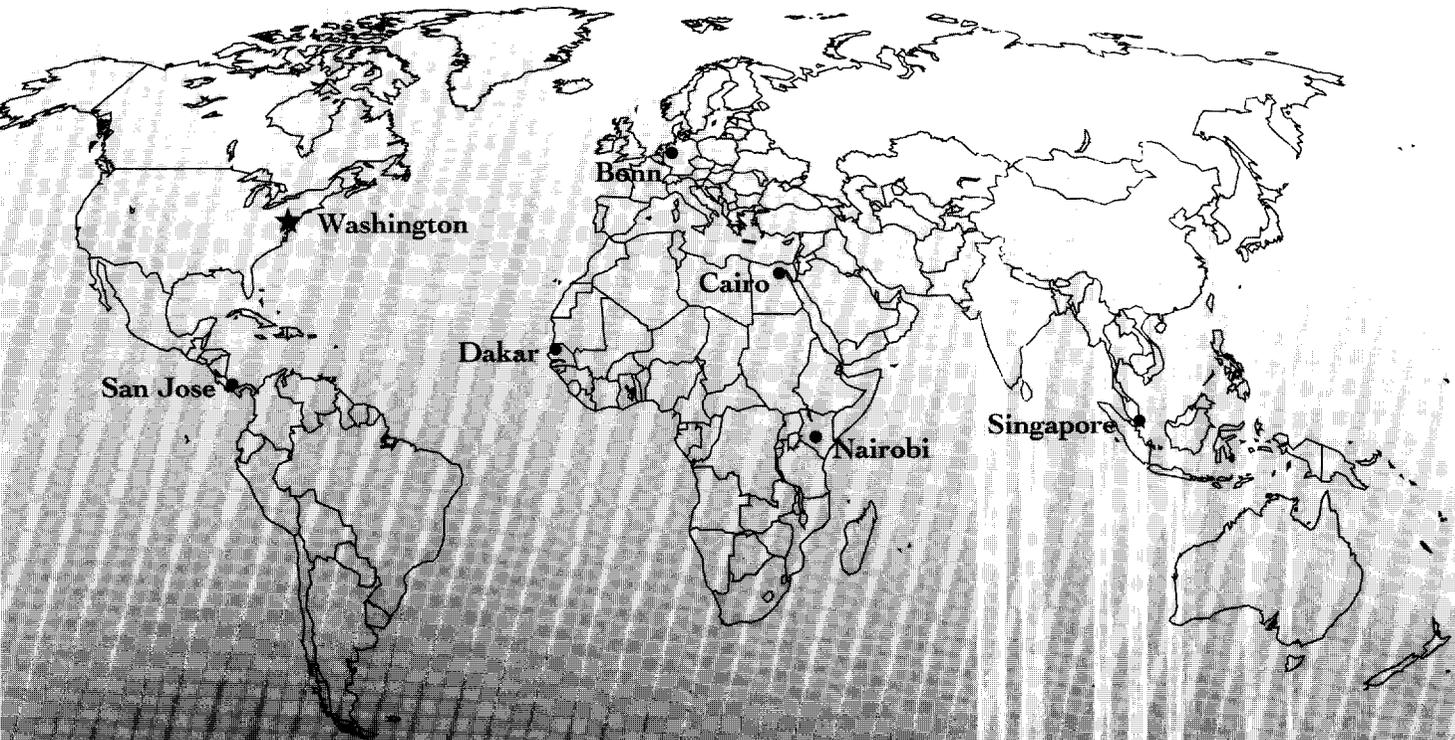


Regional Inspector General for Audit
Cairo, Egypt

**Financial Audit of the International Islamic Center
for Population Studies and Research Under the
Population/Family Planning II Project
(USAID/Egypt Project No. 263-0144)**

**Report No. 6-263-96-11-N
March 5, 1996**





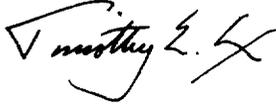
**UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL/AUDIT**

CAIRO, EGYPT

March 5, 1996

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley

FROM: Acting RIG/A/C, Timothy Cox 

SUBJECT: Financial Audit of the International Islamic Center for Population Studies and Research Under the Population/Family Planning II Project (USAID/Egypt Project No. 263-0144)

The attached report, transmitted January 10, 1996, by KPMG Hazem Hassan, presents the results of a financial audit of the International Islamic Center for Population Studies and Research (Center) under Project Implementation Letter (PIL) No. 33 and the related revenue account of the Family Planning Services sub-project of the Population/Family Planning II Project; USAID/Egypt Project No. 263-0144. The purpose of the sub-project is to increase the quantity and quality of contraceptive use.

We engaged KPMG Hazem Hassan to perform a financial audit of the Center's incurred PIL expenditures of \$187,882 (equivalent to LE598,217) for the period November 1, 1990 through May 31, 1993, and total incurred revenue account expenditures of \$10,714 (equivalent to LE34,286) for the period November 1, 1990 through June 30, 1995. The purpose of the audit was to evaluate the propriety of costs incurred during these periods. KPMG Hazem Hassan also evaluated the Center's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statements.

The audit report questions \$1,185 (equivalent to LE3,775) in costs billed to USAID/Egypt by the Center. The questioned costs related primarily to salaries, sales taxes, and cash balances in banks determined by the auditors to be ineligible or unsupported. Additionally, the auditors noted two reportable conditions in the Center's internal controls

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

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

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

A

as well as three instances of non-material noncompliance with the provisions of PIL No. 33 and Office of Management and Budget regulations.

In response to the draft report, responsible Center officials provided additional explanation to the questioned costs. KPMG Hazem Hassan reviewed the Center's response to the findings and where applicable made adjustments to the report or provided further clarification of their position.

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 ineligible Project Implementation Letter No. 33 costs of \$1,011 and unsupported revenue item costs of \$174 detailed on pages 13 to 15 of the KPMG Hazem Hassan audit report, and recover from the International Islamic Center for Population Studies and Research the amounts determined to be unallowable.

In its response to the audit report, the Mission determined that \$889 of PIL No. 33 costs and \$174 of revenue item costs are considered allowable. The remaining \$122 of PIL No. 33 costs is sustained and has been collected. Therefore, Recommendation No. 1 is resolved and closed.

The two reportable conditions identified by the auditor's review of the Center's internal control structure and the three instances of non-material noncompliance should be handled directly between the Mission and Center officials.

Thank you for the cooperation and assistance extended to the audit staff on this engagement and your continued support of the financial audit program in Egypt.

Attachment: a/s

B

Financial Audit of the
International Islamic Center for
Population Studies and Research(IIC)
Project Implementation Letter (PIL) No.33
and the Related Revenue Account
Under the Family Planning Services Sub-Project
of the Population/Family Planning II
Project No.263-0144
for the Period from November 1, 1990
through May 31, 1993 for the
Project Implementation Letter No. 33 and for the
Period from November 1, 1990
through June 30, 1995 for the Revenue Account

Financial Audit of the
International Islamic Center for
Population Studies and Research(IIC)
Project Implementation Letter (PIL) No.33
and the Related Revenue Account
Under the Family Planning Services Sub-Project
of the Population/Family Planning II
Project No.263-0144
for the Period from November 1, 1990
through May 31, 1993 for the
Project Implementation Letter No. 33 and for the
Period from November 1, 1990 through June 30, 1995
for the Revenue Account

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KPMG Hazem Hassan

Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street
Mohandseen, Cairo
Egypt

Telephone: (202) 3499588 - 3499677
Telefax : (202) 3497224 - 3487819
Telex : 20457 (hhco - un)

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

January 10, 1996

Dear Mr. Mundy,

This report represents the results of our financial audit of the International Islamic Center for Population Studies and Research (IIC) pursuant to Project Implementation Letter (PIL) No. 33 and the related revenue account under the Family Planning services sub-project of the Population/Family Planning II Project No.263-0144 for the period from November 1, 1990 through May 31, 1993 for PIL No. 33 and for the period from November 1, 1990 through June 30, 1995 for the revenue account.

Background

IIC was established in 1975 by Al-Azhar University. Al-Azhar University is the pre-eminent education center of the Muslim world and the highest institution of Islamic Studies. IIC is governed by a council composed of deans and professors of Al-Azhar University faculties with external members from Jordan, Pakistan, Saudi Arabia and Sudan. IIC receives funds from different international donor agencies such as Ford Foundation, United Nations Fund for Population Activities (UNFPA), The Canadian International Development Research Center and Johns Hopkins University (JHIPEGO).

The Family Planning Services sub-project was proposed by IIC in December 1990. The purpose of this sub-project is to increase the quantity and quality of contraceptive use. This will achieve the goal of contributing to a reduction in the Egyptian birthrate along with other governmental and non-governmental family planning development initiatives.

USAID/Egypt initiated PIL No. 33 to finance the project. The PIL approved a budget of LE724,891 (equivalent to \$227,667) to fund the local costs of the IIC activities and US\$12,000 (equivalent to LE38,208) to fund an external mid-term evaluation. During the audited period, the PIL was amended several times, decreasing the LE budget to LE723,015 (equivalent to \$227,077) and eliminating the US\$ budget from the PIL.

Additionally, IIC generated income through its fees for services and sales of contraceptives. The revenue of these activities is deposited in a revenue account. A revenue agreement was signed between IIC and USAID/Egypt to govern the use of the revenue account.

Audit Objectives and Scope

The objective of this engagement was to conduct a financial audit of USAID/Egypt's resources, provided pursuant to PIL No.33, and the related revenue account. These resources and the related account were managed by IIC under the Family Planning Services sub-project of the Population/Family II Project No.263-0144. The audit covered the period from November 1, 1990 through May 31, 1993 for PIL No. 33 and the period from November 1, 1990 through June 30, 1995 for the revenue account. The audit encompassed an examination of IIC expenses and whether they were in compliance with the PIL terms and a review of internal controls.

The specific objectives were to:

1. express an opinion on whether the fund accountability statements for the USAID financed project of IIC present fairly, in all material respects, project revenues received and costs incurred for the period under audit, in conformity with generally accepted accounting principles or other comprehensive bases of accounting, including the cash receipts and disbursements bases and modifications of the cash basis;

2. determine whether the costs reported as incurred under the PIL are, in fact, allowable, allocable, and reasonable in accordance with the terms of the PIL;
3. evaluate and obtain an understanding of the internal control structure of IIC, assess control risk, and identify reportable conditions, including material internal control weaknesses;
4. perform tests to determine whether IIC complied, in all material respects, with PIL terms and applicable laws and regulations; and
5. ensure that expenditures from the revenue account were used to further eligible IIC activities.

Preliminary planning and review procedures started in July 1995 and consisted of:

- discussions with RIG/A/C;
- a review of the PIL and the Revenue Agreement;
- interviews and discussions with the IIC key personnel concerning the status of the PIL and of the Revenue Agreement, accomplishments during the period, the statutory reporting requirements, the PIL budget, and procedures governing actual expenditures by IIC and reimbursement by USAID;
- reviews of the IIC organizational structure, procurement and personnel manuals, financial and accounting policies, and procedures manual.

The field work was completed on August 1, 1995. The scope of our work was to audit costs incurred by IIC and reimbursed by USAID/Egypt under PIL No.33. Within each budget line item, we selected amounts for testing on a judgmental basis to test the majority of the related amounts. We tested expenditures of \$71,715 (equivalent to LE228,341) from total expenditures of \$187,882 (38%) (equivalent to LE598,217) incurred during the period from November 1, 1990 through May 31, 1993.

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

1. Reconciling IIC's accounting records to invoices issued to USAID/Egypt and testing costs for allowability, allocability, reasonableness, and appropriate support;
2. Determining that payroll costs were appropriate and conformed with the terms of the PIL and the relevant regulations;
3. Determining that training, travel, commodities and administrative charges were adequately supported and approved;
4. Establishing the adequacy of IIC's control over project equipment funded by USAID/Egypt;
5. Placing emphasis on testing material transactions with related parties.

Additionally, from the revenue account, we audited \$2,105 (equivalent to LE 6,735) out of a total of \$11,215 (equivalent to LE35,887) of revenue received, and \$1,425 (equivalent to LE4,561) out of a total of \$10,714 (equivalent to LE34,286) of costs incurred during the period from November 1, 1990 through June 30, 1995.

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

1. Reconciling the revenue account records to the clinics reports;
2. Testing costs and revenue for appropriate support.
3. Determining whether expenditures from the revenue account were in furtherance of eligible IIC activities.

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, because 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 have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

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

Results of Audit

PIL No.33 Fund Accountability Statement

Our audit identified a total of questioned costs of \$1,011 (equivalent to LE3,219) which is represented in ineligible costs.

Revenue Account Fund Accountability Statement

Our audit identified unsupported revenue of \$174 (equivalent to LE556).

Internal Control

Our audit identified the following reportable conditions:

- Bank reconciliations are not prepared.
- Controls over donated contraceptives are not adequate.

Compliance with Laws and Regulations

Our tests of compliance disclosed certain instances of noncompliance with the terms of PIL No.33 regarding the allowability, allocability and reasonableness of costs charged to USAID/Egypt. These instances are not considered to be material instances of noncompliance.

Supplementary Information

The supplementary fund accountability statements, presented in the functional currency, and schedules of questioned

costs including dates, number of vouchers and amounts were communicated to IIC's management and are available upon request.

Management Comment

We have reviewed IIC's response to the Questioned Costs incurred, which are included in Appendix I. Where applicable, we have made adjustments in our report or provided further clarification of our position in Appendix II. For those items not adjusted in the final report, the responses provided by IIC's management have not changed our understanding of the fund accountability statements, reportable conditions in the Report on Internal Control Structure or our finding in the Report on Compliance with Laws and Regulations.

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


Hazem Hassan & Co.
Cairo, Egypt

FUND ACCOUNTABILITY STATEMENTS

LA

KPMG Hazem Hassan

Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street
Mohandseen, Cairo
Egypt

Telephone: (202) 3499588 - 3499677
Telefax : (202) 3497224 - 3487819
Telex : 20457 (hhco - un)

Report on Fund Accountability Statements Independent Auditor's Report

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

We have audited the accompanying fund accountability statements of the International Islamic Center for Population Studies and Research (IIC) pursuant to the Project Implementation Letter (PIL) No.33 and the related revenue account under the Family Planning Services Sub-Project of the Population/Family Planning II Project No.263-0144 for the period from November 1, 1990 through May 31, 1993 for PIL No. 33 and for the period from November 1, 1990 through to June 30, 1995 for the revenue account. These statements are the responsibility of IIC's management. Our responsibility is to express an opinion on these statements based upon 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the presentation of the overall fund accountability statements. 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, because 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 have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

The aforementioned fund accountability statements do not include the cost of USAID/Egypt's direct procurement of vehicles, equipment, and technical assistance provided by USAID/Egypt directly to IIC nor the total revenues and costs incurred by IIC on an organization-wide basis.

As described in Note 1, the accompanying fund accountability statements have been prepared on the cash basis, which is a comprehensive basis of accounting other than the generally accepted accounting principles. Included in the fund accountability statements are questioned costs of \$1,011 and revenue of \$174 relating to the Project Implementation Letter (PIL) No.33 and the revenue account, respectively. The basis for questioning these costs is more fully described in the "Details of Questioned Costs" section of this report.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the fund accountability statements, referred to above, present fairly, in all material respects, the amounts received and the costs incurred pursuant to the Project Implementation Letter (PIL) No.33 and the related revenue account under the Family Planning Services Sub-Project of the Population/Family Planning II Project No.263-0144 for the period from November 1, 1990 through May 31, 1993 for PIL No. 33 and for the period from November 1, 1990 through June 30, 1995 for the revenue account, in conformity with the basis of accounting described in Note 1.

M. Hassan
← Hazem Hassan & Co.
Cairo, Egypt →

August 1, 1995

INTERNATIONAL ISLAMIC CENTER FOR POPULATION STUDIES AND RESEARCH (IIC)
Fund Accountability Statement of Project Implementation Letter (PIL) No. 33
Under the Family Planning Services Sub-project
of the Population/Family planning II project No. 263-0144
For the Period from November 1, 1990 through May 31, 1993

USAID/Egypt fund received \$
264,354

<u>Expenditures</u>	<u>Questioned Costs</u>				<u>Finding No. & Pg.</u>
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	
	\$	\$	\$	\$	
Salaries	78,285	60,666	970		1. a) through c) pg. 13,14
Fringe Benefits	8,491	1,956			
Training	40,637	35,827			
Travel	6,493	5,797			
Commodities	77,254	75,372	41		2. a) pg.14
Administration	14,508	8,264			
Contingencies	1,409				
Total Expenditures	<u><u>227,077</u></u>	<u><u>187,882</u></u>	<u><u>1,011</u></u>	<u><u>---</u></u>	
USAID/Egypt Fund as of May 31, 1993		<u><u>76,472</u></u>			

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

INTERNATIONAL ISLAMIC CENTER FOR POPULATION STUDIES AND RESEARCH (IIC)
Fund Accountability Statement for the Revenue Account
Related to Project Implementation Letter (PIL) No. 33
Under the Family Planning Services Sub-project of the
Population/Family Planning II Project No. 263-0144
For the Period from November 1, 1990 through June 30, 1995

	<u>Questioned Revenue</u>			
	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	<u>Finding No. & Pg.</u>
	\$	\$	\$	
<u>Revenues</u>			24	a) & b) pg. 15
Proceeds from Sale of Contraceptives	6,645			
Medical Services Fees	2,884			
Miscellaneous	<u>1,686</u>			
Total Revenues	<u>11,215</u>			
<u>Expenditures</u>				
Salaries	10,388			
Procurement of Contraceptives	125			
Others	<u>201</u>			
Total Expenditures	<u>10,714</u>			
Revenue over expenditure	501			
<u>Add:</u>				
Unverified difference	150		150	a) pg. 15
USAID/Egypt Fund				
as of June 30, 1995	<u>651</u>		<u>174</u>	

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

**INTERNATIONAL ISLAMIC CENTER FOR POPULATION STUDIES
AND RESEARCH
(IIC)**

**Fund Accountability Statements Related to
Project Implementation Letter (PIL) No.33 and
Related Revenue Account**

Notes to the Fund Accountability Statements

Note 1: Accounting Basis

The fund accountability statements have been prepared on the basis of cash receipts and disbursements. Consequently, revenues are recognized when they are actually received and expenditures are recognized when they are actually paid.

Note 2: Basis of Presentation

The fund accountability statements are the representation of IIC's management and are the responsibility of the said management. The "Questioned Costs" columns represent the audit results and are included in the fund accountability statements for presentation purposes only.

Note 3: Translation Rate

Expenditures paid in Egyptian Pounds (LE) have been translated into US Dollars (\$). The period average exchange rate method was used. This rate is \$1 = LE3.184 for PIL No. 33 and \$1 = LE3.2 for the revenue account.

Note 4: Questioned Costs

Questioned Costs are presented in two separate categories - ineligible or unsupported - and consist of audit findings made on the basis of the

terms of the PIL and related regulations, which prescribe the nature and treatment of reimbursable costs. Costs in the column labeled "Ineligible" are supported by vouchers or other documentation but are ineligible for reimbursement because they are either unreasonable, not program related, or are prohibited by the PIL or applicable laws and regulations.

Costs in the column labeled "Unsupported" are also included in the classification of "Questioned Costs" and are related to costs that are not supported by adequate documentation. All questioned costs are detailed in the "Details of Questioned Costs" section of this report.

Details of Questioned Costs
Project Implementation Letter No.33
Fund Accountability Statement

Our audit identified the following items related to the Project Implementation Letter (PIL) No.33 that are ineligible or unsupported.

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	\$	\$
1. <u>Salaries</u>		
a) This amount represents salaries paid to IIC employees in excess of the approved budget. The sub-project proposal and the PIL No.33 stated the exact salary and benefit for each position. The excessive salaries paid to IIC employees and charged to USAID/Egypt are considered to be unallowable.	81	
b) Based on documents and clarifications provided to us, subsequent to the issue of the draft report, this finding has been removed.		---

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
c) This amount represents payments to individuals who do not provide services to the project. IIC's management considered these individuals as community leaders and therefore eligible for remuneration. Because the supporting documents did not prove that these individuals were community leaders, we considered them as non-project individuals. Therefore, amounts paid to them are considered to be unallowable	889	
Total line item	<u>970</u>	<u>---</u>
2. <u>Commodities</u>		
a) This amount represents sales taxes charged to USAID/Egypt. Article 46, Attachment B of the OMB Circular No. A-122 states that "taxes are not allowable". Therefore, this amount is considered to be unallowable.	41	
Total line item	<u>41</u>	
Total Questioned Costs	<u>1,011</u>	<u>---</u>
		<u>1,011</u>

The Revenue Account Fund Accountability Statement

From the revenue account, our audit procedures identified the following questioned revenue.

	<u>Questioned Revenue</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	\$	\$
<u>Item Description</u>		
<u>Proceeds from Sale of Contraceptives</u>		
a) Based on documents and clarifications provided to us, subsequent to the issue of the draft report, this finding has been removed.		---
b) This amount represents the difference between revenue as per the clinics reports and revenue deposited in the bank as per books. We considered this amount as questioned revenue.		24
Total Line Item	---	<u>24</u>
a) The cash in bank as per the project ledger was in excess of the cash balance as per the bank statement. This amount represents the difference and is considered to be unsupported.		150
Total Line Item	---	<u>150</u>
Total Questioned Revenue	---	<u>174</u>
		<u>174</u>

INTERNAL CONTROL STRUCTURE

KPMG Hazem Hassan

Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street
Mohandseen, Cairo
Egypt

Telephone: (202) 3499588 - 3499677
Telefax : (202) 3497224 - 3487819
Telex : 20457 (hhco - un)

Report on the Internal Control Structure Independent Auditor's Report

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

We have audited the accompanying fund accountability statement of the International Islamic Center for Population Studies and Research (IIC) pursuant to the Project Implementation Letter (PIL) No.33 and the related revenue account under the Family Planning Services Sub-Project of the Population/Family Planning II Project No.263-0144 for the period from November 1, 1990 through May 31, 1993 for PIL No. 33 and for the period from November 1, 1990 through to June 30, 1995 for the revenue account, and have issued our report thereon on August 1, 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. Those 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, because 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 have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

In planning and performing our audit of IIC, we considered its internal control structure related to PIL No.33, funded by USAID/Egypt, and the related revenue account, in order to determine our auditing 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 IIC 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 transactions are executed in accordance with the terms of the PIL, and are recorded properly to permit the preparation of reliable fund accountability statements in accordance with the cash basis of accounting.

Because of the 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 into the following categories:

- Cash receipts and banks
- Equipment
- Payroll
- Expenditures.

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

We noted certain matters, involving the internal control structure and its operation, that we consider to be reportable conditions under standards established by the

American Institute of Certified Public Accountants. Reportable conditions involve matters that have come to our attention and are related to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statements. Our audit disclosed the following reportable conditions:

Finding No.1

IIC has not prepared any bank reconciliations for the revenue account. Additionally, bank reconciliations for PIL No. 33 were not approved.

A good internal control system requires that bank reconciliations be prepared, on a monthly basis, to explain the difference between the cash balance per bank statement and per cash book.

IIC's management believed that the bank statement is adequate to control the cash in the revenue bank account.

The lack of bank reconciliations may lead to a discrepancy between the cash book and the bank statement which could affect the fair representation of the fund accountability statement.

We recommend that, if IIC were to receive further USAID funds, IIC should prepare, review and approve monthly bank reconciliations.

Finding No.2

Internal control over inventory (contraceptives) is inadequate. IIC does not maintain stock cards nor a stock ledger and physical counts are not made regularly.

A sound internal control system requires the management to safeguard assets against loss and unauthorized use.

IIC's management believed that the existing internal control system is adequate to control the inventory.

As a result, USAID/Egypt's contraceptives may be subject to waste, loss or unauthorized use.

We recommend that, if IIC were to receive further USAID donated contraceptives, IIC should improve the control over inventory.

A material weakness is a condition in which the design or operation of the specific elements of the internal control structure does not reduce, to a relatively low level, the risk that errors or irregularities, in amounts that would be material in relation to the fund accountability statement being audited, may occur and not be detected, within a timely period, by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses, as defined above. However, we believe that the reportable conditions described above are not material weaknesses.

We also noted other matters involving the internal control structure and its operation that we reported to the management of IIC in a separate communication dated August 1, 1995.

This report is intended for the information of IIC's 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.

M. Hassan
Hazem Hassan & Co.
Cairo, Egypt

August 1, 1995

COMPLIANCE WITH LAWS AND REGULATIONS

KPMG Hazem Hassan

Public Accountants & Consultants

72 Mohi Eldin Abul Ezz Street
Mohandseen, Cairo
Egypt

Telephone: (202) 3499588 - 3499677
Telefax : (202) 3497224 - 3487819
Telex : 20457 (hhco - un)

Report on Compliance with Laws and Regulations **Independent Auditor's Report**

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

We have audited the accompanying fund accountability statements of the International Islamic Center for Population Studies and Research (IIC) pursuant to the Project Implementation Letter (PIL) No.33 and the related revenue account under the Family Planning Services Sub-Project of the Population/Family Planning II Project No.263-0144 for the period from November 1, 1990 through May 31, 1993 for PIL No. 33 and for the period from November 1, 1990 through June 30, 1995 for the revenue account, and have issued our report thereon on August 1, 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 perform the audit to obtain reasonable assurance about whether the fund accountability statements of IIC 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, because 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 have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive

quality control review by partners and managers from other KPMG offices.

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

Our testing of transactions and records disclosed the following instances of noncompliance with those laws and regulations which are not considered to be material instances of noncompliance:

1. Instances of noncompliance with the provisions of the PIL No. 33

IIC paid salaries to its employees either in excess of the approved budget or for positions not included in the budget.

The sub-project proposal and the PIL No. 33 stated all positions required for the project and the exact salary and benefit for each position.

IIC's management believed that these amounts were essential to complete the project.

The effect of this instance of noncompliance has been reported in the "Details of Questioned Cost" section of this report.

We recommend that, if IIC were to receive further USAID funds, IIC should comply with the provisions of the PIL No. 33.

2. Instances of noncompliance with the provisions of OMB Circular No. A-122

IIC paid and charged USAID/Egypt with sales taxes. Attachment B of the OMB Circular No. A-122 states that "taxes are not allowable."

We believe that this finding is attributable to the fact that IIC's management was not aware of the aforementioned criteria.

The effect of this instance of noncompliance has been reported in the "Details of Questioned Cost" section of this report.

We recommend that if, IIC were to receive further USAID funds, IIC's management should take a training course on USAID provisions, and comply with those provisions.

3. **Instances of noncompliance with the revenue agreement**

3.1 Based upon documents and clarifications provided to us subsequent to the issuance of the draft report, this finding has been removed.

3.2 IIC did not record all USAID/Egypt revenue in the project ledger.

Item (b) 2, paragraph .21, subpart C of OMB circular A-110 states that "Recipient's financial system should provide records that identify, adequately, the source and application of funds for federally sponsored activities."

We believe that this finding is attributable to the fact that IIC's management did not prepare a monthly bank reconciliation for the revenue account.

We considered the unrecorded revenue as questioned revenue. See the "Details of Questioned Cost" section of this report.

We recommend that IIC's management should prepare monthly bank reconciliation for the revenue account. Additionally, IIC should record all USAID/Egypt revenue in the project ledger.

Other results of our tests indicated that, with respect to the items tested, IIC complied, in all material respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that IIC had not complied, in all material respects, with these provisions.

This report is intended for the information of IIC's management and others within the organization and the United

KPMG Hazem Hassan

States Agency for International Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

M. Kamel
~~Hazem Hassan & Co.~~
~~Cairo, Egypt~~

August 1, 1995

APPENDIX I
IIC'S MANAGEMENT'S RESPONSE



December 16, 1998

Dear Mr. Hazem Hassan;

With reference to draft report on the IIC project "Planning Service Sub-Project". I would like to give our answers to the points raised concerning your findings:

Salaries; Finding:

- a) We approve the LE 259 paid in excess and we are ready to repay them.
- b) The payments of the two jobs were found in the old budget. The new budget was received 3 months later after its approval and we have obtained a retroactive approval of that payment (Copy attached).
- c) The amount of LE 4874 was paid to men community leaders. In the budget we were supposed to hire 127 community leaders but we hired only 84 community leaders (men & women).
- d) LE 130: Were paid as sales tax according to government rules, but since AID rules do not allow it, we are ready to repay them

Revenue account (Page 5):

We do comply with the agreement and charge only 3 pounds for the loop, but in Toukh El Caramous the center and not the project, charge an extra LE 2 with separate receipts for the maintenance of the unit.

Internal Control (Page 5):

- Bank reconciliations are well prepared monthly for the AID account because we receive bank statements regularly but for the revenue we receive the statements every 6 months.
- Controls over donated contraceptives:
We do have an entry book for contraceptive but we admit it being not up-to-date because the storekeeper has his own personal problems, so have designed a better procedure to ensure adequacy.

Thank you for your continued cooperation.

Director of the project

Prof. Dr. M. Hassan

cc/ Dr. Tawhida, AID.

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CAIRO EGYPT

HRDC/Office of Population
USAID/American Embassy, Cairo

November 30, 1995

Dr. Mourad Hassanein
Project Director
Family Planning Services Project
International Islamic Center (IIC)
for Population Studies and Research
Al Azhar University
Cairo - Egypt

Subject: Draft NFA Report on the International
Islamic Center for Population Studies and
Research, Project Implementation Letter
(PIL) No. 33 and the Related Expense
Account under the Family Planning Services
Sub-Project of the Population Family
Planning II - Project No. 263-0044

Dear Dr. Mourad:

In response to your letter dated November 28, 1995, please note the following:

First, According to the overall Implementation Plan submitted by the IIC Center to USAID for approval, the two positions mentioned in your letter were present and were approved in PIL No. 33, Amendment No. 1 dated August 6, 1991.

Second, PIL No. 33, Amendment No. 3, was issued on Sept. 9, 1992 to approve a no additional cost extension of the family planning services subproject of the International Islamic Center for Population Studies and Research. This extension was granted to the project to give it the extra time it needed for completion, review and approval of the 1992/1993 Implementation plan and Report.

Third, The second year plan was submitted to USAID for approval and commitment of funds covering the period August 1992 - May 1993. This plan was also approved and funds were committed by PIL No. 33, Amendment No. 4 dated November 4, 1992.

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106 Kasr El Aini Street
Garden City
Cairo, Egypt

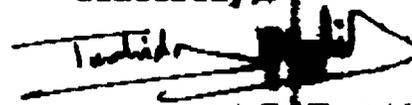
24

Fourth, Although the second year plan did not include ~~these~~ two previously mentioned positions, we understand that you ~~have~~ used these two project staff for three months (June - August 1992) to serve project objectives.

Accordingly, USAID grants the IIC retroactive approval ~~for~~ these two positions with corresponding salaries during the ~~three~~ month lag period.

Thanks for your continued cooperation.

Sincerely,



Dr. Tawhid Khalil
Project ~~Manager~~

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APPENDIX II
AUDITOR'S COMMENTS

AUDITOR'S COMMENTS

PIL No.33

I. Fund Accountability Statement

Finding No.1a.

The approval that the IIC obtained from USAID/Egypt did not include approval of the excessive salaries for IIC employees. Therefore, our finding will remain the same.

Finding No.1b.

Based on documents and clarifications provided to us, subsequent to the issue of the draft report, this finding has been removed.

Finding No.1c.

The IIC management response did not include the necessary documents to support the conclusion that this amount was actually paid to the community leaders. Therefore, this finding will remain the same.

Finding No.2a.

IIC's management agree with this finding. Therefore, this finding will remain the same.

Revenue Account

Finding No.a.

Based on documents and clarifications provided to us, subsequent to the issue of the draft report, this finding has been removed.

Finding No.b.

IIC's management did not reply to this finding in the management response. Therefore, this finding will remain the same.

Finding No.a

IIC's management did not reply to this finding in the management response. Therefore, this finding will remain the same.

II. Internal Control Structure

Finding No.1

We still believe that the bank reconciliations for PIL No.33 must be approved by the authorized person. The bank reconciliations for the revenue account must be prepared on a timely basis.

Finding No.2

IIC's management agree with this finding. Therefore, this finding will remain the same.

III. Compliance with Regulations and Laws

IIC's management response did not address our findings on compliance with regulations and laws. Therefore, our position remains the same.

APPENDIX III
MISSION'S COMMENTS



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

February 27, 1996

CAIRO, EGYPT

MEMORANDUM

RECEIVED

28 FEB 1996

TO : Lou Mundy, RIG/A/C

FROM : *Jim I. Hunter*
Shirley Hunter, OD/FM/FA

SUBJECT : Financial Audit of the International Center for Population Studies and Research under the Population/Family Planning II Project (USAID Project No. 263-0144) Draft Report dated January 24, 1996

Following is the Mission response to the two recommendations under the subject draft report:

Recommendation No. 1:

We recommend that USAID/Egypt resolve the ineligible Project Implementation Letter No. 33 costs of \$1,011 and unsupported revenue items costs of \$174 detailed on pages 13 to 15 of the KPMG Hazem Hassan audit report, and recover from the International Islamic Center for Population Studies and Research the amounts determined to be unallowable.

Mission Response:

Based on Mission review, of the questioned amount of \$1,011 (LE 3,219) under PIL 33 and \$174 (LE 556) under the Related Revenue Agreement, \$1,063 (LE 3,386) is considered allowable, and \$122 (LE 389) is sustained and was refunded by check No. 0436053 dated February 26, 1996.

Following is the detail of the Mission's determination:

1. Salaries:

a. The ineligible amount of \$81 (LE 259) page 13

* This amount represents salaries paid in excess of the approved budget.

IIC has accepted this finding.

Therefore, this amount is sustained and was refunded to USAID.

c. The ineligible amount of \$889 (LE 2,830) page 14

- * This amount represents payments to individuals classified as community leaders.

The Project Officer in the memo dated February 26, 1996 (copy attached) has responded that these individuals performed the designed roles of the community leaders by motivating and recruiting clients, and therefore, have made valuable contribution to the project and have served the project objectives. Based on the above, Mission believes the amount is eligible.

Therefore, this amount is allowed and Mission requests closure of this finding.

2. Commodities:

a. The ineligible amount of \$42 (LE 130) page 14

- * This amount represents sales taxes charged to USAID/Egypt which are not eligible for reimbursement.

Therefore, this amount is sustained and was refunded to USAID.

II. Revenue Account Fund

a. The unsupported amount of \$24 (LE 130) page 15

- * This amount represents a reconciliation item which is immaterial, and is not cost effective to trace through the books, especially that the IIC activity was completed in May 1993.

Therefore, Mission requests closure of this finding.

c. The unsupported amount of \$150 (LE 480) page 15

- * This amount represents cash in the ledger in excess of cash according to the bank statement.

This finding is similar to the finding IIa. above.

Therefore, Mission requests closure of this finding.

2

Based on the above, Mission requests closure of Recommendation No. 1.

Att: a/s

cc: HRDC/P: T. Noury