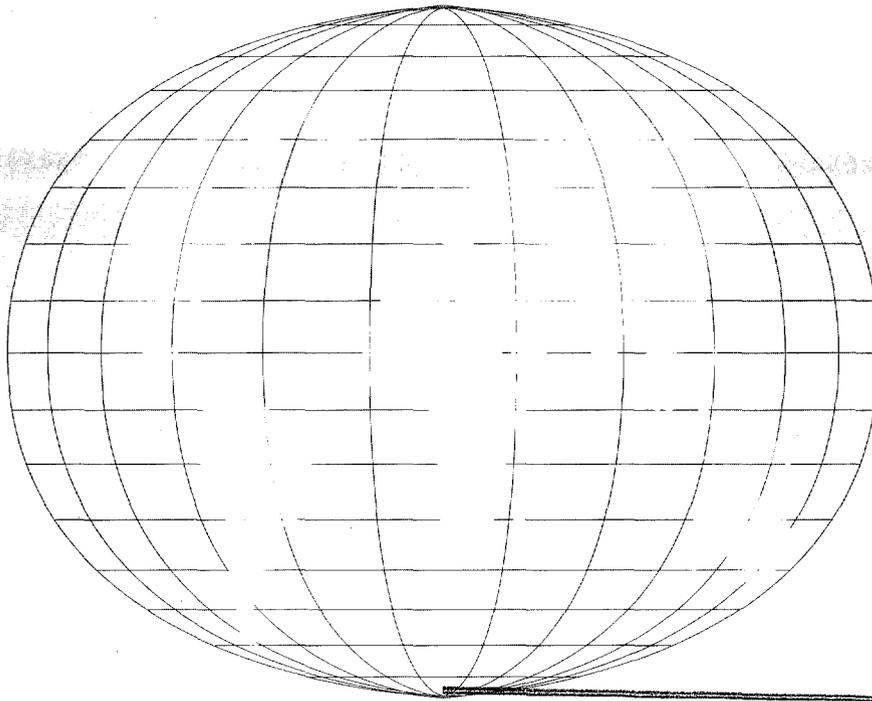


Report of Audit

PD-ABN-486

Financial Audit of the Egyptian Fertility Care Society (USAID/Egypt Cooperative Agreement No. 263-0144)

Report No. 6-263-97-07-N
November 12, 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.

Regional Inspector General for Audit
Cairo, Egypt

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

November 12, 1996

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley
FROM: RIG/A/C, Lou Mundy *Lou Mundy*
SUBJECT: Financial Audit of the Egyptian Fertility Care Society (USAID/Egypt Cooperative Agreement No. 263-0144-A-00-7035-00)

The attached report, transmitted on September 30, 1996, by Coopers and Lybrand, presents the results of a financial audit of the Egyptian Fertility Care Society (Society) as it pertains to USAID/Egypt Cooperative Agreement No. 263-0144-A-00-7035-00 under the Population and Family Planning Project (USAID/Egypt Project No. 263-0144). The purpose of the agreement was to fund a large scale introductory program of research on Norplant subdermal contraceptive implants.

We engaged Coopers and Lybrand to perform a financial audit of the Society's incurred expenditures of \$177,603 (equivalent to LE587,533) for the period October 1, 1990 through May 31, 1993. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Coopers and Lybrand also evaluated the Society's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement.

The audit report questions \$79,243 (equivalent to LE261,504) in costs billed to USAID/Egypt by the Society. The questioned costs related primarily to lack of support for salaries, benefits, subcontract, and other expenses. Additionally, the auditors noted four material weaknesses in the Society's internal control structure and one material instance of noncompliance with applicable laws, regulations and agreement terms.

In response to the draft report, responsible Society officials provided additional explanation to the report findings, however, they did not respond to the instance of material noncompliance. Coopers and Lybrand reviewed the Society's response to the findings but did not make any adjustments to the audit report (see Appendices A and B).

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

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

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

A

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

Recommendation No. 1: We recommend that USAID/Egypt make a management decision on the questioned costs of \$79,243 (ineligible costs of \$5,817 and unsupported costs of \$73,426) detailed on pages 10 through 16 of the Coopers and Lybrand audit report, and recover from the Egyptian Fertility Care Society the amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Egypt obtain evidence that the Egyptian Fertility Care Society has addressed the material internal control weaknesses (lack of support for disbursements to subcontractors, improper allocation of common costs, inadequate accounting system, and lack of employee timekeeping records) detailed on pages 18 through 21 of the Coopers and Lybrand audit report.

Recommendation No. 3: We recommend that USAID/Egypt obtain evidence that the Egyptian Fertility Care Society has addressed the material noncompliance issue (failure to maintain adequate books and records) detailed on page 24 of the Coopers and Lybrand audit report.

Recommendation No. 1 is open and will be considered to have had a management decision upon the Mission's determination of the amount of recovery; it will be considered to have had final action upon the recovery or offset of funds.

USAID/Egypt requested closure of Recommendation Nos. 2 and 3 since activities were completed under the Cooperative Agreement on May 31, 1993 and because the Mission has no active direct commitments planned for the Society. USAID/Egypt stated that should there be future activities with the Society, the Mission will ensure that the deficiencies identified are corrected by the Society prior to funding. Based on the Mission's management decision and final action, Recommendation Nos. 2 and 3 are closed upon issuance of this report.

Please advise this office within 30 days of any action planned or taken to close Recommendation No. 1. 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

3

Coopers
&Lybrand

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH COOPERATIVE AGREEMENT NUMBER 263-0144-A-00-7035-00
FOR THE NORPLANT-2 PROJECT
MANAGED BY THE EGYPTIAN FERTILITY CARE SOCIETY
UNDER THE POPULATION AND FAMILY PLANNING PROJECT NUMBER 263-0144

DURING THE PERIOD FROM
OCTOBER 1, 1990 THROUGH MAY 31, 1993

C

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
COOPERATIVE AGREEMENT NUMBER 263-0144-A-00-7035-00
FOR THE NORPLANT-2 PROJECT
MANAGED BY THE EGYPTIAN FERTILITY CARE SOCIETY
UNDER THE POPULATION AND FAMILY PLANNING PROJECT NUMBER 263-0144

DURING THE PERIOD FROM
OCTOBER 1, 1990 THROUGH MAY 31, 1993

TABLE OF CONTENTS

	<u>PAGE</u>
<u>TRANSMITTAL LETTER</u>	
Background	1
Audit objectives and scope	2
Audit results	3
Management comments	5
Independent accountants response	5
Mission response	5
<u>FUND ACCOUNTABILITY STATEMENT</u>	
Report of independent accountants	6
Fund accountability statement and notes	8
<u>INTERNAL CONTROL STRUCTURE</u>	
Report of independent accountants	17
<u>COMPLIANCE WITH AGREEMENT TERMS AND APPLICABLE LAWS AND REGULATIONS</u>	
Report of independent accountants	23
<u>APPENDICES</u>	
Appendix A: Management comments	
Appendix B: Independent accountants response	
Appendix C: Mission response	

September 30, 1996

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

Dear Mr. Mundy:

This report presents the results of our financial-related audit of United States Agency for International Development Mission to Egypt ("USAID/Egypt") resources provided through cooperative agreement number 263-0144-A-00-7035-00 for the Norplant-2 project and managed by the Egyptian Fertility Care Society ("EFCS") under USAID/Egypt's Population and Family Planning Project ("PFPP"), grant agreement number 263-0144, during the period from October 1, 1990 through May 31, 1993.

Background

The grant from USAID/Egypt to the Arab Republic of Egypt for the PFPP originated on June 30, 1983 with the objective of reducing the rate of Egyptian population growth in accordance with the Population and Family Planning Policy of the Government of Egypt ("GOE") as outlined in the "National Strategy Framework for Population, Human Resource Development and the Family Planning Program." The PFPP's primary purpose was to assist in strengthening further nationwide family planning systems in order to deliver effective contraceptive services to increasing numbers of married couples; specifically, to include private and public sector service delivery systems, training programs, community population development programs, measurement and analysis activities, and efforts to make people at all levels of society aware, informed and motivated to limit family size through a comprehensive information, education and communication program.

The responsibilities for the grant agreement's activities were assigned to several USAID/Egypt-sponsored population projects, one of which was the National Population Council ("NPC"). NPC's responsibilities under the grant agreement included population research. NPC's plan for fulfilling the research requirements of the grant agreement necessitated that a large scale introductory program of research on Norplant subdermal contraceptive implants be completed. NPC searched for an organization that would be uniquely qualified to perform such research which was EFCS. EFCS was delegated the research responsibilities as agreed upon in the cooperative agreement number 263-0144-A-00-7035-00. Established in 1974 as an affiliate of the Egyptian Medical Association, the EFCS's mission was to mobilize research resources of the medical profession toward improving the status of women's health in Egypt. The EFCS conducted the introductory program of research on Norplant under two phases, Norplant-1 and 2. Norplant-1 consisted to activities related primarily to training for the insertion of the Norplant, clinical trials, the cohort study, and acceptability studies. Norplant-2 consisted of activities related primarily to training for removal of the Norplants and a continuation of the acceptability studies conducted in

Norplant-1. The EFCS's aim under the two phases was to provide guidance and education to physicians and deregulatory agencies regarding Norplant's introduction into Egypt and its acceptance in various sectors of the Egyptian society.

Funding and management guidance was provided to EFCS for the Norplant projects through the cooperative agreement and its amendments beginning April 1, 1987 through May 31, 1993.

Audit objectives and scope

The objective of this engagement was to perform a financial-related audit of USAID/Egypt resources provided through cooperative agreement number 263-0144-A-00-7035-00 for the Norplant-2 project managed by the EFCS under the PFPP, grant agreement number 263-0144, during the period from October 1, 1990 through May 31, 1993.

Specific objectives were to:

1. express an opinion on whether the fund accountability statement for EFCS related to the cooperative agreement number 263-0144-A-00-7035-00 for the Norplant-2 project presents fairly, in all material respects, project revenues received and costs incurred during the period under audit in conformity with applicable accounting principles;
2. determine if the project costs reported as incurred by EFCS related to cooperative agreement number 263-0144-A-00-7035-00 for the Norplant-2 project during the period under audit are allowable, allocable, and reasonable in accordance with agreement terms and applicable laws and regulations;
3. evaluate and obtain a sufficient understanding of EFCS's internal control structure, assess control risk, and identify reportable conditions, including material internal control weaknesses;
4. perform tests to determine whether EFCS is in compliance, in all material respects, with agreement terms and applicable laws and regulations; and
5. determine if EFCS has taken corrective action on prior audit report recommendations.

Preliminary planning and review procedures began in March, 1996 and consisted of discussions with personnel from the Office of the Regional Inspector General for Audit in Cairo ("RIG/A/C") and EFCS, and a review of the PFPP grant agreement and the cooperative agreement number 263-0144-A-00-7035-00 for the Norplant-2 project. Audit fieldwork commenced in March, 1996 and was completed in April, 1996.

EFCS incurred project costs of \$ 177,603 (equivalent to LE 587,533) during the audit period. On a judgmental basis, we selected for audit testing project costs incurred of \$ 101,094 (equivalent to LE 334,433) which represents a coverage of 57%. Project costs incurred and tested were converted to U.S. dollars at the exchange rate of 1 U.S. dollar = LE 3.30.

Our tests of project costs incurred included, but were not limited to, the following:

1. reconciling project accounting records to billings issued by EFCS to USAID/Egypt to ensure that project costs were supported with appropriate books and records;
2. testing of project costs incurred by EFCS and funded by USAID/Egypt for allowability, allocability, reasonableness and appropriate support;
3. determining that procurement was made using sound commercial practices including competition, reasonable prices were obtained, and there were adequate controls on qualities and quantities received; and
4. reviewing travel and transportation charges to determine whether they are adequately supported and approved.

As part of our examination of EFCS, we made a study and evaluation of relevant internal controls and reviewed compliance with agreement terms and applicable laws and regulations.

Audit results

Fund accountability statement:

Our audit procedures identified \$ 79,243 (equivalent to LE 261,504) in questioned costs: \$ 5,817 (equivalent to LE 19,198) in ineligible and \$ 73,426 (equivalent to LE 242,306) in unsupported project costs.

The ineligible questioned costs related primarily to consultants' services for which EFCS could not prove allocability to the Norplant-2 project and project costs which were incurred prior to the inception or following the termination of the Norplant-2 project. The unsupported questioned costs related primarily to project costs billed to USAID/Egypt for salaries, subcontracts, and other direct costs that were not supported with adequate documentation.

Internal control structure:

We identified four reportable internal control structure weaknesses, all of which are considered material weaknesses. These reportable internal control weaknesses related to EFCS's failure to: 1) maintain proper support for disbursements to subcontractors; 2) account for common costs properly; 3) maintain an adequate accounting system; and 4) maintain adequate employee timekeeping records.

Compliance with agreement terms and applicable laws and regulations:

We identified one material instance of noncompliance with agreement terms and applicable laws and regulations related to EFCS's failure to maintain adequate books and records.

Status of prior audit findings:

For the audit completed for the Norplant-1 project for the period from April 1, 1987 through June 30, 1990, report number 6-263-91-04-N:

A. Internal Control

The prior audit noted three weaknesses involving the system of internal accounting controls surrounding the accounting function of EFCS as follows:

- 1) consolidated receipt and disbursements statements are not prepared that would enable management to monitor the financial results of the project's activities;
- 2) the project does not maintain time sheets for employees; and
- 3) EFCS's computer software does not produce expenses listings from the project's inception to date.

Current status

The findings above are also noted in the current audit. (See the Report on the Internal Control Structure, internal control weaknesses numbers 1, 3, and 4).

B. Compliance

The prior audit noted one instance of noncompliance with agreement terms and applicable laws and regulations as follows:

- 1) EFCS did not appoint a full-time executive director as recommended in the pre-award survey.

Current status

The finding above is resolved. The EFCS executive director manages the activities of Norplant-2.

Management comments

EFCS's management comments have been obtained and are included in Appendix A of this report.

Independent accountants response

In response to management's comments, we have provided further clarification of our position in Appendix B of this report.

Mission Response

The mission response is included in Appendix C of this report.

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

Coopers & Lybrand

April 24, 1996

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

**REPORT OF INDEPENDENT ACCOUNTANTS
ON THE FUND ACCOUNTABILITY STATEMENT**

We have audited the accompanying fund accountability statement of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") resources provided through cooperative agreement number 263-0144-A-00-7035-00 for the Norplant-2 project managed by the Egyptian Fertility Care Society ("EFCS") under USAID/Egypt's Population and Family Planning Project ("PFP"), grant agreement number 263-0144, during the period from October 1, 1990 through May 31, 1993. This fund accountability statement is the responsibility of EFCS's management. Our responsibility is to express an opinion on this fund accountability statement based on our audit.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 31 of Chapter 3 of *Government Auditing Standards* since 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 participate in the Coopers and Lybrand worldwide internal quality control program which requires the Coopers and Lybrand Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Coopers and Lybrand offices.

As described in Note 2, the accompanying fund accountability statement was prepared on the basis of cash receipts and disbursements which is a comprehensive basis of accounting other than generally accepted accounting principles.

As detailed in the accompanying fund accountability statement and as more fully described in Note 4 thereto, the results of our tests disclosed \$ 5,817 in ineligible and \$ 73,426 in unsupported project costs. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program-related or are prohibited by agreement terms or applicable laws and regulations. Project costs that are unsupported are those that are not supported with adequate documentation.

In our opinion, except for the effects of the questioned project costs as discussed in the preceding paragraph, the fund accountability statement referred to in the first paragraph presents fairly, in all material respects, project costs incurred by EFCS through cooperative agreement number 263-0144-A-00-7035-00 for the Norplant-2 project under the PFPP, grant agreement number 263-0144, during the period from October 1, 1990 through May 31, 1993 in conformity with the basis of accounting described in Note 2.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 24, 1996 on our consideration of EFCS's internal control structure and a report dated April 24, 1996 on its compliance with agreement terms and applicable laws and regulations.

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

Coopers & Lybrand

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
COOPERATIVE AGREEMENT NUMBER 263-0144-A-00-7035-00
FOR THE NORPLANT-2 PROJECT
MANAGED BY THE EGYPTIAN FERTILITY CARE SOCIETY
UNDER THE POPULATION AND FAMILY PLANNING PROJECT NUMBER 263-0144

DURING THE PERIOD FROM
OCTOBER 1, 1990 THROUGH MAY 31, 1993

FUND ACCOUNTABILITY STATEMENT

<u>Budget Line Item</u>	<u>Budget</u> (Note 1)	<u>Actual</u> (Note 1)	<u>Questioned Project Costs</u>		<u>Finding</u> <u>Reference</u>
			<u>Ineligible</u> (Note 4),	<u>Unsupported</u> (Note 4)	
Revenues received		\$ <u>166,192</u>			
Salaries and benefits	\$ 62,899	\$ 60,804	\$ -	\$ 18,425	Page 11, A
Consultants	15,934	12,105	3,194	-	Page 14, B
Subcontracts	28,715	20,610	-	19,695	Page 15, C
Other direct costs	<u>86,625</u>	<u>84,084</u>	<u>2,623</u>	<u>32,317</u>	Page 16, D
Totals before net over billing	194,173	177,603	5,817	70,437	
Net over billing	-	-	-	<u>2,989</u>	Page 16, E
TOTALS	\$ <u>194,173</u>	\$ <u>177,603</u>	\$ <u>5,817</u>	\$ <u>73,426</u>	

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

**FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
COOPERATIVE AGREEMENT NUMBER 263-0144-A-00-7035-00
FOR THE NORPLANT-2 PROJECT
MANAGED BY THE EGYPTIAN FERTILITY CARE SOCIETY
UNDER THE POPULATION AND FAMILY PLANNING PROJECT NUMBER 263-0144**

**DURING THE PERIOD FROM
OCTOBER 1, 1990 THROUGH MAY 31, 1993**

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF STATEMENT:

The "Budget" column includes all USAID/Egypt-approved project costs related to cooperative agreement number 263-0144-A-00-7035-00 for the Norplant-2 project and is based on the most recent budget amendment within the audit period. This information is presented for informational purposes only.

The "Actual" column represents cumulative project costs incurred by EFCS related to cooperative agreement number 263-0144-A-00-7035-00 for the Norplant-2 project during the period from October 1, 1990 through May 31, 1993.

NOTE 2 - BASIS OF PRESENTATION:

The fund accountability statement of EFCS has been prepared on the basis of cash receipts and disbursements. Consequently, incurred project costs are recognized when paid rather than when the obligation is incurred and project revenues are recognized when received.

NOTE 3 - FOREIGN EXCHANGE:

Project costs incurred in Egyptian pounds have been converted to U.S. dollars at the exchange rate of 3.30 LE to 1 U.S. dollar. The exchange rate used is the average monthly free market exchange rate for the audit period from October 1, 1990 through May 31, 1993 as quoted by the Cairo Barclays Bank.

NOTE 4 - QUESTIONED PROJECT COSTS:

Questioned project costs are presented in two separate categories -- ineligible and unsupported. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program-related or are prohibited by agreement terms or applicable laws and regulations. Unsupported project costs are those that are not supported with adequate documentation.

Questioned project costs identified as either ineligible or unsupported are detailed as follows:

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

Questioned Project Costs
Ineligible Unsupported

Item Description

A. Salaries and benefits

1. We noted that EFCS employees do not maintain time records that account for their daily activities. EFCS employees are only required to prepare daily attendance reports that indicate their arrival and departure times.

The allocation of employee time to the Norplant-2 project was made in an arbitrary manner that (1) was not supported by adequate timekeeping records (2) fluctuated from one month to the next and (3) was dependent on the funds available from the various donor agencies.

Salary costs for an organization such as EFCS that administers many donor agency funds should ideally be included in an indirect cost pool. The indirect cost pool should then be allocated to the various funds administered by the organization. As EFCS does not maintain an indirect cost pool, it is crucial that timekeeping records be maintained for employees which clearly document the amount of time spent on the various donor's activities.

To cite an example, 100% of the executive director's salary was charged to the Norplant-2 project, although the executive director's time was spent in administering all of the EFCS funds. This occurred because EFCS management did not understand the benefits of maintaining proper time sheets.

EFCS management contends that a fixed percentage was charged to the Norplant-2 project for each employee every month. However, our review indicated that the percentages charged varied from month to month for each

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

	Questioned Project Costs	
<u>Item Description</u>	<u>Ineligible</u>	<u>Unsupported</u>
A. Salaries and benefits (continued)		
employee and management was not able to provide a reasonable justification for the varying percentages.		
Effectively, the Norplant-2 project was charged salary costs for personnel who worked on non-USAID/Egypt sponsored activities.		
In addition, EFCS charged the employer's share of social security. Such payments are not allowable for USAID/Egypt reimbursement.		
Because EFCS cannot support either the salary cost charged or the portion attributable to the employer's share of social security charged to the Norplant-2 project, the entire amount charged to the Norplant-2 project for salaries and benefits has been questioned.	\$ -	\$ <u>18,425</u>
Total salaries and benefits	\$ -	\$ <u>18,425</u>
B. Consultants		
EFCS was authorized under the agreement with USAID/Egypt to hire consultants for activities that directly benefit the Norplant-2 project. EFCS contracted with ten consultants during the audit period and paid those consultants from the consultant budget provided by USAID/Egypt. EFCS was not able to demonstrate that certain services rendered by four of these consultants benefitted the Norplant-2 project commensurate with the amount		

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

Questioned Project Costs
Ineligible Unsupported

Item Description

B. Consultants (continued)

billed to the Norplant-2 project. For all ten consultants, the only support provided was a contract signed by the consultants and a signed receipt evidencing that the consultants received payment from EFCS. However, for six of the ten consultants, we were able to determine through alternative audit procedures that these amounts were appropriately charged to the Norplant-2 project.

We were not able to verify that the activities conducted by the remaining four consultants directly benefitted the Norplant-2 project. We can, therefore, not conclude that 100% of the costs charged by these consultants should be paid for by the Norplant-2 project. The consulting services may be legitimate expenses to the EFCS organization and accordingly, these costs should have been accumulated in an indirect cost pool of which a portion may have been allocated to the Norplant-2 project.

EFCS management contends that expenses for EFCS consultants are allocated to projects based on the size of the fund rather than how the particular service benefits the various donors' activities. Based upon our audit work, the entire billing to the Norplant-2 project for these consultants is questioned.

The details of the four questioned consulting contracts are explained below:

1. EFCS contracted with a legal consultant to provide legal assistance and advice to EFCS. The cost of the contract was entirely charged to the Norplant-2 project. However, no evidence was provided proving that the work actually

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
<p>B. Consultants (continued)</p> <p>performed was directly related to the Norplant-2 project. The only services actually performed by the legal consultant involved matters related to a disgruntled former EFCS employee and an investigation from the social security department. The agreement with USAID/Egypt states specifically that the USAID/Egypt grant officer approves the direct charging of fees for services directly related to the project. Further, the consultant was hired on a retainer basis which is unreasonable given that legal advice is readily available in the market.</p>	\$ 606	\$ -
<p>2. EFCS contracted with a technical consultant for the Norplant-2 project, whose services were not specifically outlined in the contract. However, we were informed by EFCS management that the services provided related to cheque authorization. EFCS also employed a project director and a senior accountant who also perform cheque authorization procedures.</p> <p>No timekeeping records were kept by the consultant, and therefore, there was no documentation of the actual time which related to the Norplant-2 project activities to support the payments made.</p>	\$ 776	\$ -
<p>3. EFCS contracted with a tax consultant on a retainer basis to provide assistance to the Norplant-2 project. The cost of the contract was entirely charged to the Norplant-2 project. However, no evidence was provided proving that the work performed related to the Norplant-2 project.</p>	1,667	-

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

		<u>Questioned Project Costs</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
<u>Item Description</u>			
B. Consultants (continued)			
4.	EFCS contracted with a medical consultant to provide certain medical services to the Norplant-2 project staff. The payments for the consultant were charged entirely to the Norplant-2 project. EFCS did not provide a list of names of patient-employees that were served. Therefore, it was unclear whether the EFCS employees served include any of the Norplant-2 project staff. Therefore, the entire contract amount has been questioned.	<u>145</u>	<u>-</u>
Total Consultants		<u>3,194</u>	<u>-</u>
C. Subcontracts			
1.	All expenditures related to the subcontracts budget line item were for payments made to contracted physicians to follow-up on the Norplant cases under experimentation.		
	However, upon performing our detailed testing, we noted that EFCS could not provide original forms as support for payments made to physicians. See our Report on the Internal Control Structure, Internal Control Weakness No. 1, for more details.		
	All tested expenditures were unsupported by the original forms because EFCS was unable to access the original support. Only internally generated		

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
C. Subcontracts (cont.)		
documents were provided as support. Accordingly, the total expenditures charged to the subcontracts budget line item are unsupported.	\$ -	\$ <u>19,695</u>
Total Subcontracts	<u>-</u>	<u>19,695</u>
D. Other direct costs		
1. EFCS classified the Norplant-2 project expenditures in the other direct costs budget into eighteen sub-budget line items. Ten of the eighteen sub-budget line items were allocated to the project without the benefit of reasonable justification for doing so. The cost for these various services, goods, etc. were either entirely or partially charged to the Norplant-2 project. However, no evidence was provided proving that the services, goods, etc. actually performed were directly related to the Norplant-2 project. We have, therefore, questioned the portions charged to the Norplant-2 project for the ten budget line items in question.	\$ -	\$ 32,317
2. Office rent was charged to the Norplant-2 project under the utilities sub budget line item for two months after the project ended. The project's extended completion date was May 31, 1993. Rent for June and July, 1993 was charged.	1,818	-
3. An automobile insurance policy was paid in May and was charged to the Norplant-2 project for eleven months after the project ended. The project's		

NOTE 4 - QUESTIONED PROJECT COSTS (CONTINUED)

<u>Item Description</u>	<u>Questioned Project Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
D. Other direct costs (cont.)		
extended completion date was May 31, 1993. Insurance for June, 1993 through April, 1994 was charged to the Norplant-2 project, therefore, eleven-twelfths of the insurance charge has been questioned.	625	-
4. Phone and telex charges were billed to the Norplant-2 project that were incurred prior to the project's inception. The project's inception date was October, 1990. Phone and telex charged for August and September, 1990 were charged to the Norplant-2 project and are, therefore, ineligible for reimbursement.	<u>180</u>	<u>-</u>
Total Other direct costs	<u>2,623</u>	<u>32,317</u>
E. Net over billing		
1. The billings to the Norplant-2 project for our audit period exceeded the amounts recorded in the project's books and records. The differences occurred within the salaries and benefits and the consultants budget line items. EFCS cannot explain the source of or the reason for the differences.	\$ <u>-</u>	\$ <u>2,989</u>
Total Net over billing	<u>-</u>	<u>2,989</u>
TOTAL EFCS QUESTIONED PROJECT COSTS	\$ <u>5,817</u>	\$ <u>73,426</u>

April 24, 1996

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

**REPORT OF INDEPENDENT ACCOUNTANTS
ON THE INTERNAL CONTROL STRUCTURE**

We have audited the fund accountability statement of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") resources provided through cooperative agreement number 263-0144-A-00-7035-00 for the Norplant-2 project managed by the Egyptian Fertility Care Society ("EFCS") under USAID/Egypt's Population and Family Planning Project ("PFPP"), grant agreement number 263-0144, during the period from October 1, 1990 through May 31, 1993, and have issued our report thereon dated April 24, 1996 in which we qualified our opinion due to the effect of \$ 79,243 in ineligible and unsupported project costs.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 31 of Chapter 3 of *Government Auditing Standards* since 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 participate in the Coopers and Lybrand worldwide internal quality control program which requires the Coopers and Lybrand Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Coopers and Lybrand offices.

The management of EFCS is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the fund accountability statement in

accordance with the cash disbursements method. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of EFCS's fund accountability statement as described in the first paragraph, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to record, process, or summarize, and report financial data consistent with the assertions of management in the fund accountability statement.

REPORTABLE CONDITIONS

1. EFCS did not maintain proper support for disbursements to subcontractors.

Physicians from five Egyptian universities have entered into subcontracts with EFCS related to experimentation with Norplant. In accordance with EFCS procedures, the university-affiliated physicians submit preprinted EFCS claim forms to their respective universities in order to receive remuneration for their services. The university then forwards the claim form to EFCS. The claim form is technically reviewed and approved by the EFCS project coordinator, who then prepares a disbursement request for each of the five universities. The disbursement request lists only the number of claim forms for each type of consultation and is multiplied by the appropriate unit price and is approved by the EFCS project director. The claim forms are then filed by university. The authorized disbursement request is the only supporting document maintained and readily available by EFCS as support for the disbursements made to the universities.

As a result of the current system surrounding disbursements to subcontractors, the EFCS accounting department was not able to trace disbursements made to the subcontractors, and reimbursed by USAID/Egypt, to the claim forms. Therefore, the only support provided by EFCS was the approved disbursement request, which does

not include any relevant information to support the payments made to the universities. USAID/Egypt requires that all disbursements for which they are billed be supported with adequate, verifiable, third-party documentation.

We also noted that claim forms may be submitted for payment more than once. Although EFCS data entry clerks stated that it was impossible to enter a claim form for the same service more than once, we noted that it had, in fact, occurred.

This breakdown in controls over disbursements to subcontractors occurred generally as a result of insufficient knowledge and understanding by EFCS management in the importance of maintaining supporting documentation for incurred expenditures and of what constitutes a sound internal control system.

Recommendation 1

We recommend that the EFCS claim forms and disbursement requests be redesigned and include a serial number that is coded to indicate the university, date, service, payment order, etc. so that the disbursement request may be traced to the claim forms. The claim forms should then be filed by serial number and not by university. Disbursement requests should be filed to correspond with USAID/Egypt billings.

* * * * *

2. EFCS did not account for common costs properly.

EFCS receives funds from several donor agencies for varying durations, funding levels, and activities. Prior to October, 1990, EFCS used an USAID/Egypt-approved indirect cost rate. However, Modification 4 of the USAID Cooperative Agreement allowed EFCS to discontinue its use and authorized the charging of all expenditures on a direct cost basis.

The charging of costs on a direct cost basis is an acceptable method provided, however, that the organization's expenditures are readily identifiable with the particular grant or contract being charged and the process of apportioning common costs is not unduly burdensome. For example, if a copying machine is used for activities relating to ten different projects or donor agencies, a counter or other device must be used to apportion the costs of operating the machine among the ten projects. The organization must be prepared and equipped to maintain such detailed records for common costs to meet the verification requirements of the various donors.

Although EFCS was authorized by USAID/Egypt to discontinue use of its indirect cost rate, the EFCS accounting system is simply not equipped to account for and allocate its common costs among the various donor agencies. Currently, the EFCS accountant arbitrarily allocates each voucher among the various projects in an arbitrary and subjective manner without the ability to support the allocation made.

Recommendation 2

We recommend that EFCS be required to establish an organization-wide indirect cost rate. The allocation of indirect costs and the computation of the indirect cost rate may be accomplished by (i) separating the EFCS total costs as either direct or indirect, and (ii) dividing the total allowable indirect costs by an equitable distribution base (i.e. total direct costs). Due to the inadequate accounting system and the inability to recreate proper records, the establishment of an indirect cost rate should be done prospectively and would require technical assistance from an USAID/Egypt-approved CPA firm.

* * * * *

3. The EFCS accounting system is not adequate for USAID/Egypt agreements.

A well-designed and functioning system of internal controls is required for all projects financed by USAID/Egypt. The weaknesses we noted in the EFCS system of internal accounting control may reduce the system's ability to adequately monitor and control the processing, accumulating and reporting of financial information. Specifically, we noted that:

- 1) EFCS did not maintain a proper general ledger; only a chronological listing of all transactions related to the EFCS's organization-wide expenditures is kept;
- 2) transactions are recorded according to the due date rather than the date actually paid. For example, March salaries may be recorded in March even though the salary was not paid until July; and
- 3) consolidated receipts and disbursements statements are not prepared. As a result, EFCS management is not able to properly monitor the financial results of the project's activities.

The inadequate accounting procedures used at EFCS occurred primarily because a proper accounting policies and procedures manual was not available for use and the EFCS management has insufficient experience with and knowledge of what constitutes a proper accounting system.

Recommendation 3

We recommend that an accounting policies and procedures manual be developed that is specific to the EFCS operations and complies with USAID/Egypt requirements. The manual should be flexible to allow for adaptation to the various donors requirements. EFCS accounting staff should then be trained on the proper application of the accounting procedures contained in the manual. Finally, EFCS management should consider the merits of using a computerized accounting system, especially in light of

the future demands placed on EFCS if they are required to use an indirect cost rate to account for its common costs.

* * * * *

4. EFCS did not maintain adequate employee timekeeping records.

We noted that EFCS employees do not maintain time records that account for their daily activities. EFCS employees are only required to prepare daily attendance reports that indicate their arrival and departure times.

The allocation of employee time to the various donor agencies is made in an arbitrary manner that (1) is not supported by adequate timekeeping records (2) fluctuates from one month to the next and (3) is dependent on the funds available from the donor agencies.

Timekeeping records provide the "input" data for preparing salary billings to the donor agencies; therefore, the records should provide reliable evidence that employees have worked the time which is being charged to the donor agencies. Adequately maintained time records will reasonably ensure that donors are charged for only the portion of the employees' time that is attributable to their sponsored activities. Inadequate timekeeping records can lead to donors being billed for employee costs that do not benefit their activities and employees being remunerated for time not worked. In addition, inadequate timekeeping records may prevent EFCS management from properly monitoring employees' performance.

Recommendation 4

We recommend that EFCS emphasize proper payroll processing controls by requiring that all EFCS employees prepare timekeeping records which segregate time worked by donor or project. Review and approval of hours worked, hours of overtime and other special benefits should be performed by the employee's immediate supervisor who has knowledge of the authenticity of the hours worked and the EFCS Executive Director. Such approval should be documented on the employee's timekeeping records or other supporting document before the pay is processed. In addition, the EFCS accountant should update each employee's vacation balance from the timekeeping records on a monthly basis.

* * * * *

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

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

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

Coopers & Lybrand

April 24, 1996

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

**REPORT OF INDEPENDENT ACCOUNTANTS
ON COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS**

We have audited the fund accountability statement of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") resources provided through cooperative agreement number 263-0144-A-00-7035-00 for the Norplant-2 project managed by the Egyptian Fertility Care Society ("EFCS") under USAID/Egypt's Population and Family Planning Project ("PFPP"), grant agreement number 263-0144, during the period from October 1, 1990 through May 31, 1993, and have issued our report thereon dated April 24, 1996 in which we qualified our opinion due to the effect of \$ 79,243 in ineligible and unsupported project costs.

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

We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 31 of Chapter 3 of *Government Auditing Standards* since 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 participate in the Coopers and Lybrand worldwide internal quality control program which requires the Coopers and Lybrand Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Coopers and Lybrand offices.

Compliance with agreement terms and applicable laws and regulations for EFCS is the responsibility of EFCS's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests of compliance with EFCS's agreement terms and applicable laws and regulations. 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 of compliance disclosed the following instance of material noncompliance with the provisions discussed in the preceding paragraph:

MATERIAL NONCOMPLIANCE

1. EFCS failed to maintain adequate books and records as required by the cooperative agreement.

The details of the questioned costs of \$ 79,243 are included in our Report of Independent Accountants on the Fund Accountability Statement.

Specifically, we noted that EFCS failed to:

- ◆ present third-party support for subcontractor costs;
- ◆ account for common costs properly;
- ◆ invoice USAID/Egypt for incurred costs as reported in their books and records; and
- ◆ maintain adequate employee timekeeping records.

Recommendation 1

We recommend that EFCS comply with their USAID/Egypt cooperative agreement by designing and implementing an accounting system that meets USAID/Egypt donor requirements.

* * * * *

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

Coopers & Lybrand

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
COOPERATIVE AGREEMENT NUMBER 263-0144-A-00-7035-00

MANAGEMENT COMMENTS

الجمهورية المصرية لرعاية الخصوبة

Egyptian Fertility Care Society

Cairo, September 26, 1998

URGENT

Mr. Jeffery Hentges
Director
Coopers & Lybrand Egypt
Tiba 2000 Center
Ras El Adawya
Nasr City, Cairo

Subject: Response to Draft NFA Report on the Egyptian Fertility Care Society,
Norplant 2 Project, Local Expenditures incurred under the Population
and Family Planning Project No. 263-0144-A-00-7035-00 (October 1,
1990 to May 31, 1993)

Dear Mr. Hentges,

Further to EFCS Note for the Record sent dated September 10, 1998 to the USAID which addressed procedural aspects/problems of your firm's preparation and submission of the above-referenced draft report and the fact that findings listed in the report were not discussed with EFCS in an audit closeout meeting; EFCS hereby responds to notes included in the report:

A. Response to the "Report of Independent Accountants on the Internal Control Structure:

Note No. 1. (Page 19)

The first note (payment to investigators is based on claim forms prepared by the university-affiliated physicians) reflects a grave ~~misunderstanding~~ of the nature of the work supported under the audited grant. Please note that:

a) This second component of the Norplant Project was developed for continuation of already ongoing research activities carried out by a number of investigators assigned at the five research centers, with the same bases for cost estimation and billing applied in the continuation grant;

b) The costs allocated/ spent under the budget line "Subcontracts" were to compensate co-investigators for their time and in-house costs not in terms of fixed monthly salary payments, but in terms of "per form payments" actually received, scanned and processed at EFCS;

c) A schedule of the rates for each paid form took into consideration the type of service provided at the clinic in relation to case follow-up. Study forms, and not as stated "claim forms" are submitted by the research centers on a monthly basis for all follow-ups completed during the preceding month. These are reviewed by the project technical staff, then processed, and data problems are reported to the co-

25

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
COOPERATIVE AGREEMENT NUMBER 263-0144-A-00-7035-00

MANAGEMENT COMMENTS

Mr. Jeffery Henzges
September 26, 1998
page 2

Investigator. Actual date of payment for a given form may take place in the month following its receipt as forms are some times returned to the centers for correction and re-shipping with the next shipment and when finally accepted, a payment advice covering all processed forms by type for each center is issued;

d) A fixed procedure is applied in all research projects carried out by EFCS: batches of forms processed are advised to the concerned project coordinator upon completion of data entry and cleaning activities. All accepted forms are authorized for payment to the respective investigator by the project coordinator, co-signed by the program officer and then authorized for payment by the executive director. Double payment is not possible as these forms are unique (there is only one 2nd year follow up visit and the data processing program is designed to pick up any double entries in this regard); the forms are then filed in the patient files -immediately- as they were subject to review by external data quality reviewers at any point in the study (our study coincided with the FDA review of international studies involving Norplant worldwide);

e) Due to the continued follow-up of cases for a period of five years, or till removal of the contraceptive method, filing of patient records cannot be kept/filed with the payment invoice/ receipt. Patient records have to be maintained in separate patient files which are kept active for periodic reviews, data cleaning and technical monitoring purposes;

f) Your staff (audit team and their supervisor) were informed of all the above and of the fact that EFCS maintains all patient records on site for a certain period after completion of all related data analysis functions. All study records are then boxed by center and transfer to the EFCS stores where they are kept for a period of five years (more than what is required by all our contracts). For the purpose of establishing third party requirements, EFCS brought back boxes of forms for two of the five participating centers and made them available for auditors review. Review finally took place by the USAID itself on Monday 23rd Sept.;

Conclusion: Both notes are inaccurate, in fact supporting documents (i.e., data collection forms) are present for all forms payments made to co-investigators and not double payments were made to any of the investigators in the form of forms payments.

Note No. 2. (page 20)

Negotiation of this grant was made on the basis that EFCS no longer operated under an overhead cost basis, that all project costs are billed on a direct basis. Estimates of these costs was based on the expenditure levels of the previous grant. Allocation of costs did not vary for estimates in this project and in all other operated projects. Accordingly, all costs were billed as direct costs and there was no requirement stated in the project contract that states we needed to justify our billing of project costs, even those of an indirect cost nature.

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
COOPERATIVE AGREEMENT NUMBER 263-0144-A-00-7035-00

MANAGEMENT COMMENTS

Mr. Jeffrey Heniges
Egypt, March 23, 1990
page 3

Your recommendation that EFCS establishes an organization-wide indirect cost rate assumes that all funding agencies will accept to pay that rate. In fact, only USAID is willing to do so and all our other major donors refuse to support overheads. This was the underlying factor behind our changing the accounting system as of October 1990 as went into three major contracts with WHO, Ford Foundation and UNFPA who declined coverage of indirect costs, and would only accept direct billing of all costs related to their projects. Since EFCS does not have any private/unobligated funds to draw on in case of shortages in coverage of fixed costs, we were obliged to change the bases of our contracts, and this was approved by the USAID/FM. Please see project contract and financial reports submitted to the USAID.

Note No. 3 (page 21)

Both points (1) and (2) are inaccurate and we contest findings. EFCS maintains both general ledger for the whole organization and by project (the latter is computerized) and both were reviewed by the junior auditors assigned by your firm to perform this audit. Recording of transactions is made upon payment and not as stated (example given is not even possible, salaries in particular cannot be deferred for four months - unless there is a drastic shortage of funding, i.e. a crisis situation). As to point (3) a consolidated receipts and disbursements report is prepared on a quarterly basis, corroborated by bank statements and are forwarded with the periodic financial reports.

An EFCS Policies and Procedures Manual has been developed since 1987 as part of a Deloit, Haskins and Sells consultancy that prepared EFCS for the USAID Pre-Award Audit performed prior to the signature of the Norplant Project Contracts. With the exception of the indirect cost pool, all items on the chart of accounts set by DHS are still used in our accounting system. We also adhere to the set of procedures that ensure internal control as per their advice. EFCS involved in financial management, budgeting and accounting are already trained on the system and both a manual and a computerized system of book-keeping are operated to fulfill the requirements of funding agencies and Egyptian laws. Your staff never requested to see that manual, but it is already there.

Note No. 4 (page 22)

Statement is inaccurate: audit team were given time sheets prepared for the purpose of billing staff time for fully and partially supported staff members. Only staff fully supported by the grant received 100% of their salaries from the project. In addition to time sheets, EFCS maintains attendance time cards which indicate the hours of office attendance for all employees (those were also shown to the auditors). It is the responsibility of EFCS management to assign project duties and authorize payments for staff time for activities usually included in the periodic reports forwarded to the USAID/Population Office. Supporting documents were provided and are available for review.

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
COOPERATIVE AGREEMENT NUMBER 263-0144-A-00-7035-00

MANAGEMENT COMMENTS

Mr. Jeffrey Hentges
September 28, 1998
page 4

Please be advised that the letter dated April 24, 1998 (referred to on page 23 and other pages in the audit report) was never forwarded to EFCS and was included only with the draft audit report. As you are aware, audit findings were not discussed with EFCS, which would have eliminated many of the comments listed.

The following notes respond to the findings listed in the Questioned Project Costs as Incurred in Egyptian Pounds as they appeared on pages 10-17 of the draft audit report.

A. Salaries & Benefits (page 10)

1. Note is inaccurate, time records are present for salaries paid to project staff. Staff fully or partially supported by the project were required to keep record of time spent on carrying out project activities. ~~Your note about the executive director being paid 100% by the grant (2nd paragraph, page 11) is inaccurate.~~ Fluctuations in the percentage of time billed to the project for different staff members reflects the fact that time sheets were kept and maintained throughout the project. No payments were made for non-project staff or non-USAID/Egypt sponsored activities.

2. Since we do not operate on an indirect cost rate basis, all EFCS staff, except for management and accounting staff, are hired on a project basis (they are not permanent staff) to perform specific tasks related to project operation. Your recommendation assumes that all donor agencies accept to pay overheads, which as mentioned earlier is not true.

3. As for the "Employer's Share" in the social insurance, EFCS is a non-profit, non-governmental organization that depends totally on projects for operation of its activities. The salaries and benefits amount for each staff member includes both employer's and employee's share of the social insurance paid monthly as required by Egyptian laws (please see EFCS Policies and Procedures Manual for full details on salaries and benefits paid to employees). Moreover, this was never noted by any of our auditors as either ineligible or unallowable, it has already been approved by the respective donor agency, in this case, the USAID.

B. Consultants (page 13)

None of the consultants hired under the present grant were hired without a contract that specified duties and expected outcomes, which were directly related to the Norplant 2 Project. Reports prepared periodically included the outcome of the assigned duties performed by the ten hired consultants.

1. A legal consultant handled all contractual aspects of the Norplant 2 Project and his time was paid for after services actually rendered.

2. A financial consultant provided technical services twice weekly (3 hours each visit) for review of accounting procedures, outstanding payments and co-signature of checks as is required by EFCS Bylaws.

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
COOPERATIVE AGREEMENT NUMBER 263-0144-A-00-7035-00

MANAGEMENT COMMENTS

Mr. Jeffrey Heritage
September 18, 1998
page 5

3. The services of a tax advisor were hired for establishing tax files for all EFCS employees and to follow up on compliance with our projects with the Egyptian tax laws. Each project was billed its share of the consultancy based on the number of staff working on the project.

4. A medical consultant was hired on a call basis to assess the allowability of reported sick leaves for authorization purposes. Norplant 2 Project was charged a minimal amount for calls made for project staff only.

C. Subcontracts (page 15)

Finding contested: A detailed responses is given above. Case reports/data collection forms are available at EFCS if further review of the supporting documents is still required

D. Other Direct Costs (page 18)

1. All costs were entered, billed and reported on a direct cost basis. Justification of why these costs were ~~estimated~~ at the rates stated was based on experience in the first grant (Norplant Project) and were billed as they were directly related to project activities. As to basis of cost allocation, partial or total billing depends on the nature of the expenditure (if a training session is held to train co-investigators working in the research study, all related costs - such as stationery, photocopying, audio-visual materials - are billed to the project). Activity reports prepared on a three-monthly basis support these types of expenditures and are available for auditors review.

2. Statement is inaccurate: ~~No payment was made for June-July, 1998 office space rental and paid their share till May 31st only.~~ In other words, despite the fact that office rental is paid by EFCS on an annual basis, the project was billed its share of this cost for the duration of the contract only and not as stated.

3. Project ~~can insurance~~ is paid annually, covering liabilities/damage for the duration of the year. It is not possible to make monthly or even quarterly installments as this affects the cost of insurance and type of cover. As for the Liability Insurance Policy covering both EFCS and co-investigators against malpractice law suits, this insurance could not have been interrupted and had to be kept active even between project contracts. In any case, the addition months coverage was credited to the subsequent USAID grant funded by USAID-Population Council for continuation of Norplant project activities.

4. Telephones and telex costs incurred in a given month may be billed at the end of its quarter, i.e. after closeout of project books and start of new ones. As these costs were directly related project operation, we had no other alternative but to bill them to the Norplant grant operated at time of billing.

FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
COOPERATIVE AGREEMENT NUMBER 263-0144-A-00-7035-00

MANAGEMENT COMMENTS

Mr. Jeffery Montges
September 26, 1966
page 6

E. Net Over-billing (page 17)

1. Finding stated is inaccurate: supporting documents are present for all paid out amounts. Salaries and consultation fees in particular are very well documented as these relate to specific terms stated in the project contract. Documentation is available for review upon request.

I hope that our response covers all points mentioned in the audit report. We certainly needed to work with you rather than respond to an already prepared report. We, therefore kindly ask that you take all the above into consideration, the circumstances surrounding preparation of this audit report, the fact that we had no chance to discuss audit findings with your staff first prior to submission of the report to USAID in revising the audit findings and the preparation of the final audit report.

Your kind assistance in this matter will be appreciated.

Sincerely,



Prof. Ezzeldin Osman Haasan
Executive Director

cc: USAID/FM

**FINANCIAL-RELATED AUDIT OF USAID/EGYPT RESOURCES
PROVIDED THROUGH
COOPERATIVE AGREEMENT NUMBER 263-0144-A-00-7035-00
FOR THE NORPLANT-2 PROJECT
MANAGED BY THE EGYPTIAN FERTILITY CARE SOCIETY
UNDER THE POPULATION AND FAMILY PLANNING PROJECT NUMBER 263-0144**

**DURING THE PERIOD FROM
OCTOBER 1, 1990 THROUGH MAY 31, 1993**

INDEPENDENT ACCOUNTANTS RESPONSE

During the entrance conference held at the USAID/Egypt offices on March 31, 1996, EFCS management selected the EFCS accountant to oversee the audit and as the individual to whom we were to direct our audit findings and recommendations.

All relevant audit findings and recommendations were discussed with the EFCS accountant and Project Director during the performance of the audit. A final close-out meeting was held on April 24, 1996 to discuss all continuing audit findings. This meeting took place with the EFCS accountant prior to issuance of the draft audit report. The EFCS Project Director was invited to attend this meeting, but he was not available. However, as mentioned above, he was informed of all audit findings and recommendations during the course of the audit.

The management response to the draft audit report is due within thirty days of the closing conference which was held at USAID/Egypt offices on July 29, 1996. An additional two-week extension was granted by USAID/Egypt to EFCS to give consideration to EFCS's statement that it was not made aware of the audit findings and due to the technical complexities of the draft audit report. Subsequently, a second two-week time extension for the receipt of EFCS management comments was granted by USAID/Egypt. Accordingly, EFCS was allowed an additional one month extension over the normal thirty-day management response period.

The deadline for receipt of management comments was, therefore, extended to September 26, 1996. We did not receive their comments until September 29, but have, nevertheless, included them in their entirety in Appendix A.

In response to EFCS management comments, we have including our response below. Please note that the finding references correspond to those used in the draft and final audit reports.

INDEPENDENT ACCOUNTANTS RESPONSE (CONTINUED)

INTERNAL CONTROL

Point 1, page 19

Management's response is noted but it does not change the validity of our recommendation.

EFCS's response included an explanation of their system for paying subcontractor costs which is consistent with our understanding. We continue to assert that EFCS is unable to tie costs billed to USAID/Egypt to third-party documentation.

Point 2, page 20

Management's response is noted but it does not change the validity of our recommendation.

Regardless of whether EFCS used a direct or an indirect cost system, USAID/Egypt requires that all disbursements for which they are billed be supported with verifiable support for the allocation.

EFCS's comments that they receive funding from various donor agencies who do not agree to reimburse for overhead in no way effects the USAID/Egypt grant. If other donors do not accept to pay their share of indirect costs, it does not obligate USAID/Egypt to assume those costs.

Point 3, page 21

Management's response is noted but it does not change the validity of our recommendation.

Point 4, page 22

Management's response is noted but it does not change the validity of our recommendation.

A meeting was conducted between the EFCS Project Director and Coopers & Lybrand to discuss the benefits of maintaining proper time keeping records. Also present at this meeting were the EFCS Financial Consultant and the EFCS Project Administrative Manager. The EFCS Project Director does not believe that time keeping records serve

INDEPENDENT ACCOUNTANTS RESPONSE (CONTINUED)

any useful purpose because such records could easily be adjusted to agree with the billing to USAID/Egypt.

QUESTIONED COSTS

A. Salaries and benefits, page 10

Management's response is noted but it does not change the validity of the finding.

EFCS provided our audit team with daily attendance reports that indicated the employees' arrival and departure times. We were not provided with records that would substantiate the salaries and benefits charged to USAID/Egypt. Had EFCS provided us with time records to substantiate such charges, this amount would not have been questioned.

The employer's share of social insurance is not eligible for USAID/Egypt reimbursement as stated in the Population and Family Planning Umbrella Grant Agreement. EFCS must obtain alternative funding for costs not reimbursable by USAID/Egypt.

B. Consultants, page 13

Management's response is noted but it does not change the validity of the finding.

We were not able to verify that the activities conducted by the four consultants directly benefitted the Norplant-2 project. We can, therefore, not conclude that 100% of the costs charged by these consultants should be paid for by the Norplant-2 project.

C. Subcontracts, page 15

Management's response is noted but it does not change the validity of the finding.

See response above under Internal Control, Point 1.

INDEPENDENT ACCOUNTANTS RESPONSE (CONTINUED)

D. Other direct costs, page 16

Management's response is noted but it does not change the validity of the finding.

1. USAID/Egypt reimburses on an actual incurred costs basis and not on an estimated costs basis. EFCS management stated that, "costs were estimated at the rates stated was based on experience with the first grant..."
2. EFCS did not provide documents to support their statement related to rental payments.
3. USAID/Egypt reimburses actual costs incurred for the benefit of the projects it supports for a specified project implementation period. Costs incurred for periods before or after the project period are not eligible for USAID/Egypt reimbursement.
4. EFCS did not provide documents to support their statement related to telephone payments.

E. Net overbilling, page 17

Management's response is noted but it does not change the validity of the finding.

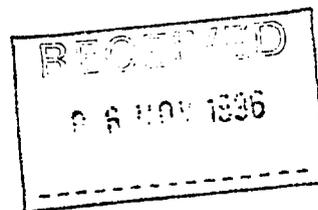
As a standard auditing procedure, we compared the billings issued by EFCS to USAID/Egypt to the EFCS chronological listing of transactions. Where differences occurred, we asked for an explanation. Differences that could not be explained or reconciled were questioned.

USAID



CAIRO, EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT



MEMORANDUM

DATE : November 6, 1996

TO : Lou Mundy, RIG/A/C

FROM : Eric Schaeffer, A/OD/FM/FA *ES*

SUBJECT : Financial Audit of the Egyptian Fertility Care Society, Norplant 2 Project, Local Currency Expenditures Incurred under the Population and Family Planning project No. 263-0144.
Draft Report dated October 6, 1996

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

Recommendation No. 1:

We recommend that USAID/Egypt make a management decision on the questioned costs of \$79,243 (ineligible costs of \$5,817 and unsupported costs of \$73,426) detailed on pages 10 through 16 of the audit report, and recover from the Egyptian Fertility Care Society the amounts determined to be unallowable.

Mission Response:

Mission is working with EFCS to resolve and close this recommendation.

Recommendation Nos. 2 and 3 on internal control and non-compliance:

The EFCS Cooperative Agreement was completed on May 31, 1993. There are currently no active direct commitments with EFCS, and none are anticipated in the future. Therefore, it is not cost effective to require EFCS to address the internal control and non-compliance issues identified in the audit. However, should there be future activities with EFCS, Mission will ensure that the deficiencies identified are corrected by EFCS prior to provision of funds.

Based on the above, Mission requests closure of Recommendations 2 & 3.