

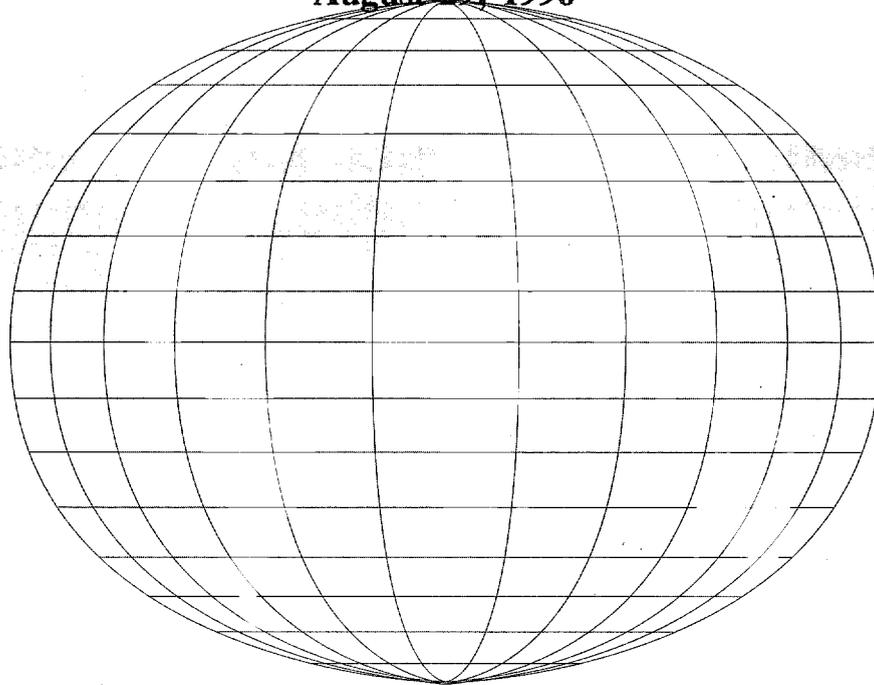
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Report of Audit

Audit of the USAID/Egypt's Cost Recovery Programs for Health Project

Regional Inspector General for Audit
Cairo, Egypt

Report No. 6-263-96-011
August 29, 1996



OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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

CAIRO, EGYPT

August 29, 1996

MEMORANDUM FOR Acting Director USAID/Egypt, Toni Christiansen-Wagner

FROM: RIG/A/C, Lou Mundy

SUBJECT: Audit of USAID/Egypt's Cost Recovery Programs for Health Project

This is our report on the subject audit. In finalizing the audit report, we considered the Mission's comments on the draft report and have included them in Appendix II.

The report contains three recommendations for your action. Recommendation No. 1.1 is resolved based on USAID/Egypt's final management decision and may be closed when the Mission has obtained evidence that the Ministry of Health and Population has implemented a financial accounting system that will permit a comparison of costs and revenues for pilot facilities. Recommendation Nos. 1.2, 1.3, 2.1, 2.2, and 3 are closed based on USAID/Egypt's final management actions.

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

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EXECUTIVE SUMMARY

The Cost Recovery Programs for Health Project began on September 30, 1988, and is planned to end on September 30, 1998. The early years of the project were devoted, in large part, to efforts to refine the project design and reach agreement with the Ministry of Health (now the Ministry of Health and Population) on the type of assistance to be provided by USAID/Egypt. On August 21, 1993, the project design was formally amended to clarify the project's purpose, scale back the expected results, and adjust the project budget.

The project has three major components. The first component is primarily intended to develop and test a cost recovery model for eventual application in Ministry of Health and Population facilities throughout Egypt. The second component is designed to improve management of the Health Insurance Organization and the Cairo Curative Organization by financing new management information systems. The third component is intended to expand the private health care sector through loans to private providers and the establishment of new prepaid health programs.

The project is managed by USAID/Egypt's Office of Health in the Human Resources and Development Cooperation Directorate. As of December 31, 1995, according to USAID/Egypt records, \$78.5 million was obligated and \$38.1 million had been spent.

The Office of the Regional Inspector General for Audit in Cairo conducted an audit of the Project to answer the following questions:

- Is the Cost Recovery Programs for Health Project making satisfactory progress toward achieving the intended benefits?
- Did USAID/Egypt report accurate information on the project's progress?

With respect to the first audit objective, although some activities are progressing satisfactorily, the project as a whole is not making satisfactory progress toward achieving the intended benefits. Under the first project component, Ministry of Health and Population pilot facilities have made only limited progress toward successful cost recovery operations and the methodology for converting facilities to cost recovery operations is still being developed. Information activities under the first component, while somewhat delayed, have had more success. Under the second project component, development of a management information system for the Health Insurance Organization

is proceeding approximately according to schedule. However, the planned management information system for the Cairo Curative Organization has been seriously delayed. Under the third project component, according to project reports, activities are proceeding somewhat more slowly than planned but the Mission has arranged for additional assistance which should accelerate progress.

With respect to the second audit objective, USAID/Egypt generally reported accurate information on the project's progress; however, information on three of the seven indicators we reviewed was not accurate. The variance between the reported information and the underlying documentary evidence for these three indicators ranged from 6 percent to 33 percent.

The report recommendations are that USAID/Egypt:

- obtain evidence that the Ministry of Health and Population has implemented a financial accounting system that will permit a comparison of costs and revenues for pilot facilities;
- obtain regular progress reports from the Ministry of Health and Population and each of the technical assistance contractors and compare the reported information with established performance indicators;
- arrange for annual assessments of the pilot facilities to measure progress toward meeting the established criteria for successful cost recovery operation;
- establish targets and time frames for assistance to the Cairo Curative Organization so that it can measure progress and take corrective actions when necessary;
- obtain periodic progress reports from the Cairo Curative Organization and any contractors hired to assist the Organization and compare the information in these reports to established targets and time frames; and
- correct the information which was inaccurately reported in its Results Review and Resource Request.

USAID/Egypt agreed with the report recommendations and has already implemented all but one of them.

Office of the Inspector General

Office of the Inspector General
August 29, 1996

INTRODUCTION

Background

The Cost Recovery Programs for Health Project began on September 30, 1988, and is planned to end on September 30, 1998. The early years of the project were devoted, in large part, to efforts to refine the project design and reach agreement with the Ministry of Health (now the Ministry of Health and Population) on the type of assistance to be provided by USAID/Egypt. On August 21, 1993, the project design was formally amended to clarify the project's purpose, scale back the expected results, and adjust the project budget.

Currently, the project has three major components:

- The first component is primarily intended to develop and test a cost recovery model for eventual application in Ministry of Health and Population facilities throughout Egypt. The model is being tested in an initial group of five facilities (four hospitals and one clinic). This component also aims to improve the quality of information available to support policy decisions by Ministry officials.
- The second component is designed to improve management of the Health Insurance Organization (a governmental organization which provides insurance and operates health care facilities for employees, pensioners, and schoolchildren) and the Cairo Curative Organization (a governmental organization which operates hospitals on a fee-for-service basis in the Cairo area). Most of the funding under this component is devoted to developing management information systems for these organizations. Some broader management assistance is also provided.
- The third component is intended to expand the role of the private sector in providing health care. Activities include a loan program to help private doctors start or expand private practices and technical assistance directed toward establishment of two new prepaid health care organizations (i.e., organizations similar to health maintenance organizations).

The project is managed by USAID/Egypt's Office of Health in the Human Resources and Development Cooperation Directorate. As of December 31, 1995, according to USAID/Egypt records, \$78.5 million was obligated and \$38.1 million had been spent (see Appendix IV).

Audit Objectives

The Office of the Regional Inspector General for Audit in Cairo conducted an audit of the Cost Recovery Programs for Health Project to answer the following questions:

- Is the Cost Recovery Programs for Health Project making satisfactory progress toward achieving the intended benefits?
- Did USAID/Egypt report accurate information on the project's progress?

The audit scope and methodology are discussed in Appendix I.

REPORT OF AUDIT FINDINGS

The answers to the following audit objectives are qualified to the extent of the effect, if any, of not having received appropriate written representations for the audit from USAID/Egypt officials directly responsible for the audited activities. Appendix I contains a discussion of this qualification.

Is the Cost Recovery Programs for Health Project making satisfactory progress toward achieving the intended benefits?

Although some project activities are progressing satisfactorily, the Cost Recovery Programs for Health Project as a whole is not making satisfactory progress toward achieving the intended benefits. The following sections summarize progress under each component of the project.

Component 1

Activities directed toward improving the quality of information available for decision making are, on balance, proceeding satisfactorily, although delays have occurred. With a contractor's assistance, the Ministry of Health and Population (MOHP) gathered cost data from three governorates for the Government of Egypt fiscal year ending June 30, 1994. This data was analyzed by the MOHP project directorate and analytical reports were issued. For the following year (ending June 30, 1995), no data collection or analysis has yet been accomplished.

Development and testing of a methodology for converting MOHP facilities to cost recovery operations has not progressed satisfactorily. As is discussed in more detail in the section beginning on page 5, the pilot facilities have made only limited progress toward achieving the established criteria for successful conversion to cost recovery operation and the methodology for converting the facilities is still being developed.

Component 2

This component, which finances development of management information systems for the Health Insurance Organization and the Cairo Curative Organization, has produced mixed results.

Development of the management information system for the Health Insurance Organization is proceeding approximately on schedule. This system is being developed by a contractor hired by USAID/Egypt. As of December 31, 1995, three years into the five-year contract, the contractor had finished writing the program code for 10 of 21 planned software modules and had completed beta testing (i.e., initial testing with a limited number of users) of 6 software modules. Training materials were approximately 85 percent complete. Renovation of the 82 facilities where the management information system was to be installed was about one-third complete.

Although problems have arisen, they are being addressed by the contractor and the Health Insurance Organization. For example, serious difficulties were encountered when the contractor attempted to load millions of beneficiary records provided by other Government of Egypt agencies into the beneficiary registration system. The contractor and the Health Insurance Organization were addressing these difficulties through: (1) signing a data exchange protocol with the other agencies, (2) working with the agencies to obtain complete data tapes, and (3) using software tools to identify records causing processing problems in the beneficiary registration system and then modifying the system to correct the problems. The contractor submitted annual implementation plans and quarterly progress reports which made it easy to identify implementation problems and monitor them until they were corrected.

Less progress has been made toward developing a management information system for the Cairo Curative Organization (CCO). Although USAID/Egypt has been assisting the Organization since February 1990, the contract for implementing the hospital management information system has not been awarded. Assistance to the CCO is discussed in the section beginning on page 9.

Component 3

Because of the relatively small amount of USAID funds spent on component 3 (\$1.6 million out of a total of \$38.1 million as of December 31, 1995), the audit did not include any testing of activities funded under this component. However, project reports provide the following information:

- As of December 31, 1995, 1,897 loans were made to private health care providers out of 5,000 loans planned. USAID/Egypt officials stated that they planned to provide technical assistance to the Credit Guarantee Corporation to help market loans more aggressively in an effort to increase the number of loans.

- The loan default rate was 0.3 percent; significantly better than the planned maximum default rate of 10 percent.
- No new prepaid health care programs had been established (two were planned), but limited assistance was being provided to the Medical Syndicate and the Suez Canal University to help them evaluate the feasibility of establishing such programs.

Problems affecting activities with the Ministry of Health and Population (component 1) and the Cairo Curative Organization (component 2) are discussed in the sections that follow.

Better Information and Periodic Assessments Would Increase the Likelihood of Successful Demonstration of a Cost Recovery Model

The MOHP has not yet been able to successfully convert any facilities to cost recovery operations or complete development of a replicable methodology or model for accomplishing such conversions. Delays have been due to several factors, including weaknesses in the project design, a lack of shared expectations for the project on the part of USAID/Egypt and the MOHP, and a lack of close monitoring of progress in the pilot facilities. While many of the factors causing delays have been corrected, in our opinion, it will still be difficult to achieve significant, sustainable results by the end of the project in September 1998. Obtaining better information—particularly financial information—and performing periodic assessments of the pilot facilities should increase the likelihood of success.

Recommendation No. 1 We recommend that USAID/Egypt:

- 1.1 obtain evidence that the Ministry of Health and Population has implemented a financial accounting system that will permit a comparison of costs and revenues for pilot facilities;
- 1.2 obtain regular progress reports from the Ministry of Health and Population and each of the technical assistance contractors and compare the reported information with established performance indicators; and
- 1.3 arrange for annual assessments of the pilot facilities to measure progress toward meeting the established criteria for successful cost recovery operations.

USAID/Egypt's August 1993 project paper amendment projected that at least five MOHP facilities (four hospitals and one clinic) would be successfully converted to cost recovery

operations by the end of the project.¹ The project paper amendment also included criteria for measuring progress toward successful conversion to cost recovery status.

We visited four of the five facilities that were in the process of being converted to cost recovery operations to assess the extent to which they were meeting the success criteria established in the project paper amendment. During these visits we generally focused on the criteria which we believed were most closely related to cost recovery (i.e., revenues, expenses, and quality improvements), and we did not review all of the criteria in each facility. The success criteria (shown in italics) and the conditions we found during visits to the four facilities are summarized below:

- *Facility revenues will increase each year from the baseline year (the Government of Egypt fiscal year ending June 30, 1991).* In two of the facilities we visited, no information on revenues was available. For the remaining two facilities we visited, the available information did not correspond directly to the project paper criteria but, nonetheless, indicated that revenues had increased substantially. For example, according to the information provided by Embaba Hospital, which we did not review for accuracy, revenues for the period from July through December 1995 increased 16 percent over revenues for the same period a year earlier. According to information provided by Kafr El Dawar Polyclinic, which again we did not review for accuracy, cash revenues during calendar year 1995 increased 133 percent over cash revenues during calendar year 1991.
- *Each year, facilities converted to cost recovery operations will use revenues to progressively cover a greater proportion of their operating expenses as follows:*

	<i>Operating costs excluding personnel</i>	<i>Equipment depreciation</i>	<i>Building depreciation</i>
<i>Year 1</i>	50%	40%	10%
<i>Year 2</i>	60%	60%	20%
<i>Year 3</i>	100%	80%	30%

In three of the four facilities visited, information needed to compare revenues and operating expenses was not available. The fourth facility, Kafr El Dawar Polyclinic, began keeping records to permit such a comparison in July 1995. The information provided, which we did not review for accuracy, indicated that cash receipts for the period from July through December 1995 covered 43 percent of operating costs excluding personnel but did not cover any equipment depreciation

¹ The original project paper (i.e., the planning document which was the basis for authorizing funding for the project) projected that 50 facilities would be converted to cost recovery operations. This original target was scaled back in view of implementation problems during the early years of the project.

or building depreciation. The amounts below are given in Egyptian pounds (the exchange rate is approximately LE 3.40 to \$1).

Kafr El Dawar Polyclinic			
Cash Receipts and Selected Expenses			
July 1, 1995 through December 31, 1995			
(Unaudited)			
Cash receipts	Operating costs excluding personnel	Equipment depreciation	Building depreciation
LE 204,694	LE 470,598	LE 42,501	LE 12,513

- *The proportion of patients whose care is paid by insurance, their employers, or other alternative financing mechanisms will be higher than the current level. We reviewed progress toward this criterion in two facilities: Shark El Medina Hospital and Kafr El Dawar Polyclinic. Neither facility had records to show an increase in the proportion of patients whose care is paid by alternative financing mechanisms, although personnel at Shark El Medina Hospital stated that they were actively marketing to increase this proportion.*
- *Quality of care will be improved as indicated by: increased utilization of inpatient and outpatient services, at least a three-month supply of basic medical supplies in stock, at least a one-month supply of essential drugs in stock, completion of training for hospital personnel, implementation of a quality assurance program, an established process for determining client satisfaction, and a management structure which defines authority and responsibility and delegates authority to appropriate personnel and positions.*

At the May 15th Hospital, the number of paid outpatients in 1995 was 22 percent higher than the number of paid outpatients in 1991. At Embaba Hospital, for the period from January through August 1995, the number of paid inpatients increased 42 percent and the number of outpatients increased 227 percent when compared to the same period a year earlier. At Kafr El Dawar Polyclinic, the number of outpatients during calendar year 1995 was 6 percent higher than the number of outpatients in calendar year 1994. At Shark El Medina Hospital, the number of paid patients for the period July through December 1995 increased 145 percent over the same period a year earlier.

We did not review whether the facilities visited kept a three-month supply of basic medical supplies and a one-month supply of essential drugs in stock.

Training was being provided at all four facilities. The areas covered included hospital management, financial management, marketing, quality assurance, technical training for care providers and technicians, and infection control.

None of the facilities visited had implemented quality assurance programs, although some of them had begun implementing some elements of a quality assurance program. For example, the May 15th Hospital had established a quality assurance committee, had developed clinical guidelines and indicators for two departments, and had identified priority areas for quality improvement. However, the hospital had not yet implemented a quality monitoring system (i.e., a system for collecting information, analyzing it, and sending it to appropriate personnel for action). The other three facilities we visited had established quality assurance committees and held planning meetings, but had not yet developed clinical guidelines and indicators, identified priority areas for quality improvement, or implemented monitoring systems.

At two of the four facilities we visited, we queried staff about establishment of a process for monitoring client satisfaction with services. One of the facilities (Kafr El Dawar Polyclinic) had implemented such a system and was compiling data from client questionnaires. The other facility (Shark El Medina Hospital) had not established such a system although it had been discussed.

All of the facilities visited have general organization charts, according to the technical assistance contractor responsible for assisting the facilities. Departmental organization charts were not completed.

- *Facility and equipment maintenance programs will be established and funded.* None of the facilities visited had established facility and equipment maintenance programs.
- *Financial and management information systems will be established to provide information for decision-making and fee setting based on operational and market changes.* None of the facilities visited had established these information systems, although the technical assistance contractor was implementing elements of such systems.
- *A board of directors, with both public and private representatives, will be created with written responsibilities, authorities, and legal status.* All of the facilities visited had a board of directors.
- *A database will be created to monitor the free patient target in each facility with respect to the numbers served, types of services utilized, and total costs incurred to ensure adequate reimbursement by the Government of Egypt for free care.* We did not review progress toward achieving this criterion but the technical assistance

contractor is working to implement information systems that will presumably include this information.

In summary, the facilities we visited had made only limited progress toward achieving the success criteria established in the project paper amendment.

Delays in successfully converting the pilot facilities and developing a replicable methodology for accomplishing such conversions were caused by several factors. The most important factors are summarized below:

- At least initially, the project designers underestimated the effort required to convert MOHP facilities to cost recovery operations. USAID/Egypt officials believe that this problem has been corrected and stated that 1,800 person-months of assistance will be provided to the MOHP under the current technical assistance contract.
- In our opinion, the inclusion of \$11.4 million of renovation and commodity procurement activities in the project distracted management attention from the crucial issue of management reform. Inclusion of substantial renovation and equipment procurement in the project introduced ambiguity about the nature of the changes the project aimed to bring about in the selected facilities. Also, we believe that physical progress toward renovating and equipping the facilities tended to obscure the lack of progress toward achieving management reforms. USAID/Egypt officials disagree, and pointed out that the renovation and commodity procurement activities are essentially complete in four of the five pilot facilities, so this should not be a significant problem during the remainder of the project.
- During the project design and the early years of the project, participation of MOHP personnel in planning was limited. This resulted, to some extent, in a lack of common understanding of and commitment to the project's management reform objectives. During the project, there were several attempts to reach a common understanding of the project's objectives between USAID/Egypt and the MOHP. For example, in 1991, the Mission obtained a letter from the Minister of Health stating his commitment to cost recovery as a system which includes, not only equipment and renovation, but also organizational and policy changes. In 1993, the project paper amendment clarified the overall rationale and objectives of the project, reducing funds for renovation and increasing funds for technical assistance. USAID/Egypt personnel believe that substantial progress has been made toward reaching a common understanding of the project's objectives and that current differences of opinion concern definitions and strategies rather than the objectives of the project.
- During the initial years of the project, there was more emphasis on producing studies and reports than on implementing changes within the MOHP facilities. Mission officials stated that this was intentional: systems had to be designed

before they could be implemented. Nonetheless, the result was that, at the time of our audit, the pilot facilities had made only limited progress toward successful cost recovery operations.

- USAID/Egypt did not obtain certain crucial information needed to monitor progress toward successful cost recovery operations, such as the revenues and expenses of the five pilot facilities. Nor did it obtain progress reports from the MOHP, although most of the technical assistance contractors did provide regular reports. Finally, annual assessments of the pilot facilities, which were planned to measure progress toward meeting the criteria for successful cost recovery operations, were not performed.

While many of the factors discussed above which caused delays have been corrected, in our opinion, it will still be difficult to achieve significant, sustainable benefits by the end of the project in September 1998. To increase the likelihood of success, USAID/Egypt needs to obtain evidence that the MOHP has implemented an accounting system that will permit a comparison of costs and revenues in the pilot facilities, obtain regular progress reports from the MOHP, and arrange for annual assessments to measure the progress of the pilot facilities toward meeting the criteria for successful conversion to cost recovery operations.

**Activities With the Cairo Curative
Organization Would Benefit From More
Explicit Objectives and Closer Management**

Although some valuable preliminary work has been done at the CCO during the past six years, the contract for implementing a hospital management information system has not been awarded and it will be difficult, at best, to complete the system before the end of the project. In providing assistance to CCO, the Mission has been handicapped by the absence of explicit targets and time frames for measuring performance and useful information on actual progress. Because of slow progress to date, and the approach of the end of the project, USAID/Egypt is faced with a decision on whether or not to continue its efforts to develop a management information system for the Organization. If the Mission should continue its assistance to the Organization, it will need to devote considerable management attention to making sure that objectives are met. The Mission will also need to implement management improvements so that any future implementation problems will be effectively dealt with in a timely fashion.

Recommendation No. 2 We recommend that USAID/Egypt:

- 2.1 establish targets and time frames for its assistance to the Cairo Curative Organization so that it can measure progress and take corrective actions when necessary; and

2.2 obtain periodic progress reports from the Cairo Curative Organization and any contractors hired to assist the Organization and compare the information in these reports to established targets and time frames.

During the past six years, some valuable work has been accomplished at the CCO but the contract for implementing a hospital management information system (HMIS) has not been awarded. As of December 31, 1995, according to CCO records, approximately 220 staff have been trained in various aspects of information technology. Also, three prototype information systems (for patient admission, transfer, and discharge; finance; and pharmacy management) were implemented in three pilot hospitals. These prototype systems were intended to demonstrate the benefits of information technology, provide some practical experience to CCO staff, and at the same time perform useful functions in the pilot hospitals. However, they were not intended to substitute for the planned HMIS.

A very brief history of efforts to award the contract for the HMIS follows:

- A little more than a year (from February 1990 to July 1991) was required to award a host country contract to a U.S. firm to serve as a consultant to CCO.
- It took two years (from July 1991 until July 1993) for the consultant firm to analyze the organization's information needs and prepare the draft request for proposals (RFP) for the HMIS.
- About one year (from July 1993 until June 1994) was required for USAID/Egypt to resolve issues concerning the draft RFP and issue the final RFP. One of the most significant questions was whether the RFP called for advanced system features which were in excess of the organization's needs. While USAID was concerned that these features would be difficult and expensive to implement and use effectively, the Mission ultimately decided to issue the RFP with these features included.
- After the RFP was issued, about one and a half years (from June 1994 until February 1996) were spent corresponding with offerors, evaluating proposals, and arranging two sets of technical demonstrations.
- In February 1996, a project evaluation team concluded that CCO did not have standards and procedures or trained staff needed to use the planned HMIS effectively. The team also concluded that it would be difficult to implement the system before the project assistance completion date. Accordingly, the evaluation team recommended that the contract not be awarded. Mission personnel are currently debating whether to continue assistance to CCO.

During this process, the Mission has been hindered by a lack of appropriate indicators and time frames for measuring progress and useful information on activities actually accomplished. Examples are provided below:

- Indicators and time frames for measuring progress of CCO activities during the life of the project were never established. For example, although the host country contractor acting as CCO's consultant was required by its contract to develop a work plan and an automated planning and tracking system, these monitoring tools were never used. The lack of a time-phased plan and a tracking system contributed to implementation delays, in our opinion, and made it difficult to USAID/Egypt officials to assess progress.
- USAID/Egypt did not routinely obtain progress reports on activities at the CCO. For example, the host country contractor acting as CCO's consultant was required to submit monthly progress reports but the Mission only obtained these reports for 3 months out of the 43-month contract period. CCO itself submitted quarterly progress reports to USAID/Egypt up until March 1991 but no reports were submitted for the last five years. Instead of using written reports to monitor progress, USAID/Egypt personnel relied on frequent meetings with CCO personnel which were not normally documented. This reduced paperwork but made it more difficult to compare what was planned with what was actually accomplished.

Given the slow progress to date, the approach of the end of the project in September 1998, and the evaluation team recommendation, USAID/Egypt is facing a decision on whether or not to proceed with its plan for implementing the HMIS at CCO. We are not making a recommendation on this issue because we believe that arguments advanced by parties on both sides of the issue have merit and that the decision is properly left to Mission management. On one hand, the Mission's experience with this activity to date has been difficult and not particularly rewarding. On the other hand, the Mission has spent six years working through the difficulties and has just reached the point where it is in a position to award the management information system contract.

If the Mission decides to continue assistance to CCO, it will need to implement a more rigorous management system and devote considerable management attention to ensuring that planned activities are accomplished within the limited time available.

Did USAID/Egypt report accurate information on the project's progress?

USAID/Egypt generally reported accurate information on the project's progress; however, information on three of the seven indicators we reviewed was not accurate. Details are provided in the following section.

Information on Three of Seven Indicators Reviewed Was Inaccurate

Managers need accurate information to make informed decisions. However, for three of the seven indicators reviewed, the information reported by USAID/Egypt did not accurately reflect the underlying documentary evidence.² The variance between the reported information and the underlying evidence for these three cases ranged from 6 percent to 33 percent. Inaccuracies occurred because Mission staff reported information based on estimates which were not closely supported by available documentary evidence, did not disclose limitations on the accuracy of the reported data, or, in one case, simply made a mistake in drawing information from its source. As a result, some of the information reported by the Mission would be of limited use for monitoring results.

Recommendation No. 3 We recommend that USAID/Egypt correct the information which was inaccurately reported in its Results Review and Resource Request.

Accurate information is needed to make properly informed decisions. For example, to make decisions about whether a project is achieving the desired results, accurate information on results is needed.

Until March 1995, USAID/Egypt prepared and submitted to USAID/Washington semi-annual implementation reports on each of its projects, including the Cost Recovery Programs for Health Project. During 1995, the Mission, with the rest of USAID, reoriented its management and reporting system to emphasize progress toward strategic objectives rather than project-level results. Nonetheless, the Mission continues to monitor project-level results. Under the new monitoring system, reporting on results is done once a year through a document called the Results Review and Resource Request, or R4. We verified the information in the first R4, which reported results achieved during 1995.

For three of the seven indicators reviewed, the information in the R4 was not accurate. The results of our verification are summarized in the following table; more details are provided in Appendix III.

² We considered reported information to be accurate if it reflected the underlying documentary evidence within a range of plus or minus 5 percent. When variances between reported information and the underlying evidence exceeded this range, we considered the reported information to be inaccurate.

<i>Indicator</i>	<i>Reported</i>	<i>Verified</i>	<i>Variance as a Percentage of the Correct Amount</i>
Percentage of MOHP funding allocated for primary and preventive services.	40%	43% (1993)	7%
Policy measures and benchmarks established and agreed to with the MOHP.	0	0	0%
Number of MOHP hospitals and polyclinics operating as cost recovery facilities.	5	5	0%
Percentage of the population covered by any form of social insurance (i.e., any form of health insurance financed by the government).	30%	32%	6%
Number of hospitals with quality assurance committees and submitting regular reports.	1 partially implemented	1 partially implemented	0%
Percentage of inpatient care provided in private facilities.	10%	15%	33%
Number of departing long-term academic trainees.	2	2	0%

Inaccuracies occurred for several reasons:

- For the percentage of MOHP funding allocated for primary and preventive services, the Mission obtained a percentage figure from a consultant's report (43.5 percent) and rounded it down (to 40 percent). The Mission reported this percentage as 1995 data, but it was actually based on 1993 data.
- For the percentage of the population covered by social insurance, the Mission relied on an estimate based on 1994 information. When it obtained 1995 beneficiary information from the Health Insurance Organization, after the R4 was already submitted, the percentage was slightly different.
- For the percentage of inpatient care provided in private facilities, the Mission mistakenly drew the wrong figure from a source document.

As a result of the inaccuracies described above, some of the information reported by USAID/Egypt would be of limited use for monitoring results achieved. USAID/Egypt needs to correct the information which was misstated in its R4.

MANAGEMENT COMMENTS AND OUR EVALUATION

In response to Recommendation No. 1.1, USAID/Egypt assigned staff to review the accounting systems in use by Ministry of Health and Population (MOHP) pilot facilities. The Mission also stated that the technical assistance contractor working with the Ministry is providing assistance to help the facilities implement accounting systems which permit a comparison of costs and revenues on a regular basis. Based on the final management decision taken by the Mission, this recommendation is resolved and can be closed when the Mission has obtained evidence that the MOHP has implemented a financial accounting system that will permit a comparison of costs and revenues for pilot facilities.

With respect to Recommendation No. 1.2, the Mission obtained quarterly progress reports from the MOHP and the primary technical assistance contractor for the MOHP. Based on this final management action, this recommendation is closed.

In response to Recommendation No. 1.3, the Mission obtained the MOHP's agreement that the project steering committee would meet annually to review implementation progress toward meeting the established criteria for successful cost recovery operations. Based on the Mission's final management action, this recommendation is closed.

To implement Recommendation 2.1, the Mission noted that it had already reviewed and approved the Cairo Curative Organization's annual implementation plan which included targets and timeframes. The Mission stated that further details would be included in the plan following the Mission's decision on whether or not to award a contract for the planned hospital management information system (HMIS). Based on the Mission's final management action, this recommendation is closed.

In response to Recommendation No. 2.2, the Mission reiterated to the Cairo Curative Organization the requirement for quarterly progress reports and obtained a quarterly progress report for the period from April through June 1996. Based on this final management action, the recommendation is closed.

To implement Recommendation No. 3, the Mission incorporated corrected information in its results tracking database. Based on this final management action, the recommendation is closed.

SCOPE AND METHODOLOGY

Scope

We conducted our audit in accordance with generally accepted government auditing standards. These standards require auditors to obtain written representations from management when they deem them useful. The Office of Inspector General deems such representations necessary to support potentially positive findings. USAID/Egypt's Director provided us a management representation letter for the audit that contained essential assertions about the activities we audited. However, USAID/Egypt officials directly responsible for these activities did not provide written representations. As a result, our answers to the audit objectives are qualified to the extent of the effect, if any, of not having such representations.

The audit fieldwork was performed from March 11, 1996 through June 27, 1996. The audit covered the period from the project's inception on September 30, 1988 through December 31, 1995. Fieldwork was performed in the offices of the Ministry of Health, the Health Insurance Organization, the Cairo Curative Organization, and two contractors. The fieldwork covered project activities implemented in the governorates of Alexandria, Beheira, Cairo, Giza, and Kalyoubia.

As part of the audit, we assessed the management controls used by USAID/Egypt's Office of Health to provide reasonable assurance that intended benefits were achieved and that accurate information on accomplishments was reported. We obtained an understanding of the significant management controls, determined if the controls were placed in operation, and assessed control risk. We did not evaluate compliance with applicable laws and regulations because we did not identify any laws and regulations significant to the audit objectives.

The audit included testing of project results for the first two components of the project. We did not perform any testing of project results for the third project component because of the relatively small amount of USAID funds spent on this component (\$1.6 million out

of a total of \$38.1 million as of December 31, 1995). For this component, we relied on project reports on file in USAID/Egypt.

Methodology

Audit Objective 1

To answer the first audit objective, which dealt with whether project activities were progressing satisfactorily toward achieving the intended results, we interviewed USAID/Egypt, implementing agency, and contractor personnel to obtain an understanding of how the project related to the Mission's health strategy, the activities undertaken to date, and the project monitoring and reporting system. To reach conclusions regarding progress toward achieving intended results, we compared reported information as of December 31, 1995 with targets established in the project paper and in USAID/Egypt's draft strategic plan. We also reviewed project obligations, commitments, and expenditures to determine whether obligated funds were needed. Where these steps revealed significant shortfalls in performance, we determined the reasons. We also compared reported information with documentary evidence and with our own observations of project activities during the audit to determine whether the information was accurate.

In performing this work, we visited 4 of the 5 Ministry of Health and Population facilities that were being converted to cost recovery operations, 9 of 32 Health Insurance Organization sites where renovation or hardware delivery were underway or completed and the 3 pilot Cairo Curative Organization hospitals where staff were trained and prototype information systems were installed. To select these sites, we used judgmental sampling techniques. We decided that judgment samples would provide a reasonable basis for our conclusions and would be less time consuming than statistically valid random samples.

Audit Objective 2

To answer the second audit objective, which dealt with whether USAID/Egypt reported accurate information on the project, we traced the information from USAID/Egypt's Results Review and Resource Request dated April 1996 (covering information for calendar year 1995) to supporting documentation. We also compared the reported information to our own observations during the audit.

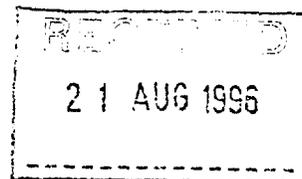
USAID



CAIRO, EGYPT

Appendix II
Page 1 of 4

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT



August 15, 1996

M E M O R A N D U M

TO : RIG/A/C, Lou Mundy

FROM : A/DIR, *Toni* Christiansen-Wagner

SUBJECT : Audit of USAID/Egypt's Cost recovery
Programs for Health. Project No. 263-170.
Draft Report Dated July 17, 1996.

REF : HRDC/H memo dated August 15, 1996 (copy
attached)

Following is the Mission's response to the subject draft report.

Mission Response:

Based on the referenced memo from the Technical Office and the attached documents, Mission believes that a plan has been developed to address recommendation No. 1.1, and that the remaining Recommendations have been properly addressed through the corrective actions taken by the Mission.

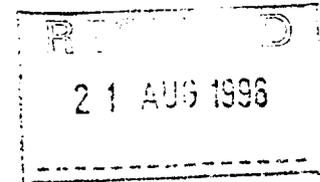
Accordingly, Mission requests resolution of Recommendation No. 1.1, and closure of Recommendations No. 1.2, 1.3, 2.1, 2.2, and 3.

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CAIRO, EGYPT

August 15, 1996



MEMORANDUM

TO : OD/FM/FA, Shirley Hunter

FROM: A/AD/HRDC, Mellen D. Tanamly *M. D. Tanamly*

SUBJECT: Draft Report for the Audit of the Cost Recovery Programs for Health Project

HRDC has reviewed the findings and recommendations presented in the subject performance audit. Based on this review, we have prepared the following comments to be forwarded to RIG/A/C to resolve and close the identified recommendations.

Actions For Resolution/Closure of Audit Recommendations

Recommendation No. 1

Mission has assigned the FM/Financial Analysis Support Team (FAST) to perform financial reviews of the accounting systems of the five pilot facilities. FAST will determine which of the pilot facilities has implemented an accurate and reliable reporting system that permits a comparison of costs and revenues on a regular basis. Upon the completion of the FAST review, Mission will ensure that a reliable and consistent reporting system is applied over the five pilot facilities. In addition, serious steps have been taken to further improve the financial, accounting, and reporting system of the facilities, including:

- An in-depth overview of all the Accounting System features was provided by the University Research Corporation (URC), the Technical Assistance Contractor, to the Mission. The overview included a demonstration of the flow of revenues through the General Ledger Accounts, and the subsequent reporting of monthly results for management decision making.
- The Financial Accounting Operations Manual for the Accounting System has been modified by URC to incorporate the required reporting features in the new system and to address the current weaknesses identified by the contractor (Attachment No. 1). Accounting personnel is being trained on operating the new system using the Manual and the written guidance.

Based on the above, Mission requests resolution of Recommendation No. 1.1. Closure will be requested upon completion of the FAST review and the implementation of a reliable and consistent reporting mechanism that permits a comparison between costs and revenues over the five pilot facilities.

Recommendation No. 1.2

Mission has alerted both the Ministry of Health and Population (MOHP) and URC, through a letter dated July 2, 1996, of the Quarterly Progress Reporting requirements (Attachment No. 2). As a result of the Mission instructions, Mission has obtained Quarterly Progress Reports from MOHP, up to June 30, 1996, and from URC, up to December 31, 1995 (Attachment No. 3).

Based on the actions taken, Mission requests closure of recommendation No. 1.2.

Recommendation No. 1.3

Based on discussions with the Project Counterpart staff, the Mission has reconfirmed the agreement reached in the Project Agreement that the Project Steering Committee is the appropriate forum for the annual assessment of progress toward meeting the established criteria for successful cost recovery operations. Accordingly, the Mission requested MOHP to arrange that a Project Steering Committee be held in August 1996 (Attachment No. 4), and on a semi-annual or annual basis from that point forward. The Steering Committee meeting was held on August 10, 1996. PIL No. 25, dated August 12, 1996 was subsequently issued by the Mission (and countersigned by MOHP) to document the major points agreed to during the meeting (Attachment no. 5).

Therefore, Mission believes that proper corrective actions have been taken and requests closure of recommendation No. 1.3

Recommendation No. 2.1

Agreed upon targets and time frame for CRHP assistance to the Curative Care Organization (CCO) during 1996 are identified under its 1996 Annual Implementation Plan (AIP), received after the audit period, and subsequently issued PIL No. 20, Amendment 2, transmitting Mission approval of the AIP (Attachment No. 6). Further details concerning planned implementation activities will be incorporated into the AIP following a Mission decision on the procurement of CCO Hospital Information System (HMIS). As a result of the audit, Mission has obtained, reviewed, and approved the AIP and the Quarterly Progress Reports which tracked the actual implementation against the agreed upon targets.

Based on the above, Mission requests closure of recommendation no. 2.1

Recommendation No. 2.2

The Mission alerted CCO to the requirement of submitting Quarterly Progress Reports (QPR), and received the QPR for April through June 1996 (attachment No. 7). The report was reviewed by the Mission Health office, and the actual progress has been compared with the established performance indicators. Similar reviews of the future QPRs will be done by the Mission Health office. Mission acceptance of the QPR Report and instructions for future regular QPRs have been documented in PIL No 20, Amended No. 3 issued on August 12, 1996 (Attachment No. 8).

Based on the above, mission believes that proper corrective actions have been taken and requests closure of recommendation No. 2.2.

Recommendation No. 3

The Mission has incorporated the corrected information for the three misstated indicators in the Mission results tracking database. These corrections will be communicated to AID/W in the next schedule per the memo issued to PDS/P on August 8, 1996 (Attachment No. 9).

Based on the above, Mission requests closure of this recommendation.

**Comparison of Planned Results, Reported Results,
and Results Verified by Audit as of December 31, 1995**

A. Intended Benefits From Project Logical Framework

<i>Intended Benefit From Project Logical Framework</i>	<i>End of Project Indicator</i>	<i>Reported 12/31/95</i>	<i>Verified 12/31/95</i>	<i>Comments</i>
Purpose: To broaden and diversify approaches for financing personal health services in Egypt.	Increased proportion of total health care expenditures financed by private sector payments.	Not reported.	Not verified.	
Component 1 Sub-Purpose: To develop and test cost recovery systems in Ministry of Health and Population facilities as a model for country wide applications.	Facilities will be covering 100 percent of non-personnel operating costs, 80 percent of equipment depreciation, and 30 percent of building depreciation from private sector payments.	Not reported.	Not verified.	The Ministry of Health and Population has not compiled, and USAID/Egypt has not requested, a comparison of revenues and expenses in the pilot facilities.
Component 2 Sub-Purpose: To improve the management, efficiency, and utilization of existing cost recovery organizations.	Improved, cost-effective services being provided to 20 million people through Health Insurance Organization and Cairo Curative Organization facilities.	Not reported.	Not verified.	Since almost all of the funding under this component was devoted to development of management information systems, and these systems were still under development, it was too early to expect any significant effect on the quality or cost effectiveness of services provided by the Health Insurance Organization or the Cairo Curative Organization.

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<i>Intended Benefit From Project Logical Framework</i>	<i>End of Project Indicator</i>	<i>Reported 12/31/95</i>	<i>Verified 12/31/95</i>	<i>Comments</i>
Component 3 Sub-Purpose: To expand private sector financing of individual, group, and prepaid care practices.	100,000 additional people using private sector prepaid health care services.	Not reported.	Not verified.	While USAID/Egypt planned to support the establishment of two prepaid health care programs, neither program had yet been established.
Output 1.1: Demonstration of successful cost recovery operations.	A minimum of 4 Ministry of Health and Population hospitals and 1 Ministry of Health and Population polyclinic converted to cost recovery operations.	5	5	It should be noted that, using the criteria from USAID/Egypt's project paper, none of the Ministry facilities have been <i>successfully</i> converted to cost recovery status. None of the facilities have implemented quality assurance systems and none of the facilities have <i>compiled or reported</i> on the extent to which they are using revenues to cover their operating expenses.
Output 1.2: Technical and management capability in place within the Ministry of Health and Population to replicate cost recovery model to other health facilities.	Project Directorate staffed with Ministry of Health and Population personnel experienced in cost recovery.	Not reported.	Not verified.	USAID/Egypt no longer believes that this indicator is appropriate. The Mission would prefer to see the entire Ministry—not only the Project Directorate—engaged in cost recovery efforts.
Output 1.3: A system established in the Ministry of Health and Population Planning Directorate to track public sector curative and preventive health expenditures.	Information available to Ministry of Health and Population decision makers.	Not reported.	Information not yet available to Ministry decision makers.	Under the first project component, the Mission is supporting efforts to gather and analyze information on public sector curative and preventive health expenditures.

<i>Intended Benefit From Project Logical Framework</i>	<i>End of Project Indicator</i>	<i>Reported 12/31/95</i>	<i>Verified 12/31/95</i>	<i>Comments</i>
Output 2.1: Management Information Systems installed and being utilized at Health Insurance Organization and Cairo Curative Organization for improved management, administrative, financial, and marketing practices.	Management information systems installed, reports being generated and utilized for decision making.	Not reported.	The management information systems were not yet installed.	
Output 2.2: Cost containment and system efficiency leading to expanded coverage by both Health Insurance Organization and Cairo Curative Organization.	25 percent increase in utilization of Health Insurance Organization and Cairo Curative Organization facilities.	Not reported.	Not verified.	Since almost all of the funding under this component was devoted to development of management information systems, and these systems were still under development, it was too early to expect any significant effect on utilization of facilities operated by the Health Insurance Organization or the Cairo Curative Organization.
Output 3.1: An improved commercial banking system to provide financial services to health care providers.	10 commercial banks actively participating.	Twenty banks were participating, although one bank was responsible for 82 percent of the loan volume.	Not verified.	Although the current audit did not verify the reported information, because of the relatively modest amount of USAID funds spent on this component, a previous audit by the Office of Inspector General (Audit Report No. 6-263-94-005 dated March 20, 1994) found that the information reported for this output was accurate.

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<i>Intended Benefit From Project Logical Framework</i>	<i>End of Project Indicator</i>	<i>Reported 12/31/95</i>	<i>Verified 12/31/95</i>	<i>Comments</i>
Output 3.2: Increased number of new or expanding private sector health care providers, particularly in rural areas and secondary cities.	5,000 loans to new or expanding private sector health care providers.	1,897 loans made.	Not verified.	Although the current audit did not verify the reported information, because of the relatively modest amount of USAID funds spent on this component, a previous audit by the Office of Inspector General (Audit Report No. 6-263-94-005 dated March 20, 1994) found that the information reported for this output was accurate.
Output 3.3: Viability of new or expanded practices	Default rate of no more than 10%.	Default rate of 0.3 percent.	Not verified.	The current audit did not verify the reported information, because of the relatively modest amount of USAID funds spent on this component.
Output 3.4: New private managed health care systems (i.e., health maintenance organization-like schemes).	2 new systems	Not reported.	Not verified.	While USAID/Egypt planned to support the establishment of two prepaid health care programs, neither program had yet been established.

B. Intended Results From USAID/Egypt Draft Strategic Plan

<i>Intended Results</i>	<i>Indicator</i>	<i>Planned 12/31/95</i>	<i>Reported 12/31/95</i>	<i>Verified 12/31/95</i>	<i>Comments</i>
Improved environment to plan, manage, and finance sustained maternal and child health systems.	Percentage of Ministry of Health and Population (MOHP) funding allocated for primary and preventive services.	No target established.	40%	43% (1993)	
Clearly articulated policy priorities and plans.	Policy measures and benchmarks established and agreed to with the MOHP.	No target established.	Policy measures not yet established or agreed to.	Policy measures not yet established or agreed to.	
Rationalized Ministry of Health and Population and Population curative care services program.	Number of MOHP hospitals and polyclinics operating as cost recovery facilities.	5	5	5	It should be noted that, using the criteria from USAID/Egypt's project paper, none of the Ministry facilities have been <i>successfully</i> converted to cost recovery status. None of the facilities have implemented quality assurance systems and none of the facilities have compiled or reported on the extent to which they are using revenues to cover their operating expenses.

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<i>Intended Results</i>	<i>Indicator</i>	<i>Planned 12/31/95</i>	<i>Reported 12/31/95</i>	<i>Verified 12/31/95</i>	<i>Comments</i>
Equitable and financially viable expansion of social insurance coverage.	Percentage of the population covered by any form of social insurance (i.e., any form of health insurance financed by the government).	30%	30%	32%	
National quality assurance system.	Number of hospitals with quality assurance committees and submitting regular reports.	1	1 in process	1 in process	One facility (the May 15 Hospital) had implemented many elements of a quality assurance system. However, the hospital had not yet begun to collect data from the system, analyze it, and send it to a responsible party for action.
Increased private sector provision and financing of cost effective health care.	Percentage of inpatient care provided in private facilities.	No target established.	10%	15%	
Enhanced capacity to plan and manage public health programs.	Number of departing long-term academic trainees.	2	2	2	In our opinion, the intended result could be more directly measured by the number of <i>returning</i> long-term academic trainees.

Cost Recovery Programs for Health Project
Financial Status as of December 31, 1995
(Unaudited)

<i>Project Components and Elements</i>	<i>Obligations</i>	<i>Accrued Expenditures</i>
Component 1 - Conversion of MOHP Facilities and Improved Information for Decision Makers		
Support Services	\$2,249,038	\$1,556,344
Technical Assistance	22,456,165	9,075,482
Facilities and Renovation	4,222,000	2,659,357
Training	1,156,632	507,809
Equipment and Commodities	<u>7,175,000</u>	<u>6,104,043</u>
Component Subtotal	<u>\$37,258,835</u>	<u>\$19,903,035</u>
Component 2 - Management Information Systems for the Health Insurance Organization and the Cairo Curative Organization		
HIO Equipment and Commodities	\$5,170,000	\$3,595,157
HIO Technical Assistance	20,050,000	8,083,988
HIO Facilities and Renovation	1,066,000	1,066,000
HIO Training	1,091,575	693,048
HIO Support Services	<u>875,000</u>	<u>308,072</u>
	<u>\$28,252,575</u>	<u>\$13,746,265</u>
CCO Technical Assistance	\$6,947,836	\$2,181,465
CCO Equipment and Commodities	855,000	208,134
CCO Support Services	449,001	259,508
CCO Training	<u>351,792</u>	<u>103,485</u>
	<u>\$8,603,629</u>	<u>\$2,752,592</u>
	<u>\$36,856,204</u>	<u>\$16,498,857</u>
Component 3 - Private Sector Support		
Technical Assistance	\$2,081,999	\$1,577,018
Support Services	115,962	26,962
Training	<u>366,000</u>	<u>46,000</u>
	<u>\$2,563,961</u>	<u>\$1,649,980</u>
General Project Support		
Audit and Evaluation	\$821,000	\$37,148
Contingency	<u>1,000,000</u>	<u>0</u>
	<u>\$1,821,000</u>	<u>\$37,148</u>
Total	<u><u>\$78,500,000</u></u>	<u><u>\$38,089,020</u></u>

Source: USAID/Egypt Mission Accounting and Control System

Major Contributors to the Report

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