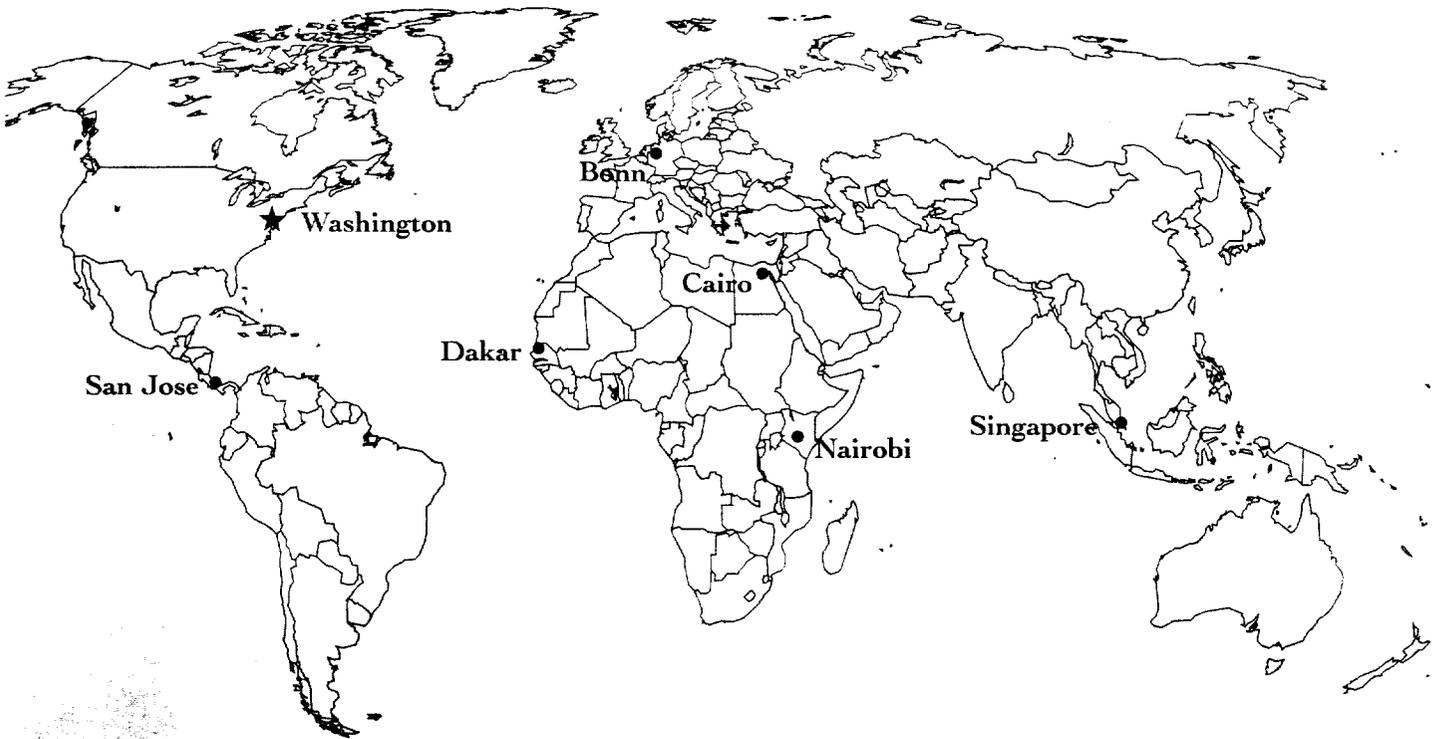


Regional Inspector General for Audit
Cairo, Egypt

**Financial Audit of the Ministry of Health,
the Cost Recovery for Health Project
(USAID/Egypt Project No. 263-0170)**

Report No. 6-263-96-19-N
April 16, 1996



**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

April 16, 1996

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley

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

SUBJECT: Financial Audit of the Ministry of Health, the Cost Recovery for Health Project (USAID/Egypt Project No. 263-0170)

The attached report, transmitted on February 27, 1996, by Allied Accountants, presents the results of a financial audit of the Ministry of Health (Ministry) under Project Implementation Letters (PILs) Nos. 4 and 7 of the Cost Recovery for Health Project (Project), USAID/Egypt Project No. 263-0170. The purpose of the PILs was to provide funding for project support services, audits and evaluations, and in-country training.

We engaged Allied Accountants to perform a financial audit of the Ministry's incurred expenditures under the Project of \$741,675 (equivalent to LE2,484,610) for the period June 1, 1991 through June 30, 1994. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Allied Accountants also evaluated the Ministry's internal controls and compliance with applicable laws, regulations and agreement terms as they relate to this Project and as necessary in forming an opinion regarding the Fund Accountability Statements.

The audit report questions \$8,249 (equivalent to LE27,632) in Project costs billed to USAID/Egypt by the Ministry. The questioned costs related primarily to ineligible or unsupported charges for consultants, advertising, late payments, and travel and per diem. Additionally, the auditors noted one material weakness in the Ministry's internal control structure and two instances of noncompliance with applicable laws, regulations, and agreement terms, one of which is considered material.

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In response to the draft report, responsible Ministry officials provided additional explanation to the questioned costs but did not address the internal control nor compliance findings. Allied Accountants reviewed the response to the findings and where applicable made adjustments to the report or provided further clarification of their position (see Appendices A and B).

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

Recommendation No. 1: We recommend that USAID/Egypt resolve the questioned costs of \$8,249 (ineligible costs of \$3,448 and unsupported costs of \$4,801) detailed on pages 13 to 16 of the Allied Accountants audit report, and recover from the Ministry of Health the amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Egypt obtain evidence that the Ministry of Health has addressed the material internal control weakness (commingling of Project Implementation Letter funds without reconciliation) detailed on page 20 of the Allied Accountants audit report.

Recommendation No. 3: We recommend that USAID/Egypt obtain evidence that the Ministry of Health has addressed the material noncompliance issue (using Project Implementation Letter funds to finance other activities) detailed on page 24 of the Allied Accountants audit report.

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 or offset of funds. Recommendations No. 2 and 3 are unresolved and will be considered resolved upon the Mission's presentation of an acceptable plan of action which addresses the reported material deficiencies; they will be considered closed when the Mission presents acceptable evidence that the required actions have been taken.

The non-material instance of noncompliance with applicable laws, regulations, and agreement terms should be handled directly between Mission and Ministry officials.

Please advise this office within 30 days of any action planned or taken to resolve the recommendations. 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

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Ministry of Health

Audit of Expenditures Incurred Under the
Cost Recovery for Health Project
Grant Agreement No. 263-0170
Project Implementation Letters Nos. 4 and 7

Fund Accountability Statements
for the period from
June 1, 1991 through June 30, 1994

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Ministry of Health

Audit of Expenditures Incurred Under the
Cost Recovery for Health Project
Grant Agreement No. 263-0170
Project Implementation Letters Nos. 4 and 7

Fund Accountability Statements
for the period from
June 1, 1991 through June 30, 1994

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February 27, 1996

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 audit of expenditures incurred by the Ministry of Health (MOH), under Component I of the Cost Recovery for Health Project No. 263-0170, funded by the United States Agency for International Development Mission in Egypt (USAID/Egypt), Project Implementation Letters (PILs) Nos. 4 and 7 for the period from June 1, 1991 through June 30, 1994.

Background

A Grant Agreement between the Arab Republic of Egypt and the United States of America was signed on September 30, 1988 for the Cost Recovery for Health Project (CRHP) No. 263-0170. The CRHP's overall purpose is to establish a sound financial basis for the health sector through cost recovery systems in order to expand and improve health care delivery and increase sustainability and productivity.

Component One of the CRHP - "Implementing Cost Recovery Systems in Government of Egypt/Ministry of Health" calls for adopting and implementing cost recovery systems throughout Ministry of Health facilities. PIL No. 4, signed on May 28, 1989 and, as of Amendment 12, ended March 31, 1995, provided funds for 'Project Support Services' and 'Audit/Evaluations'. PIL No. 7, signed on September 13, 1990 and, as of Amendment 7, funded to January 31, 1995, provided funds for 'In-Country Training'.

Audit Objectives, Scope and Methodology

The objective of this audit was to conduct a financial audit of USAID/Egypt resources managed by MOH under PILs Nos. 4 and 7 for the period from June 1, 1991 through June 30, 1994. The specific objectives of our audit were to:

1. Express an opinion on whether the fund accountability statements for the USAID/Egypt financed PILs Nos. 4 and 7 for the MOH/CRHP 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 PILs Nos. 4 and 7 are in fact allowable, allocable, and reasonable in accordance with the terms of the Grant Agreement and PILs;
3. Evaluate and obtain a sufficient understanding of the internal control structure of MOH as it relates to PILs Nos. 4 and 7, assess control risk, and identify reportable conditions, including material internal control weaknesses; and
4. Perform tests to determine whether MOH complied, in all material respects, with agreement terms, PILs, and the applicable laws and regulations.

The scope of our audit was all the funds received and costs incurred by MOH/CRHP under Project Implementation Letters Nos. 4 and 7 for the period from June 1, 1991 through June 30, 1994.

The methodology of the audit consisted of an internal control evaluation, testing of expenditures remitted under the PILs and testing MOH's compliance with the specific provisions/requirements of the Grant Agreement, PILs, and applicable regulations and laws.

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

<u>Agreement</u>	<u>Total Expenditures</u>		<u>Tested Amount</u>	<u>Percent</u>	
	<u>June 1, 1991 through June 30, 1994</u>				
PIL No. 4	US \$	495,873	US \$	130,598	26 %
(Equivalent in LE)	LE	1,661,172	LE	437,502	
PIL No. 7	US \$	245,802	US \$	58,409	24 %
(Equivalent in LE)	LE	823,438	LE	195,671	

For our audit, we used judgmental sampling techniques to test whether or not USAID/Egypt funded activity was properly supported in the accounting records, and expenditures were reasonable and in compliance with the provisions of the Grant Agreement and the PILs. Generally, we selected monthly budget element transactions or disbursements so as to adequately cover the period under audit. Further, we did not identify any areas which would have required us to expand our scope.

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

1. A review of the Grant Agreement, Project Implementation Letters Nos. 4 and 7 and their amendments, USAID Handbook 1 Supplement B Chapter 18, USAID/Egypt Policy on Salary Supplements, and other pertinent laws and regulations applicable to CRHP.

2. A review and reconciliation to the general ledger of direct program expenditures billed to and reimbursed by USAID/Egypt.
3. A review of funds provided by USAID/Egypt and the related bank statements for activity under the Project Implementation Letters to ensure the recording of all transactions. A review of procedures used to control cash was also performed. We were unable to prepare a proof of cash. As alternative procedures we a) reconciled the expenses in the general ledger, by month and by budget line item, to the amounts reported on the CFR's and b) traced the USAID/Egypt disbursements, per the Mission Automated Control System reports, to the General Ledger and to the bank statements. We have qualified our opinion for the effect of this scope limitation. See the Report on Internal Control Structure - Audit Findings section, Finding No. 1 for more detail.
4. A review of training and travel costs to determine if they were adequately documented and approved.
5. A review of procurement procedures to determine that sound commercial practices including competitive bids were implemented.
6. A determination of whether advances of funds were justified, based on existing documentation, including a reconciliation of funds advanced, disbursed and available.
7. A review of compensation, including payments to consultants and employees, to ensure that the incurred expenses were in accordance with those approved by USAID/Egypt and are supported by appropriate payroll records and/or contracts.
8. A review of the Allied Accountants/Arthur Andersen's Assessment of Host Country Implementing Agency's Financial Management and Internal Control Systems dated January 22, 1993 and USAID's Financial Analysis Support Team (FAST) report dated February 6, 1995.
9. A review of the host country contribution records to determine that the Ministry of Health adhered to the requirements as specified in the Grant Agreement.

During our audit planning, we considered MOH's internal control structure as it relates to PILs Nos. 4 and 7 to obtain an understanding of the design of relevant control policies and procedures, and whether those policies and procedures have been placed in operation. We obtained a sufficient understanding to plan the audit and to determine the nature, timing and extent of tests to be performed.

Initial planning began with an entrance conference attended by the audit team, RIG/A/Cairo personnel, the USAID/Egypt Project Officer and MOH/CRHP management staff. At the end of our fieldwork we held a meeting with the MOH/CRHP management staff to discuss unresolved findings identified during our fieldwork.

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 Audit

Fund Accountability Statements

Our audit identified that the MOH/CRHP commingled, in one bank account, funds provided by USAID/Egypt under PILs Nos. 4 and 7 with funds from three other PILs under the Project which were not included in the scope of the audit. MOH/CRHP did not reconcile, by PIL, cash receipts and disbursements to the cash available in the commingled bank account. Our opinion is qualified because we were unable to obtain sufficient documentation to perform the proofs of cash. Though we were unable to perform this audit procedure, we believe the extent of our substantive testing justifies our assertion that the receipts and expenditures are not materially misstated.

The audit identified US \$8,249 (LE 27,632) in aggregate questioned costs, consisting of US \$3,448 (LE 11,550) in ineligible costs and US \$4,801 (LE 16,082) in unsupported costs. The details of costs questioned are presented in the Fund Accountability Statements - Audit Findings section of this report.

Internal Control

Our evaluation of the internal control structure identified a reportable condition that we assessed as a material weakness in the internal control structure. The condition, as discussed above, relates to funds from more than one PIL being commingled in one bank account. Furthermore, MOH/CRHP did not prepare reconciliations of receipts and disbursements under each PIL to the total cash available in the bank account. We noted that the internal control structure failed to detect and correct the fact that USAID/Egypt disbursements of US \$5,617 (LE 18,818) for PIL No. 4 and US \$2,656 (LE 8,898) for PIL No. 7 were not recorded in MOH/CRHP records nor deposited in the bank account. We identified certain other matters that we have brought to the attention of the Ministry of Health management and USAID/Egypt through a separate management letter.

Compliance with Agreement Terms and Applicable Laws and Regulations

In performing our audit, we identified one matter of material noncompliance. The MOH used money provided for other PILs to fund the activities of PILs Nos. 4 and 7. In addition, we identified immaterial instances of noncompliance. These matters relate to the MOH being reimbursed for ineligible and unsupported expenses. We identified certain

other matters that we have brought to the attention of the Ministry of Health management and USAID/Egypt through a separate management letter.

Management Comments

MOH/CRHP management has provided comments on the results of the audit findings. The management response is included in Appendix A. We provided responses to management's comments in Appendix B. We deleted questioned costs that were adequately addressed by MOH/CRHP management and modified the findings as necessary. MOH/CRHP management did not provide a response for either the internal control finding or for the compliance findings.



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

راغب ، اسطنبولي والكيلاني

راسلو آرثر أندرسن وشركاه

محاسبون قانونيون وخبراء تنظيم وإدارة

ملاء 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

We have audited the accompanying fund accountability statements of the Ministry of Health, under Component I of the Cost Recovery for Health Project No. 263-0170, funded by the United States Agency for International Development Mission in Egypt (USAID/Egypt) pursuant to Project Implementation Letters (PILs) Nos. 4 and 7 for the period from June 1, 1991 through June 30, 1994. These fund accountability statements are the responsibility of the management of the Ministry of Health. 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 included examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. Our audit also included assessing the accounting principles used and significant estimates made by management, and evaluating the overall presentation of the 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 (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 when earned or incurred. Accordingly, the

accompanying fund accountability statements are not intended to present results in accordance with generally accepted accounting principles.

The funds provided under PILs Nos. 4 and 7 were commingled in one bank account with funds provided under three other PILs for the Ministry of Health's Cost Recovery for Health Project. The Ministry of Health did not prepare reconciliations of receipts and disbursements under each PIL to the total cash available in the bank account. Therefore, we were not able to agree the ending balances for PILs Nos. 4 and 7 to the cash position.

Our testing identified the following aggregate questioned costs, as detailed in the accompanying fund accountability statements, for PILs Nos. 4 and 7 of: i) US \$3,448 (LE 11,550) in costs that are ineligible because they are not program related, unreasonable or prohibited by the terms of the Grant Agreement and/or PILs; and ii) US \$4,801 (LE 16,082) that are not supported with adequate documentation. The basis for questioning costs are set forth in the Fund Accountability Statements - Audit Findings section of this report.

In our opinion, except for the effects of such adjustments, if any, as might be determined to be necessary had we been able to reconcile the ending balances to the cash on hand, as discussed in the fifth paragraph, and except for the questioned costs of US \$8,249 (LE 27,632), as discussed in the sixth paragraph, the fund accountability statements referred to above present fairly, in all material respects the funds received and costs incurred by the Ministry of Health, under Component I of the Cost Recovery for Health Project No. 263-0170, PILs Nos. 4 and 7, for the period from June 1, 1991 through June 30, 1994, in conformity with the cash basis of accounting described in Note 2.

Under the Project Implementation Letters, the Ministry of Health is permitted to exceed budget line amounts by 15% without prior written approval. During the period from January 1, 1994 to the end of the audit period the Ministry of Health's Cost Recovery for Health Project did not have an approved 1994 budget. As a result, the Cost Recovery for Health Project exceeded this 15% limitation. The budgets presented in the fund accountability statements are the 1994 budgets, which were approved in January 1995, less the expenses incurred prior to June 1, 1991. See the Notes to the Fund Accountability Statements, Note 5 for more details.

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

August 15, 1995

Allied Accountants/Arthur Andersen Egypt



Ministry of Health

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

Project Implementation Letter No. 4

Fund Accountability Statement (Note 2)
for the period from
June 1, 1991 through June 30, 1994

	Budget (Note 5) <u>US \$</u>	Actual <u>US \$</u>	Questioned costs (Note 6)	
			Ineligible <u>US \$</u>	Unsupported <u>US \$</u>
Balance May 31, 1991		(5,524)		
USAID/Egypt receipts		<u>279,959</u>		
Total fund available		<u>274,435</u>		
Expenditures:				
Building renovations	112,837	58,807		
Consultants	147,667	71,249		2,588
Staff salaries	259,697	155,403		258
Office supplies	50,663	48,347	2,040	210
Office equipment and furniture	178,814	61,724	210	
Maintenance	42,430	34,789	48	
Travel and per diem	71,824	36,252		957
Training	16,068	14,633		
Telecommunications	20,118	14,669	63	
Over billing				788
Total expenditures	<u>900,118</u>	<u>495,873</u>		
Total questioned costs			<u>2,361</u>	<u>4,801</u>
Balance (Note 3)		<u>(221,438)</u>		<u>7,162</u>

Ministry of Health

Audit of Expenditures Incurred Under the
Cost Recovery for Health Project
 Grant Agreement No. 263-0170
Project Implementation Letter No. 7

Fund Accountability Statement (Note 2)
 for the period from
 June 1, 1991 through June 30, 1994

<u>Budget Elements</u>	<u>Budget (Note 5) US \$</u>	<u>Actual US \$</u>	<u>Questioned costs (Note 6)</u>	
			<u>Ineligible US \$</u>	<u>Unsupported US \$</u>
Receipts:				
USAID		<u>161,879</u>		
Total receipts:		<u>161,879</u>		
Expenditures:				
Training equipment, materials and furniture	101,910	93,295	534	
Training honoraria	74,571	52,937		
Learning materials	16,550	10,366		
Secretarial and administration support	3,374	1,390		
Translation	13,831	5,119		
Travel and per diem	70,255	60,401	553	
Rental of conference space	29,118	22,100		
Trainer/consultant	5,847	194		
Total expenditures	<u>315,456</u>	<u>245,802</u>	-----	-----
Total questioned costs			<u>1,087</u>	
Balance (Note 3)		<u>(83,923)</u>	<u>1,087</u>	

The accompanying notes are an integral part of these statements.

Ministry of Health

Audit of Expenditures Incurred Under the
Cost Recovery for Health Project
Grant Agreement No. 263-0170
Project Implementation Letters Nos. 4 and 7

Fund Accountability Statements
for the period from
June 1, 1991 through June 30, 1994

Notes to the Fund Accountability Statements

Note 1. Program Activities

A Grant Agreement between the Arab Republic of Egypt and the United States of America was signed on September 30, 1988 for the Cost Recovery for Health Project (CRHP) No. 263-0170. The CRHP's overall purpose is to establish a sound financial basis for the health sector through cost recovery systems, in order to expand and improve health care delivery, and increase sustainability and productivity.

Component One of the CRHP - "Implementing Cost Recovery Systems in Government of Egypt/Ministry of Health facilities" calls for adopting and implementing cost recovery systems throughout the Ministry of Health facilities". PIL No. 4, signed on May 28, 1989 and, as of Amendment 12, ended March 31, 1995, provided funds for 'Project Support Services' and 'Audit/Evaluations'. PIL No. 7, signed on September 13, 1990 and, as of Amendment 7, was funded to January 31, 1995, provided funds for 'In-Country Training'.

Note 2. Basis of Presentation

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

Note 3. Balance

As of June 30, 1994 the Balance of PIL No. 4 consisted of:

Reimbursements for expenses incurred during the audit period but received after 6/30/94	US \$(213,490)	LE (715,187)
Expenses disallowed by USAID but not reimbursed to the Project by the MOH as of 6/30/94	(3,119)	(10,450)
Reimbursement not recorded in books (Internal Control Report - Finding No. 1)	(5,617)	(18,818)
Over billing (Finding No. 2. a)	788	2,640
Balance	<u>US \$(221,438)</u>	<u>LE (741,815)</u>

Note 3 Balance - continued

As of June 30, 1994, the CRHP had disbursements in excess of cash available for PIL No. 4 of US \$(116,065) (LE (388,815)). This consisted of a negative balance, per the fund accountability statement, of US \$(221,438) (LE (741,815)), offset by funds available under a line of credit guaranteed by the Ministry of International Cooperation of US \$105,373 (LE 353,000). See the Compliance Report - Audit Findings section - Finding No. 1 for more details.

As of June 30, 1994 the Balance of PIL No. 7 consisted of:

Reimbursements for expenses incurred during the audit period but received after 6/30/94	US \$(72,614)	LE (243,261)
Expenses disallowed by USAID but not reimbursed to the Project by MOH as of 6/30/94	(8,653)	(28,986)
Reimbursement not recorded in books (Internal Control Report - Finding No. 1)	<u>(2,656)</u>	<u>(8,898)</u>
Balance and disbursements in excess of cash available (Compliance Report - Finding No. 1)	<u>US \$(83,923)</u>	<u>LE (281,145)</u>

Note 4 Exchange Rate

Expenditures incurred in local currency (LE) have been converted to United States Dollars (US \$) at an average exchange rate of LE 3.35 to US \$1 for PILs Nos. 4 and 7.

Note 5 Budgets

The budgets for 1994 were retroactively approved with Amendment No. 12, dated January 22, 1995 and with Amendment No. 7, dated January 26, 1995, for PILs Nos. 4 and 7, respectively. The amended, cumulative budget for PIL No. 4 provided additional funds and reallocated funds among budget line items. Per Amendment 10 of PIL No. 4, US \$14,925 (LE 50,000) was earmarked for 'Pilot Hospital Support'. In the above mentioned Amendment No. 12, this budget line item and the related expenses of US \$18,633 (LE 62,421) have been incorporated with Office Supplies.

The budgets presented here are the current budgets as amended, representing funding through January 31, 1995, less the cumulative expenses reported to USAID/Egypt on the Certified Fiscal Report for PILs Nos. 4 and 7 for May 31, 1991. These budgets are presented for reporting purposes only in order to provide a basis for comparing expenses incurred to the budget.

Note 6 Questioned costs

Questioned costs are presented in the fund accountability statements in two categories: ineligible and unsupported. Questioned costs are expenditures that we have determined are not in accordance with the Grant Agreements, the PILs or other applicable USAID regulations or are not supported by adequate documentation. "Ineligible" costs are questioned because they are not program related, unreasonable, or prohibited by the

Note 6: Questioned costs - continued

agreement or applicable laws and regulations. "Unsupported costs" are questioned because they are not supported by adequate documentation.

Our audit identified US \$8,249 (LE 27,632) in aggregate questioned costs; US \$3,448 (LE 11,550) as ineligible costs and US \$4,801 (LE 16,082) as 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.

Ministry of Health

Audit of Expenditures Incurred Under the
Cost Recovery for Health Project
 Grant Agreement No. 263-0170
 Project Implementation Letters Nos. 4 and 7

Fund Accountability Statements
 for the period from
 June 1, 1991 through June 30, 1994

Summary of Audit Findings

<u>PIL No. 4</u>	<u>Finding No.</u>	<u>Budget Elements</u>	Questioned costs (Note 6)	
			<u>Ineligible</u>	<u>Unsupported</u>
			<u>US \$</u>	<u>US \$</u>
	2 b	Consultants		2,588
	2 c	Salaries		258
	1 a	Office supplies	18	
	1 b	Office supplies	22	
	1 c	Office supplies	2,000	
	2 d	Office supplies		<u>210</u>
		Subtotal Office supplies	<u>2,040</u>	<u>210</u>
	1 b	Office equipment	210	
	1 a	Maintenance	48	
	2 e	Travel and per diem		957
	1 d	Telecommunications	63	
	2 a	Over billing		<u>788</u>
		Subtotal PIL No. 4	<u>2,361</u>	<u>4,801</u>
<u>PIL No. 7</u>				
	3 c	Training equipment, materials and furniture	534	
	3 a	Travel and per diem	483	
	3 b	Travel and per diem	<u>70</u>	
		Subtotal Travel and per diem	<u>553</u>	
		Subtotal PIL No. 7	<u>1,087</u>	
Total PILs Nos. 4 and 7			<u>3,448</u>	<u>4,801</u>
Total PILs Nos. 4 and 7 questioned costs			<u>US \$8,249</u>	

Ministry of Health

Audit of Expenditures Incurred Under the
Cost Recovery for Health Project
Grant Agreement No. 263-0170
Project Implementation Letters Nos. 4 and 7

Fund Accountability Statements
for the period from
June 1, 1991 through June 30, 1994

Audit Findings

PIL No. 4

Finding No. 1: Ineligible Expenses

(1 a) Sales Taxes - MOH/CRHP was reimbursed for sales taxes paid to the Egyptian Tax Authority. Project Grant Standard Provision, Annex 2, Article B.4 states: "This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee." Because the general ledger does not segregate unallowable cost, these costs were inadvertently included in the Certified Fiscal Reports (CFRs). As a result, USAID/Egypt paid ineligible cost of US \$66 (LE 221).

(1 b) Late Charges - On three vendor invoices MOH/CRHP deducted amounts because the equipment or supplies were delivered late. MOH/CRHP claimed the gross amount on their reimbursement request. The grant agreement allows for reimbursement of actual cost incurred. Because the MOH/CRHP did not reconcile disbursements to the CFRs, this error went undetected. As a result, USAID/Egypt paid US \$232 (LE 776) for ineligible expenses.

(1 c) Public Relations - MOH/CRHP claimed expenses for publicizing the opening of the Qantara Gharb Hospital through a newspaper advertisement, invitations and brochures. Public Relations expenses are allowable under OMB Circular A-122 only as a direct cost with prior approval. Because the MOH was not aware of this specific requirement, they did not request prior approval. As a result, USAID/Egypt paid US \$2,000 (LE 6,700) for ineligible expenses.

(1 d) Telephone Charges - MOH/CRHP claimed charges for personal telephone calls. MOH/CRHP contends that the personal telephone call charges were reimbursed to the Project and to USAID/Egypt through the CFRs. Because the MOH/CRHP does not maintain telephone logs and control over reimbursements, they could not provide evidence of reimbursement. The grant agreement requires the project to maintain consistently applied records for expenditures and receipts. USAID/Egypt has been over billed US \$63 (LE 210).

Subtotal Finding No. 1: Ineligible Costs US \$2,361 (LE 7,907).

Finding No. 2: Unsupported Costs

(2 a) Over billing to USAID/Egypt - MOH/CRHP reported to USAID/Egypt incurred expenses in excess of the actual disbursements as recorded in the books and records of MOH/CRHP. The grant agreement allows for reimbursement of actual costs incurred. Because the MOH/CRHP did not reconcile actual disbursements to the CFRs, this error was not detected. As a result, USAID/Egypt paid US \$788 (LE 2,640) for unsupported costs.

MOH/CRHP was reimbursed for expenses that were not adequately supported as follows:
(2 b) Consultants - Payments were made to consultants which were not supported by time sheets or other documents which would indicate proof of work performed. The amount questioned is US \$2,588 (LE 8,670).

(2 c) Salaries - Payments were made to employees without either approved time sheets or attendance records as supporting documentation. The amount questioned is US \$258 (LE 865).

(2 d) Office Supplies - Payments were made for office supplies without adequate supporting documents, such as invoices, receiving reports, receipts of payments, etc. The amount questioned is US \$210 (LE 702).

(2 e) Travel and per diem - Payments were made to hotels which were not supported by approved per diem requests, authorization forms or trip reports. The support consisted of hotel invoices only. The amount questioned is US \$957 (LE 3,205).

MOH/CRHP was not able to locate sufficient documentation to provide adequate support for these expenses. Except for the consultants, these problems appear to be isolated instances of either: i) failure to file supporting documents with the invoice, or ii) failure to complete the invoice support package per the MOH procedures. For US \$2,575 (LE 8,625) of the consultant expenses questioned, the MOH maintains that it is inappropriate to request time sheets or other proof of work performed from senior level consultants. The Grant requires the Grantee to "maintain or cause to be maintained... books and records... to show, without limitation, the receipt and use of goods and services acquired under the Grant."

Subtotal Finding No. 2: Unsupported Costs US \$4,801 (LE 16,082).

PIL No. 7

Finding No. 3: Ineligible Costs

(3 a) Lodging and Per Diem for Cairo Residents - MOH/CRHP claimed payments relating to lodging and per diem for training courses held in Cairo for Cairo residents. Project Implementation Letter No. 7 states: "This PIL will adhere to the AID Travel Guidance regulation as provided to your predecessor in a letter dated April 11, 1990, in addition to MOH appropriate written guidelines." This letter states that the "Cairo per diem rate is not applicable to employees stationed in Cairo. Cairo per diem rate is only paid to personnel from other locations, like Alexandria, traveling to Cairo and for lodging in Cairo." It appears that the MOH/CRHP did not fully understand this criteria and as a result of this, they billed and USAID/Egypt paid US \$483 (LE 1,617) for ineligible costs.

(3 b) Travel and per diem - MOH/CRHP claimed payments to a consultant for travel and per diem to attend discussions with the Project Director concerning the opening of the Qantara Shark Hospital. Project Implementation Letter No. 7 states: "All expenses which are reimbursable by USAID/Egypt must be reasonable, allowable under this in-country training activity, and be outlined in any revised Project Implementation Letter and budget plan covering the period of this PIL." These payments are not PIL related expenses for training. MOH/CRHP believed that this was the correct classification of this expense and, as a result, they billed and USAID/Egypt paid US \$70 (LE 236) for ineligible costs.

(3 c) Late Charges - MOH/CRHP deducted from the vendor's invoice a penalty for late delivery of equipment. MOH/CRHP claimed the gross amount on their reimbursement request. The grant agreement allows for reimbursement of actual costs incurred. Because MOH/CRHP did not reconcile disbursement to the CFRs, this error went undetected. As a result, USAID/Egypt paid US \$534 (LE 1,790) for ineligible costs.

Subtotal Finding 3: Ineligible Costs US \$1,087 (LE 3,643).

ALLIED ACCOUNTANTS

Ragheb, Istambouli & El Kilany

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المحاسبون المتضامنون

راغب ، اسطنبولي والكيلاني

مراسلو آرثر أندرسن وشركاه

محاسبون قانونيون 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 Internal Control Structure

We have audited the accompanying fund accountability statements of the Ministry of Health under Component I of the Cost Recovery for Health Project No. 263-0170 funded by the United States Agency for International Development Mission in Egypt (USAID/Egypt), Project Implementation Letters (PILs) Nos. 4 and 7 for the period from June 1, 1991 through June 30, 1994 and we have issued our report thereon dated August 15, 1995. In our report, our opinion on the fund accountability statements was qualified because: i) we were unable to agree the ending balances for PILs Nos. 4 and 7 to the cash position and ii) as discussed in the Fund Accountability Statements - Audit Findings section we have questioned US \$ 8,249 (LE 27,632) of reimbursed expenses.

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 fund accountability statements of the Ministry of Health, Cost Recovery for Health Project for PILs Nos. 4 and 7 for the period from June 1, 1991 through June 30, 1994, we considered its internal control structure 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 the Ministry of Health 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 the 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 and that transactions are executed in accordance with management's authorization and in accordance with the terms of the agreement; and recorded properly to permit the preparation of the fund accountability statements in accordance with the cash basis of accounting 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.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Our audit disclosed a condition regarding the control procedures related to cash reconciliations. Our discussion regarding this matter is detailed in Finding No. 1 in the Findings section of this report.

A material weakness is a reportable condition in which the design or operation of one or more 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.

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 determined that the condition described in the sixth paragraph of this report is a material weakness as defined above. This condition was considered in determining the nature, timing, and extent of the procedures to be performed in our audit of Ministry of Health's compliance with requirements applicable to PILs Nos. 4 and 7, for the period June 1, 1991 through June 30, 1994.

We also noted certain other matters involving the internal control structure and its operation that we have reported to the management of the Ministry of Health and to USAID/Egypt in a separate letter dated August 15, 1995.

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

August 15, 1995

Allied Accountants/Arthur Andersen & Co. SC

M. L. Andersen

Ministry of Health

Audit of Expenditures Incurred Under the
Cost Recovery for Health Project
Grant Agreement No. 263-0170
Project Implementation Letters Nos. 4 and 7

Report of Independent Public Accountants on Internal Control Structure
for the period from
June 1, 1991 through June 30, 1994

Audit Findings

Finding 1. Failure to reconcile funds by PIL to cash accounts

During our audit, we noted the following reportable condition that we consider to be a material weakness. The Ministry of Health (MOH) commingled funds from Project Implementation Letters (PILs) Nos. 4 and 7 with funds from other PILs under the Project and did not perform reconciliations, by PIL, of cash receipts and disbursements to cash available in the bank.

Sound financial management practices require control over receipts as well as disbursements. The Project Grant Provision, Annex 2, Article B.5 requires books and records to be maintained in accordance with generally accepted accounting principles.

Per the USAID/Egypt Mission Automated Control System (MACS) financial reports on USAID/Egypt disbursements to the MOH for PILs Nos. 4 and 7 the following two payments were made to the MOH for August 1992:

- PIL No. 4 - CFR No. 37 for US \$5,617 (LE 18,818), and
- PIL No. 7 - CFR No. 10 for US \$2,656 (LE 8,898).

The MOH was unable to provide evidence that these amounts were either booked or deposited into the bank account. Because the MOH did not reconcile the receipts and disbursements to the bank balance, they failed to detect this error. As a result, the balances, per the fund accountability statements are understated by these amounts.

Because of the lack of reconciliations, we were not able to agree the ending balances presented in the fund accountability statements to the total cash available in the bank account. See Note 3 to the fund accountability statement.

Recommendation No. 1:

MOH should investigate the unrecorded deposits and, if necessary, restore the funds to the bank account.

In addition, MOH should:

- 1 Prepare a reconciliation as of June 30, 1994, for all PILs, of funds provided, expenditures incurred and cash available in the bank. A reconciliation should also be prepared for each subsequent quarter to the present.
- 2 Establish procedures to ensure that every month:
 - a. schedules of cash availability are prepared for each PIL managed by the MOH and each schedule is reconciled to the general ledger. These schedules should detail, by PIL: the opening balance, the funds provided by USAID/Egypt, the expenditures incurred and the available balance,
 - b. the bank balance is reconciled to the general ledger balance, and,
 - c. the schedules of cash availability for all the PILs are reconciled to the cash available in the bank.

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 Accountants on Compliance with Laws and Regulations

We have audited the accompanying fund accountability statements of the Ministry of Health relating to funds received and expenses incurred for the Cost Recovery for Health Project, Component No. I, under Grant Agreement No. 263-0170 financed by the United States Agency for International Development Mission in Egypt (USAID/Egypt) pursuant to Project Implementation Letters (PILs) Nos. 4 and 7 for the period from June 1, 1991 through June 30, 1994 and we have issued our report thereon dated August 15, 1995. In our report, our opinion on the fund accountability statements was qualified because: i) we were unable to agree the ending balances for PILs Nos. 4 and 7 to the cash position and ii) as discussed in the Fund Accountability Statements - Audit Findings section we have questioned US \$8,249 (LE 27,632) of reimbursed expenses.

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

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of misstatements resulting from those failures or violations is material to the fund accountability statements. The results of our tests of compliance disclosed a material instance of noncompliance, the effects of which may be material to the fund accountability statements but for which the ultimate resolution cannot presently be determined. This instance of material noncompliance is described in the Audit Finding section - Finding No. 1 of this report.

We considered this material instance of noncompliance in forming our opinion on whether the Ministry of Health's fund accountability statements are presented fairly, in all material respects, in conformity with the basis of accounting described in Note 2 to the fund accountability statements and this report does not affect our report dated August 15, 1995 on those fund accountability statements.

Except as described above, the results of our tests of compliance indicate that with respect to the items tested, the Ministry of Health complied, in all material respects, with the provisions referred to in the fourth paragraph of this report. In addition, the results of our procedures disclosed immaterial instances of noncompliance, which are described in the Report on the Fund Accountability - Audit Findings section and in Finding No. 2 of the Audit Finding section of this report.

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

August 15, 1995
Allied Accountants/Arthur Andersen Egypt



Ministry of Health

Audit of Expenditures Incurred Under the
Cost Recovery for Health Project
Grant Agreement No. 263-0170
Project Implementation Letters Nos. 4 and 7

Report of Compliance with Applicable Laws and Regulations
for the period from
June 1, 1991 through June 30, 1994

Audit Findings

Finding No. 1: Project activities for PILs Nos. 4 and 7 were financed from other PIL funds

During the audit we noted that, as of June 30, 1994, the disbursements under PILs Nos. 4 and 7 were in excess of the cash available for the PIL's activities. Disbursements exceeded reimbursements and the available line of credit by US \$116,065 (LE 388,815) for PIL No. 4 and US \$83,923 (LE 281,145) for PIL No. 7 (see Note 3 to the Fund Accountability Statements).

Because the grant agreement and PILs did not prohibit the commingling of PIL funds, the Ministry of Health kept all the Cost Recovery for Health Project funds in one bank account. Under the grant agreement, funds earmarked and committed for each PIL are to be used only for the purposes detailed in the PIL. The line of credit was established to cover PIL expenses incurred but not yet reimbursed by USAID/Egypt.

In the PIL, a budget is established for each line item of expenditure. Within the budget, the Ministry of Health is permitted to exceed the budget line amounts by 15% without prior approval by USAID/Egypt. Any expenses above this 15% limit will be disallowed.

From January 1, 1994, to the end of the audit period, the Ministry of Health's Cost Recovery for Health Project did not have an approved 1994 budget for PILs Nos. 4 and 7. Although no funds were approved, work on the PIL activities continued throughout the period. As a result, costs were being disallowed by USAID/Egypt and no funds were being reimbursed on expenses that exceeded the 15% limit.

This compliance deficiency occurred because the MOH believed that the PILs activity should continue despite the lack of funds created by the disallowances.

Since the activities were continuing and expenses were being incurred despite the lack of funding, the money to support PILs Nos. 4 and 7 activities was coming from other Cost Recovery for Health Project PILs, in violation of the grant agreement.

Recommendation No. 1

MOH should develop written policies and procedures to ensure that MOH does not use funds from one PIL to support the activities of another.

Finding No. 2: Ineligible and Unsupported Expenses Reimbursed with Project Funds

As discussed in of the Fund Accountability Statements - Audit Findings section - Findings No. 1, 2 and 3, the MOH was reimbursed for ineligible or unsupported expenses. As cited in the agreement these expenses are either unallowable or require specific support.

For the ineligible costs (Fund Accountability Statements - Audit Findings section - Findings No. 1 and 3) - these problems appear to be isolated instances for which the MOH was not aware of specific requirements.

For the unsupported costs (Fund Accountability Statements - Audit Findings section - Finding No. 2) - except for consultant expenses, these problems appear to be isolated instances of either: i) failure to file supporting documents with the invoices and an inability to locate the document when requested or ii) failure to complete the invoice package per the MOH procedures. For consultant expenses, the MOH maintains that it is inappropriate to request time sheets or other proof of work from senior level consultants.

Recommendation No. 2

We recommend that the MOH/Cost Recovery for Health Project Financial Manager review the expenses billed to USAID/Egypt to ensure they are in compliance with agreement terms and adequately supported. In addition, the MOH should develop an appropriate method of documenting proof of services delivered from senior level consultants.

Ministry of Health

Audit of Expenditures Incurred Under the
Cost Recovery for Health Project
Grant Agreement No. 263-0170
Project Implementation Letters Nos. 4 and 7
June 1, 1991 through June 30, 1994

Management Comments

Date : February 18, 1996
To : Arthur Anderson
From : Mr. Khaled Hashem
Subject : NFA report on MOH (Pils Nos. 4 and 7)

Please find enclosed the response on the audit findings and the attachments clarifying the audit findings.

Pil # 4

Consultants:

As For Findings (2.b) Nos. 1, 2, 3 for Trans. no. 823 the contracts of the mentioned consultants are covering 2 working days a week, so they might work 12 or 13 days in the month.

attachments:

- * Time Sheets for every one.
- * Payroll sheet.
- * Invoice.
- * Copy of their contracts.

As For Finding (2.b) No. 4 for Trans. no. 899 The contract covers 2 working days per week so the monthly working days could be 8 or 9 days (according to the hospital manager report as attached)

attachments:

- * Time Sheet signed by his hospital manager.
- * Payroll sheet.
- * Invoice.
- * Copy of his contract.

As For Finding (2.b) No. 5 for Trans. no. 182 The mentioned consultants were hired as short term consultants (2 months) for MIS Department. according to Dr. Nihal report (MIS Manager in that time). It was proved that the 5 consultants did their job perfectly.

attachments:

- * Time Sheet signed by his manager.
- * Payroll sheet.
- * Invoice.

As For Finding (2.b) No. 6 for Trans. no. 201 The audit finding by the amount of L.E. 1.350 covers :

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- 1- Dr. Abd. El Moneam Fouad.
- 2- Eng. Ismail Helmy.
- 3- Mr. Mohammed Roushdy Saleh.

Mr. Mohammed Roushdy has time sheet which covers the audit period (as attached) but for the first 2 consultants they do not have time sheets because most of their working days were spent outside the P.D. for the purpose of selection and evaluation MOH facilities. also a memorandum from the CRHP Director is attached.

As For Finding (2.b) No. 7 for Trans.no. 864 the audit finding by the amount of L.E. 2,280 is irrelevant and could not be traced as the total amount for consultants invoice of L.E. 6,635

Staff Salaries:

As For Finding (2.c) No. 8 for Trans.no. 341 the audit finding in the amount of L.E. 600 and in the amount of L.E. 265 was due to non presence of attendance sheets for P.D. staff and this was in September 1991 as the attendance sheets firstly began on September 1992 and as attached you will find an official paper signed from Dr. Hassan El Kalla approving that by the beginning of Sep. 1992 every P.D. staff or Consultant will have to sign in the attendance sheets.

Office Supplies:

As For Finding (1.a) No. 9 for Trans.no. 580 the audit finding in the amount of L.E. 60 was due to payment sales tax from USAID funds and this was reconciled by an official letter signed from Project Director to issue a Cheque from GOE fund with an amount equal to the sales tax back to USAID Funds.

As For Finding (2.d) No. 10 for Trans.no. 650 the audit finding in the amount of L.E. 702 and this due to an advance payment issued To Xerox company to buy 3 tapes for the fax machine and we are still searching for the reconciliation of the advance payment. (attached price list from Xerox company in the amount of L.E. 702.

As For Finding (1.b) No. 11 for Trans.no. 334 the audit finding in the amount of L.E. 75 was not identified in the date set in the audit report but revising the cheque No. it was found that this Trans. No. dated 11/3/93 not 10/1/92 and this is a big difference in terms of time intervals and this finding was due to late charge expenses was deducted from the net amount of the transaction and was not reconciled to the USAID funds. Please find attached a letter sent to the Project Director to reconcile the amount above to The USAID Funds.

As For Finding (1.e) No. 12 for Trans.no. 697 the audit finding in the amount of L.E. 3,850 was not relevant to the project directorate activities as this amount was paid to El Kantara Gharb local newspaper on the opening of El Kantara Gharb hospital and the mass communications in the local areas is should be focused upon in an event like the opening event also please find attached the approval From Project Director to publish the event in the

local newspaper and the cost principles for Project Implementation Letters does approve the advertising costs if they are related to the project activities.

As For Finding (1.e) No.13 for Trans.no.655 the audit finding in the amount of L.E. 2,850 was not identified as this trans.no. was found to be a travel & perdiem transaction not elated to office supplies as stated in their report but checking the cheque no.the trans.no.was found to be 658 in the amount of L.E.2,850 and this amount was paid for Brochures printed for the Kantara Gharb opening and as previously stated in Finding no.12 this is for mass and media communications and this is related to the project activities and the cost principles for Project Implementation Letters does approve the advertising costs if they are related to the

Office Equipment & Furniture:

As For Finding (1.b) No.14 for Trans.no.166 the audit finding in the amount of L.E. 381.40 was due to late charge expenses was deducted from the net amount of the transaction and was not reconciled to the USAID funds.Please find attached a letter sent to the Project Director to reconcile the amount above to The USAID Funds.

As For Finding (1.b) No.15 for Trans.no.166 the audit finding in the amount of L.E. 320 was due to late charge expenses was deducted from the net amount of the transaction and was not reconciled to the USAID funds.Please find attached a letter sent to the Project Director to reconcile the amount above to The USAID Funds.

Maintenance:

As For Finding (1.a) No.16 for Trans.no.867 the audit finding in the amount of L.E. 160.80 was due to payment sales tax from USAID funds and this was reconciled by an official letter signed from Project Director to issue a Cheque for GOE fund with an amount equal to the sales tax back to USAID Funds.

Travel & Perdiem:

As For Finding (2.c) No.17 for Trans.no.519 the audit finding in the amount of L.E. 393 was not identified as the amount preset in the audit findings point sheet was L.E. 883 please find attached supporting documents for hotel invoices.

As For Findings (2.c) No.18 for Trans.no.541,821,654,907 the audit finding in the amount of L.E. 1,389 and L.E.225 and L.E.645 and L.E.666.please find attached supporting documents for hotel invoices.

Telecommunications:

As For Findings (1.d) No.19 for Trans.no.318-320 the audit finding in the amount of L.E.9 was not identified in trans.no.318 but it was traced in trans.no.320.please find attached the bank receipt reconciling the amount above.

As For Findings (1.d) No.20 for Trans.no.91 the audit finding in the amount of L.E.55. please find attached the bank receipt reconciling the amount above.

As For Findings (1.d) No.21 for Trans.no.335 the audit finding in the amount of L.E.43 could not be identified.

As For Findings (1.d) No.22 for Trans.no.868 the audit finding in the amount of L.E.103 is due to calling Saudi Arabia 2 calls the first was by an amount of L.E. 81 and this was done by Mr.Gustufason chief of party for Cambridge Consulting Corporation and this was business call and the other call was personal in the amount of L.E. 22.50 and this was paid in April 1994 please find attached the bank receipt reconciling the amount above.

Pil # 7

Training Equipment,Materials And Furniture:

As For Findings (3.c) No.23 for Trans.no.314 the audit finding in the amount of L.E. 1,790 was due to late charge expenses was deducted from the net amount of the transaction and was not reconciled to the USAID funds,Please find attached a letter sent to the Project Director to reconcile the amount above to The USAID Funds.

Travel & Perdiem:

As For Findings (3.a) No.24 for Trans.no.333 the audit finding in the amount of L.E. 1,617 could not be identified as the amount preset in the audit findings work point sheet was an amount of L.E.1,694. please find complete documents for finance and marketing workshops concerning the transaction above.

As For Findings (3.b) No.25 for Trans.no.96,99 the audit finding in the amounts of L.E.158,L.E.78 will be shifted from Pil #7 to Pil #4 as requested in the audit report.

Finance Manager



**Mr.Khaled Hashem
Cost Recovery For Health Project.**

Ministry of Health

Audit of Expenditures Incurred Under the
Cost Recovery for Health Project
Grant Agreement No. 263-0170
Project Implementation Letters Nos. 4 and 7
June 1, 1991 through June 30, 1994

Auditors' Response to Management Comments

Our comments below address the Ministry of Health's Cost Recovery for Health Project's (MOH/CRHP) responses regarding the questioned costs as identified in the findings on the Fund Accountability Statements relating to our audit of the Cost Recovery for Health Project. We deleted questioned costs that were adequately supported by MOH/CRHP. For those findings for which insufficient supporting documents were provided, or for which we did not agree with the adequacy of the MOH/CRHP response, the finding remains the same or have been modified as discussed below.

General Comment: The MOH/CRHP response indicated they had included a large number of documents which would support the questioned cost. Our review of their response documents determined that a number of critical documents were missing. Our response addresses these issues.

The MOH/CRHP management did not respond to either the Internal Control Audit Finding or to the Compliance with Laws and Regulations Audit Findings.

The MOH/CRHP management response is presented in Appendix A. Please note that the MOH/CRHP's response is presented by budget line element, our audit finding number and their response number. We have addressed our response by audit finding number and have included the MOH/CRHP response number in parenthesis.

PIL No. 4**Finding No. 1: Ineligible Expenses**

1 a. (9 and 16) **Sales Taxes** - MOH/CRHP has agreed to refund USAID/Egypt US \$66 (LE 221), but did not provide evidence that actual payment has been remitted. The finding remains unchanged.

1 b. (11, 14 and 15) **Late Charges** - MOH/CRHP has agreed to refund USAID/Egypt US \$232 (LE 776), but did not provide evidence that actual payment has been remitted. The finding remains unchanged.

1 c. (12 and 13) **Public Relations** - MOH/CRHP did not adequately address this questioned cost as they did not provide the required approvals from USAID/Egypt. The finding remains unchanged.

1 d. (19, 20, 21 and 22) Telephone Charges - MOH/CRHP did not provide adequate evidence that indicated that the telephone charges were Project related expenses or that USAID/Egypt was reimbursed the telephone charges. The finding remains unchanged.

Finding No. 2: Unsupported Costs

2 a. Over billing - MOH/CRHP did not respond to this questioned cost. The finding remains unchanged.

2 b. (1, 2, 3, 4, 5, 6 and 7) Consultants - MOH/CRHP provided documentation to support US \$260 (LE 870). For the balance of the questioned cost of US \$2,588 (LE 8,670), MOH/CRHP did not provide time sheets or other documents which would indicate proof of work performed. The finding has been modified accordingly.

2 c. (8) Staff Salaries - MOH/CRHP did not adequately address this questioned cost as MOH/CRHP did not provide documentation which would indicate proof of work performed. The finding remains unchanged.

2 d. (10) Office Supplies - MOH/CRHP did not adequately address this questioned cost as MOH/CRHP did not provide invoices, receiving reports, receipts of payment, etc. The finding remains unchanged.

2 e. (17 and 18) Travel and per diem - MOH/CRHP provided documentation to support US \$ 33 (LE 113). For the balance of the questioned cost of US \$957 (LE 3,205), MOH/CRHP did not provide approved per diem requests, authorization forms or trip reports. The finding has been modified accordingly.

PIL No. 7

Finding No. 3: Ineligible Costs

3 a. (24) Lodging and per diem for Cairo residents - Based on the MOH/CRHP response, we provided additional detail regarding this finding. The MOH/CRHP was not able to provide evidence to substantiate that the participant was not a Cairo resident. The finding remains unchanged.

3 b. (25) Travel and per diem - MOH/CRHP did not adequately address this questioned cost as MOH/CRHP did not provide documentation which would support that this was a PIL No. 7 Project expense. The Audit Report did not state that this is a PIL No. 4 expense. The finding remains unchanged.

3 c. (23) Late Charges - MOH/CRHP has agreed to refund USAID/Egypt US \$534 (LE 1,790), but did not provide evidence that actual payment has been remitted. The finding remains unchanged.

Ministry of Health

Audit of Expenditures Incurred Under the
Cost Recovery for Health Project
Grant Agreement No. 263-0170
Project Implementation Letters Nos. 4 and 7
June 1, 1991 through June 30, 1994

Mission's Response to Audit Report

USAID

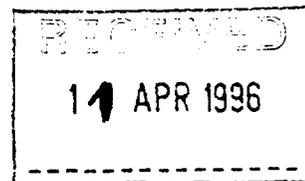


UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

April 9, 1996

CAIRO, EGYPT

MEMORANDUM



To : Lou Mundy, RIG/A/C

From : Shirley Hunter, OD/FM/FA 

Subject : Financial Audit of the Ministry of Health, the
cost Recovery for Health Project (USAID/Egypt
Project No. 263-0170)
Draft Report dated March 4, 1996

Mission is working with the implementing agency to resolve and close the three recommendations under the subject report, and has no comments to offer at this time. Please issue the final report.

