAID/Egypt billing.	-	\$ 907
(2) Bid tender booklets were sold to suppliers. Revenues generated from the project's connection with USAID/Egypt-financed activities should be either refunded to USAID/Egypt or offset against current project costs billed to USAID/Egypt.	\$ 226	-

NOTE 4 - QUESTIONED COSTS (CONT.):

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
A. Cash (Cont.):		
(3) When project funds were transferred from the Commercial International Bank ("CIB") to the National Investment Bank ("NIB"), a residual balance in the CIB account was not refunded to USAID/Egypt.	-	\$ 1,288
(4) Taxes and insurance amounts were billed to USAID/Egypt, but were not paid by THO at the audit period end.	-	4,994
(5) THO disbursed project funds, yet the related checks did not clear the project bank account.	-	129
Total Cash	\$ <u>226</u>	<u>7,318</u>
B. Project Management Salary Supplements And Salaries:		
(1) Based on THO management's comments received subsequent to this issuance of the draft report, this finding has been removed.	-	-
(2) The senior accountant's salary paid exceeded that allowed in the project's financial plan approved by USAID/Egypt.	388	-
(3) Employees received salaries exceeding the amounts specified in their employment contracts. This finding was previously noted in a prior independent accountant's financial services task review report.	-	1,470
(4) Employees were renumeraated without employment contracts with the project.	-	2,052
(5) The revenue agreement between USAID/Egypt and THO states that the priority for the revenue account is to pay salary supplements. According to page 20 of the THO proposal, salary supplements were to be paid from the revenue account no later than the beginning of year three of the project period. The amount questioned relates to salary supplements paid during year three and subsequent.	7,443	-
(6) An administrative assistant staff position was created and the related salary amount was billed to USAID/Egypt without either a budget or USAID/Egypt approval.	<u>656</u>	<u>-</u>
Total Project Management Salary Supplements And Salaries	<u>8,487</u>	<u>3,522</u>
C. Clinical Salary Supplements And Salaries:		
(1) Payments were made to employees that could not be verified as to their existence. Additionally, they were not listed in the clinical quarterly report and did not have employment contracts.	-	539

NOTE 4 - QUESTIONED COSTS (CONT.):

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
C. Clinical Salary Supplements And Salaries (Cont.):		
(2) The revenue agreement between USAID/Egypt and THO states that the priority for the revenue account is to pay salary supplements. According to page 20 of the THO proposal, salary supplements were to be paid from the revenue account no later than the beginning of year three of the project period. The amount questioned relates to salary supplements paid during year three and subsequent.	\$ 19,348	-
(3) An over billing difference was noted between the USAID/Egypt billing and the general ledger balance. The excess amount billed has been questioned.	-	\$ 616
(4) Salary payments for two employees in the Banha clinic were not supported by a canceled check. (The check was voided).	-	620
(5) Based upon THO management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-
(6) Salary payment for the El Matarya Clinic were unsupported by payroll sheets.	-	279
(7) Advances that were incorrectly reconciled resulted in an over billing to USAID/Egypt.	-	2,756
(8) Clinical salaries were paid to employees without contracts, assignment letters, and attendance records.	-	19,434
(9) Payments were made for full time employees who did not have employment contracts with the THO project.	-	6,900
(10) Based upon THO management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-
(11) One accountant was paid a salary supplement from two budget line items--Project Management Salary Supplements and Salaries and Clinical Salary Supplements and Salaries.	-	541
(12) Clinical salary expenditures were made that exceeded the USAID/Egypt approved budget.	<u>8,503</u>	<u>-</u>
Total Clinical Salary Supplements And Salaries	<u>27,851</u>	<u>31,685</u>

NOTE 4 - QUESTIONED COSTS (CONT.):

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
D. Medical Supplies:		
(1) THO purchased twenty containers of Betadin with a unit price of LE 95. This amount is questioned based on two criteria: 1) the price stated in the USAID/Egypt-approved THO proposal was LE 54 and 2) we noted in all other instances tested that the price paid by THO for Betadin was less than the LE 54 budget price. The difference between the budget price of LE 54 and the purchase price of LE 95 has been questioned.	\$ 269	-
(2) Contraceptives were purchased with project funds while they should have been purchased from the revenue funds.	2,879	-
(3) Syringes and pregnancy tests were purchased without the benefit of supporting documentation.	-	\$ 190
Total Medical Supplies	<u>3,148</u>	<u>190</u>
E. Transportation:		
(1) THO reimbursed employees for transportation costs without requiring a train ticket to support the cost. Additionally, many of the visits to the THO clinics were not reported as having been conducted in the THO quarterly reports.	-	658
(2) USAID/Egypt approved a budget for conference costs mandating that costs were not to exceed a specified budget. Conference costs were, however, billed to USAID/Egypt exceeding the value of the actual services received.	-	1,019
(3) THO employees were reimbursed for air fare expenses while air fare was included in the package offered from the travel agency, and paid by THO as part of the package cost. Further, a double transportation charge was paid to two persons travelling together. Part of this cost was identified as ineligible and reported in a prior independent auditor's financial services task review report as well as the USAID/Egypt 1992 Financial Analysis Support Team report. THO failed to reimburse USAID/Egypt for this cost.	-	336
(4) Transportation costs were paid to THO employees for a training course that was related to another project.	223	-
(5) Per diem payments were approved by USAID/Egypt for visits outside of Cairo to clinics beginning January 1, 1992. THO paid per diems prior to this approval.	<u>328</u>	-
Total Transportation	<u>551</u>	<u>2,013</u>

NOTE 4 - QUESTIONED COSTS (CONT.):

Item Description	Questioned Costs	
	Ineligible	Unsupported
F. IEC Materials:		
(1) Telephone line charges were paid which were not allowable by the PIL under any budget line item.	\$ 383	-
(2) Sales taxes, stamps taxes, penalties and phone deposits were paid which relate to installation of the telephone line have been questioned. These costs, regardless of their reason for occurring, are unallowable.	123	-
(3) Advertising costs were paid both for soliciting bids which is not included as an allowable expense by the PIL and for secretarial recruitment which was not allowed under any budget line item.	308	-
(4) Advertising costs for recruitment were billed for which the related check never cleared the project bank account. Additionally, the cost is not allowable by the PIL under any budget line item.	-	\$ 28
Total IEC Materials	<u>814</u>	<u>28</u>
G. Training:		
(1) Overtime compensation was paid to employees. Project salaries are higher than the market salaries for similar work to compensate for a more demanding work load. The payment of overtime should not be necessary and is not provided for in the project's budget.	199	-
(2) THO billed an amount for trainee compensation, but the amount was not paid to the trainees.	-	421
(3) Installation costs for a telephone line were billed to USAID/Egypt. The telephone line costs were not allowed for in the project budget.	1,430	-
(4) Training expenditures were not supported with invoices.	-	1,199
(5) Bid bond assurances were collected from suppliers of the THO project and were not subsequently refunded to the suppliers. The amount was not either refunded to suppliers by the audit period end or remitted USAID/Egypt.	685	-
(6) Training expenditures related to other projects were billed under the PIL No. 26 budget.	410	-
(7) Excessive costs for refreshments were paid for a physician training course.	184	-
(8) Transfers were made to a separate bank account and billed to USAID/Egypt to be used for training activities. Of the total transferred, the unexpended portion is questioned.	-	<u>3,852</u>
Total Training	<u>2,908</u>	<u>5,472</u>

NOTE 4 - QUESTIONED COSTS (CONT.):

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
H. Egyptian Technical Assistance:		
(1) Extra payments were made to employees for performing their day-to-day (on-going) work responsibilities. These payments are more appropriately classified as salary supplements which are not USAID/Egypt-reimbursable.	\$ 1,697	-
(2) Reward payments were made to procurement and inspection committee members and overtime payments were made to employees. These payments are more appropriately charged to the project's revenue account. These conditions were mentioned in a prior independent auditor's financial services task review report.	275	-
(3) Payments were made to consultants without proper supporting documents. Such items are as follows:		
a) No performance reports were prepared by the consultants stating the work that was performed and the time taken.		
b) No basis for calculation of the rate paid was provided. According to the PIL No. 26 amendment 3 and 4, the consultants' rate must be based on the salary history of the consultant.		
c) The charges for the accounting system design services provided were inordinately high considering the simple design of the system.	-	\$ 3,921
(4) Legal fees were paid which were not allowed in the project budget.	<u>573</u>	<u>-</u>
Total Egyptian Technical Assistance	<u>2,545</u>	<u>3,921</u>
I. Contingencies:		
(1) Contingencies expenditures exceeded the USAID/Egypt-approved budget.	<u>328</u>	<u>-</u>
Total Contingencies	<u>328</u>	<u>-</u>
J. Renovations:		
(1) Renovation costs were not supported with any documentation.	-	3,812
(2) The Sahel Clinic, which is located within one of the THO hospitals, was allocated a certain percentage of costs associated with the renovation of the Hospital. The supporting documents provided do not support the allocation to the clinic that was made. We do not have a basis to determine if the percentage allocated was appropriate. The amount allocated has been questioned.	-	620

NOTE 4 - QUESTIONED COSTS (CONT.):

Item Description	Questioned Costs	
	Ineligible	Unsupported
J. Renovations (Cont.):		
(3) THO completed renovations to their headquarter office which exceeded the initial budget by \$ 9,185 without adequate justification. The budget was intended for the headquarters office and clinics to be renovated, but only the headquarters office was renovated.	\$ 9,185	-
(4) Advances were issued to the THO clinics for renovation costs. These advances were billed to USAID/Egypt, but had not been settled by the audit period end.	-	\$ 1,139
Total Renovations	9,185	5,571
K. Non-Medical Equipment:		
(1) THO purchased kitchen cabinets for the head office which was not provided for in the project budget. THO did not obtain a supplementary USAID/Egypt approval for this purchase.	195	-
(2) THO billed USAID/Egypt for a window shade. We were not able to verify the existence of the window shade.	-	180
(3) Non-medical equipment expenditures exceeded the USAID/Egypt-approved budget.	2,581	-
Total Non-Medical Equipment	2,776	180
L. Head Office Capital Expenditures:		
(1) THO purchased a fax machine that was not approved in the original project budget and no supplementary USAID/Egypt approvals were obtained. Further, the fax machine for which USAID/Egypt was billed for is not the fax machine that is included in the project inventory.	1,344	-
(2) USAID/Egypt approved the purchase of ten air conditioners for a total cost of LE 30,545. Five air conditioners were purchased for LE 16,625 and the other five were for LE 13,400, in addition to some electric connections for LE 1,290, totaling LE 31,315, which exceeds the approval by LE 770. Furthermore, the USAID/Egypt approval was made based on THO's express request to install five of the ten air conditioners-one in a foreign consultants room and four in the computer rooms-in locations with THO which did not exist. We have questioned the 770 LE billed exceeding the USAID/Egypt's approval and the actual cost for five air conditioners not used as requested.	4,393	-
Total Head Office Capital Expenditures	5,737	-

NOTE 4 - QUESTIONED COSTS (CONT.):

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
M. Training Equipment:		
(1) THO purchased items that are not provided for in the training equipment budget line item. Further, PIL No. 26, Amendment 4, states that only items listed in the initial proposal are approved for purchase.	\$ 1,123	-
(2) THO purchased a computer printer that was not listed in the USAID/Egypt-approved budget for training equipment and was also not included in the head office equipment budget.	<u>656</u>	<u>-</u>
Total Training Equipment	<u>1,779</u>	<u>-</u>
TOTAL QUESTIONED COSTS	<u>\$ 66,335</u>	<u>\$ 59,900</u>

Price Waterhouse



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

June 28, 1994

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

We have audited the fund accountability statement of project costs incurred by the Teaching Hospitals Organization ("THO") related to Project Implementation Letter ("PIL") No. 26 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Population and Family Planning Project ("PFPP") No. 263-0144 ("grant agreement") funded by USAID/Egypt for the period from June 1, 1989 through June 30, 1993, and have issued our report thereon dated June 28, 1994.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 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 and firms.

In planning and performing our audit of THO, we considered its internal control structure related to PIL No. 26 in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of the THO project is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and in accordance with terms of applicable agreements, 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 this report, we determined the significant internal control structure policies and procedures to be in the categories of cash receipts and disbursements, fund custody, project accounting, and asset procurement and safeguarding. 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 condition in which the design or operation of one or more of the 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. Controls surrounding the payroll system are inadequate.

We noted that the payroll sheets which accumulate employee time worked were not approved by the general director and, in some cases, were approved by employees lacking proper authority. In addition, the payroll sheets, especially those prepared at the clinics, and headquarter attendance records were incomplete and did not match either the supporting documents or the amount billed to USAID/Egypt. These errors were not detected by THO management because of inadequate review by the project management and the hospital directors in charge of the clinical operations.

Statement on Auditing Standards ("SAS") No. 55 states that a significant element of an effective internal control structure is the control procedures management exercises over accounting records to provide reasonable assurance that specific entity objectives are achieved. Management's authorization of the payroll sheets and attendance records is a necessary control procedure. The effect of an inadequate payroll system is that THO project employees may be paid for time not worked, may allow non-project employees to be paid from project funds, and may allow incorrect amounts to be billed to USAID/Egypt.

Recommendation 1

We recommend that THO establish a policy that all employee attendance records contain documented approval of time worked from the individual employee's immediate supervisor. Attendance records may be in the form of logs in which the employees sign in and out on a daily basis or time sheets submitted by the employee at the end of each pay period. Additionally, THO should implement a policy where all payroll sheets are initially approved by the hospital director for clinical employees and the THO technical director for headquarter employees. Both of these approvals should be followed by an approval from the project's general director and the senior accountant. This policy will assist in providing reasonable assurance that only bona-fide project employees are remunerated for actual time worked.

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2. THO personnel records were inadequate.

THO management did not ensure that all employees had complete and up-to-date personnel files. For example, six headquarters employees did not sign employee contracts. Further, all missing employee contracts were related to the project's fourth year indicating that the THO personnel record system did not improve during the four-year project period. In instances where employee contracts were present, they were not updated for changes in compensation. Additionally, no record system is maintained to accumulate employees' vacations.

The inadequacy of personnel files has been reported in a prior independent auditor's financial services task review report and the USAID/Egypt's Financial Analysis Support Team ("FAST") report. THO did not implement those recommendations.

A significant element of an effective internal control structure is the control procedures management exercises over accounting records to provide reasonable assurance that specific entity objectives are achieved. Adequately maintained personnel files are necessary to ensure that management has accurate information from which decisions can be made and that USAID/Egypt's monitoring requirements are met. The project's management cannot maintain proper control over employee compensation, time keeping, and other Government of Egypt ("GOE") legal requirements without maintaining proper employee personnel records.

Recommendation 2

We recommend that THO management become familiar with the GOE Labor Law # 137, Articles 55 and 29-31 of 1981 amended by law #33 of 1982 and #119 of 1982 which explains the documentation requirements for employee files. THO should maintain such documents as required. For example, all employee files should contain, at a minimum, the following information:

1. Certification that no illegal acts have been committed.
2. General performance service certificate.
3. Vacation records.
4. An admission that employee is not employed in other conflicting work.
5. Identification card.
6. Graduation certificates.
7. Birth certificates.
8. Contract.

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3. THO did not maintain adequate attendance records for headquarter employees.

The THO headquarters did not maintain employee attendance records before 1993 and although an attendance record system for 1993 was adopted, it was neither fully implemented nor was it reviewed by a responsible individual. Further, THO management altered attendance records subsequent to our inquiries and record review.



Proper internal control over the payroll function requires that adequate records be maintained to monitor project employees' attendance. Adequately maintained records will reasonably ensure that employees are paid for the actual time spent on the project. Inadequate maintenance of time keeping records can lead to a situation whereby employees are remunerated for time not worked and may prevent management from monitoring employees' performance.

Recommendation 3

We recommend that THO emphasize payroll controls by requiring that all employees be subjected to record keeping. Time records should be approved by the employees' management. The THO accountant should update each employee's vacation record on a periodic basis.

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4. The THO project accounting system is inadequate for USAID/Egypt agreements.

We noted that payments were made for unallowable items and with funds other than from USAID/Egypt and were recorded in the THO project accounting system records. We also noted items recorded twice. Furthermore, THO did not reconcile project accounting records to amounts billed USAID/Egypt and did not adjust the project's accounting records to reflect USAID/Egypt disallowances of costs. The aforementioned weaknesses were noted in a previous independent accountant's financial services task review report; however, THO management did not take appropriate action to correct the deficiencies noted in the system.

SAS No. 55 states that a significant element of an effective internal control structure is the control procedures management exercises over accounting records to provide reasonable assurance that specific entity objectives are achieved. One of the elements of a sound internal control structure is an adequate accounting system. An effective accounting system consists of the methods and records established to identify, assemble, analyze, classify, record, and report the entity's transactions that will enable management to maintain accountability for project assets, adhere to USAID/Egypt-approved budgets and report authorized project expenditures to USAID/Egypt.

Without the benefit of an adequately designed and operating internal control structure, errors or irregularities that are material in relation to the fund accountability statement may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Recommendation 4

THO should establish a more effective internal control system which specifically addresses the design and operation of the accounting system. The establishment of more effective control procedures via the use of prenumbered forms and journal entry review procedures, and the reconciliation of project records with USAID/Egypt billings on a periodic basis should also be implemented.

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5. THO did not properly segregate incompatible duties.

An important principle of internal accounting control is that duties should be assigned to individuals so that no one individual can control all phases of a transaction. This means that, ideally, the flow of activities should be designed so that the work of one individual is either independent of, or serves as a check on, the work of another. Specifically, the duties which are to be separated whenever possible include, among others, transaction authorization, recording, and asset custody and control functions such as: procurement, receiving, payment, property record maintenance, and conduct of physical inventories and disposal. For example, those responsible for inventory planning, receipt of incoming property and custody should neither maintain, nor be in a position to control the accounting for such activities. In those situations where separation of incompatible duties is not feasible, it is important that other internal controls be implemented.

Recommendation 5

We recommend that THO management segregate incompatible job duties, especially those which involve asset custody, authorization, bank reconciliation, and recording responsibilities. In those situations whereby management is prevented from separating appropriate duties, it is important that other internal controls be implemented.

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6. THO did not adequately address deficiencies noted in prior financial reviews and reports.

Although THO corresponded with USAID/Egypt regarding prior independent accountants financial services task review report and USAID/Egypt FAST TEAM findings, we found no evidence that THO has adjusted their accounting records to correct the weaknesses noted.

SAS No. 55 explains that a significant element of an organization's internal control structure is the control environment. The control environment consists of management's policies and procedures that reflect management's overall attitude, awareness, and actions concerning the importance of control and its impact on meeting the entity's objectives. A sound control environment would necessarily include policies and procedures which emphasize an adequate control environment is to ensure that all report findings are adequately followed-up and resolved.

Management's apparent indifference to prior report findings could lead to a situation whereby noncompliance with USAID/Egypt requirements and poor attention to internal control system weaknesses could go unnoticed and uncorrected.

Recommendation 6

We recommend that THO immediately address all prior report recommendations and take appropriate steps to satisfactorily dispose of the weaknesses reported.

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7. THO failed to establish adequate control over expenditure authorizations.

THO management has not established an appropriate transaction cycle whereby review and approvals of transactions are specified, consistent, and required in order for transactions to be processed through the accounting system. Additionally, individuals currently delegated the authority to approve expenditures perform incompatible job duties which essentially mitigates the independent approval process.

For example:

1. The THO project director and the Ministry of Finance ("MOF") representative are both authorized to approve project expenditures and are also the authorized check signers. It is THO's policy that the MOF representative must sign on all payment vouchers and checks. Although, the representative signs on the checks, approximately half of the payment vouchers did not contain any evidence of review.
2. The MOF representative assists THO in preparing the project records and is also responsible for auditing the GOE's records.
3. There have been several signatory changes throughout the project's life without a reason documented for the change.
4. Expenditure authorization was made by persons who did not have appropriate knowledge to determine if the transaction should be approved.

SAS No. 55 explains that a significant element of an organization's internal control structure is the control environment which consists of management's policies and procedures that reflect management's overall attitude, awareness, and actions concerning the importance of control and its impact on meeting the entity's objectives. Management's methods for assigning authority and responsibility are part of the control environment. Management should consider the understanding of the reporting relationships and responsibilities established within the entity which includes developing employee job descriptions delineating specific duties and reporting relationships.

The effect of inadequate delineation of job responsibilities and inadequate dissemination of information within the entity about who should assume specific responsibilities might lead to a situation whereby any one or more of the following could occur:

1. It is possible for erroneous expenditures to be approved and paid.
2. Inappropriate adjustments may be made to the project's accounting records without managements' knowledge.
3. Expenditures may be approved by an individual who is not properly authorized.
4. Expenditures may be approved by an individual who does not have the requisite knowledge required to determine if the expenditure should be approved and is allowable for USAID/Egypt reimbursement.



Recommendation 7

We recommend that THO establish a written policy clearly delineating those individuals who have authority for various project activities. Specifically, the policy should consider the following:

- 1. Check signatories should not have the authority to approve the project's expenditures, rather those who are assigned to approve project expenditures should be required to sign on every voucher.**
- 2. The MOF representative should not be delegated the authority to recommend changes to the project's accounting records without the THO project director's knowledge and approval.**
- 3. Changes in the authorization policy should be made only for justified business reasons. Should changes be necessary, the policy should be amended accordingly and all employees notified of the change.**
- 4. Only responsible persons familiar with an expenditure should be delegated the authorization responsibility.**

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8. THO did not properly account for and monitor clinical renovation expenditures and advances.

We noted that THO did not maintain accounting records for clinical renovations by clinic, although the budget submitted by THO and approved by USAID/Egypt delineates clinical expenditure by clinic. THO also did not reconcile renovation advances paid to the clinics on a timely basis. At any given time, THO could not report the outstanding clinical cash advance.

SAS No. 55 states that a significant element of an effective internal control structure is the control procedures management exercises over accounting records in order to provide reasonable assurance that specific entity objectives are achieved. One of the elements of a sound internal control structure is an adequate accounting system. An effective accounting system consists of the methods and records established to identify, assemble, analyze, classify, record, and report the entity's transactions that will enable management to maintain accountability for project assets, adhere to USAID/Egypt-approved budgets and report legitimate project expenditures to USAID/Egypt. A system should be established whereby clinical advances are reconciled and clinical surprise cash counts are taken at fixed regular intervals. Further, an outstanding clinical advance account running balance should be maintained and regularly updated by clinic.

THO's failure to segregate renovation costs by clinic did not allow THO to effectively monitor clinical renovations according to the budget and made USAID/Egypt oversight of clinical renovations more difficult. These weaknesses may have been a contributing reason that amounts were approved by USAID/Egypt even though the budgeted amount had been exhausted. The inadequate control and monitoring of clinical renovation expenditures may result in a given clinic being over-renovated and others neglected and dysfunctional.



Recommendation 8

We recommend that THO segregate and quantify renovation costs by clinic to allow USAID/Egypt to evaluate expenditures by clinic. Excessive charges for any given clinic should be reimbursed to USAID/Egypt by the GOE or from the clinical revenues according to the mutual agreement of THO and USAID/Egypt. We also recommend that THO quantify cash on hand according to headquarter records and conduct a surprise cash count at the clinics.

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9. THO does not adequately safeguard and control USAID/Egypt-financed assets.

We noted numerous internal control weaknesses surrounding the safeguarding project assets. For example we noted that:

- 1. An individual employee is not held responsible for the project assets' custody.**
- 2. Assets are physically received at the THO headquarter office although no receiving slip is prepared upon their receipt.**
- 3. A warehouse addition form is prepared at the THO general warehouse although the goods are never actually received or inspected at the warehouse.**
- 4. A disbursement slip is not prepared when the assets are distributed to the THO clinics. Moreover, no receiving slip is prepared at the clinics upon the goods' receipt.**
- 5. No ledgers or registers are kept at the warehouse to indicate the inflow and outflow of USAID/Egypt-financed assets.**
- 6. Although, the THO warehouse is the official facility where the USAID/Egypt-financed assets are stored, they are actually stored in a small room in the THO headquarter office. Limited space necessitates that larger items be stored in other rooms within the headquarter office which are not secure enough to prevent improper access.**
- 7. At one clinic we visited, we noted unlimited access to the project assets which consisted primarily of medical instruments.**
- 8. The obsolescence and condition of equipment is not evaluated on a regular basis.**
- 9. No physical inventories are taken at the clinics or headquarter office. Records are not maintained which would enable a physical count as there is no record which identifies the THO project assets' location.**
- 10. The project management does not fully understand the necessity of conducting physical inventory counts and how a proper inventory should be taken.**



Generally, no one THO employee assumes overall responsibility for safeguarding of USAID/Egypt-financed assets. Additionally, THO management does not mitigate the possible affects of control absence by monitoring and remedying discrepancies which might occur.

Because of the above noted weaknesses, the following may occur: 1) assets may be lost through theft or misappropriation; 2) A fixed asset purchase trail is not available; 3) the monitoring of the inflow and outflow of project assets is compromised; 4) unused or in-need-of repair equipment is likely to remain on the books demonstrating to management and USAID/Egypt that the useable equipment balance is greater than actual; and 5) fixed assets are not properly accounted for.

Recommendation 9

We recommend that THO redesign its project asset internal control system to include a documented system of authority and responsibility for these project assets. Further, management should establish and implement a plan to track and evaluate all USAID/Egypt-financed assets and monitor and resolve discrepancies found between the recorded assets and the project assets.

* * * * *

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 judgment, 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

We identified the following situation where incompatible duties were not properly segregated.

10. THO did not adequately perform bank reconciliation procedures.

Although the project accountants perform bank reconciliation procedures as required by the GOE, the procedures were generally found to be inadequate to control project funds. GOE procedures do not provide a means in which canceled, voided, and cleared checks can be tracked through the system. That is, a total of outstanding checks is carried forward from month to month. This weakness prevents outstanding checks from being cleared in a timely manner.

Proper preparation of bank reconciliations may provide evidence that transactions are unrecorded or improperly recorded in the organization accounting system. The value and vulnerability of cash held in banks necessitates a periodic and independent reconciliation of bank records to the project's cash records to prevent and detect possible loss through errors or irregularities. Without proper preparation of bank reconciliations, errors and irregularities might go undetected allowing the possibility of project funds to be misappropriated.



Recommendation 10

We recommend that periodic bank reconciliations be performed by a project employee independent from the responsibilities of asset custody which includes access to bank records, authorization, and recording. Bank reconciliations should contain sufficient detail to allow the project accountant to track individually all outstanding checks.

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11. THO's fixed asset receiving process contains internal control weaknesses.

The system for project asset purchases and receipts contain the following internal control weaknesses:

- 1. The receiving committee signs as having received project assets without actually inspecting or physically receiving the goods. Further, the receiving report did not always match the shipping document and the warehouse addition form and receiving reports were prepared not listing items. We noted that the receiving committee made the same errors in the receiving reports as occurred in the purchase orders. These errors may not have been made had the receiving reports been prepared based on inspection.**
- 2. The receiving committee does not always ensure that the asset received matches the ordered assets' specifications. We noted numerous instances where the asset received was of inferior quality to the asset order, received, and paid for and billed to USAID/Egypt.**

SAS No. 55 expounds on the necessary elements for an effective internal control system of which one is the effective use of control to ensure proper recording of transactions and events, such as accurate receiving reports. Without proper fixed asset receiving procedures, project assets might be diverted to non-project uses or to project sites where the assets are not needed. In addition, payment may be made for assets not received.

Recommendation 11

We recommend that the receiving committee prepare receiving reports independent of the purchasing and accounting process. The receiving report should be matched to the purchase order to verify quantities received. Additionally, the items should be physically inspected for quality. Management should take oversight responsibility by conducting periodic checks on the fixed asset receiving process to ensure that receiving reports are being properly completed.

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12. THO's recently prepared fixed asset register is unreliable.

We were unable to use the THO fixed asset register as a reliable source of evidential matter for the following reasons:

- 1. The fixed asset register did not contain all of the USAID/Egypt-financed assets. Primarily, the assets utilized at the clinics were not recorded.**
- 2. The purchase price and the number of items for fixed assets were generally not recorded accurately.**



3. Items procured from other fund sources were recorded in the PIL No. 26 fixed asset register.
4. The fixed asset register was not periodically updated.
5. The fixed asset register did not reconcile on an overall basis with the total fixed assets billed to USAID/Egypt. THO accountants were not able to reconcile the differences.

A necessary control procedure in an effective internal control structure is the use of records to help ensure the proper recording of transactions and events coupled with independent checks on proper valuation of recorded amounts to include reconciliations and comparison of assets with recorded accountability.

1. As all USAID/Egypt-financed assets are not properly recorded in the fixed asset register, the probability that assets have been or will be misused or misappropriated is increased as the project management has no comprehensive record with which to verify the location and use of assets.
2. If assets are procured from another fund source and are recorded in the PIL No. 26 fixed asset register, management will not be able to both identify and control USAID/Egypt-financed purchases and reconcile USAID/Egypt-financed purchases with the USAID/Egypt billings.
3. If the fixed asset register is not periodically updated, management may not perform overall comparisons between the recorded assets and the assets billed to USAID/Egypt to verify the accuracy of the register which can then be used to facilitate physical asset counts.

Recommendation 12

We recommend that THO management immediately evaluate and correct the fixed asset register to a condition suitable to be used in a physical inventory count. The following weaknesses should be addressed, at a minimum:

1. PIL No. 26 fixed assets should be included using the billings to USAID/Egypt for fixed assets as a basis.
2. The purchase price and the number of items for fixed assets should be recorded accurately for all items.
3. Items procured from other fund sources should be recorded separately from the PIL No. 26-financed fixed assets.
4. The fixed asset register should be periodically updated and physical counts taken to ensure their accuracy.

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This report is intended for the information of the THO 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.

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

June 28, 1994

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

We have audited the fund accountability statement of project costs incurred by the Teaching Hospitals Organization ("THO") related to the Project Implementation Letter ("PIL") No. 26 under the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Population and Family Planning Project ("PFPP") No. 263-0144 ("grant agreement") funded by USAID/Egypt for the period from June 1, 1989 through June 30, 1993, and have issued our report thereon dated June 28, 1994.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 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 and firms.

Compliance with laws, regulations, contracts and grants applicable to the THO project is the responsibility of THO management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of THO's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the fund accountability statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in laws, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed the following material instances of noncompliance, the effects of which are included as questioned project costs in the fund accountability statement of THO for the period from June 1, 1989 through June 30, 1993:



1. THO is inconsistent in applying proper procurement procedures.

We noted that THO procured items often by direct order, although the procurement price was above the maximum amount allowable for direct orders.

Government of Egypt ("GOE") Law # 9, by which THO is bound, provides guidance as to proper procurement procedures. Law #9 allows direct order procurement to be used only for items costing under 2,000 Egyptian pounds and should only be used when an urgent need exists. Law # 9 was implemented to promote free and open competition, hinder the preferential treatment of suppliers, and encourage project management to fairly evaluate the available items in the market place.

Non-compliance with the GOE Law #9 is a violation of Egyptian law. Further, inadequate procurement procedures might cause the project to pay more for items than would have been paid given a proper procurement process.

Recommendation 1

We recommend that project management immediately comply with Law #9.

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2. The project failed to maintain adequate books and records as required by the grant agreement.

The details of the unsupported questioned project costs of \$ 65,453 are identified in Note 4 to the fund accountability statement. Specifically, we noted that the project failed to maintain a complete record of: 1) salary and consultant payments; 2) bank transfers; and 3) procurement procedures.

Recommendation 2

We recommend that the project adequately maintain books and records as required by the grant agreement. The project should also maintain documentation to verify the receipt and use of goods and services acquired under the grant.

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3. THO billed estimated project costs to USAID/Egypt.

THO consistently estimated the clinical salary payroll in advance for a period from three to five months and billed the estimate to USAID/Egypt. This condition had been reported in a prior independent accountant's task review report, but was not corrected by THO.

The agreement between USAID/Egypt and the THO project is a cost-reimbursable agreement. Under normal circumstances, actual project costs only should be billed to USAID/Egypt and not estimated project costs and, under no circumstances should project costs estimated to be incurred in three to five months be currently billed to USAID/Egypt. The definition for a cost-reimbursable contract as stated in the Federal Acquisition Regulations are those which "...provide for payment of allowable



incurred costs..” and is most suitable for situations when the “accounting system is adequate for determining the costs applicable to the contract.” Cost estimates are most suitably used when the contract is fixed-price.

Amounts billed to USAID/Egypt that are based on estimates may not only be a contract violation, but might lead to a situation whereby USAID/Egypt is billed for amounts that were neither incurred nor paid for by the project.

Recommendation 3

We recommend that THO immediately discontinue the practice of billing USAID/Egypt with estimated amounts. In addition, THO should review all past estimated amounts billed and compare them with the actual project costs incurred and reimburse USAID/Egypt for estimated amounts which exceed actual project costs incurred.

* * * * *

We considered these material instances of noncompliance in forming our opinion on whether the fund accountability statement referred to above is presented fairly, in all material respects, in conformity with the cash basis of accounting, and this report does not affect our report dated June 28, 1994, on that fund accountability statement.

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

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

Price Waterhouse

TEACHING HOSPITALS ORGANIZATION
PROJECT IMPLEMENTATION LETTER NUMBER 26
UNDER THE USAID/EGYPT POPULATION AND FAMILY PLANNING
PROJECT NO. 263-0144

ADDITIONAL INFORMATION

QUESTIONED COSTS DETAIL OF AMOUNTS
AS INCURRED IN EGYPTIAN POUNDS
CASH DISBURSEMENT BASIS
FOR THE PERIOD FROM JUNE 1, 1989
THROUGH JUNE 30, 1993

	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs</u>	<u>Appendix B Finding Reference</u>
Cash	LE -	LE -	LE 23,009	Pg. 1 of 7, A
Project Management Salary Supplements and Salaries	205,729	192,552	36,627	Pg. 2 of 7, B
Clinic Salary Supplements and Salaries	551,809	631,933	181,584	Pg. 2 of 7, C
Medical Records	55,487	42,407	-	
Medical Supplies	70,815	55,070	10,182	Pg. 3 of 7, D
Office Supplies	23,230	13,640	-	
Transportation	60,231	49,884	7,822	Pg. 3 of 7, E
IEC Materials	77,801	30,808	2,565	Pg. 4 of 7, F
Training	160,244	156,504	25,557	Pg. 5 of 7, G
Egyptian Technical Assistance	78,745	55,847	19,723	Pg. 5 of 7, H
Operations Research	45,005	4,643	-	
Training Office Supplies	7,105	3,815	-	
Contingencies	-	1,000	1,000	Pg. 6 of 7, I
Renovations	121,214	118,449	45,005	Pg. 6 of 7, J
Maintenance	7,000	6,486	-	
Non-medical equipment	62,608	71,119	9,016	Pg. 6 of 7, K
Medical Equipment	120,634	56,289	-	
Head Office Capital Expenditures	95,395	95,395	17,500	Pg. 7 of 7, L
Training Equipment	33,283	23,769	5,426	Pg. 7 of 7, M
Audio Visuals	<u>37,610</u>	<u>22,610</u>	<u>-</u>	
TOTALS	LE <u>1,813,945</u>	LE <u>1,632,220</u>	LE <u>385,016</u>	

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TEACHING HOSPITALS ORGANIZATION
PROJECT IMPLEMENTATION LETTER NUMBER 26
UNDER THE USAID/EGYPT POPULATION AND FAMILY PLANNING
PROJECT NO. 263-0144

ADDITIONAL INFORMATION

QUESTIONED COSTS DETAIL OF AMOUNTS
AS INCURRED IN EGYPTIAN POUNDS

FOR THE PERIOD FROM JUNE 1, 1989
THROUGH JUNE 30, 1993

<u>Item Description</u>	<u>Questioned Costs</u>		
	<u>Ineligible</u>	<u>Unsupported</u>	<u>As Incurred In LE</u>
A. Cash:			
(1) Date Check # Entry # LE amount			
11/11/90 4971572 311 925			
01/21/93 66917 817 <u>1.840</u>			
			<u>2.765</u>
	-	\$ 907	LE 2,765
(2) Date Deposit #			
09/03/90 25	\$. 226	-	689
(3) Due to the large number of details supporting this finding, they have not been included within this report.	-	1,288	3,929
(4) The following amounts were obtained from the project's accounts payable records:			
-			
			LE amount
Taxes due as of 6/30/93			6,588
Initial Insurance due as of 6/3/93			<u>8,645</u>
			<u>15,233</u>
	-	4,994	15,233
(5) Date Check # JV # LE amount			
02/01/92 110471 451 14			
03/03/91 1009640 90 47			
05/05/91 1009740 190 294			
05/06/91 1009750 200 <u>38</u>			
			<u>393</u>
	-	<u>129</u>	<u>393</u>
Total Cash	<u>226</u>	<u>7,318</u>	<u>23,009</u>
B. Project Management Salary Supplements And Salaries:			
(1) Based on THO management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-	-
(2) Date Entry # LE amount			
01/31/93 827 395			
02/28/93 852 197			
03/28/93 877 197			
05/02/93 903 197			
05/24/93 938 <u>197</u>			
			<u>1,183</u>
	388	-	1,183

NOTE 4 - QUESTIONED COSTS (CONT.)

<u>Item Description</u>	<u>Questioned Costs</u>		
	<u>Ineligible</u>	<u>Unsupported</u>	<u>As Incurred In LE</u>
B. Project Management Salary Supplements And Salaries (Cont.):			
(3) The details supporting this finding include employees' names; therefore, they have not been included within this report.	-	\$ 1,470	LE 4,484
(4) The details supporting this finding include employees' names; therefore, they have not been included within this report.	-	2,052	6,259
(5) Due to the large number of details supporting this finding, they have not been included within this report.	\$ 7,443	-	22,701
(6)			
Date	Entry #	LE amount	
03/90	57	200	
04/90	93	200	
05/90	131	200	
06/90	152	200	
07/90	166	200	
08/90	211	200	
09/90	251	200	
10/90	286	200	
11/90	313	200	
12/90	376	200	
		<u>2,000</u>	
		<u>656</u>	<u>2,000</u>
Total Project Management Salary Supplements And Salaries	<u>8,487</u>	<u>3,522</u>	<u>36,627</u>
C. Clinical Salary Supplements And Salaries:			
(1)	Date	Entry #	
	6/9/91	246	
(2)	Due to the large number of details supporting this finding, they have not been included within this report.		
	19,348	-	59,011
(3)	Month	Total General Ledger	Total Billing
	August, 1990	12,085	13,960
	June, 1991	35,725	35,727
			<u>3</u>
			<u>1,878</u>
			616
			1,878
(4)	Date	Check #	Voucher #
	09/19/91	1104601	361
			620
			1,890
(5)	Based on THO management's comments received subsequent to the issuance of the draft report, this finding has been removed.		
(6)	Date	Check #	Entry #
	09/28/91	1104611	36
			279
			851

NOTE 4 - QUESTIONED COSTS (CONT.)

<u>Item Description</u>	<u>Questioned Costs</u>		
	<u>Ineligible</u>	<u>Unsupported</u>	<u>As Incurred In LE</u>
C. Clinical Salary Supplements And Salaries (Cont.):			
(7) Due to the large number of details supporting this finding, they have not been included within this report.	-	\$ 2,756	LE 8,405
(8) The details supporting this finding include employees' names; therefore, they have not been included within this report.	-	19,434	59,274
(9) The details supporting this finding include employees' names; therefore, they have not been included within this report.	-	6,900	21,045
(10) Based on THO management's comments received subsequent to the issuance of the draft report, this finding has been removed.	-	-	-
(11) The details supporting this finding include employees' names, therefore they have not been included within this report.	-	541	1,651
(12) The questioned amount was obtained by comparing the amounts billed to USAID/Egypt and the USAID/Egypt - approved budget.	\$ 8,503	-	25,934
Total Clinical Salary Supplements And Salaries	<u>27,851</u>	<u>31,685</u>	<u>181,584</u>
D. Medical Supplies:			
(1) Date Check # Entry # 02/19/93 66932 832	269	-	820
(2) Due to the large number of details supporting this finding, they have not been included within this report.	2,879	-	8,782
(3) Date Check # Entry # 01/31/91 980236 36	-	190	580
Total Medical Supplies	<u>3,148</u>	<u>190</u>	<u>10,182</u>
E. Transportation:			
(1) The details supporting this finding include employees' names; therefore, they have not been included within this report.	-	658	2,007
(2) Due to the large number of details supporting this finding, they have not been included within this report.	-	1,019	3,109
(3) The details supporting this finding include employees' names; therefore, they have not been included within this report.	-	336	1,025

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NOTE 4 - QUESTIONED COSTS (CONT.)

					<u>Questioned Costs</u>		
<u>Item Description</u>					<u>Ineligible</u>	<u>Unsupported</u>	<u>As Incurred In LE</u>
E Transportation (Cont.):							
(4)	Date	Check #	Entry #	LE amount			
	11/15/90	4971591	330	51			
	08/19/91	1035264	314	30			
	03/03/91	1009630	80	100			
	03/03/91	1009631	81	100			
	03/03/91	1009632	82	100			
	03/03/91	1009633	83	100			
	03/03/91	1009634	84	100			
	03/03/91	1009635	85	100			
				<u>681</u>	\$ 223	-	LE 681
(5)	Date	Check #	Entry #	LE amount			
	03/03/91	100638	88	50			
	03/03/91	100639	89	50			
	03/11/91	100642	92	50			
	03/11/91	100661	111	50			
	03/11/91	100665	115	50			
	01/19/92	110682	432	50			
	01/19/92	110685	435	150			
	01/22/92	110690	440	250			
	01/22/92	100691	441	150			
	01/22/92	100693	443	150			
				<u>1,000</u>	328	-	1,000
Total Transportation					<u>551</u>	\$ <u>2,013</u>	<u>7,822</u>
F. IEC Materials:							
(1)	Date		Entry #	LE amount			
	07/01/91		264	15			
	08/30/92		278	612			
	01/25/93		821	540			
				<u>1,167</u>	383	-	1,167
(2)	Date		Entry #	LE amount			
	08/30/92		678	202			
	07/22/91		291	20			
	01/25/93		821	152			
				<u>374</u>	123	-	374
(3)	Date		Entry #	LE amount			
	01/30/91		23	564			
	04/16/92		549	374			
				<u>938</u>	308	-	938
(4)	Date		Entry #	LE amount			
	05/5/91		190		-	28	86
Total IEC Materials					<u>814</u>	<u>28</u>	<u>2,565</u>

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NOTE 4 - QUESTIONED COSTS (CONT.)

<u>Item Description</u>	<u>Questioned Costs</u>		<u>As Incurred In LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
G. Training:			
(1) Date Check # Entry # LE amount			
09/11/90 4971510 254 445			
03/31/92 1176241 541 72			
03/31/92 1176242 542 91			
			<u>608</u>
	\$ 199	-	LE 608
(2) Date Check # Voucher #			
09/19/90 4971518 259	-	\$ 421	1,284
(3) Date Check # Voucher # LE amount			
10/15/90 7709556 6 3,550			
02/05/92 7790728 178 811			
			<u>4,361</u>
	1,430	-	4,361
(4) Date Check # Voucher # LE amount			
01/16/91 7709584 34 1,000			
09/14/90 4971497 T14 2,656			
			<u>3,656</u>
	-	1,199	3,656
(5) The amount questioned in this finding represents an amount in the project bank account, but not yet settled.			
			LE amount
Income from bonds			17,668
Returned bonds			(15,580)
-			<u>2,088</u>
	685	-	2,088
(6) Date Check # Voucher # LE amount			
06/12/91 7709634 82 500			
06/17/91 7709636 84 300			
09/01/91 7709663 110 150			
09/01/91 7709671 118 300			
			<u>1,250</u>
	410	-	1,250
(7) Date Check # Voucher#			
02/11/92 7709733 183	184	-	561
(8) Due to the large number of details supporting this finding, they have not been included within this report.	-	<u>3,852</u>	<u>11,749</u>
Total Training	<u>2,908</u>	<u>5,472</u>	<u>25,557</u>
H. Egyptian Technical Assistance:			
(1) Position LE amount			
Warehouse officer			1,800
Purchasing officer			3,175
Messenger			200
			<u>5,175</u>
	1,697	-	5,175
(2) The details supporting this finding include individuals' names; therefore, they have not been included within this report.	275	-	840

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NOTE 4 - QUESTIONED COSTS (CONT.)

<u>Item Description</u>	<u>Questioned Costs</u>		<u>As Incurred In LE</u>
	<u>Ineligible</u>	<u>Unsupported</u>	
H. Egyptian Technical Assistance (Cont.):			
(3) The details supporting this finding include individuals' names; therefore, they have not been included within this report.	-	\$ 3,921	LE 11,960
(4) Due to the large number of details supporting this finding, they have not been included within this report.	\$ 573	-	1,748
Total Egyptian Technical Assistance	<u>2,545</u>	<u>3,921</u>	<u>19,723</u>
I. Contingencies:			
(1) Due to the large number of details supporting this finding, they have not been included within this report.	328	-	1,000
Total Contingencies	<u>328</u>	<u>-</u>	<u>1,000</u>
J. Renovations:			
(1) Date Check # Voucher # LE amount			
03/1/90 4971277 29 500			
03/31/90 4971295 47 1,028			
03/31/90 4971296 48 672			
06/11/90 - 3060* 147			
11/01/90 - 1156* 100			
05/31/90 4971369 115 9,000			
			<u>11,447</u>
	-	3,812	11,627
* Voucher numbers are obtained from the Shibin El Kom Clinic general ledger.			
(2) Date Check # Voucher #			
03/26/90 4971321 72	-	620	1,891
(3) Description LE amount			
Renovation costs billed to USAID/Egypt			41,514
USAID/Egypt-approved renovation budget			(13,500)
			<u>28,014</u>
	9,185	-	28,014
(4) Clinic LE amount			
Sohag			1,400
Ahmed Maher			1,336
Shibin El Kom			<u>737</u>
	-	1,139	<u>3,473</u>
Total Renovations	<u>9,185</u>	<u>5,571</u>	<u>45,005</u>
K. Non-Medical Equipment:			
(1) Date Check # Entry #			
03/27/90 4971323 74	195	-	594

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TEACHING HOSPITALS ORGANIZATION
PROJECT IMPLEMENTATION LETTER NUMBER 26
UNDER THE USAID/EGYPT POPULATION AND FAMILY PLANNING
PROJECT NO. 263-0144

MANAGEMENT COMMENTS

4122 out
THO
TEACHING HOSPITAL ORGANIZATION
FAMILY PLANNING CENTRAL OFFICE



Rec'd 14/10/94
الهيئة العامة
للمعاهد والمستشفيات التعليمية
بمصر الجديدة

TO: Mr. Jim Mod Zewiesky
Price Water House Partener

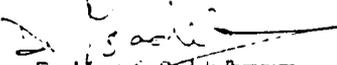
Subject: Draft Non Federal Audit Report
Of The Teaching Hospital
Organization (THO) Project
Implementation Letter No
26 under USAID-Egypt
Population/Family Planning
Project No 263-0144

Dear Mr. Jim

With reference to the letter dated September 29, 1994 signed by Dr. Samen El-Saharty Program Specialist USAID and With reference to the exit conference for the subject draft Audit report held on Wednesday October 5, 1994 at 10:00 am in USAID office. Please find Attached herewith a copy of the response of this audit draft report according to the date fixed in the conference which is November 7, 1994.

Thank you and warm regards

Sincerely yours


Dr. Mostafa-Sadek Ibrahim
Executive Manager
of THO F.P. Sub project

All. a.s

cc: Dr. Carpenter-Yaman, OD/HRDC.P THO F.P Sub project
Dr./ Aly Ahmed, General Director OF THO F.P Project
Mrs. Connie Johnson, Population Officer
Dr. Samen El-Saharty, Program Specialist USAID

TEACHING HOSPITALS ORGANIZATION

MANAGEMENT COMMENTS

TEACHING HOSPITALS ORGANIZATION

RESPONSE TO THE PRICE WATERHOUSE AUDIT OF
THE POP/FP II THO/FPS SUB-PROJECT

NOVEMBER 7, 1994

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TEACHING HOSPITALS ORGANIZATION

MANAGEMENT COMMENTS

TEACHING HOSPITALS ORGANIZATION
RESPONSE TO THE
PRICE WATERHOUSE AUDIT REPORT
OF POP/FP II

INTRODUCTION

BACKGROUND

The Teaching Hospitals Organization was founded in 1975 by presidential decree as a group of eight hospitals and specialized institutes affiliated to the Ministry of Health, while under separate administrative management structure. El Galaa Maternity Hospital, one of the eight THO hospitals, initiated its family planning clinic services under the umbrella of the Ministry of Health during the POP/FP I project. In 1989 under the POP/FP II project, the THO Family Planning Services project expanded its network of services to all eight THO member hospitals based on the experience with the El Galaa Maternity Hospital.

Under POP/FP II the intended emphasis of the THO/FPS was to dramatically increase FP client numbers in the THO system. In practice, the emphasis was placed on training THO personnel, especially physicians and nurses, to provide family planning services.

During POP/FP II the THO system experienced steady, but not dramatic, increases in FP client numbers.

USAID support for THO under POP/FP II was provided through PIL No 26 in 1989. The GOE provided support for the sub-project as well.

THO/FPS and POP/FP III

Under POP/FP III, THO/FPS will continue to provide clinical family planning services delivery through its eight family planning units. The aim of the THO/FPS subproject is to produce a model of high quality hospital based clinical family planning services coupled with a model of family planning client outreach in the hospital setting.

The THO/FPS units will continue to serve as a models for hospital based clinical family planning service delivery; three of the hospitals with FP training centers will carry out the family planning clinical training required for the THO organization.

TEACHING HOSPITALS ORGANIZATION

MANAGEMENT COMMENTS

The emphasis of the THO/FPS sub-project under POP/FP III is on quality service provision and outreach. The THO FPS sub-project will measure its achievement in terms of objectively verifiable indicators. The key indicator is couple years of protection (CYP). The THO/FPS sub-project aims to achieve 98,417 CYPs by 30 June 1997.

The THO system is recognized as holding a small but important niche in the total Egyptian family planning program.

The THO, while affiliated to the MOH, has a separate management structure. It is governed by a Board of Directors headed by the Minister of Health. The THO Secretary General is the key executive person in administration of the organization and functions as the THP/FPS subproject General Director to provide leadership and overall policy guidance.

The THO system experienced difficulties with the organization and management of subproject activities under POP/FP II. It had a history of weak central management, and a lack of systematic use of administrative and financial reports, records and management information systems applications to support management decision making.

NEW MANAGEMENT AT THO/FPS FOR POP/FP III

Recently the THO management changed. During the pre-implementation phase of POP/FP III (refer to THO quarterly report of 1 April-30 June 1994) the entire central management of the THO/FPS sub-project changed. A new THO Secretary General was appointed. The THO Secretary General is the Director General of the THO/FPS sub-project. An Executive Director/Manager who reports to the THO Secretary General was brought on board to manage the THO/FPS sub-project. Other key vacancies were filled. A quality assurance/MIS coordinator, a training coordinator, a financial controller, and accounting personnel, among others, were recruited and hired.

The new central management group at the THO/FPS sub-project already initiated reforms. In May 1994 procedures were written and disseminated by the new Executive Director. These procedures are currently being updated and expanded and issued to all family planning units and hospitals in the THO system. These procedures address some of the issues detailed in the audit report.

Current plans include the production of a comprehensive Financial Management Policy and Procedures Manual for the THO/FPS sub-project.

TEACHING HOSPITALS ORGANIZATION

MANAGEMENT COMMENTS

The new central management group at the THO/FPS sub-project completely agrees that a good, sound financial accounting system is crucial to ensuring compliance with USAID rules and regulations and safeguarding assets.

ELEMENTS OF THE THO RESPONSE TO THE AUDIT

The THO/FPS sub-project response to the audit will include the following:

1. Response to the recommendations on the Internal Control Structure;
2. Response to the recommendations on compliance with laws and regulations;
3. Response to the questioned costs.

TEACHING HOSPITALS ORGANIZATION

MANAGEMENT COMMENTS

RESPONSE TO THE RECOMMENDATIONS ON
THE INTERNAL CONTROL STRUCTURE

The format of that THO's response to the Price Waterhouse audit recommendations will include the following:

- A. The recommendation of Price Waterhouse.
- B. The THO response to the Price Waterhouse recommendations.

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

Recommendation #1:

We recommend that THO establish a policy that all employee attendance records contain documented approval of time worked from the individual employee's immediate supervisor. Attendance records may be in the form of logs in which the employees sign in and out on a daily basis or time sheets submitted by the employee at the end of each pay period. Additionally, THO should implement a policy where all payroll sheets are initially approved by the hospital Director for clinical employees and the THO technical director for headquarter employees. Both of these approvals should be followed by an approval from the project's general director and the senior accountant. This policy will assist in providing reasonable assurance that only bona-fide project employees are remunerated for actual time worked.

THO RESPONSE:

The new manager of the THO recognized that a problem existed with regard to payroll controls when he became the Executive Director in March 1994. He, therefore, wrote procedures regarding the approval process which have been in use by all of the Family Planning Units of the THO since May 1994. These procedures require that all payroll time sheets be initially approved by the hospital director for clinic employees. In addition, the THO Executive Director and the financial controller also approve all payroll time sheets for all staff (clinical and administrative) paid with USAID funds. The THO Executive Director is authorized by the General Director of the THO to manage and approve expenditures of funds under the USAID grant.

Recommendation #2:

We recommend that THO management become familiar with the GCE labor law #137, Articles 55 and 29-31 of 1981 amended by law#33 of 1982 and #119 of 1982 which explains the documentation requirements for employee files. THO should maintain such documents as required. For example, all employee files should contain, at a minimum, the following information:

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TEACHING HOSPITALS ORGANIZATION

MANAGEMENT COMMENTS

1. Certification that no illegal acts have been committed.
2. General performance service certificate.
3. Vacation records.
4. An admission that employee is not employed in other conflicting work.
5. Identification card.
6. Graduation certificate
7. Birth certificate.
8. Contract.

THO RESPONSE:

THO management recognizes the importance of maintaining proper employee personnel records and current employment contracts. Current THO procedures begun at the start of POP III require that personnel files contain the items listed in the Price Waterhouse recommendation cited above. The original copies of these documents are kept at the THO headquarters office in Cairo and copies are kept in the Family Planning Unit in which the employee works. Documentation is kept current according to GOE Labor Laws.

Recommendation #3:

We recommend that THO emphasize payroll controls by requiring that all employees be subjected to record keeping. Time records should be approved by the employees' management. The THO accountant should update each employee's vacation record on a periodic basis.

THO RESPONSE:

In May of 1994, the THO Executive Director issued Administrative Procedures requiring that payroll time sheets be used by all project staff and that appropriate approvals be in place before any staff member is paid out of project funds. These approvals are described in THO's response to recommendation #1. The procedures also specify that the vacation records of each employee be reviewed by the financial controller on a periodic basis.

Recommendation #4:

THO should establish a more effective internal control system which specifically addresses the design and operation of the accounting system. The establishment of more effective control

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TEACHING HOSPITALS ORGANIZATION

MANAGEMENT COMMENTS

procedures via the use of prenumbered forms and journal entry review procedures, and the reconciliation of project records with USAID/Egypt billings on a periodic basis should also be implemented.

THO RESPONSE:

The current THO Executive Director and Financial Controller recognize the importance of having a sound financial accounting system in place to adequately safeguard USAID funds and comply with all USAID Rules and Regulations regarding expenditure of funds. The THO management is in the process of expanding the Administrative and Financial Procedures which were written in May 1994. A Financial Management Policy and Procedures manual will be written which will include the procedures written in May. The manual will contain procedures to establish better internal controls within the accounting system. The manual will include procedures to appropriately reconcile project records with USAID billings, specify journal entry review procedures and specify the use of prenumbered voucher forms.

Recommendation #5:

We recommend that THO management segregate incompatible job duties, especially those which involve asset custody, authorization, bank reconciliation, and recording responsibilities. In those situations whereby management is prevented from separating appropriate duties, it is important that other internal controls be implemented.

THO RESPONSE:

The THO management recognizes the importance of ensuring that incompatible job duties be segregated. The Financial Management Manual which is being written will contain job descriptions of accounting and administrative personnel and specify the duties of each position and ensure proper segregation of duties where feasible. Where it is not feasible because of the small number of accounting staff, other internal controls will be implemented.

Recommendation #6:

We recommend that THO immediately address all prior report recommendations and take appropriate steps to satisfactorily dispose of the weaknesses reported.

THO RESPONSE:

THO management is in the process of responding to previous

TEACHING HOSPITALS ORGANIZATION

MANAGEMENT COMMENTS

deficiencies specified in prior financial reviews. The THO Family Planning Units are being visited regularly to ensure that all USAID recommendations are implemented. THO management recognizes the fact that it is crucial to respond to financial recommendations from accountants sent by USAID to review THO financial operations. In the future, THO management will ensure that appropriate steps are taken to deal with deficiencies in the THO accounting system which are discovered by independent auditors or the FAS Team sent by USAID.

Recommendation #7:

We recommend that THO establish a written policy clearly delineating those individuals who have authority for various project activities. Specifically, the policy should consider the following:

1. Check signatories should not have the authority to approve the project's expenditures, rather those who are assigned to approve project expenditures should be required to sign on every voucher.
2. The MOF representative should not be delegated the authority to recommend changes to the project's accounting records without the THO project director's knowledge and approval.
3. Changes in the authorization policy should be made only for justified business reasons. Should changes be necessary, the policy should be amended accordingly and all employees notified of the change.
4. Only responsible persons familiar with an expenditure should be delegated the authorization responsibility.

THO RESPONSE:

1. THO management disagrees with item #1 of the recommendation. The policy of THO states that two signatures are required for all checks written. One of the signatories can therefore also be the person who approves project expenditures because the second signatory acts as a control over the expenditure of funds. Currently, one of the signatories is the THO Executive Director who also has the authority to approve the expenditure of funds under the grant. The Executive Director is in the best position to authorize the expenditures because he is the person most familiar with the project. THO will ensure that the second signatory is independent from the custody of project assets.
2. Currently, no MOF representative is involved in supervising the accounting personnel at the THO.
3. The Secretary General of the THO has the authority to designate who should have approval for the expenditure of funds

TEACHING HOSPITALS ORGANIZATION

MANAGEMENT COMMENTS

and signatory authority. When he makes changes in the future, all employees will be properly notified.

4. As stated in #1 above, the Executive Director, who is the most familiar with the project, has approval authority over the expenditure of funds.

Recommendation #8:

We recommend that THO segregate and quantify renovation costs by clinic to allow USAID/EGYPT to evaluate expenditures by clinic. Excessive charges for any given clinic should be reimbursed to USAID/Egypt by the GOE or from the clinical revenues according to the mutual agreement of THO and USAID/Egypt. We also recommend that THO quantify cash on hand according to headquarter records and conduct a surprise cash count at the clinics.

THO RESPONSE:

The financial and administrative procedures which the THO Executive Director issued in May of 1994 include procedures regarding advances to the Family Planning Units. These procedures will be expanded in the Financial Management Policy and Procedures Manual which is scheduled to be written. The procedures will specify that any advances (including funds for renovation of clinics) to the Family Planning Units will be accounted for separately in the central office accounting records. A subsidiary journal will be kept to track the advances and procedures will be in place to follow-up on outstanding advances on a regular basis. Close communication will be maintained with the Family Planning Units regarding the advanced funds and visits will be made by the central office accounting staff to the clinics to monitor the records of the Family Planning Units. The central office accounting staff will track the renovation expenditures and compare them to the budget to ensure that renovation costs do not exceed the budgeted amounts.

Recommendation #9:

We recommend that THO redesign its project asset internal control system to include a documented system of authority and responsibility for these project assets. Further, management should establish and implement a plan to track and evaluate all USAID/Egypt-financed assets and monitor and resolve discrepancies found between the recorded assets and the project assets.

THO RESPONSE:

THO management recognizes the importance of maintaining proper fixed asset records for USAID funded equipment and conducting periodic inventories to maintain physical control over their use.

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TEACHING HOSPITALS ORGANIZATION

MANAGEMENT COMMENTS

THO is in the process of developing a system for appropriate internal control for project assets. The system designed will specify procedures for purchasing, receiving, recording and inventory counts. The procedures written will be included in the planned Financial Management Policy and Procedures Manual. As a first step, the THO management has assigned specific personnel at each of the Family Planning Units and the central headquarters responsibility for the safeguarding of project assets. Also, in May 1994 asset records were examined and a listing of assets located at each Family Planning Unit was developed. A physical inventory of all THO assets was conducted in June 1994.

Recommendation #10:

We recommend that periodic bank reconciliations be performed by a project employee independent from the responsibilities of asset custody which includes access to bank records, authorization, and recording. Bank reconciliations should contain sufficient detail to allow the project accountant to track individually all outstanding checks.

THO RESPONSE:

The completion of proper bank reconciliations is an essential procedure in the system of controlling cash. THO is committed to safeguarding the USAID funds received for implementing the THO family planning program. Currently, the bank reconciliations are being completed by the assistant accountant and reviewed by the project accountant. The bank reconciliation procedures will be revised to include the following: 1) review of the reconciliations by a project employee who does not have responsibilities for asset custody 2) provide detail regarding all outstanding checks and conform to American accounting practices. These procedures will be included in the planned Financial Management Policy and Procedures manual for USAID grant funds.

Recommendation #11:

We recommend that the receiving committee prepare receiving reports independent of the purchasing and accounting process. The receiving report should be matched to the purchase order to verify quantities received. Additionally, the items should be physically inspected for quality. Management should take oversight responsibility by conducting periodic checks on the fixed asset receiving process to ensure that receiving reports are being properly completed.

THO RESPONSE:

Currently, the THO management has specified that the procedures contained in the GOE Tender Law #9, Chapter 4-Taking Delivery of Articles be followed for receiving all equipment and supplies

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TEACHING HOSPITALS ORGANIZATION

MANAGEMENT COMMENTS

purchased with USAID funds. These procedures require that a receiving committee must physically inspect the goods, compare the purchase order and shipping documents to the goods received, and check the quality of the goods. The committee prepares a report which is sent to the accounting department. These receiving procedures will be included in the Financial Management manual which will be written for USAID grant funds. THO will also specify that periodic checks of the receiving process will be conducted to ensure compliance with the receiving procedures.

Recommendation #12:

We recommend that THO management immediately evaluate and correct the fixed asset register to a condition suitable to be used in a physical inventory count. The following weaknesses should be addressed, at a minimum:

1. PIL No. 26 fixed assets should be included using the billings to USAID/Egypt for fixed assets as a basis.
2. The purchase price and the number of items for fixed assets should be recorded accurately for all items.
3. - Items procured from other fund sources should be recorded separately from the PIL No. 26 financed fixed assets.
4. The fixed asset register should be periodically updated and physical counts taken to ensure their accuracy.

THO RESPONSE:

As we indicated in our response to recommendation #9, a revised system for ensuring control over fixed assets is currently being developed. This system will include procedures for detailed recording and tracking of the fixed assets. We will incorporate the procedures recommended by Price Waterhouse in recommendation #12. The THO will incorporate the revised procedures into the planned Financial Management Policy and Procedure Manual for USAID grant funds. As stated in our response to recommendation #9, a listing of fixed assets has been compiled for each Family Planning Unit location and a physical inventory was conducted in June 1994.

TEACHING HOSPITALS ORGANIZATION

MANAGEMENT COMMENTS

TEACHING HOSPITALS ORGANIZATION
RESPONSE TO THE QUESTIONED COSTS IN
THE PRICE WATERHOUSE AUDIT REPORT

The Price Waterhouse audit report of the Teaching Hospitals Organization listed in detail those costs which the auditors determined were ineligible or unsupported. The Teaching Hospitals Organization 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 THO has made the determination that these costs are not allowable under the terms of the THO grant and should not be charged to the THO/FPS sub-project. The THO will assume the financial responsibility for the unallowable amounts.

2. Allowable Costs

The THO has made the determination that these costs are allowable under the terms of the THO/FPS sub-project 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 THO has not been able to fully investigate all of the questioned costs in the audit report. Therefore, the THO will continue to research and analyze the remaining costs over the next several weeks. The THO 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, the unallowable costs, the allowable costs and the remaining costs under investigation.

The amounts are in LE and are taken from Appendix B of the audit report.

TEACHING HOSPITALS ORGANIZATION

MANAGEMENT COMMENTS

RESPONSE TO THE RECOMMENDATIONS ON
COMPLIANCE WITH LAWS AND REGULATIONS

The following is our response to the audit report on Compliance with Laws and Regulations:

Recommendation #1:

We recommend that project management immediately comply with Law #9.

THO RESPONSE:

Currently, the THO management complies with the rules and regulations of Tender Law #9 for the purchase and receiving of goods. As we indicated in our response to recommendation #9 regarding the system for internal control for project assets, procedures for purchasing, receiving, recording and inventory counts will be written and included in the planned Financial Management Manual for USAID funds. The procedures written for purchasing will include those rules in Tender Law #9 and also comply with USAID procurement rules.

Recommendation #2:

We recommend that the project adequately maintain books and records as required by the grant agreement. The project should also maintain documentation to verify the receipt and use of goods and services acquired under the grant.

THO RESPONSE:

The THO management realizes the importance of maintaining adequate books, records and documentation to support the expenditures made with the USAID grant funds. The financial and administrative procedures which the current Executive Director issued in May of 1994 specifically address the necessity of maintaining proper records and documentation for payroll, revenues generated, and expenditures made at the central headquarters and the Family Planning Units. These procedures are currently being followed by the accounting personnel. These procedures detail the types of documents to be maintained for internal control purposes. The procedures issued in May 1994 will be further expanded and included in the planned Financial Management Manual.

TEACHING HOSPITALS ORGANIZATION

MANAGEMENT COMMENTS

Recommendation #3:

We recommend that THO immediately discontinue the practice of billing USAID/Egypt with estimated amounts. In addition, THO should review all past estimated amounts billed and compare them with the actual project costs incurred and reimburse USAID/Egypt for estimated amounts which exceed actual project costs incurred.

THO RESPONSE:

Current THO management realizes that billing USAID for estimated amounts is totally against the rules and regulations of USAID. No estimated amounts have been billed to USAID under POP III. As an added safeguard that in the future no estimated amounts will be billed to USAID, the planned Financial Management Manual will contain specific references to the fact that only actual, allowable cash expenditures can be billed to USAID. Other appropriate USAID rules and regulations related to allowable expenditures will be included in the manual.

TEACHING HOSPITALS ORGANIZATION

MANAGEMENT COMMENTS

TEACHING HOSPITAL ORGANIZATION JUNE 1, 1989 - JUNE 30, 1993					
	REFERENCE NUMBER	TOTAL AMOUNT QUESTIONED	UNALLOWABLE COSTS	ALLOWABLE COSTS	REMAINING UNDER INVESTIGATION
	(1)	(2)	(3)	(4)	(5) = (2) - (3 - 4)
CASH	A1	2765	2765		0
	A2	689	689		0
	A3	3929	3929		0
	A4	15233			15233
	A5	393	393		0
Projects	B1	5927		5927	0
	B2	1183	1183		0
	B3	4484	4484		0
	B4	9059		9059	0
	B5	22701			22701
	B6	2000			2000
					0
Clinical	C1	1645			1645
SALARIES	C2	59274		59274	0
	C3	1878	1878		0
	C4	1890			1890
	C5	3690		3690	0
	C6	851			851
	C7	8405	8405		0
	C8	62175			62175
	C9	21045		21045	0
	C10	1321		1321	0
	C11	1651	1651		0
	C12	25934		25934	0
					0
Medical	D1	820			820
Supplies	D2	8780	790	7990	0
	D3	580			580
					0
					0
Transportation	E1	2007			2007
	E2	3109	3109		0
	E3	1925	1025		900
	E4	681			681
	E5	1000			1000
					0
					0
IE&C	F1	1167			1167
Materials	F2	374			374
	F3	938	938		0
	F4	330	86	294	0
					0
					0
Training	G1	608	608		0
	G2	1284	1284		0
	G3	4361			4361
	G4	3656			3656

SV

TEACHING HOSPITALS ORGANIZATION

MANAGEMENT COMMENTS

	G5	2088			2088
	G6	1250			1250
	G7	561			561
	G8	11749			11749
E.T.A	H1	5175	5175		0
	H2	840	840		0
	H3	11960			11960
	H4	1748	1748		0
Contingency	I1	1000		1000	0
Renovation	J1	11627			11627
	J2	1891			1891
	J3	28014			28014
	J4	3473			3473
NON-M.E.	K1	594	594		0
	K2	550			550
	K3	7872			7872
H.OFFICE	L1	4100	4100		0
	L2	13400			13400
Train.Eq	M1	3426			3426
	M2	2000			2000
					0
					0
TOTAL		402212	45674	135536	221002
					0
					0

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TEACHING HOSPITALS ORGANIZATION

PROJECT IMPLEMENTATION LETTER NUMBER 26
UNDER THE USAID/EGYPT POPULATION AND FAMILY PLANNING
PROJECT NO. 263-0144

INDEPENDENT ACCOUNTANTS' RESPONSE

The Teaching Hospital Organization (THO) management provided comments relating to the Price Waterhouse draft audit report presented at the exit conference held on October 5, 1994. THO management's comments are included, unedited, in Appendix C to this report. In response to their comments we reviewed additional supporting documents provided by them. Where applicable we either adjusted the final audit report or clarified our position relating to items discussed in THO management's comments. Please note that our response sequence below parallels our audit report's findings and THO management's comments.

THO management response to our draft report on Internal Control Structure:

THO management agrees with all our recommendation, with regard to internal controls, except for recommendation # 7. THO also claims that some corrective actions had been taken by the new management after our audit period. None of these procedures were tested as to existence.

As for recommendation # 7, THO management disagrees with item # 1 recommending that check signatories should not have the authority to approve the project expenditures. THO stated that those who are assigned to approve project expenditures should be required to sign on every voucher. THO claims that currently, one of the signatories is the THO Executive Director, who also has the authority to approve the expenditures of funds, and that they will ensure the second signatory is independent from the custody of project assets.

Such procedure, if applied, would be adequate, providing that this responsibility is clearly defined in a THO written policy. However, given that this procedure has not been verified, our recommendation remains unchanged.

THO's response to item # 2 of the same recommendation identifies that no Ministry of Finance ("MOF") representative is currently involved in supervising the accounting personnel at the THO.

In summary, THO's response to this recommendation did not fully address our requirement of having an established written policy clearly delineating personnel responsibilities. Accordingly, our report on internal control structure remains unchanged.

THO management response to our notes to the Fund Accountability Statement:

**A. Cash:
Finding # 1, 2, 3, and 5:**

THO agrees with our finding and recognized the questioned amount as unallowable expenses. Therefore, our position remains unchanged.

Finding # 4:

THO management stated that this finding is still under investigation. Therefore, our position remains unchanged.

**B. Project Management Salary Supplements and Salaries:
Finding # 1:**

We have received THO management's comments and supporting documents, and have removed the questioned cost amount from our final report. Finding is closed.

Finding # 2 and 3:

THO management agrees with our finding and recognized the questioned amount as unallowable expenses. Therefore, our position remains unchanged.

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Teaching Hospital Organization
Independent Accountants' Response

Finding # 4:

THO provided us with employee contracts. We received supporting documents for LE 2,800. The remaining unsupported questioned cost is LE 6,259. The finding was adjusted accordingly.

Finding # 5 and 6:

This finding is still under investigation by THO management. Therefore, our reported findings remain unchanged.

C. Clinical Salary Supplements and Salaries:

Finding # 1. 4 and 6:

THO management stated that these findings are still under investigation. Accordingly, our position remains the same and no changes to the report are therefore necessitated.

Finding # 3. 7 and 11:

THO management's response agrees with our finding and recognizes the questioned amounts as ineligible costs to be refunded to USAID. Therefore, no changes are made to our report.

Finding # 2

Reference to our letter issued to THO, dated October 30, 1994, we ensured that the amounts of LE 59,274 (Finding # 2, App. B. Page 2 of 7) and LE 62,175 (Finding # 8, App. B., Page 3 of 7) were not questioned twice.

- a) We also informed THO that due to printing errors the questioned amount in finding # 2, (App. B, Page 2 of 7) should be corrected to LE 59,011 instead of LE 59,274. This amount represents salary supplements questioned due to lack of compliance with the USAID revenue agreement.

This finding is not resolved because THO did not provide us with approval justifying changing this amount to this line item instead of the revenue account. Therefore, our position remains unchanged and this amount is still questioned as ineligible

- b) As for finding # (8, App. B., Page 3 of 7) it should be corrected to LE 59,274 instead of LE 62,175 and represents unsupported payments by contract, assignment letters and attendance records. This is not the same amount questioned in the previous finding. Accordingly, no double questioning occurred.

Finding # 5

We have received THO management's response and supporting documents and have removed the questioned amount from our final report. Finding is closed.

Finding # 8:

Refer to our response on finding # C.2.b. above.

This finding is still under investigation by THO's management. Our position remains unchanged.

Finding # 9:

Documents received from THO were only employee contracts, despite the fact that this amount was questioned for being unsupported by attendance sheets. Accordingly, THO did not address our finding adequately. Therefore, no changes are to be made to our final report.

Finding # 10:

Upon our review of the documents received with THO's response, we noted that there is no double billing of the monthly payroll. Accordingly, we agree to remove our finding from the final report. Finding is closed.

Teaching Hospital Organization
Independent Accountants' Response

Finding # 12:

THO response disagrees with our finding. After the audit reclassification, this line item was over-budgeted by LE 25,934. Accordingly, our position remains unchanged.

D. Medical Supplies:
Finding # 1 and 3:

The finding is still under investigation on the part of THO management. Therefore, no changes are to be made to the report.

Finding # 2:

THO management agrees on disallowing an amount of LE 799 out of a total of LE 8,782. No justifications were included in THO's response. Therefore, our conclusion remains unchanged.

E. Transportation:
Finding # 1, 4 and 5:

According to THO management's response, these findings are still under investigation. Therefore, our position remains unchanged.

Finding # 2 and 3:

THO management's response agrees with our findings and recognizes the questioned amounts as unsupported costs to be refunded to USAID. Therefore, no changes are to be made to our report.

F. IE and C Materials:
Finding # 1 and 2:

These findings are still under investigation by THO's management. Therefore, our position remains unchanged.

Finding # 3:

THO management's response agrees with our finding and recognizes the questioned amount as to be refunded to USAID. Therefore, no changes are made to our report.

Finding # 4:

We agree with THO management's response that this amount is double questioned. Accordingly, only the difference of LE 86 will be questioned. The final report is updated accordingly.

G. Training:
Finding # 1 and 2:

THO management agrees on the findings and recognized the questioned amounts as ineligible and unsupported costs to be refunded to USAID. No changes are made to our report.

Finding # 3, 4, 5, 6, 7 and 8:

THO management is still investigating the finding. No changes are made to our report.

H. Egyptian Technical Assistance:
Finding # 1, 2 and 4:

THO management agrees with our finding and recognizes the reported amount as ineligible costs to be refunded to USAID. Therefore, no changes are made to our report.

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**Teaching Hospital Organization
Independent Accountants' Response**

Finding # 3:

THO management's response states that this finding is still under investigation. Therefore, our position remains unchanged.

I. Contingency

After audit reclassification, this line item was over-budgeted by LE 1,000. THO's response did not address this issue adequately. Therefore, our position remains unchanged.

J. Renovations:

All findings under this line item are still under investigation. Therefore, our reported findings Nos. 1,2,3,4 remain unchanged.

K. Non-medical equipments:

Finding # 1 :

THO management agrees on the finding and recognized the questioned amount as ineligible costs to be refunded to USAID. No changes are made to our report.

Finding # 2, 3 :

THO management is still investigating the finding. No changes are made to our report.

L. Head Office Capital Expenditures:

Finding # 1:

THO management agrees on this finding and recognized the questioned amount as ineligible. Therefore, our position remains the same.

Finding # 2:

THO management mentioned that this finding is still under investigation. No change in our report is to be made.

M. Training Equipments:

THO stated that both findings # 1 and # 2 are still under investigation. Therefore, our position remains unchanged.

THO management response to our draft report on compliance with Laws and Regulations:

THO management agrees with all our recommendations regarding the compliance with Laws and Regulations. Moreover, THO highlighted in their response certain corrective actions and new procedures that were newly introduced and implemented by new management.

None of these procedures were tested as to existence. Therefore, our report on compliance with Laws and Regulations remains unchanged.

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TEACHING HOSPITALS ORGANIZATION

**PROJECT IMPLEMENTATION LETTER NUMBER 26
UNDER THE USAID/EGYPT POPULATION AND FAMILY PLANNING
PROJECT NO. 263-0144**

MISSION RESPONSE

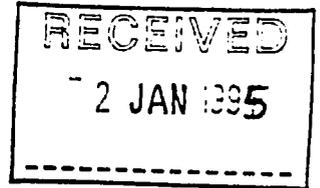


UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO EGYPT

December 28, 1994

MEMORANDUM



TO: Timothy E. Cox, A/RIG/A/C

FROM: Syed Ali, ~~A~~/OD/FM/FA

SUBJECT: NFA Report on the Local Expenditures of the Teaching Hospital Organization/Family Planning Services (THO/FPS) Subproject Incurred under Project No. 263-0144, Pil No. 26 - Draft Report

Mission is working with the implementing agency to resolve and close recommendation No. 1 under the subject audit, and has no comments to offer at this time.

Attached is a copy of a letter to THO dated December 28, 1994, requesting them to address the three recommendations, including the material internal control and non-compliance. Based on this action, Mission requests resolution of Recommendation Nos. 2 and 3.

Please issue the final report.

Att: a/s

cc: HRDC/P: S. Saharty

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UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

Prof. Dr. Ali Ahmed Ibrahim
Secretary General of the Teaching
Hospitals Organization and Director
of the Family Planning Services Subproject
Kasr El-Aini Street
Cairo, Egypt

28 DEC 1957

SUBJECT : NFA Report on the Local Expenditures of the
Teaching Hospital Organization/Family Planning
Services (THO/FPS) Subproject Incurred under
Project No. 263-0144, PIL No. 26.

Prof. Dr. Ali Ahmed:

Please find attached the final draft of the Audit Report on the
Local Expenditures of the Teaching Hospital Organization/Family
Planning Services (THO/FPS) Subproject Incurred under Project No.
263-0144, PIL No. 26.

After reviewing the response submitted by THO/FPS subproject, the
Auditor issued three recommendations. Your cooperation is required
to resolve and close these Recommendations.

With regard to Recommendation No. 1, the Auditors recommended that
USAID Egypt resolve questioned costs of \$126,235. The Financial
Management office at USAID/Egypt will review the documents made
available by the THO/FPS Subproject to make a final determination.

With regard to Recommendations No. 2 and 3, USAID/Egypt requires
that THO takes the necessary actions to address its material
internal control weaknesses and non-compliance issues as detailed
in the audit report.

Thank you for your continuous cooperation.

Sincerely,

Douglas Franklin
Associate Director
USAID/Financial Management

Attachment: a/s

APPENDIX G

REPORT DISTRIBUTION

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