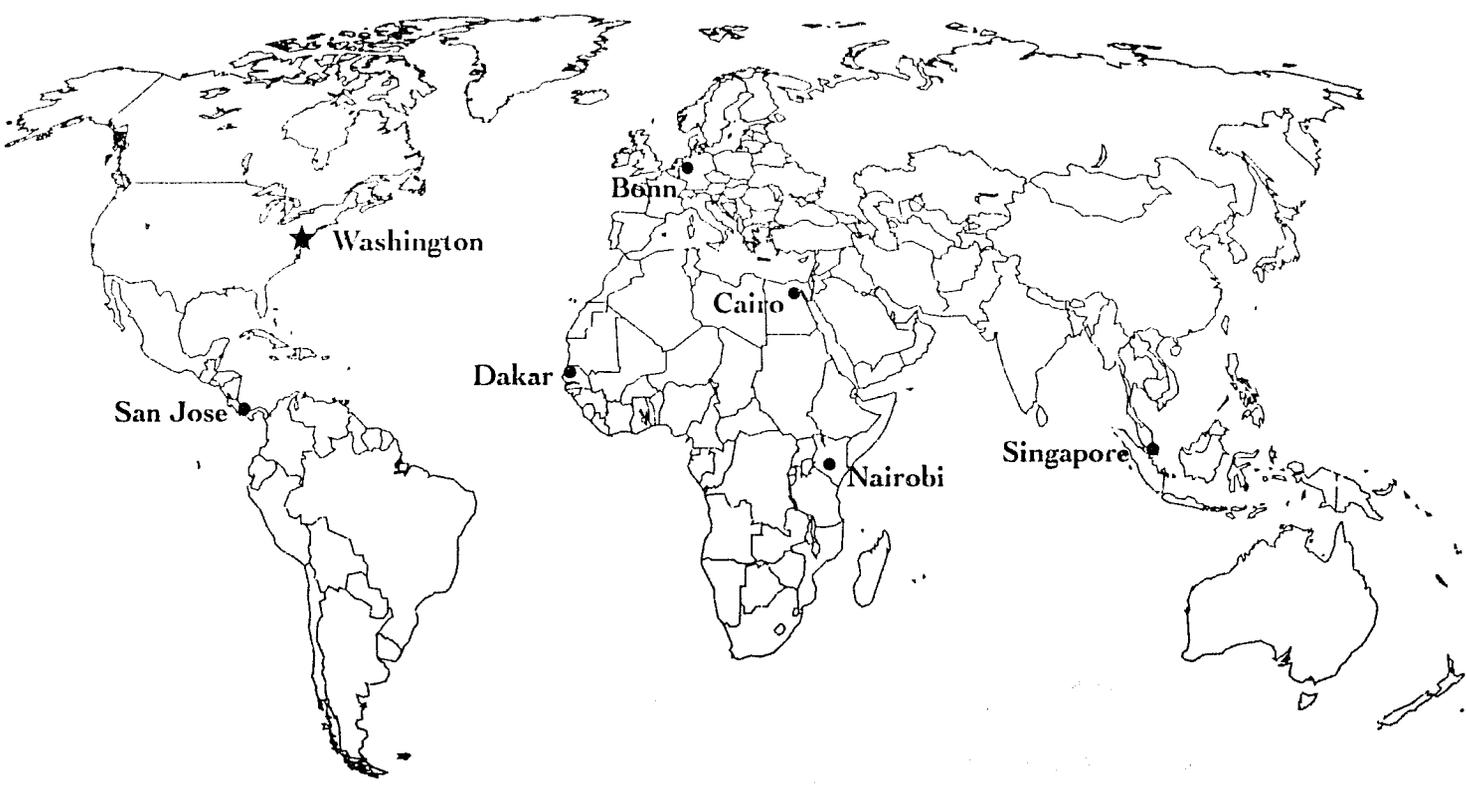


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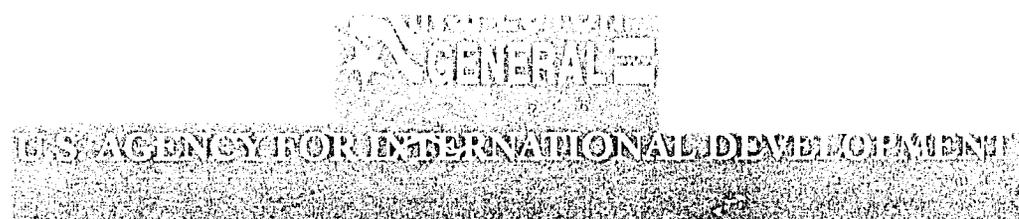
Regional Inspector General for Audit
Cairo, Egypt

**Audit of Expenditures Incurred by the
Curative Care Organization Under the
Cost Recovery for Health Project
(USAID/Egypt Project No. 263-0170)**

Report No. 6-263-96-004-N
October 16, 1995



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





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

CAIRO, EGYPT

October 16, 1995

MEMORANDUM

TO : DIRECTOR USAID/EGYPT, John R. Westley

FROM : RIG/A/C, Lou Mundy *Lou Mundy*

SUBJECT: Audit of Expenditures Incurred by the Curative Care Organization Under the Cost Recovery for Health Project (USAID/Egypt Project No. 263-0170)

The attached report transmitted on August 31, 1995 by Allied Accountants, a member firm of Arthur Andersen & Co., presents the results of a financial audit of expenditures incurred by the Curative Care Organization (Organization), under Project Implementation Letter (PIL) Nos. 6 and 9 of the Cost Recovery for Health Project; USAID/Egypt Project No. 263-0170. The Organization provides for supporting services to promote the use of a management information system. PIL No. 6 provides funds to support the procurement of commodities and training to executives, managers, specialists and personal computer end users. It also provides technical assistance, communications and other services. PIL No. 9 provides funds for pre-installation training costs in the areas of computer systems, English typing, and translation services for the Organization's headquarter and hospital staffs.

We engaged Allied Accountants to perform a financial audit of the Organization's incurred expenditures of \$296,315 (equivalent to LE962,150) as of December 31, 1994 for PIL No. 6 and June 30, 1994 for PIL No. 9. The purpose of the audit was to evaluate the propriety of costs incurred during these periods. Allied Accountants also evaluated the Organization's internal controls and compliance with applicable laws, regulations and grant terms as necessary in forming an opinion regarding the Fund Accountability Statement.

The audit report questions \$8,070 in unsupported costs (\$8,015 funded by PIL No.6 and \$55 funded by PIL No. 9) billed to USAID/Egypt (Mission) by the Organization. The

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questioned costs related primarily to advertisements, janitorial services, and over billing. Additionally, the auditors noted one reportable condition in the Organizations's internal controls and no instances of material noncompliance.

In response to the draft report, Organization officials provided additional explanation and/or supporting documents pertaining to the questioned costs. Allied Accountants reviewed the Organization's response and where applicable made adjustments to the report or provided further clarification of their position (see Appendices A and B). The Mission commented that it was currently working with the Organization to resolve and close the recommendation (see Appendix C).

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

Recommendation No. 1: We recommend that USAID/Egypt resolve the unsupported costs of \$8,070 (detailed on pages 12 and 13 of the audit report) and recover from the Curative Care Organization those amounts determined to be unallowable.

Recommendation No. 1 is unresolved and will be considered resolved upon the Mission's determination of the amount of recovery; it will be considered closed upon the recovery of funds, offset of funds, or issuance of a bill for collection.

Corrective action with regard to the non-material internal control weakness should be handled directly between Mission and grantee officials.

We appreciate the courtesies extended to the staff of Allied Accountants and to our office.

Curative Care Organization

**Audit of Expenditures Incurred Under the
Cost Recovery for Health Component II
Project No. 263-0170**

Project Implementation Letters Nos. 6 & 9

**Fund Accountability Statements
For the Period from
January 1, 1990 through December 31, 1994 for PIL No. 6
January 15, 1993 through June 30, 1994 for PIL No. 9**

**Curative Care Organization
(CCO)**

**Audit of Expenditures Incurred Under the
Cost Recovery for Health Component II
Project No. 263-0170**

Project Implementation Letters Nos. 6 & 9

Fund Accountability Statements

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ALLIED ACCOUNTANTS

Ragheb, Istanbuli & El Kilany

A Member Firm of ARTHUR ANDERSEN & CO. SC

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المحاسبون المتضامنون

رائغب، اسطنبولي والكيلاني

مراسلو آرثر أندرسن وشركاه

محاسبين قانونيين وخبراء تنظيم وإدارة

زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

August 31, 1995

Mr. Lou Mundy
Regional Inspector General
for Audit/Cairo
United States Agency for
International Development
Cairo, Egypt

Dear Mr. Mundy:

This report presents the results of our financial related audit of expenditures incurred by the Curative Care Organization (CCO) funded by the United States Agency for International Development Mission in Egypt (USAID/Egypt). Funding was provided under the Cost Recovery for Health Component II, Project 263-0170 through Project Implementation Letters (PILs) No. 6 and 9. We were engaged to perform an audit for the period from January 1, 1990 to December 31, 1994 for PIL No. 6 and January 15, 1993 to June 30, 1994 for PIL No. 9.

Background

PILs Nos. 6 and 9 between the Arab Republic of Egypt and the United States of America regarding CCO were implemented for the periods from January 1, 1990 to January 31, 1995 for PIL No. 6 and January 15, 1993 to June 30, 1994 for PIL No. 9. These PILs provide funding from USAID/Egypt under the Cost Recovery for Health Component II, Project No. 263-0170 signed on September 30, 1988. The Ministry of Health is the GOE implementing agency under the Project.

Through PILs Nos. 6 and 9, USAID/Egypt will finance the funds necessary to continue support for CCO within the Ministry of Health (MOH).

CCO provides for supporting services to promote the use of a management information system. PIL No. 6 provides funds to support the procurement of commodities and training to executives, managers, specialists and personal computer end users. It also provides technical assistance, communication and other services. PIL No. 9 provides funds for pre-installation training costs in the areas of computer systems, English typing and translation services for CCO headquarter and hospital staff.

Audit Objectives, Scope and Methodology

The objective of this engagement was to conduct a financial audit of USAID/Egypt resources managed by the CCO for PILs Nos. 6 and 9 (collectively known as the "Project"). The specific objectives of our engagement were to:

1. Express an opinion on whether the fund accountability statements for the USAID/Egypt financed projects of the CCO present fairly, in all material respects, funds received and costs incurred for the period under audit in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including the cash receipts and disbursements basis and modifications of the cash basis;
2. Determine if the costs reported as incurred under the PILs are in fact allowable, allocable, and reasonable in accordance with the terms of the PILs;
3. Evaluate and obtain a sufficient understanding of the internal control structure of the CCO as it relates to PILs Nos. 6 and 9, assess control risk, and identify reportable conditions, including material internal control weaknesses; and
4. Perform tests to determine whether the CCO complied, in all material respects, with the PILs' terms and applicable laws and regulations.

The scope of our financial cost-incurred audit was all the expenditures remitted by the CCO for the period under audit of January 1, 1990 through December 31, 1994 for PIL No. 6 and January 15, 1993 through June 30, 1994 for PIL No. 9.

The methodology of the audit consisted of an internal control evaluation, testing of expenditures remitted under the financing agreements and testing compliance by CCO with the Project Grant Agreement, dated September 30, 1988, Project Implementation Letters No. 6 and 9, their Amendments (No. 1 through 10 for PIL No. 6 and No. 1 for PIL No. 9), USAID Handbook 1 Supplement B Chapter 18, USAID Policy on Salary Supplements to COE employees and other pertinent laws and regulations applicable to CCO.

Our testing included a selection of costs incurred for each budget line item as disclosed in the fund accountability statements. We tested costs as follows:

<u>Agreement</u>	<u>Total Cost</u>	<u>Tested Amt.</u>	<u>Percent</u>
PIL No. 6 (Equivalent in LE)	\$ 223,125 716,232	\$ 169,910 545,411	76%
PIL No. 9 (Equivalent in LE)	\$ 73,190 245,918	\$ 16,743 56,256	23%

Our testing considered the results of our pre-audit survey and focused on areas identified as higher risk in our planning phase. Specifically, our testing of PILs Nos. 6 and 9 encompassed a selection of the checks remitted by the Project. The selected expenditures were categorized by budget line element and compared to the total of the amount incurred by the related budget line element. Where there was not sufficient audit coverage for a budget line element, additional expenditures were selected to ensure adequate coverage was obtained. We obtained significant audit coverage on PIL No. 6 as some of the budget line elements had only one transaction with a large expenditure of local currency.

Our testing program encompassed, but was not limited to the following procedures:

1. A review of direct project expenditures billed to and reimbursed by USAID/Egypt was performed. General ledgers and cash journals were reconciled to billings submitted to USAID/Egypt.
2. The preparation of a proof of cash to ensure the recording of all transactions and a review of the procedures used to control cash.
3. A review of training and travel costs to determine if they were adequately documented and approved.
4. A review of procurement procedures to determine that sound commercial practices, including competitive bids, were used.
5. A determination of whether advances of funds were justified, based on existing documentation, including a reconciliation of funds advanced, disbursed and available.
6. A review of direct salaries to ensure charges were in accordance with those approved by USAID/Egypt and are supported by appropriate payroll records.

During our audit planning, we considered the CCO's internal control structure as it related to PILs Nos. 6 and 9 to obtain an understanding of the design of relevant control policies and procedures, and whether those policies and procedures have been placed in operation.

Initial planning began with the performance of a pre-audit survey and fieldwork commenced after the entrance conference which was attended by our audit team, RIG/A/C personnel, USAID/Egypt Project Officer and CCO management staff.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are 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 (1994 revision) since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

Results of AuditFund Accountability Statements

The engagement identified \$ 8,070 in aggregate questioned costs all of which were unsupported costs. The details of costs questioned under the respective PILs were provided to USAID/Egypt and CCO management through supplemental schedules.

Internal Control

In performing our audit, we identified a reportable condition regarding the internal control structure. We identified that the billings submitted to USAID/Egypt are prepared based upon accruals of goods and services instead of actual disbursements. The detail of this finding is set forth in the Internal Control - Finding section of this report. A related questioned cost is included as Finding No. 2 in the Fund Accountability Statement - Audit Findings section of this report. We identified certain additional matters that we will bring to the attention of the CCO management and USAID/Egypt through a separate letter.

Compliance with Agreement Terms and Applicable Laws and Regulations

In performing our audit, we did not identify any matters of material non-compliance. We identified certain matters that we will bring to the attention of the CCO management and USAID/Egypt through a separate letter.

Management Comments

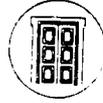
CCO management has provided comments on the results of the audit findings. CCO management provided their response in Arabic. We translated their response to English and have included it in Appendix A. CCO management did not provide a response concerning the matter relating to the internal control structure. We provided responses to management's comments in Appendix B. We have deleted or modified findings relating to questioned costs that were adequately responded to by CCO management.

Allied Accountants

ALLIED ACCOUNTANTS

Ragheb, Istambouli & El Kilany

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Mr. Lou Mundy
Regional Inspector General
for Audit/Cairo
United States Agency for
International Development
Cairo, Egypt

Report of Independent Public Accountants

We have audited the accompanying fund accountability statements of the Curative Care Organization relating to funds received and costs incurred under the Cost Recovery for Health Component II Project No. 263-0170 financed by the United States Agency for International Development Mission in Egypt pursuant to Project Implementation Letters (PILs) Nos. 6 and 9 for the period from January 1, 1990 through December 31, 1994 for PIL No. 6 and for the period from January 15, 1993 to June 30, 1994 for PIL No. 9. These fund accountability statements are the responsibility of the CCO management. Our responsibility is to express an opinion on these fund accountability statements based on our audit.

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

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 33 of Chapter 3 of Government Auditing Standards (1994 revision) since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

As described in Note 2, the accompanying fund accountability statements have been prepared on the cash basis, which is a comprehensive basis of accounting other than generally accepted accounting principles. Consequently, revenues and expenditures are recognized when received or paid rather than earned or incurred. Accordingly, the accompanying fund accountability statements are not intended to present results in accordance with generally accepted accounting principles.

Our testing identified aggregate questioned costs, as detailed in the accompanying fund accountability statements for each PIL, of US\$ 8,070, which are not supported with adequate documentation or did not have the required prior approvals or authorizations. The basis for questioning cost are set forth in the Fund Accountability Statement - Audit Findings section of this report.

In our opinion, except for the questioned costs of \$ 8,070, the fund accountability statements referred to above present fairly, in all material respects, the funds received and costs incurred by the Curative Care Organization for the period from January 1, 1990 through December 31, 1994 for PIL No. 6 and for the period from January 15, 1993 through June 30, 1994 for PIL No. 9, in conformity with the cash basis of accounting described in Note 2.

This report is intended for the information of the management and others within the Ministry of Health, Curative Care Organization and the United States Agency for International Development Mission in Egypt. This restriction is not intended to limit the distribution of this report which is a matter of public record.

April 13, 1995

Allied Accountants

Curative Care Organization

Audit of Expenditures Incurred Under the
Cost Recovery for Health Component II
Project No. 263-0170

Project Implementation Letter No. 6

Fund Accountability Statement (Note 2)
for the Period from
January 1, 1990 through December 31, 1994

<u>Budget Elements</u>	<u>Budget</u> <u>US\$</u>	<u>Actual</u> <u>US\$</u>	<u>Questioned Cost (Note 5)</u>	
			<u>Ineligible</u> <u>US\$</u>	<u>Unsupported</u> <u>US\$</u>
Receipts:				
USAID/Egypt		234,263	-	-
Expenditures:				
Computers and maintenance	65,488	61,129	-	-
Printers	2,764	7,992	-	-
Photocopier	31,656	31,656	-	-
Fax machine	17,196	17,196	-	-
Telephone line	7,083	7,083	-	-
Shelf items	2,420	2,290	-	-
Office renovations / furniture	1,242	988	-	-
Training	4,490	4,490	-	-
Office supplies	16,592	16,280	-	-
Computer supplies	14,541	15,480	-	-
Communication and advertisements	24,646	23,191	-	1,017
Janitorial services	5,975	7,090	-	4,523
Personnel	29,569	28,260	-	-
Over billing				2,475
Total Expenditures	<u>223,662</u> =====	<u>223,125</u> =====	<u>-0-</u> ===	<u>8,015</u> =====
Net Balance (Note 4)		<u>11,138</u> =====		<u>8,015</u> =====

The accompanying notes are an integral part of this financial statement.

Curative Care Organization

Audit of Expenditures Incurred Under the
Cost Recovery for Health Component II
Project No. 263-0170

Project Implementation Letter No. 9

Fund Accountability Statement (Note 2)
for the Period from
January 15, 1993 through June 30, 1994

<u>Budget Elements</u>	<u>Budget US\$</u>	<u>Actual US\$</u>	<u>Questioned Cost (Note 5) Ineligible US\$</u>	<u>Unsupported US\$</u>
Receipts:				
USAID/Egypt		61,612	-	-
Expenditures:				
Computer training	59,439	56,063	-	-
Typist training	12,540	11,221	-	-
Translation	20,893	5,906	-	-
Unsupported costs				55
Total expenditure	<u>92,872</u>	<u>73,190</u>	<u>-0-</u>	<u>55</u>
Net balance (Note 4)	=====	<u>(11,578)</u>	=====	<u>55</u>
		=====		=====

The accompanying notes are an integral part of this financial statement.

Curative Care Organization

**Audit of Expenditures Incurred Under the
Cost Recovery for Health Component II
Project No. 263-0170**

Project Implementation Letters Nos. 6 & 9

Notes to the Fund Accountability Statement

Note 1: Project Activities

The United States Agency for International Development Mission in Egypt (USAID/Egypt) funded the Curative Care Organization (CCO) under the Cost Recovery for Health Component II, Project No. 263-0170. The CCO is responsible for supporting services to promote the management information system. PIL No. 6 provides funds to support the procurement of commodities and training to executives, managers, specialists and personal computer end users. It also provides technical assistance, communication and other services. PIL No. 9 provides funds for pre-installation training costs in the areas of computer systems, English typing and translation services for the staff at the CCO headquarters and hospitals. Continuing support is being provided through January 31, 1995 to further those activities funded under PIL No. 6. The activities which were funded under PIL No. 9 are complete as of June 30, 1994.

Note 2: Basis of Presentation

The fund accountability statements have been prepared on the basis of cash receipts and disbursements. Consequently, revenues and expenditures are recognized when received or paid rather than when earned or incurred.

Note 3: Exchange Rate

Expenditures incurred in local currency (LE) have been converted to US dollars at an average exchange rate of LE 3.21 to US\$ 1 for PIL No. 6 and LE 3.36 to US \$ 1 for PIL No. 9.

Note 4: Net Balance

The negative balance of US\$ 11,578 under PIL No. 9 as of June 30, 1994 is offset by a positive balance under PIL No. 6 as of June 30, 1994. The balance of \$ 11,138 under PIL No. 6 as of December 31, 1994 represents the PIL's cash available at the National Investment Bank. CCO uses the same bank accounts for both PILs.

Note 5: Questioned Cost

The incurred questioned costs are presented in the fund accountability statements in two separate categories: ineligible and unsupported costs. Questioned costs are expenditures that we have determined are not in accordance with the Project Grant Agreement, the PILs or other applicable USAID/Egypt regulations or are not supported by adequate

documentation. "Ineligible costs" are deemed to be unallowable because they are not program related, unreasonable, or prohibited by the agreement or applicable laws and regulations. "Unsupported costs" are expenditures which are not supported by adequate documentation or did not have required prior approval or authorizations.

Our audit identified US\$ 8,070 in aggregate questioned costs, all of which were unsupported costs. The summary of questioned costs follows and the basis for questioning specific costs are set forth in the "Audit Findings" section of this report.

Curative Care Organization

**Audit of Expenditures Incurred Under the
Cost Recovery for Health Component II
Project No. 263-0170**

Project Implementation Letters Nos. 6 & 9

Fund Accountability Statements

Summary of Audit Findings

<u>Finding No.</u>	<u>Budget Element</u>	<u>Ineligible</u> \$	<u>Unsupported</u> \$
<i>PIL No. 6</i>			
Finding No. 2	Over billing		2,475
Finding No. 3	Communication and advertisements Janitorial services		1,017 4,523
Sub-Total PIL No. 6		<u>-0-</u>	<u>8,015</u>
<i>PIL No. 9</i>			
Finding No. 1	Cash	<u> </u>	<u>55</u>
Sub-Total PIL No. 9		<u>-0-</u>	<u>55</u>
Grand Total all PILs		<u>-0-</u> =====	8,070 =====

Curative Care Organization

**Audit of Expenditures Incurred Under the
Cost Recovery for Health Component II
Project No. 263-0170**

Project Implementation Letters Nos. 6 & 9

Fund Accountability Statements

Audit Findings

PIL No. 9

Finding No. 1: Unsupported Cash Disbursement

CCO used two bank accounts during the period under audit for PIL No. 6 and PIL No. 9. The first, Misr Bank, was used from January 1990 through April 1991. Project funds were commingled with other CCO funded activities during this period. The second, National Investment Bank, currently being used, started from December 1990. Funds from both PILs Nos. 6 and 9 were commingled in this account as well as other CCO activities.

A reconciliation of USAID/Egypt funds received and disbursed through each account was performed resulting in LE 184 of disbursements, which could not be supported by any documentation and/or records. As the PIL funds were commingled, the unsupported cost could not be identified with either a budget line element or a particular PIL. As a result, PIL No. 9, the most recent, was selected to reflect the unsupported costs. The CCO management could not provide an explanation concerning this finding.

The Project Grant Standard Provision, Annex 2, states: "The Grantee will maintain, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project adequate to show, without limitations, the receipt and use of goods and services acquired under the Grant.

USAID/Egypt was billed unsupported cost of LE 184 (US \$ 55).

PIL No. 6

Finding No. 2: Unsupported Costs

CCO has billed USAID/Egypt unsupported expenses due to the preparation of its billings without regard to the actual expenses recorded in the general ledger. The billed amounts are not reconciled to the general ledger. CCO staff admitted to the practice of invoicing USAID/Egypt based on accruals of incurred expenses. For further discussion concerning this finding, refer to Audit Finding No. 1 in the Internal Control Section of this report.

Project Implementation Letter No. 6 states that USAID/Egypt is agreeable to fund reasonable project support expenses on an actual cost reimbursable basis, based on monthly vouchers.

USAID/Egypt was billed unsupported costs of LE 7,946 (\$ 2,475).

Finding No. 3: Unsupported Vouchers Paid to CCO

CCO billed USAID/Egypt for internally generated CCO expenses charged to the Project without supporting documents, such as invoices, payrolls, time sheets and proof of payment.

The Project Grant Standard Provision, Annex 2, states: "The Grantee will maintain, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project adequate to show, without limitation, the receipt and use of goods and services acquired under the Grant.

USAID/Egypt was billed unsupported cost of LE 17,782 (US\$ 5,540).

Finding No. 4: Unsupported Payment to Third Party

This finding has been deleted

ALLIED ACCOUNTANTS

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Mr. Lou Mundy
Regional Inspector General
for Audit/Cairo
United States Agency for
International Development
Cairo, Egypt

Report of Independent Public Accountant on Internal Control Structure

We have audited the accompanying fund accountability statements of the Curative Care Organization relating to funds received and costs incurred under the Cost Recovery for Health Component II, Project No. 263-0170 financed by the United States Agency for International Development Mission in Egypt (USAID/Egypt) pursuant to Project Implementation Letters (PILs) Nos. 6 and 9 for the period from January 1, 1990 through December 31, 1994 for PIL No. 6 and for the period from January 15, 1993 through June 30, 1994 for PIL No. 9 and have issued our report thereon dated April 13, 1995.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are 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 (1994 revision) since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

In planning and performing our audit of the Curative Care Organization we considered the internal control structure as it relates to PILs Nos. 6 and 9 to determine our procedures for the purpose of expressing our opinion on the fund accountability statements and not to provide assurance on the internal control structure.

The management of the Curative Care Organization 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. Among the objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and in accordance with the terms of the Agreements; and transactions are recorded properly to

permit the preparation of the fund accountability statements referred to above in conformity with the basis of accounting as described in Note 2 to the fund accountability statements. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report we have classified the significant internal control structure policies and procedures in the following categories: cash control, procurement practices, personnel and payroll, and general accounting records. For the internal control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Our audit disclosed deficiencies regarding the certified fiscal reports submitted to USAID/Egypt, which we believe is a reportable condition. Our discussion regarding this matter is detailed as Audit Finding No. 1 of this report and Audit Finding No. 2 in the Fund Accountability Statement - Audit Findings section.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving the internal control structure and its operation that we consider to be material weaknesses.

In addition, we noted certain matters involving the internal control structure and its operation that we have reported to the management of the Curative Care Organization and the United States Agency for International Development Mission in Egypt in a separate letter dated April 13, 1995.

This report is intended for the information of the management and others within the Ministry of Health, Curative Care 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.

Allied Accountants

April 13, 1995

Curative Care Organization

**Audit of Expenditures Incurred Under the
Cost Recovery for Health Component II
Project No. 263-0170**

Project Implementation Letters Nos. 6 & 9

Internal Control Structure

Audit Finding

Finding No. 1: Billings Submitted to USAID/Egypt

CCO prepares their billings to USAID/Egypt without regard to the actual expenses recorded in the general ledger. This is further complicated by CCO's failure to:

1. Ensure that the billings submitted to USAID/Egypt report the cost incurred under each budget line element as they are recorded in the books and records.
2. Reconcile the CCO billings submitted to USAID/Egypt to the CCO books and records.

Project Implementation Letter No. 6 states that USAID/Egypt is agreeable to fund reasonable project support expenses on an actual cost reimbursable basis, based on monthly vouchers.

Recommendation

CCO should reconcile their billings to their records and report to USAID/Egypt the correct expenditures, by budget line element, as supported by the CCO books and records. CCO should further discontinue the practice of billing expenses prior to their disbursement and the recording to their books and records. CCO should report only expenditures to USAID/Egypt based on an actual cost reimbursable basis.

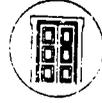
ALLIED ACCOUNTANTS

Ragheb, Istambouli & El Kilany

A Member Firm of ARTHUR ANDERSEN & CO. SC

Public Accountants & Business Advisors

Fellows & Members of the Egyptian Society of Accountants & Auditors



المحاسبون المتضامنون

راعغب، اسطنبولي والكيلاني

مراسلو آرثر أندرسن وشركاه

محاسبين قانونيين وخبراء تنظيم وإدارة

زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

Mr. Lou Mundy
Regional Inspector General
for Audit/Cairo
United States Agency for
International Development
Cairo, Egypt

Report of Independent Public Accountants on Compliance With Laws and Regulations

We have audited the accompanying fund accountability statements of the Curative Care Organization relating to funds received and costs incurred under the Cost Recovery for Health Component II, Project No. 263-0170 financed by the United States Agency for International Development pursuant to Project Implementation Letters (PILs) Nos. 6 and 9 for the period from January 1, 1990 through December 31, 1994 for PIL No. 6 and for the period from January 15, 1993 through June 30, 1994 for PIL No. 9 and have issued our report thereon dated April 13, 1995.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are 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 (1994 revision) since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

Compliance with the laws, regulations, contracts, grants applicable to PILs Nos. 6 and 9 is the responsibility of Curative Care Organization's management. As part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatements, we performed tests of the Curative Care Organization's compliance with certain provisions of laws, regulations, contracts and grants. However, our objective was not to provide an opinion on compliance with such provisions. Accordingly, we do not express such an opinion.

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

This report is intended for the information of the management and others within the Ministry of Health, Curative Care 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.

Allied Accountants

April 13, 1995

Curative Care Organisation

Audit of Expenditures Incurred Under the
Cost Recovery for Health Component II
Project No. 263-0170

Project Implementation Letters Nos. 6 & 9

Management Comments
(Free Translation)

Management provided their response in Arabic, we have translated their response to English as follows:

Reference to Finding No. 1 of the Auditors report (Arthur Andersen) of the Cost Recovery for Health Project Fund Accountaibility Statements for PIL No. 6 for the period from 1/1/90 to 12/31/94 and for PIL No. 9 for the period from 1/15/93 to 6/30/94. As mentioned in the report, an unexplained difference of LE. 3,000.00 was identified between the balance of the bank register (LE 19,499.54) and the cash available (LE 22,499.54) as of 12/31/94.

The following is our comment:

The bank register balance was actually LE 19,499.54, as mentioned in the report, but after checking we identified the following transaction omission:

- 1) During the audit, check no. 364102 in the amount of LE 13,000.70, was cancelled in the subsidiary ledger of expenses, but not in the bank book. The mistake was corrected after the audit.
- 2) During the audit, check no. 455595 dated 2/31/94 in the amount of LE 463.35 in the name of Mr. Mohamed Hassanein Khafagi was recorded in the subsidiary ledger of expenses, but not in the bank register. This amount concerns December 1994 expenses.
- 3) Check no. 364185, dated 11/30/94 for the amount of LE 347.15 in the name of Dr. Aman Ellah Elhadi Soliman was cancelled in the subsidiary ledger of expenses, but not in the bank register.

Therefore, the correct balance, after the audit, is LE 32,383.94 as follows:

Bank register as of 12/31/94, audit period	19,499.54
Plus:	
Cancelled Check No. 36410	13,000.70
Cancelled Check No. 364185	347.15
Less:	
Recording Check No. 455595	463.15
Bank register as of 12/31/94. after audit	LE 32,383.94
	=====

Please find attached the Bank reconciliation for 12/31/94

Reference to Finding No. 2 of the Auditors' report (Arthur Andersen) of the Cost Recovery for Health Project Fund Accountability Statements for PIL No. 6 for the period from 1/1/90 to 12/31/94 and PIL for No. 9 for the period from 1/15/93 to 6/30/94 regarding the differences between the general ledger balance and the monthly CFRs as submitted to USAID.

Please find, attached, the following:

- 1) A trial balance (Foreign component) for the period from 1/1/90 to 12/31/90 and
- 2) A trial balance (Investment Bank) for the period from 1/1/90 to 12/31/90.

These trial balances include all the details regarding the different line items. CCO, at the beginning of the project, was using the accrual basis when preparing the monthly CFR's, which caused these differences. As of 1/1/94 CCO started using the cash basis for reporting in order to reconcile the monthly CFRs submitted to USAID with the records.

An adjustment will be made to the CFRs as soon as the audit is finalized and the balances are agreed upon.

Reference to Finding No. 3 of the Auditors' report (Arthur Andersen) for the Cost Recovery for Health Project' Fund Accountability Statements for PIL No. 6 for the period from 1/1/90 to 12/31/94 and for PIL No. 9 for the period from 1/15/93 to 6/30/94 regarding the unsupported expenses for security and phone calls.

<u>Check Number</u>	<u>Amount</u>
977640	818.00
85016	3,762.60
873323	125.00
84965	3,000.60
85014	6,000.00
247061	4,482.50
Total	LE <u>18,188.70</u> =====

Please be informed of the following:

- 1) These checks were issued to cover the expenses of cleaning, fuel, maintenance, electricity, phone calls, janitorial services and security services performed by CCO's workmen. A mistake was made in the classification of these expenses. These amounts should be classified as performance bonuses for those employees who assisted in the projects work after working hours.
- 2) The disbursements were made by CCO to the employees on monthly basis and CCO was to be reimbursed these expenses periodically as financing was available.
- 3) A team of 12 workmen was selected to receive 75% of their monthly salaries as bonuses in return for the extra work assigned to them.

Therefore, all the above mentioned checks are for budget line item Janitorial Services. This mistake was corrected when responding to the Auditors' report.

Reference to Finding No. 4 in the Auditors' report (Arthur Andersen) for the Cost Recovery for Health Project Fund Accountability Statements for PIL No. 6 for the period from 1/1/90 to 12/31/94 and for PIL No. 9 for the period from 1/15/93 to 6/30/94 regarding the expenses for the services rendered by Mr. Hedayet Abdallah Eltorgoman as the Legal Advisor for the USAID financed projects and paid by the following checks:

<u>Check Number</u>	<u>Amount</u>
977634	LE 2,700.00
977635	900.00
977644	450.00
247027	750.00
364136	750.00

Please be informed of the following:

- 1) Mr. Hedayet Abdallah Eltorgomanis should perform these duties in accordance with his contract from 2/24/91 to 7/31/92 as follows:
 - Perform the duties as the General Co-ordinator for USAID Projects in all the Organizations hospitals (Family Planning Services and Cost Recovery for Health Project).
 - Provide an opinion on matters concerning the Organizations hospitals referred to him by the Chairman of the Board regarding the aforementioned projects.
 - Perform other duties, other than mentioned above, which are referred to him by the Chairman of The Board. We want to explain that his working hours are 8 hours per day divided as 40% for the Family Planning Project and 60% for the Cost Recovery Project.
- 2) From 8/1/92 till 2/24/96, he will be working solely for the Cost Recovery for Health Project
- 3) While working on more than one project his monthly bonus of LE 750 was charged to each project according to the aforementioned percentage as follows:
 - LE 300 for Family Planning Services from 2/24/91 till 7/31/92
 - LE 450 for Cost Recovery for Health Project from 2/24/91 till 7/31/92
- 4) After working solely for the Project as of 8/1/92, his monthly bonus is LE 750.

Financial & Administrative Manager

Mostafa Mohamed Abou El Seoud

Curative Care Organization

Audit of Expenditures Incurred Under the
Cost Recovery for Health Component II
Project No. 263-0170

Project Implementation Letters Nos. 6 & 9

Auditor's Response to Management Comments

Our comments below address the Curative Care Organization (CCO) responses provided regarding the questioned costs as identified in the findings on the Fund Accountability Statements. The findings for which CCO provided relevant supporting documents have been deleted and marked as such in the Fund Accountability Statements - Audit Findings section. For those findings in which insufficient supporting documents were provided or where we did not agree with the adequacy of the CCO response, the findings remain the same or modified as discussed below. CCO did not provide comments to the Internal Control Structure audit finding.

CCO's entire management response is presented in Appendix A.

PIL NO. 9

Finding No. 1: Unsupported Cash disbursement

CCO provided sufficient evidential matter to support questioned costs in the amount of LE 2,816 (\$ 839). As a result, LE 184 (\$ 55) remains as questioned costs. The finding has been modified accordingly.

PIL No. 6

Finding No. 2: Over Billings to USAID/Egypt

Based upon CCO's response and a review of the PIL general ledger balances and billings to USAID/Egypt, we have identified that there were over billings as well as under billings in the various budget line elements. The net effect is an over billing to USAID/Egypt of LE 7,946 (\$ 2,475) and identified as an over billing in the Fund Accountability Statements - Audit finding section. Our original finding considered only the over billings. The finding has been modified accordingly.

Finding No. 3: Unsupported Vouchers Paid to CCO

CCO provided sufficient evidential matter to support questioned costs in the amount of LE 3,973 (\$ 1,237). As a result, unsupported costs of LE 17,782 (\$ 5,540) remains as questioned costs. The finding has been modified accordingly.

Finding No. 4: Unsupported Payment to Third Party

CCO provided sufficient evidential matter to support the questioned costs. As a result, this finding has been deleted.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

October 5, 1995

MEMORANDUM

TO : Lou Mundy, RIG/A/C

FROM : Shirley Hunter, OD/FM/FA 

SUBJECT : Audit of Expenditures Incurred by the Curative Care Organization, Project Implementation Letters Nos. 6 & 9 Under the Cost Recovery for Health Component II, Project No. 263-0170 - Draft Report dated September 7, 1995.

Mission is working with the implementing agency to resolve and close Recommendation # 1, and has no comments to offer at this time. Please issue the final report.

cc: Joy Riggs-Perla, AD/HRDC