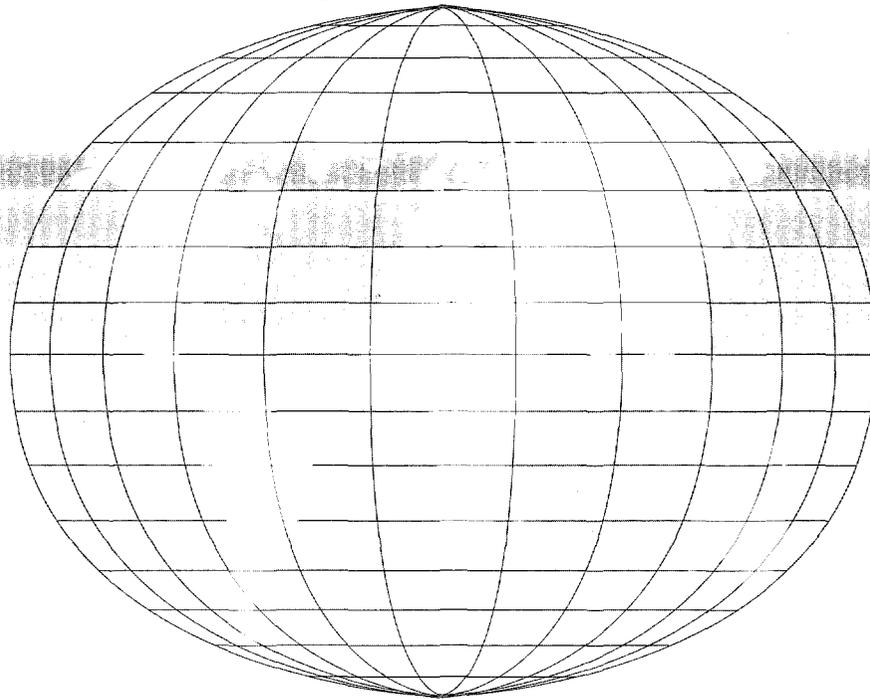


Report of Audit

Financial Audit of the Egyptian Junior Medical Doctors Association, Expenditures Incurred Under the Private Practitioners Family Planning Project (USAID/Egypt Project No. 263-0144)

Regional Inspector General for Audit
Cairo, Egypt

Report No. 6-263-96-28-N
September 19, 1996



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

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

September 19, 1996

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley
FROM: RIG/A/C, Lou Mundy *Lou Mundy*
SUBJECT: Financial Audit of the Egyptian Junior Medical Doctors Association, Expenditures Incurred Under the Private Practitioners Family Planning Project (USAID/Egypt Project No. 263-0144)

The attached report, transmitted August 29, 1996, by KPMG Hazem Hassan, presents the results of a financial audit of the Egyptian Junior Medical Doctors Association (Association) under Project Implementation Letter (PIL) No. 27 of the Private Practitioners Family Planning Project, USAID/Egypt Project No. 263-0144. The purpose of the project was to help reduce the Egyptian population growth rate through mobilization of private practice physicians to deliver quality family planning services.

We engaged KPMG Hazem Hassan to perform a financial audit of the Association's incurred expenditures of \$1,436,516 (equivalent to LE4,783,600) for the period March 1, 1992 through May 31, 1993. The purpose of the audit was to evaluate the propriety of costs incurred during this period. KPMG Hazem Hassan also evaluated the Association's compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement.

The audit report did not identify any questioned amounts in expenditures billed to USAID/Egypt by the Association.

During the pre-audit survey, the auditors noted that PIL activities had ceased and that no additional USAID funding was being provided to the recipient. Therefore, KPMG Hazem Hassan did not issue a report on internal controls.

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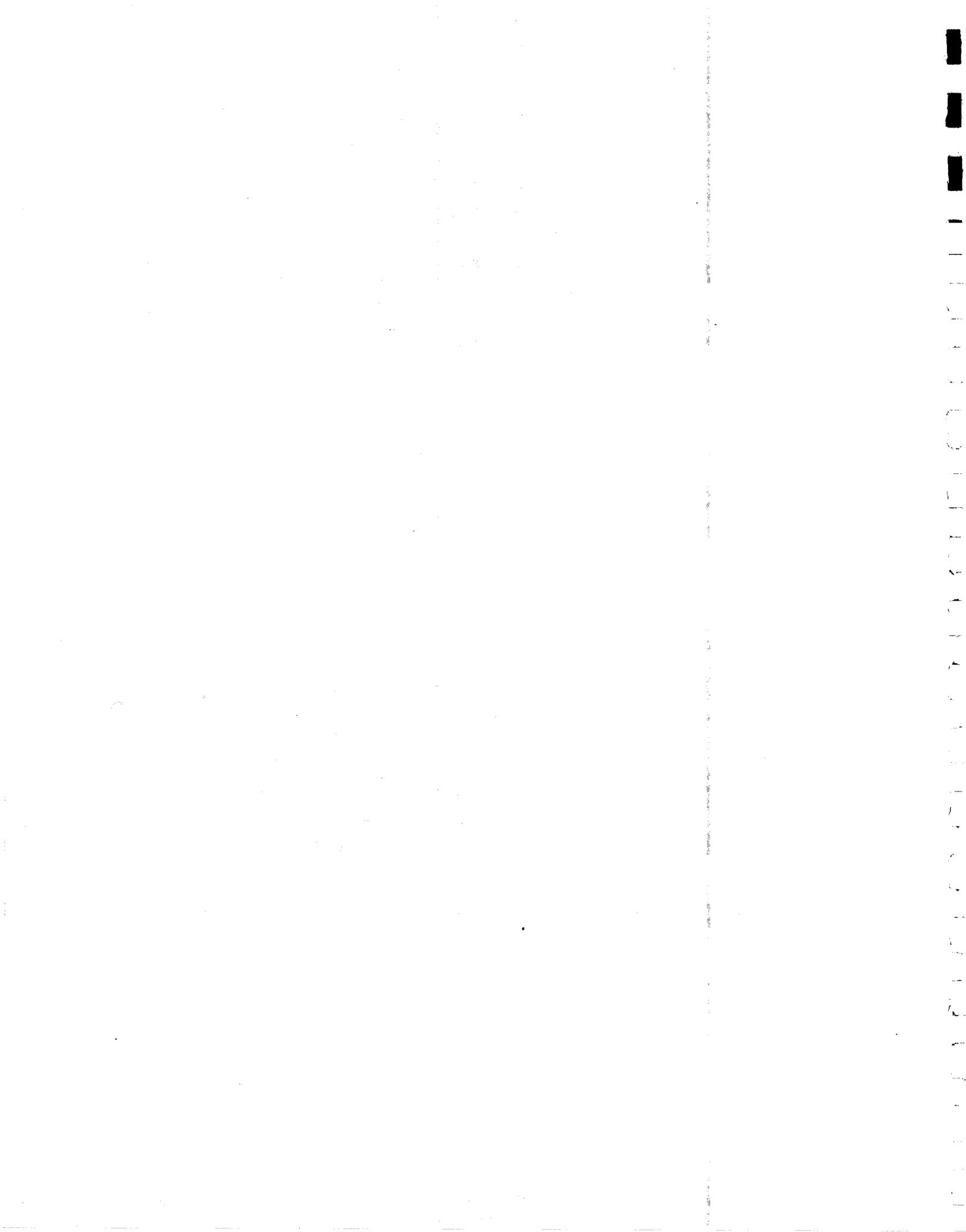
In response to the draft report, responsible Association officials provided additional explanation to the report findings. KPMG Hazem Hassan reviewed the Association's response to the findings and where applicable made adjustments to the report (see Appendices I and II).

This report contains no recommendations to be included in the Office of the Inspector General's recommendation follow-up system.

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

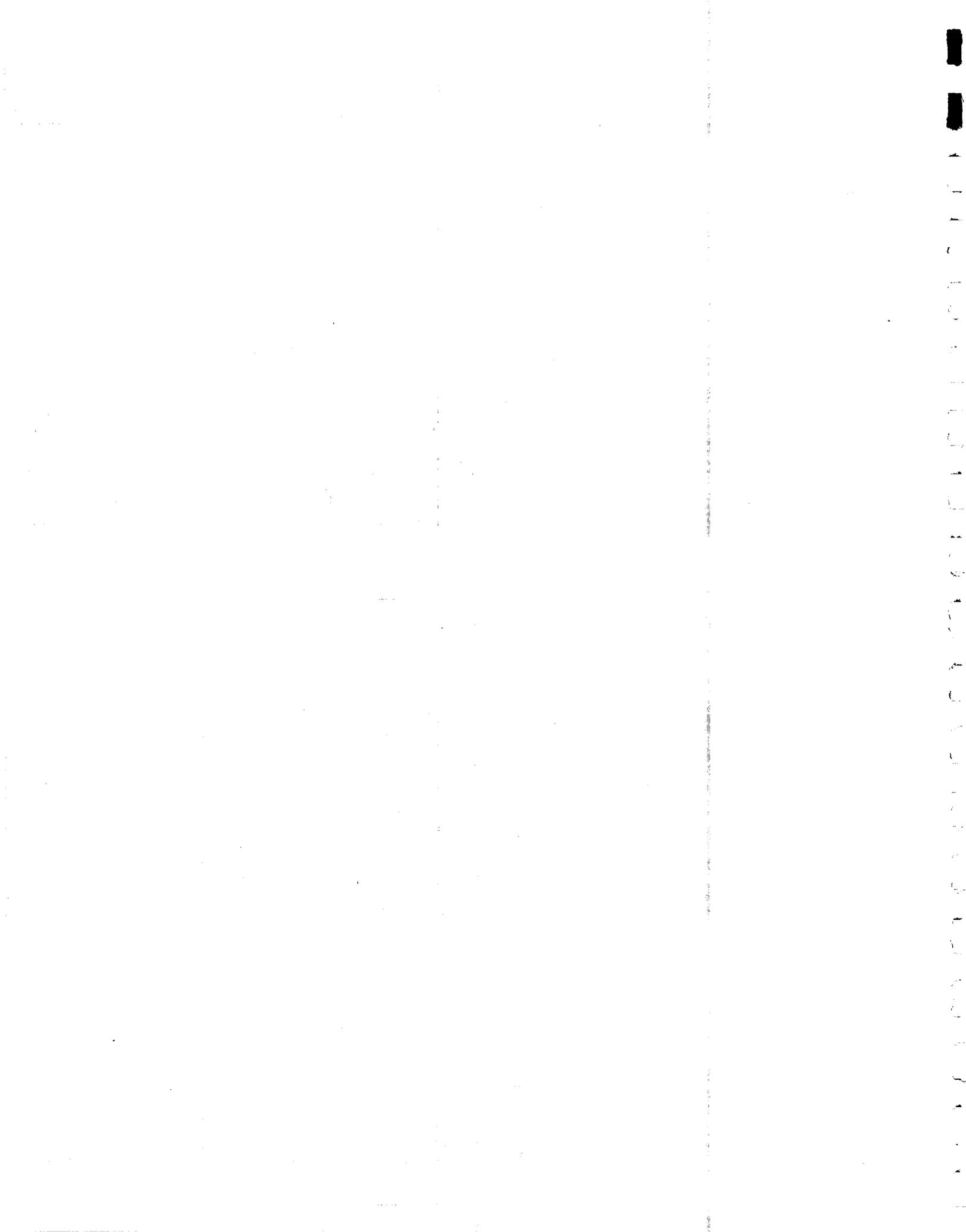
Financial Audit of the
Egyptian Junior Medical Doctor's Association
(EJMDA)
on Private Practitioners Family Planning Project
(PPFPP)
Project Implementation Letter (PIL) No. 27 -
Project No. 263-0144
for the period from March 1, 1992 through May 31, 1993



Financial Audit of the
Egyptian Junior Medical Doctor's Association
(EJMDA)
on Private Practitioners Family Planning Project
(PPFPP)
Project Implementation Letter (PIL) No. 27 -
Project No. 263-0144
for the period from March 1, 1992 through May 31, 1993

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Appendix II	Auditor's Comments





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

August 29, 1996

Dear Mr. Mundy,

This report represents the results of our financial audit of funds received and costs incurred locally in Egypt by the Egyptian Junior Medical Doctor's Association (EJMDA) for the Private Practitioners Family Planning Project (PPFPP) Project Implementation Letter (PIL) No. 27. The PPFPP is a sub-project of USAID/Egypt's Project No.263-0144. Our audit covered the period from March 1, 1992 through May 31, 1993.

This Project Implementation Letter is cost reimbursable and funded by the United States Agency for International Development.

Background

The Private Practitioners Family Planning Project (PPFPP) is directly administered by the Egyptian Junior Medical Doctor's Association (EJMDA) under the overall supervision of the Ministry of Social Affairs. The goal of this project is to help reduce the Egyptian population growth rate through mobilization of private practice physicians to deliver quality family planning services.

On October 1, 1989 the Private Practitioners Family Planning Project (PPFPP) was approved by USAID/Egypt for the period beginning October 1, 1989 through March 31, 1993 at a total budget of LE5,262,700. The project was amended six times.



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Amendment No. 5 increased the project's total funding level to LE9,646,566. USAID agreed to provide LE8,090,095 of the total funding amount. The balance of the funds (LE1,556,471) were to be provided by EJMDA as its required matching contribution to the project. The amendment also extended the completion date to May 31, 1993.

In February 1993, a financial audit was conducted by Farid Mansour, an affiliate of Coopers and Lybrand. The audit covered the period from October 1, 1989 to February 29, 1992. During our audit we performed certain follow-up procedures related to the findings and recommendations set forth in the Farid Mansour audit report. These procedures included follow-up of previously identified recommendations for improvement related to internal controls, and also, follow-up of previously identified questioned costs. The results of our procedures in this regard are set forth in the section of our Report titled "Follow-up of the Previous NFA Report."

Total Project expenditures incurred and subsequently reimbursed by USAID for the period covered by our audit is LE4,783,600.

Audit Objectives and Scope

The objective of this engagement was to conduct a financial audit of USAID/Egypt's resources, managed by the Egyptian Junior Medical Doctor's Association (EJMDA) on Private Practitioners Family Planning Project (PPFPP) Project Implementation Letter (PIL) No. 27, a sub-project of USAID/Egypt's Project No.263-0144.

The audit covered the period from March 1, 1992 through May 31, 1993, and encompassed an examination of EJMDA's expenses, in order to determine whether they were in compliance with the applicable USAID/Egypt rules and regulations.

The specific objectives were to:

1. express an opinion on whether the fund accountability statement for the USAID/Egypt financed project of EJMDA presents fairly, in all material respects, project costs incurred for the periods under audit, in conformity with generally accepted accounting principles or other comprehensive bases of accounting, including the cash receipts and disbursements basis and modifications of the cash basis;

2. determine if the costs reported as incurred under the agreement are, in fact, allowable, allocable, and reasonable in accordance with the terms of the agreement;
3. perform tests to determine whether EJMDA complied, in all material respects, with the agreement terms and applicable laws and regulations.
4. determine if the grantee has taken corrective action on prior audit report recommendations.

Preliminary planning and review procedures started in May 1996 and consisted of:

- discussions with RIG/A/C officials;
- a review of the project paper and financial plan 92/93;
- a review of PIL documents and modifications.
- interviews and discussions with the EJMDA representatives concerning the status of the Agreement, accomplishments during the period, the statutory reporting requirements, the budget of the Agreement, the procedures governing actual expenditures disbursed locally in Egypt by EJMDA and the reimbursement of these expenditures by USAID/Egypt;
- reviews of the EJMDA organizational structure, the procurement and personnel manuals, the financial and accounting policies, and the procedures manual.

The field work was completed on June 25, 1996. The scope of our work was to audit costs incurred and disbursed locally in Egypt by EJMDA and reimbursed by USAID/Egypt under Project No. 263-0144. Within each budget line item, we selected amounts for testing on a judgmental basis in order to test the majority of the related amounts. We tested expenditures of \$448,606 (LE1,493,860) out of total expenditures amounting to \$1,436,516 (LE4,783,600).

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

1. Reconciling EJMDA's accounting records pertaining to PPFPP to reports issued to USAID and testing costs for allowability, allocability, reasonableness, and appropriate support;

2. Determining whether payroll costs were appropriate and conformed with the terms of the PIL and agreement and the relevant regulations;
3. Determining whether project costs billed to USAID were substantiated by adequate supporting documentation and approved by project management;

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

As part of our examination, we reviewed EJMDA's compliance with applicable laws and regulations.

Results of Audit

PIL No. 27 Fund Accountability Statement

Our audit identified no questioned costs, ineligible or unsupported.

Internal Control

During our pre-audit survey we noted that PIL No. 27 which we audited has ceased operation, and not additional funding is being provided to the recipient. Therefore, we were unable to issue a report on the internal controls.

Compliance with Laws and Regulations

Our audit did not identify any instances of noncompliance with applicable laws and regulations associated with project costs billed to and reimbursed by USAID/Egypt.

We noted certain instances of non compliance associated with GOE tax and social insurance laws which were communicated to EJMDA's management in a separate letter.

Supplementary Information

The supplementary fund accountability statement, presented in the functional currency, was communicated to EJMDA's management and is available upon request.

Management Comment

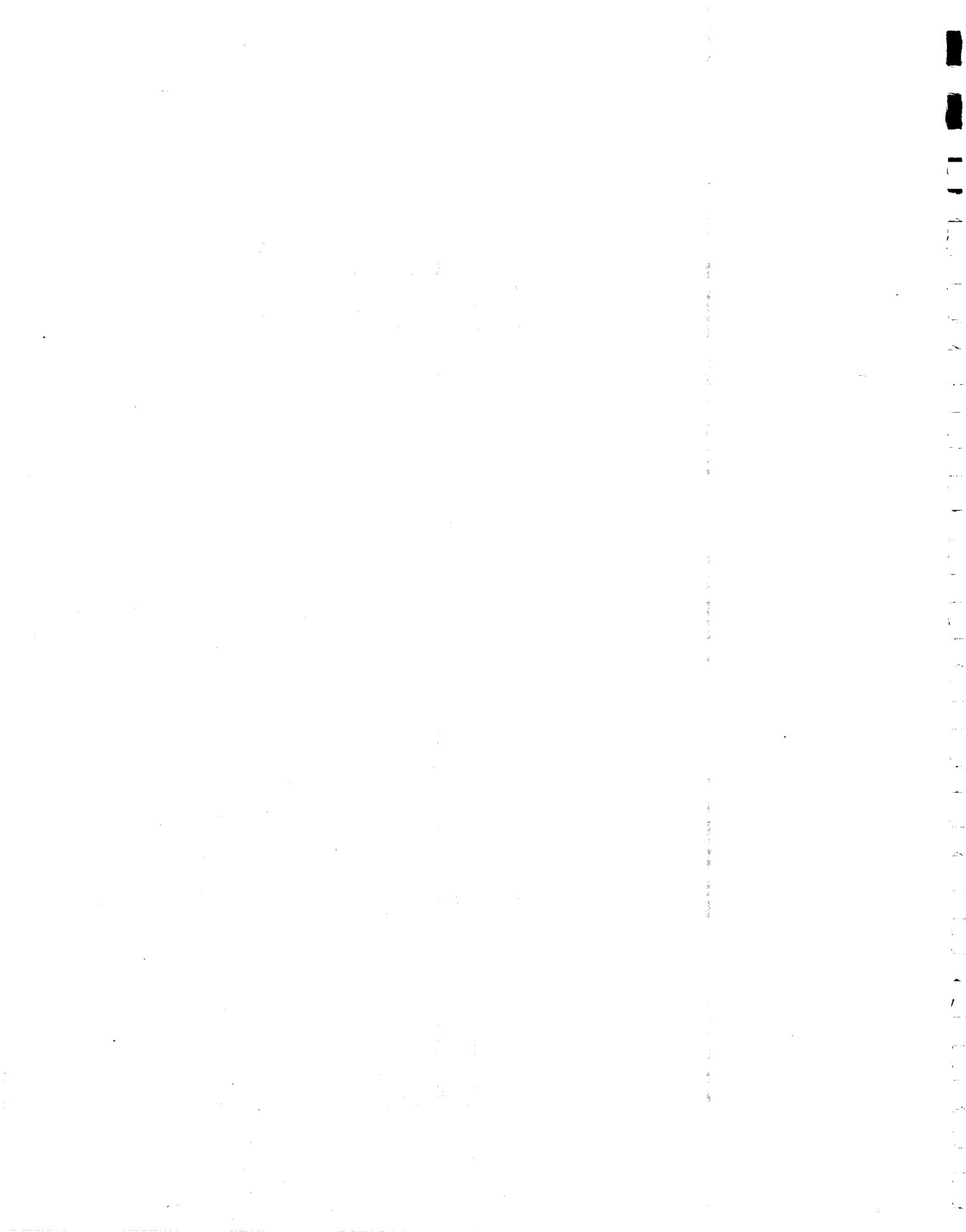
We have reviewed EJMDA's responses to the audit findings included in our draft report, which are included in Appendix I. Based upon these responses and additional supporting documentation submitted to us we have made adjustments in our report as described in Appendix II.

This report is intended for the information of the United States Agency for International Development and EJMDA's management and others within the organization. However, this report is a matter of public record, and its distribution is not limited.


Hazem Hassan & Co.
Cairo, Egypt



FUND ACCOUNTABILITY STATEMENT





Hazem Hassan

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Report on the Fund Accountability Statement Independent Auditor's Report

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

We have audited the accompanying fund accountability statement of funds received and costs incurred locally in Egypt by the Egyptian Junior Medical Doctor's Association (EJMDA) pertinent to the Private Practitioners Family Planning Project (PPFPP) for the period from March 1, 1992 through May 31, 1993. This statement is the responsibility of EJMDA's management. Our responsibility is to express an opinion on this statement based upon our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the presentation of the overall fund accountability statements. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government



Auditing Standards is not material because we have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

The aforementioned fund accountability statement does not include the cost of USAID/Egypt's direct procurement of vehicles and equipment; neither does it include the technical assistance provided by USAID/Egypt directly to EJMDA nor the total revenues and costs incurred by EJMDA on an organization-wide basis.

As described in Note 1, the accompanying fund accountability statement has been prepared on the cash basis, which is a comprehensive basis of accounting other than the generally accepted accounting principles.

In our opinion, the fund accountability statement referred to above presents fairly, in all material respects, the amounts received and the costs incurred pursuant to the Private Practitioners Family Planning Project (PPFPP) under USAID/Egypt's EJMDA Project No.263-0144 for the period from March 1, 1992 through May 31, 1993 in conformity with the basis of accounting described in Note 1.

KPMG HH

Hazem Hassan & Co.
Cairo, Egypt

June 25, 1996

The Egyptian Junior Medical Doctors Association (EJMDA)
on Private Practitioners Family Planning Project (PPFPP)
Fund Accountability Statement
Under the USAID/Egypt's Project No. 263-0144
For the Period from March 1, 1992 through May 31, 1993

	<u>\$</u>	
USAID/Egypt funds received		1,439,220

<u>Expenditures</u>	<u>Questioned Costs</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>
Training	438,630	253,514		
Marketing	911,080	597,058		
Commodities	128,136	6,509		
Continuing Education	318,040	231,692		
Administration	633,571	347,743		
Total Expenditures	2,429,457	1,436,516	---	---

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

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Egyptian Junior Medical Doctors Association
(EJMDA)
Fund Accountability Statement
Private Practitioners Family Planning Project (PPFPP)
Project No. 263-0144

Notes to the Fund Accountability Statement

Note 1: Accounting Basis

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

Note 2: Exchange Rate

The expenditures of the Private Practitioners Family Planning Project (PPFPP) Project No.263-0144, which were paid in Egyptian Pounds (LE), have been converted into US Dollars (\$). The period average exchange rate method was used. This rate ranged from LE3.33 to LE3.34 per \$1 during the period covered by our audit. The average rate used was LE3.33 per \$1.

Note 3: Basis of Presentation

The fund accountability statement is the representation and responsibility of EJMDA's management. The "Questioned Costs" columns represent audit findings and are included in the fund accountability statement for presentation purposes only.

Note 4: USAID/Egypt funds received

USAID/Egypt's funds received represent those amounts received by EJMDA for the Private Practitioners Family Planning Project during the audited period from March 1, 1992 through May 31, 1993.

Egyptian Junior Medical Doctors Association
(EJMDA)
Fund Accountability Statement
Private Practitioners Family Planning Project (PPFPP)
Project No. 263-0144

Notes to the Fund Accountability Statement

Note 5: Budget

The budget column represents the amounts allocated by USAID/Egypt for the project. It includes the Project's approved budget (as amended) for the period from October 1, 1989 through May 31, 1993 as set forth in the USAID/Egypt approved financial plan for the project.

Details of Questioned Costs
Egyptian Junior Medical Doctors Association
(EJMDA)
Fund Accountability Statement

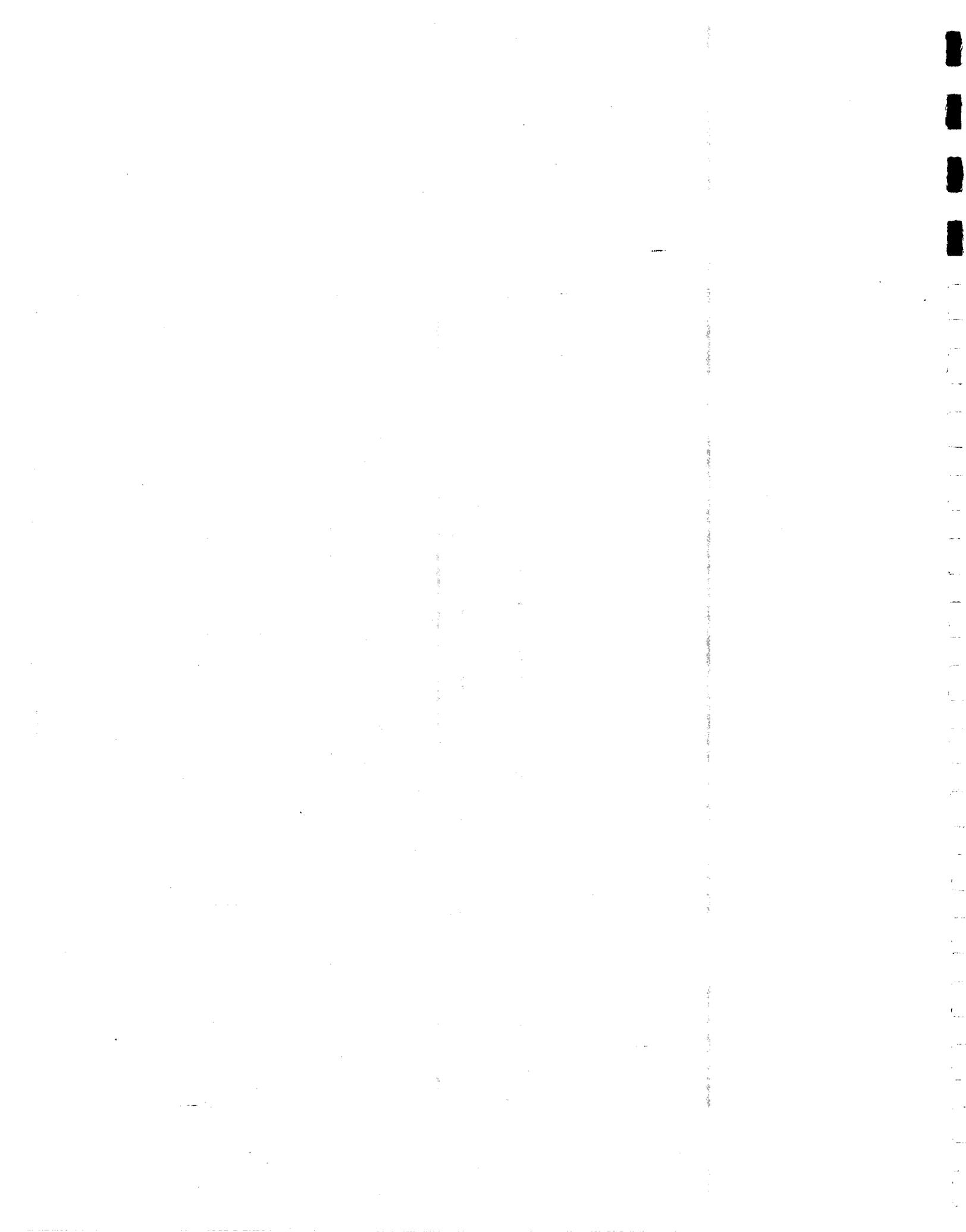
<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	\$	\$
1. <u>Training Expenses</u>		
a) Based upon the retroactive approval provided to us subsequent to the issue of the draft report, this finding was removed.	---	
b) Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding was removed.	---	
Total line item	<u>---</u>	<u>---</u>
2. <u>Marketing Expenses</u>		
a) Based upon the retroactive approval provided to us subsequent to the issue of the draft report, this finding was removed.	---	
b) Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding was removed.	---	

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	\$	\$
2. <u>Marketing Expenses (contd.)</u>		
c) The Accountant of EJMDA provided us with supporting documents which verify that this amount was deducted from the employees salaries, for the month of May, and was deposited in the bank account of the project by J.V. No. 1571 on May 30, 1993. Accordingly, this amount was refunded to the project fund and has therefore been removed from our report.	---	
d) Based upon the retroactive approval provided to us subsequent to the issue of the draft report, this finding was removed.	---	
Total Line Item	<u>---</u>	<u>---</u>
3. <u>Commodities Expenses</u>		
a) Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding was removed.	---	
Total Line Item	<u>---</u>	<u>---</u>
4. <u>Continuing Education Expenses</u>		
a) Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding was removed.	---	
Total Line Item	<u>---</u>	<u>---</u>

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	\$	\$
5. <u>Administration Expenses</u>		
a) The Accountant of EJMDA provided us with supporting documents which verify that this amount was deducted from the employees salaries, for the month of May 93, and was deposited in the bank account of the project by J.V. No. 1571 on May 30, 1993. Accordingly, this amount was refunded to the project fund and has therefore been removed from our report.	---	
b) The Accountant of EJMDA provided us with a copy of the May 1993 voucher from which the amount of LE14,328.53 was deducted as unallowable costs previously billed to USAID. This amount included the sales tax reported in our draft report. This information was obtained from the Project Officer's records. Therefore, this finding was removed.	---	
c) Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding was removed.		---
d) Based upon the retroactive approval provided to us subsequent to the issue of the draft report, this finding was removed.	---	
Total Line Item	<u>---</u>	<u>---</u>
Total Questioned Costs	<u>---</u>	<u>---</u>

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COMPLIANCE WITH LAWS AND REGULATIONS





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

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

We have audited the accompanying fund accountability statement of funds received and costs incurred of the Egyptian Junior Medical Doctor's Association (EJMDA) related to the Private Practitioners Family Planning Project (PPFPP) for the period from March 1, 1992 through May 31, 1993 and have issued our report thereon on June 25, 1996.

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 statement is free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

Compliance with laws, regulations, contracts, and grants applicable to EJMDA is the responsibility of EJMDA's management. As part of obtaining reasonable assurance about



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whether the fund accountability statement is free of material misstatement, we performed tests of EJMDA's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the fund accountability statement was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards.

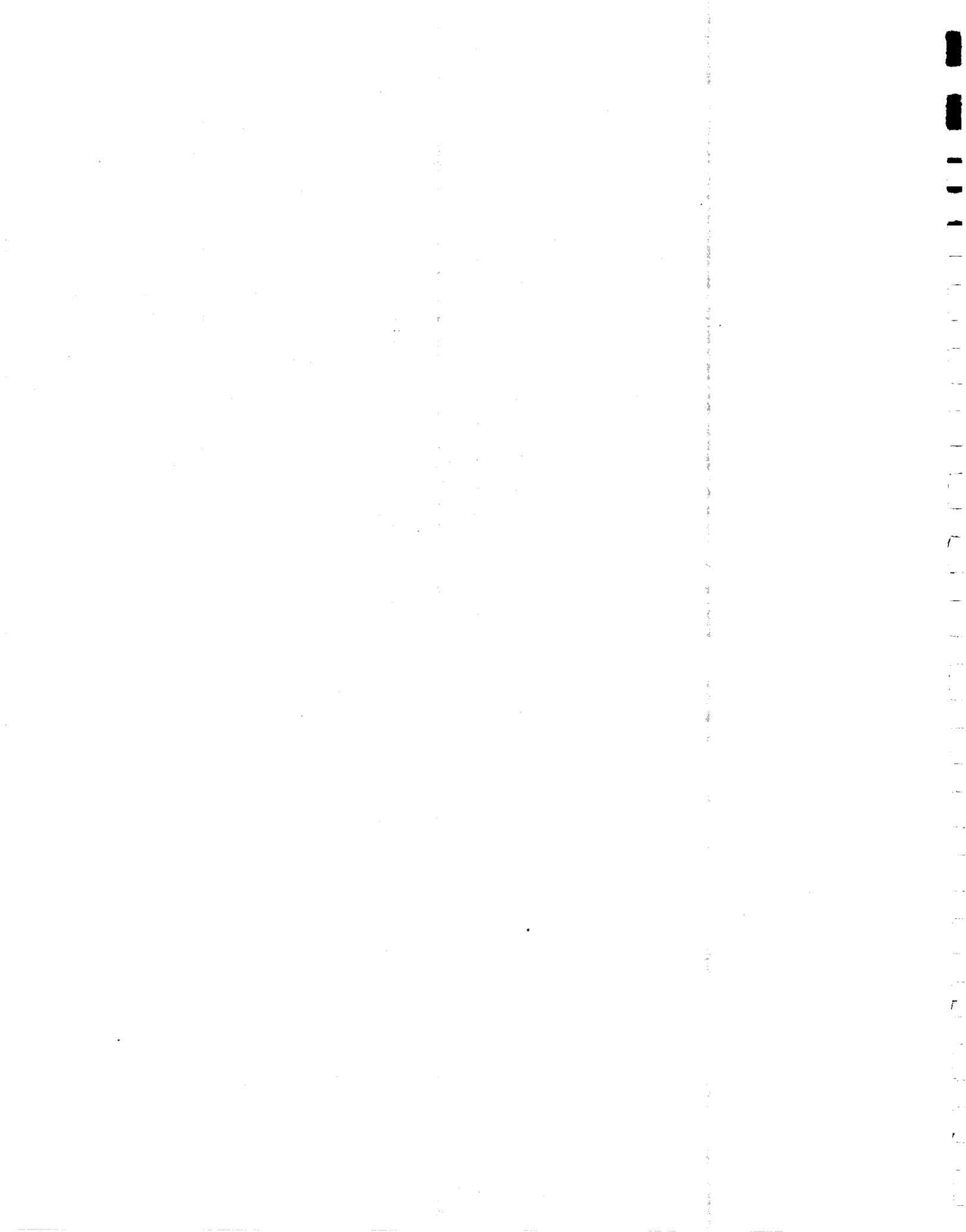
We noted certain immaterial instances of noncompliance that have been reported to EJMDA's management in a separate letter dated June 25, 1996.

This report is intended for the information of EJMDA's management and others within the organization and the United States Agency for International Development. However, this report is a matter of public record, and its distribution is not limited.


Hazem Hassan & Co.
Cairo, Egypt

June 25, 1996

FOLLOW-UP ON THE PREVIOUS NFA REPORT



Follow-up on the Previous NFA Report

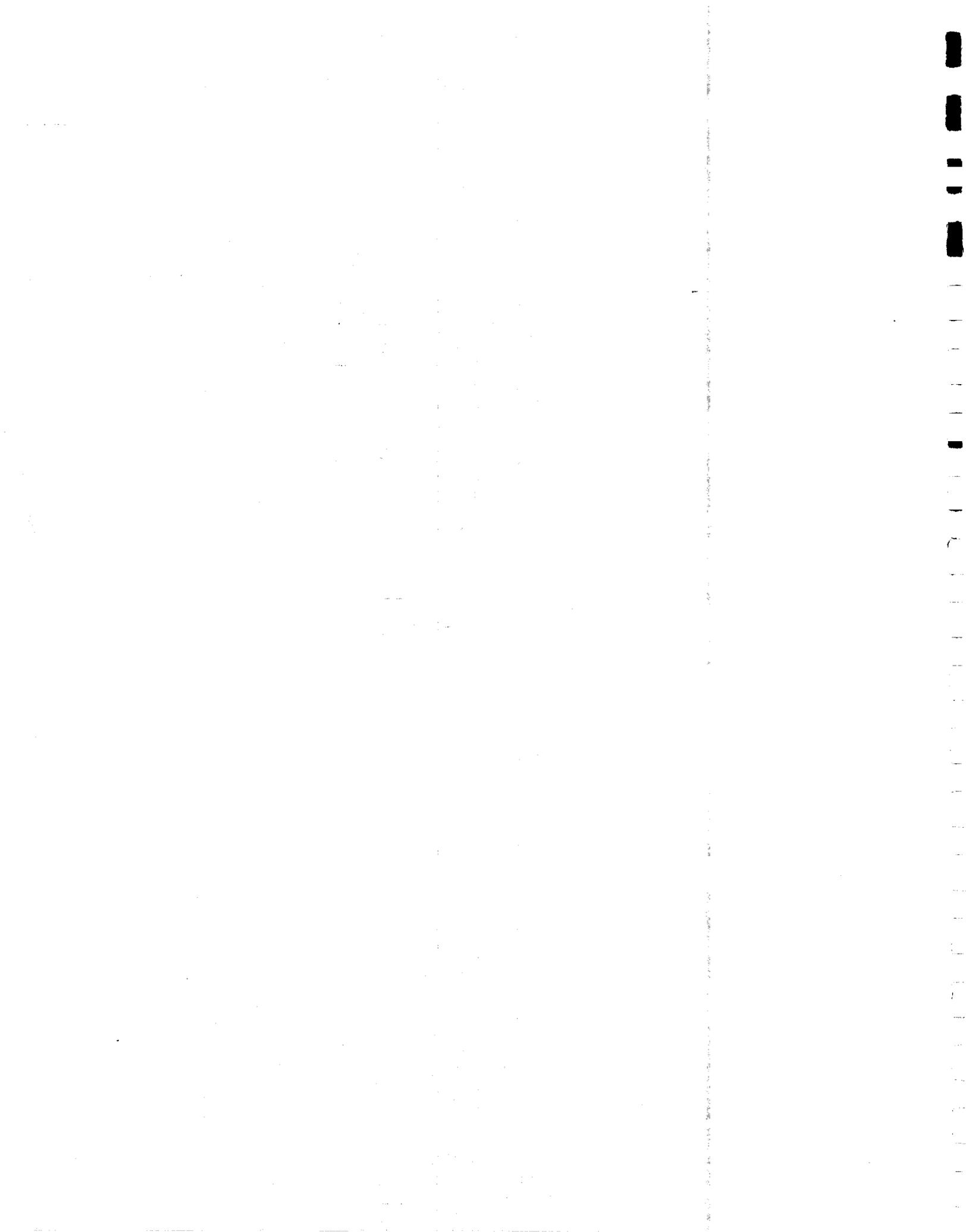
We have followed up on the findings and recommendations identified in the previous NFA report for the period from October 1, 1989 to February 29, 1992 for the Egyptian Junior Medical Doctor's Association (EJMDA) on Private Practitioners Family Planning Project (PPFPP) as required by paragraph 10 of Chapter 4 of Government Auditing Standards.

The following matters were noted in the previous audit report and required corrective action on the part of EJMDA.

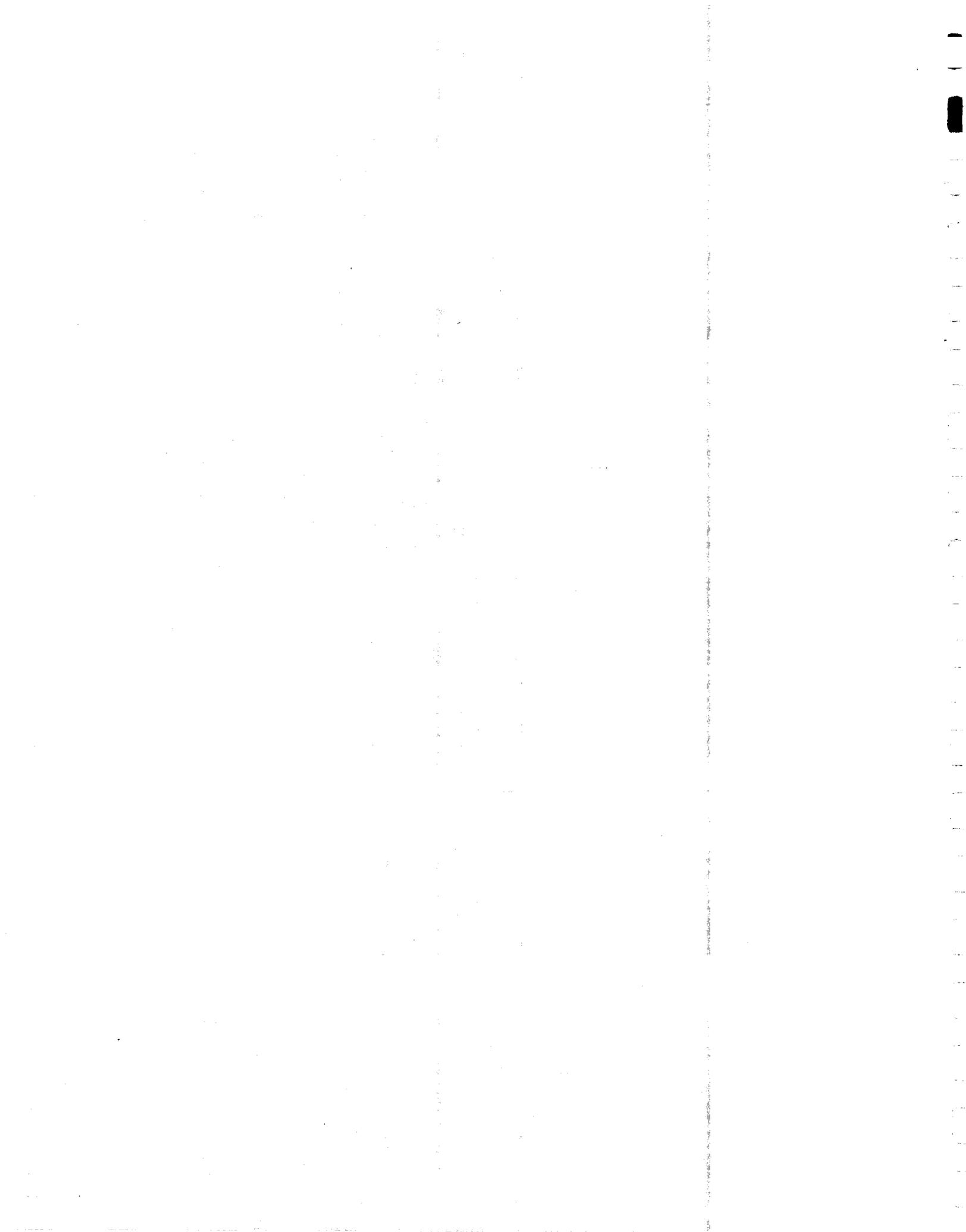
- 1) EJMDA noncompliance with Egyptian Laws regarding the calculation and deduction of payroll tax and social insurance for Project employees.
- 2) Lack of proper segregation of duties.
- 3) Lack of control over the accounts payable account.
- 4) No cancellation of invoices or other disbursement documentation upon payment.
- 5) No specific limit on cash advance disbursements and no time limit for their settlement.
- 6) Lack of safeguard controls over fixed assets.

At the time of our audit, the USAID funded activities of EJMDA had ceased operations. As a result, we were unable to determine whether or not EJMDA had taken the required corrective action noted in the previous NFA report.

With respect to the questioned costs noted in the previous NFA report, our follow-up indicated that such questioned costs had been deducted from EJMDA's subsequent billings to USAID/Egypt.

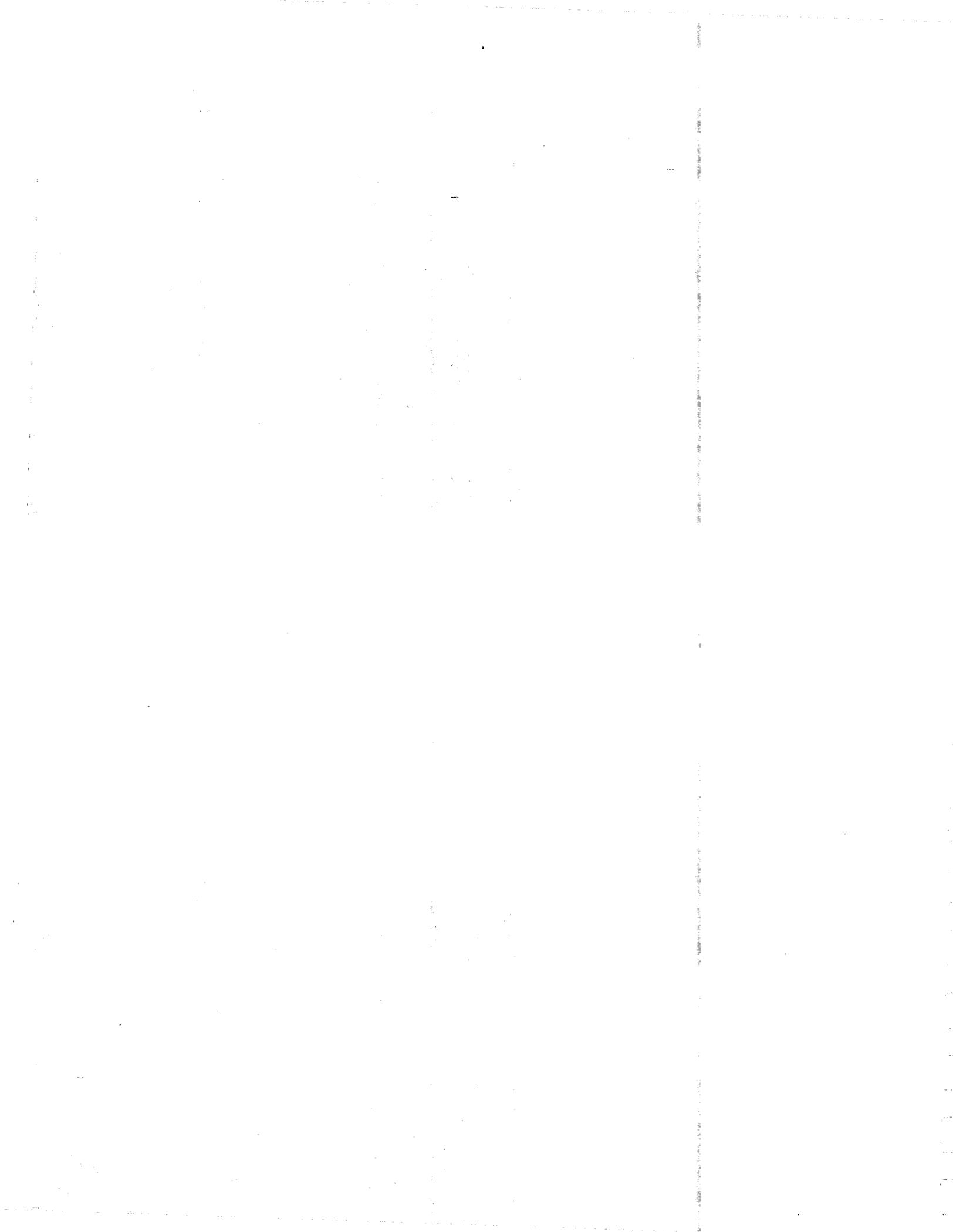


APPENDIX I
EJMDA'S MANAGEMENT RESPONSE



MANAGEMENT RESPONSE
FINANCIAL AUDIT DRAFT REPORT
EJMDA/PPFPP
PIL NO. 27- PROJECT NO.263-0144
FOR THE PERIOD MARCH, 1992 THROUGH MAY, 1993
AUGUST 29, 1996.

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FUND ACCOUNTABILITY STATEMENT

1) TRAINING EXPENSES

A. This excess amount of the approved budget was only figured during the audit assignment. The management was not aware of this fact prior to this time. A letter was sent to the project officer at USAID dated July 14, 1996 seeking his approval for reallocation of budget line items, since these over expenditures are far less than the 20% allowed between line items which is stipulated in the PIL agreement payment provision. The project officer concurred with this reallocation on his letter to EJMDA dated August 27, 1996. Enclosed is EJMDA letter to USAID, and the project officer response.

B. These equipments that represents Cauterization Kits, Pelvic Modules, and Blood sugar test kits were approved in the implementation plan of 1992/1993 under Network Organization item 2.2 Equip Physicians' Clinics. However it was not reflected in the financial plan as a separate line item. During our last meeting dated 26, August 1996 a copy of the activity plan was handed to the auditors.

2) MARKETING EXPENSES

A. The financial plan does not define this marketing tool as a calendar clock. It was defined as calendars line item no. 36. However the project officer in his letter dated 8/27/1996 agreed with the project justification regarding the purchase of the calendar clocks.

B. Adjusted entry has been noted during the visit of the auditors on 8/21/1996. It was clear to the auditors that after the adjustment this amount is no longer representing the purchase of medical equipments.

C. This amount has been deducted from the employees salaries by voucher no. 1571 dated 5/30/93 as it represents personal expenses. The auditors have observed this adjustment on their visit dated 8/21/96.

D. The final reallocation of the project budget has been approved by the project officer in his letter to EJMDA dated 8/27/96.

3) COMMODITIES EXPENSES

A. The telephone system was approved in the 1991 financial plan. It has been purchased in 1991, however the bill was not paid until 1992. As the project was following the cash basis system, this amount appeared in the ledger as of 1992 instead of 1991.

The software was approved in the implementation plan 1992/1993 under 1.4.3 Automate record keeping system. This was not reflected in the financial plan as a separate line item. A copy of the activity plan was handed to the auditors in our meeting dated 8/26/96.

4) CONTINUING EDUCATION EXPENSES

A. As stated earlier the medical equipments were approved in the implementation plan of 1992/1993, but were not reflected in the financial plan as separate line items. The purchase of the briefcases was approved by the project officer in his letter dated 8/27/1996.

5) ADMINISTRATION EXPENSES

A. This amount has been deducted from the employees salaries by voucher 1571 dated 5/30/93.

B. The organization is exempted from all taxes except sales taxes. We did not know by the time this amount was paid that it is considered ineligible for USAID. However, this amount is considered absorbed by the deduction made by USAID in the last voucher to the organization.

C. The auditors have seen the contracts of the consultants on their visit dated 8/21/96. Accordingly we consider this amount to be supported.

D. The allocation of the budget was approved by the project officer on his letter dated 8/27/1996.

COMPLIANCE WITH LAWS AND REGULATIONS

1. Since the project officer approved the budget reallocation in his letter dated 8/27/96, we think that this compliance point is cleared.
2. Since the purchase of the equipments was approved in the implementation plan of 1992/1993 which we handed the auditors a copy, this compliance point is cleared.