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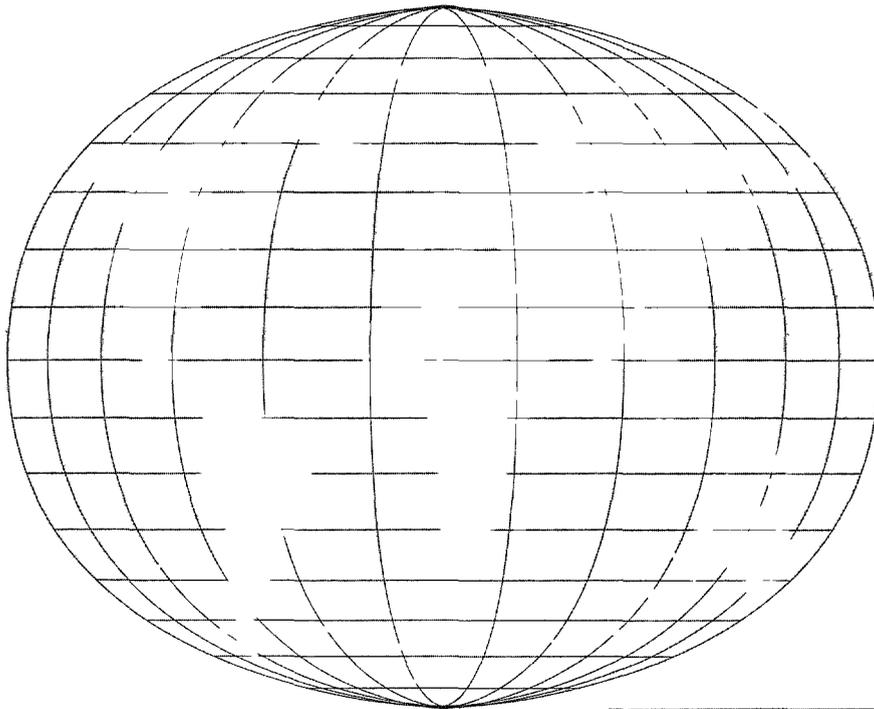
# Report of Audit

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**Financial Audit of the Ministry of Health's  
Systems Development Project II, Costs Incurred Under  
USAID/Egypt's Population/Family Planning III  
Project No. 263-0227**

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**Report No. 6-263-98-021-N  
March 22, 1998**



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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

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**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

**Report No 6-263-98-021-N**  
March 22, 1998

**MEMORANDUM**

TO DIRECTOR USAID/Egypt, John R Westley  
FROM RIG/A/Cairo, Lou Mundy *Lou Mundy*  
SUBJECT Financial Audit of the Ministry of Health's Systems Development Project II, Costs Incurred Under USAID/Egypt's Population/Family Planning III Project No 263-0227

The attached report, transmitted on February 17, 1997, by Mohamed Hilal & Co (Mohamed Hilal), presents the results of a financial audit of the Ministry of Health's Systems Development Project II (the "Project") The audit related to costs incurred under Project Implementation Letter (PIL) No 4B of USAID/Egypt's Population/Family Planning III Project No 263-0227 during the period April 1, 1996 through June 30, 1997 The purpose of the Project was to contribute to the level and effectiveness of contraceptive use among married couples through delivery of clinic-based Ministry of Health services USAID/Egypt issued PIL No 4B to support comprehensive "up-grading" of the Ministry of Health's Family Planning Service System in 27 Egyptian governorates by increasing family planning service volume, improving quality of family planning services, and strengthening the Ministry of Health's management infrastructure

We engaged Mohamed Hilal to perform a financial audit of \$3,093,844 (equivalent to LE10,519,071) in USAID/Egypt funds reimbursed to the Project under PIL No 4B The purpose of the audit was to evaluate the propriety of the costs incurred during the audit period The auditors also evaluated the Project's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming their opinion regarding the Fund Accountability Statement

The auditors questioned costs of \$1,835 (equivalent to LE6,241) related principally to costs reimbursed by USAID/Egypt for sales taxes paid by the Project to various suppliers The auditors did not report any material weaknesses with regard to the Project's internal control structure, or any instances of material noncompliance with applicable laws, regulations and agreement terms However, the auditors did identify one reportable condition, which they did not consider to be a material weakness, relating to the Project's budgetary control process

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In response to the draft report, Project officials provided additional documentation and explanations to the report findings. Mohamed Hilal reviewed the Project's response to the findings and, where applicable, made adjustments to the report (see Appendices A and B).

The following recommendation is included in the Office of Inspector General's recommendation follow-up system:

**Recommendation No 1** We recommend that USAID/Egypt make a management decision on the questioned costs of \$1,835 (\$1,610 ineligible and \$225 unsupported) detailed on pages 12 through 14 of the Mohamed Hilal & Co 's audit report, and recover from the Ministry of Health any amounts determined to be unallowable.

In response to Recommendation No 1, USAID/Egypt officials determined that the entire questioned amount of \$1,835 (\$1,610 ineligible and \$225 unsupported) was sustained as unallowable. The sustained amount was consequently deducted from the recipient's next reimbursement voucher. Based on this management decision and final action, Recommendation No 1 is closed upon issuance.

The reportable condition, detailed on pages 16-17 of the Mohamed Hilal report, relating to the Project's internal control structure, should be resolved directly between USAID/Egypt and Project management.

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

Attachment a/s

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Audit Of USAID Resources Managed by the  
Ministry of Health's Systems Development Project II,  
Under Project Implementation Letter (PIL) No 4B,  
USAID/Egypt Project No 263-0227  
For the period from April 1, 1996 through June 30, 1997



Audit of USAID Resources Managed by the  
Ministry of Health's Systems Development Project II,  
Under Project Implementation Letter (PIL) No 4B,  
USAID/Egypt Project No 263-0227  
For the period from April 1, 1996 through June 30, 1997

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Ministry of Health's Systems Development Project II,  
Under Project Implementation Letter (PIL) No 4B,  
USAID/Egypt Project No 263-0227

**INTRODUCTION**

February 17 1998

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

Dear Mr Mundy

This report presents the results of our financial audit of United States Agency for International Development (USAID) resources managed by the Ministry of Health's Systems Development Project II (SDP II), under Project Implementation Letter (PIL) No 4B, Project No 263-0227 for the period from April 1, 1996 through June 30 1997

### **Background**

The Ministry of Health (MOH) is the principal public institution for the delivery of family planning services in Egypt. It is the implementing agency of the Systems Development Project II (SDP II). SDP II is one of eight subprojects under the USAID/Egypt Population/Family Planning III umbrella Project. It is the largest and most important subproject to directly increase the level and improve the effectiveness of contraceptive use in Egypt. The purpose of SDP II is to contribute to the level and effectiveness of contraceptive use among married couples through delivery of clinic-based MOH services.

USAID/Egypt has issued PIL No 4B to support comprehensive "up-grading" of the MOH Family Planning Service System in 27 Egyptian governorates by increasing family planning service volume, improving quality of family planning services and strengthening MOH management infrastructure.

PIL No 4B has been amended eight times through June 30, 1997. The PIL amendments primarily increased the committed budget and reallocated funds between the budgeted line items. Amendment No 8 was issued on December 18, 1996 to increase the total commitment to \$7,177,890 (equivalent to LE 24,404,825).

A prior Non-Federal Audit (NFA) was conducted for PIL No 4B for the period from April 1 1994 through March 31, 1996, and the report was issued on October 24, 1997 During our audit we performed certain follow-up procedures related to the findings and recommendations set forth in the previous NFA report

### **Audit Objectives and Scope**

The objective of this engagement was to conduct a financial audit of USAID resources managed by SDP II and provided through PIL No 4B, USAID/Egypt Project No 263-0227 The audit covered the period from April 1, 1996 through June 30, 1997

The specific objectives of this audit were to

- 1 Express an opinion on whether the Fund Accountability Statement for PIL No 4B, USAID/Egypt Project No 263-0227, presents fairly, in all material respects, project funds received and costs incurred for the period under audit in conformity with generally accepted accounting principles or another comprehensive basis of accounting,
- 2 Determine if the costs reported as incurred under the PIL are in fact allowable, allocable and reasonable in accordance with the term of the agreement,
- 3 Evaluate and obtain a sufficient understanding of the internal control structure of the grantee, assess control risk, and identify reportable conditions including material internal control weaknesses,
- 4 Perform tests to determine whether the grantee complied, in all material respects with the PIL terms and applicable laws and regulations,
- 5 Determine if the grantee has taken corrective actions on prior audit report recommendations

The preliminary planning and review procedures started in July 1997 and consisted of the following actions

- Meeting with Regional Inspector General for Audit in Cairo (RIG/A/Cairo) officials, the Project Officer, the USAID Audit Liaison and the recipient's management to gain an understanding about the project activities and ascertain any concerns that should be addressed in our audit



- Understanding the recipient's operation including its organizational structure and the external and internal factors affecting its operation
- Identifying significant accounts and accounting applications, the important budget lines items, significant provisions of laws and regulations and relevant controls over the recipient's operations
- Performing a preliminary risk assessment to identify high-risk areas and plan the Governorate sites to visit

The fieldwork segment of our audit commenced on September 23, 1997 and was completed on December 14, 1997. The scope of our work was to audit costs incurred by SDP II and reimbursed by USAID/Egypt under PIL No. 4B during the period from April 1, 1996 through June 30, 1997.

Our audit included an examination of costs incurred in the SDP II Central Office and the SDP II offices of the selected Governorates (Beheira, Damiat, Kalubia, Gharbia, Sharkia and Qena) during the period from April 1, 1996 through June 30, 1997. It also included an examination of the funds received from USAID during the same period, and reconciliation of the fund balance as of June 30, 1997 with the recipient's cash balance.

Within each budget line item, we selected transactions on a judgmental basis to perform a substantive test of details. The total expenditures tested at the Central Office and the six Governorates included in our sample was \$973,739 (equivalent to LE 3,310,711) out of total expenditures of \$3,093,844 (equivalent to LE 10,519,071) which represents a coverage of 31% of the total expenditures incurred during the audited period. Project costs incurred and tested were converted to U.S. dollars at the applicable exchange rate.

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

1. Reconciling SDP II accounting records to invoices issued to USAID/Egypt and testing costs for allowability, allocability, reasonableness and adequate supporting documentation,
2. Determining whether the costs incurred by SDP II and funded by USAID/Egypt were appropriate consistent with the terms of the PIL and applicable rules and regulations and adequately supported.
3. Testing the adequacy of SDP II internal controls to reasonably assure that
  - Assets funded by USAID were safeguarded against loss from unauthorized acquisition, use or disposition,

- Transactions were executed in accordance with the approved budget and significant provisions of applicable laws and regulations and,
- Transactions were properly recorded, processed and summarized to permit the preparation of the fund accountability statement and to maintain accountability of the project's assets

## **Results of Audit**

### **Fund Accountability Statement**

Our audit identified total questioned costs of \$1,835 (equivalent to LE 6,241), which are divided into ineligible costs of \$1,610 (equivalent to LE 5,476) and unsupported costs of \$225 (equivalent to LE 765)

### **Internal Control Structure**

Our audit identified one reportable condition related to the recipient's internal control structure. It is also related to the budgetary control process. However, we do not consider this reportable condition to be a material weakness. This matter is fully described in our report on internal controls. We also noted other immaterial matters involving the internal control structure which we have reported to the SDP II management in a separate management letter dated December 14, 1997.

### **Compliance with Laws and Regulations**

Our audit did not identify any material instance of noncompliance with agreement terms and applicable laws and regulations. We noted other immaterial instances of noncompliance which we have reported to the SDP II management in a separate management letter dated December 14, 1997.

### **Follow up on Prior Audit Recommendation**

We have reviewed a prior independent auditor's report dated October 24, 1996. The prior report identified one reportable condition associated with the employee attendance sheet maintained at SDP II's Central Office, but the auditors did not consider this reportable condition to be a material weakness. We have considered this weakness in performing our audit and we noted that the recipient has properly addressed the prior auditor's recommendation.



### **Management Comments**

SDP II management comments have been obtained and are included in Appendix A of this report. In response to SDP II management's comments, we have either adjusted the final report or provided further clarification of our position in Appendix B of this report.

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

*M. H. Hilal*

GTI -Mohamed Hilal & Co ,  
Cairo, Egypt



Ministry of Health's Systems Development Project II,  
Under Project Implementation Letter (PIL) No 4B,  
USAID/Egypt Project No 263-0227

**FUND ACCOUNTABILITY STATEMENT**

**Report on the Fund Accountability Statement**  
**Independent Auditor's Report**

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

We have audited the accompanying fund accountability statement of the Ministry of Health's Systems Development Project II (SDP II), under Project Implementation Letter (PIL) No 4B, Project No 263-0227 for the funds received and project costs incurred during the period from April 1, 1996 through June 30, 1997. The fund accountability statement is the responsibility of SDP II's management. Our responsibility is to express an opinion on this statement based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. 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 presentation of the fund accountability statement. 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 GTI worldwide internal quality control program. This program requires our office to be subjected, every three years to an extensive quality control review by partners and managers from other GTI 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 5 thereto, the result of our tests disclosed total questioned costs of \$1,835 (equivalent to LE 6,241), which are divided into ineligible costs of \$1,610 (equivalent to LE 5,476) and unsupported costs of \$225 (equivalent to LE 765)

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the fund accountability statement referred to in the first paragraph, presents fairly, in all material respects, SDP II's fund balance as of June 30, 1997, and its funds received and costs incurred during the period from April 1, 1996 through June 30, 1997, on the basis of accounting described in Note 2

In accordance with Governmental Auditing Standards, we have issued two separate reports both dated December 14, 1997, the first on SDP II's internal control structure and the second on its compliance with laws and regulations

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



GTI -Mohamed Hilal & Co ,  
Cairo, Egypt

December 14, 1997

Ministry of Health / SDP II  
Population/Family Planning Project III  
Project No 263-0227  
Pil No 4B

**Fund Accountability Statement**

April 1, 1996 to June 30, 1997

Total USAID/Egypt Funds Received \$  
6,445,390

<u>Expenditures Elements</u>	<u>Total Budget</u>	<u>Actual Expenditures</u>			<u>Questioned Costs</u>		<u>Finding No</u>
		<u>From Inception to 3/31/96</u>	<u>From 4/01/96 to 6/30/97</u>	<u>As of 6/30/97</u>	<u>Ineligible</u>	<u>Unsupported</u>	
	\$	\$	\$	\$	\$	\$	
Training	1,864,963	685,828	880,588	1,566,416	0	0	1
Workshops	262,259	32,610	132,491	165,101	0	0	
Administration	1,974,099	700,324	1,071,339	1,771,663	0	0	2
Renovation	985,472	305,454	476,991	782,445	0	225	3
Supplies	1,077,954	458,932	490,867	949,799	1,610	0	4
IES/SDP	41,540	3,025	9,194	12,219	0	0	
Contingency	208,794	0	0	0	0	0	
Raedat Refeyat	762,809	0	32,374	32,374	0	0	
<b>Total</b>	<b>7,177,890</b>	<b>2,186,173</b>	<b>3,093,844</b>	<b>5,280,017</b>	<b>1,610</b>	<b>225</b>	
<b>Fund Balance</b>				<b>1,165,373</b>			

\* The accompanying notes are integral part of this fund accountability statement



Ministry of Health's Systems Development Project II,  
Under Project Implementation Letter (PIL) No 4B,  
USAID/Egypt Project No 263-0227

**Notes to the Fund Accountability Statement**

**For the period from April 1, 1996 through June 30, 1997**

**Note 1 - Scope of Statement**

The fund accountability statement is the representation and the responsibility of SDP II's management

The "Total Budget" column represents the total budget amounts approved by USAID for SDP II, under PIL No 4B, Project No 263-0227 from inception to June 30, 1997. The main budget categories are presented for reporting purposes only.

The "Actual Expenditures" columns identify the costs incurred by SDP II cumulatively and by two different audited periods. The "From Inception to 3/31/1996" column presents the project costs incurred during the first audit period which was audited by other auditor. The "From 4/01/96 to 6/30/1997" column presents the project costs incurred during the period under this audit. The "As of 6/30/1997" column presents the cumulative project costs incurred up to June 30, 1997. These columns are presented for reporting purposes only.

The "Questioned Costs" columns represent audit results and are included in the fund accountability statement for presentation purposes only.

**Note 2 - Basis of Accounting**

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

**Note 3 - Exchange Rate**

The project funds received and expenditures paid in Egyptian pounds (LE) have been converted to U S dollars (\$) at the exchange rate of LE 3 4 to \$1. The exchange rate used is the average exchange rate during the period from April 1, 1996 to June 30, 1997.



**Note 4 – Fund Balance**

The fund balance represents the difference between funds received from USAID and costs incurred by SDP II during the period from inception to June 30, 1997

	\$
Total Funds Received	6,445,390
Less	
Total Costs Incurred	<u>(5,280,017)</u>
Fund Balance as of June 30, 1997	1,165,373

**Note 5 – Questioned Costs**

The “Questioned Costs” columns represent the costs questioned during the period from April 1, 1996 to June 30, 1997. Questioned costs are presented in two separate categories. The “Ineligible” column represents the costs that are not program related, unreasonable, or prohibited by the agreement or applicable laws and regulations. The “Unsupported” column represents the costs that are not supported with adequate documentation. All questioned costs are detailed in the “Details of Questioned Costs” section of this report.



Ministry of Health's Systems Development Project II,  
Under Project Implementation Letter (PIL) No 4B,  
USAID/Egypt Project No 263-0227

**Details of Questioned Costs**

	Questioned Costs	
	<u>Ineligible</u>	<u>Unsupported</u>
	\$	\$
<b>Item Description</b>		
<b>Finding 1 – Training</b>		
<b>Central Office</b>		
1 Based on the documents and clarifications provided to us in SDP II management's response, we have removed this finding		
<b>Domiat</b>		
1 Based on the documents and clarifications provided to us in SDP II management's response, we have removed this finding		
<b>Total Finding 1 - Training</b>	-	-
<b>Finding 2 – Administration</b>		
<b>Central Office</b>		
1 Based on the documents and clarifications provided to us in SDP II management's response, we have removed this finding		
2 Based on the documents and clarifications provided to us in SDP II management's response, we have removed this finding		
<b>Total Finding 2 - Administration</b>	-	-



**Details of the Questioned Costs (Continued)**

	Questioned Costs	
Item Description	<u>Ineligible</u>	<u>Unsupported</u>
	\$	\$
<b>Finding 3 – Renovation</b>		
<b>Central Office</b>		
1 Based on the documents and clarifications provided to us in SDP II management’s response, we have removed this finding		
<b>Kalubia</b>		
1 This amount represents a check paid for renovation expenditure exceeding the supplier’s invoice amount According to OMB Circular A122 Attch A Section A 2 g, “amounts recorded should be properly supported” Kalubia governorate management could not explain the above situation, therefore, we consider this amount to be unsupported		225
<b>Total Finding 3 – Renovation</b>		225
 <b>Finding 4 – Supplies</b>		
<b>Central Office</b>		
1 Based on the documents and clarifications provided to us in SDP II management’s response, we have removed this finding		
<b>Beheira</b>		
1 This amount represents sales taxes paid to several suppliers and reimbursed from USAID According to OMB Circular A122 Attch B Section 4 a and the project agreement, “any assistance provided under the agreement will be free from any taxation or fees imposed under laws in Egypt and the Ministry of Health must pay these taxes out of funds other than those provided by USAID” Therefore, we consider this amount to be ineligible		1,135



**Details of the Questioned Costs (Continued)**

<b>Item Description</b>	<b>Questioned Costs</b>	
	<b><u>Ineligible</u></b> \$	<b><u>Unsupported</u></b> \$
<b>Gharbia</b>		
1 This amount represents sales taxes paid and reimbursed from USAID According to OMB Circular A122 Attch B Section 4 a and the project agreement, “any assistance provided under the agreement will be free from any taxation or fees imposed under laws in Egypt and the Ministry of Health must pay these taxes out of funds other than those provided by USAID ” Therefore, we consider this amount to be ineligible	110	
<b>Sharkia</b>		
1 This amount represents sales taxes paid and reimbursed from USAID According to OMB Circular A122 Attch B Section 4 a and the project agreement, “any assistance provided under the agreement will be free from any taxation or fees imposed under laws in Egypt and the Ministry of Health must pay these taxes out of funds other than those provided by USAID ” Therefore, we consider this amount to be ineligible	108	
<b>Qena</b>		
1 This amount represents sales taxes paid According to OMB Circular A122 Attch B Section 4 a and the project agreement, “any assistance provided under the agreement will be free from any taxation or fees imposed under laws in Egypt and the Ministry of Health must pay these taxes out of funds other than those provided by USAID ” Therefore, we consider this amount to be ineligible	109	
2 Based on the documents and clarifications provided to us in SDP II management’s response, we have removed this finding		



**Details of the Questioned Costs (Continued)**

<b>Item Description</b>	<b>Questioned Costs</b>	
	<b><u>Ineligible</u></b> \$	<b><u>Unsupported</u></b> \$
<b>Domiat</b>		
1 Based on the documents and clarifications provided to us in SDP II management's response, we have removed this finding		
2 This amount represents sales taxes paid to several suppliers and reimbursed from USAID According to OMB Circular A122 Attch B Section 4 a and the project agreement, "any assistance provided under the agreement will be free from any taxation or fees imposed under laws in Egypt and the Ministry of Health must pay these taxes out of funds other than those provided by USAID" Therefore, we consider this amount to be ineligible		148
<b>Total Finding 4 - Supples</b>		<b>1610</b>

Ministry of Health's Systems Development Project II,  
Under Project Implementation Letter (PIL) No 4B,  
USAID/Egypt Project No 263-0227

**INTERNAL CONTROL STRUCTURE**

**Report on the Internal Control Structure**  
**Independent Auditor's Report**

To Mr Lou Mundy  
Regional Inspector General for Audit/Cairo  
United States Agency for International Development  
Caro, Egypt

We have audited the fund accountability statement of the Ministry of Health's Systems Development Project II (SDP II), under Project Implementation Letter (PIL) No 4B, Project No 263-0227 for the project costs incurred during the period from April 1, 1996 through June 30, 1997, and have issued our report thereon dated December 14, 1997

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability 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 GTI worldwide internal quality control program. This program requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other GTI offices.

In planning and performing our audit of the fund accountability statement described in the first paragraph, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

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

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.

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

### **Finding 1 Budgeting Control Procedures**

#### **Condition**

While performing our audit we noted various incidents where the project management exceeded the budgeted line items in the central office and the Governorates. Controlling costs means keeping actual costs in line with the project's financial plan. Although the project did not exceed the overall budget, we noted lack of internal control procedures over the budgetary process for the Central Office and Governorates.

#### **Criteria**

As mentioned in SDP II's Policy and Procedure Manual "An important component of effective financial management is the establishment of sound administrative financial controls to ensure that funds and resources of SDP II are used in the most efficient and cost effective matter."

#### **Cause**

SDP II's management did not comply with the above-mentioned policy which resulted in an internal control weakness over the budgeting and monitoring cycle.



**Effect**

The use of a budget is a key element of proper financial planning and a tool used by management for controlling costs. To control costs, managers of the Central Office and Governorates should compare actual costs incurred with the budgeted amounts and take actions to avoid overspending.

**Recommendation**

We recommend SDP II Central Office management review its budgeting and monitoring control procedures to ensure that any modification to the original budget should be communicated to the Governorate level in order to ensure that the Governorates expenditures are in accordance with the plans and decisions of SDP II management.

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 the reportable condition described above is not a material weakness. We also noted other matters involving the internal control structure and its operation that we have reported to the management of SDP II in a separate letter dated December 14, 1997.

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

  
GTI -Mohamed Hilal & Co  
Cairo, Egypt

December 14, 1997



Ministry of Health's Systems Development Project II,  
Under Project Implementation Letter (PIL) No 4B,  
USAID/Egypt Project No 263-0227

**COMPLIANCE WITH LAWS AND REGULATIONS**

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

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

We have audited the fund accountability statement of the Ministry of Health's Systems Development Project II (SDP II), under Project Implementation Letter (PIL) No 4B, Project No 263-0227 for the project costs incurred during the period from April 1, 1996 through June 30, 1997, and have issued our report thereon dated December 14, 1997

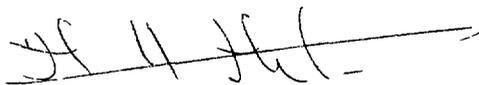
Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability 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 GTI worldwide internal quality control program. This program requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other GTI offices.

Compliance with laws, regulations, contracts, and grants applicable to SDP II is the responsibility of SDP II's management. As part of obtaining reasonable assurance about whether the fund accounting statement is free of material misstatement, we performed tests of SDP II's compliance with certain provisions of the 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 indicated that, with respect to the items tested, SDP II complied, in all material respects, with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that SDP II had not complied, in all material respects, with those provisions. However, the result of our tests disclosed immaterial instances of noncompliance with those provisions that we have reported to the management of SDP II in a separate letter dated December 14, 1997.

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



GTI -Mohamed Hilal & Co ,  
Caro, Egypt

December 14, 1997



Ministry of Health's Systems Development Project II,  
Under Project Implementation Letter (PIL) No 4B,  
USAID/Egypt Project No 263-0227

**APPENDICES**



Ministry of Health's Systems Development Project II,  
Under Project Implementation Letter (PIL) No 4B,  
USAID/Egypt Project No 263-0227

**MANAGEMENT COMMENTS**

*Family Planning  
Systems Development Project*



مشروع تنمية السطم  
تنظيم الاسرة

12/2/1998

Mohamed Helal & Co  
Public Accountants

87 Ramsis St  
Cairo, Egypt

Dear M Amr Fathallah

Enclosed please find SDPII response to GRANT THORNTON on audit report regarding  
Project Implementation Letter No 4B from April 1, 1996 to June 30, 1997, as follow

- 1 Fund Accountability Statement
- 2 Internal Control Structure

Thank you for your cooperation

Sincerely,

Dr Hassan El Gebaly  
Executive Director

SDP MANAGEMENT RESPONSE TO GRANT THORNTON /  
MOHAMED HFI AL  
AUDIT UNDER POPULATION AND FAMILY PLANNING  
PROJECT NO 263 0227

PROJECT IMPLEMENTATION LETTER NO 4B  
From April 1, 1996 to June 30, 1997

Fund Accountability Statement

Finding No 1 - Training

Central Office

- 1 The ineligible amount of LE 6,800 (\$2,000), page 11 of the audit report, spent on a ceremony for end of training activity. There was no justification for the need of this ceremony nor was there a written approval from USAID for such an event. According to OMB circular A122 section 12 costs for amusement and social activities are unallowable.

SDP Response

Attached please find a copy of the invoice (Appendix 1). Although the invoice shows the word ceremony, it also says training. The referenced amount does not represent a cost of amusement nor a social activity, they represent the cost of tea refreshment and cakes offered during the closing session of 10 courses as stated in the invoice. Reference is also made to PIL No 4, 2A, Section II, under "Allowability" which states that "The cost of refreshments for coffee and tea breaks during project approved training, workshops and conferences (that are undertaken for not less than half a day) is not considered entertainment cost). In our case this function represents an integral part of the training activity and fees.

Domiat

- 1 The unsupported amount of LE 1,820 (\$535), page 11 of the audit report representing incentive paid to the administrative employees for two courses held at the same time. SDP Domiat Governorate management could not explain the above mentioned situation. Therefore we consider these amounts to be unsupported.

SDP Response

Appendix (2) is a letter from Domiat Governorate stating that these amounts are paid for supervision paid for two courses held at the same dates but not at the same hours. There was a need to implement all of the training courses before the end of the fiscal year, therefore one of the courses was held from 8:00 am to 2:00 pm, and the second course from 12:00 noon to 6:30 pm. Appendix (2) also include a copy of the two vouchers.

## Finding No 2 - Administration

### Central Office

- 1 The ineligible amount of LE 19,914 (\$5,857), we noted that SDP paid incentives to the project employees without USAID approval. The implementation plan does not provide for such bonus. Therefore, we consider these amounts to be ineligible.

### SDP Response

This is a recurrent finding that has been resolved with USAID during the last audit conducted by Hazem Hassan. Both Hazem Hassan and USAID agreed to our justification of payment of this bonus (refer to last SDP Management response to Hazem Hassan). However, we attach herewith as Appendix (3) three supporting documents, the first is a copy of SDP response to Hazem Hassan that was accepted by USAID, the second is a Ministerial Decree authorizing the SDP Executive Director to grant a performance bonus to those employees who contributed in achieving the objectives of the project each three months minimum. Moreover, this performance bonus is stated in Article 9 of the employment contract (attached) - "the first party which is the employer is entitled to grant the second party which is the employee a performance bonus within the allocated budget". In addition, these amounts disbursed as performance bonuses are budgeted for, and are spent as a matter of consistency with their government colleagues who receive this bonus in accordance with a ministerial decree. The documents did not state a salary limit for obtaining such a bonus, it stated that it should be within the allocated budget. (This bonuses only paid to not professional staff, drivers, junior accountants, secretaries, etc.)

- 2 The ineligible amount of LE 68,887 (\$20,261), page 12 of the audit report SDP disbursed this amount over the budget for the sub-line item Supervisory Visits. This amount was not budgeted for and SDP II did not obtain written approval from USAID for exceeding the budgeted amount. This amount is considered questioned cost due to the material over budgeted expenditures therefore we consider this amount to be ineligible.

### SDP Response

The requirements of this stage of project implementation necessitated intensifying the supervision visits to all governorates. Therefore, through actual implementation of project activities, the sub-line item of supervisory visits seemed to be underbudgeted. USAID regulations PIL 4A, Section I dated January 20, 1994 allow for making shifts between major line items in previously approved annual implementation plan budgets if the shift results in an increase or decrease of less than 15% of major line item. (Total budget for administration is LE 6,711,935 and questioned amount is only LE 68,887.00). No approval is needed for shifting of funds within major line items. (Supervisory visits is a sub-line item of the major line item administration. It is within the authority of the Executive Director to make a reallocation of fund between sub-line items. In addition, the total administration line item was not exceeded. See Appendix (4) for a copy of the

referenced Pil, and a letter from USAID Project Officer dated Dec 22, 1997 in the subject

#### Finding No 3 - Renovation

##### Central Office

1 The ineligible amount of LE 40,461 (\$11,900) page 12 of the audit report During the period 7/1/96 to 6/30/97, SDP II paid \$11 900 for Central Office renovation This amount was not budgeted for and SDP did not obtain written approval from USAID for such costs According to OMB Circular A 122 attach a 4, 'a cost is allowable when it is allocable to a particular cost objective such as a grant or activity Therefore, we consider this amount to be ineligible

##### SDP Response

According to USAID approval dated January 9, 1996, LE 259,670 was budgeted for the finishing items "facility renovations" SDP used only LE 142,762 48 out of the total approved budget (Appendix (5) shows USAID approval and a detail of the expended amount LE 142,762 48) Thus the LE 40,461 is considered an allowable cost under the grant agreement

##### Qaliubia

1 The unsupported amount of LE 766 (\$225) page 12 of the audit report This amount represents a check paid for renovation expenditure exceeding the supplier's invoice amount According to OMB Circular A 122 attach A Section A 2 g "amounts recorded should be properly supported Qaliubia governorate management could not explain the above situation therefore we consider this amount to be unsupported

##### SDP Response

SDP accepts the ineligibility of this item Check No 961444 dated January 20, 1998 from Qaliubia Governorate has been deposited at SDP bank account (Appendix 6 show a copy of the referenced check and adjustment made in our books )

#### Finding No 4 - Supplies

##### Central Office

1 The ineligible amount of LE 41,980 (\$12,347) page 13 of the audit report SDP II disbursed \$12 347 over the budget for the line item Central Office Supplies This amount was not budgeted for and SDP II did not obtain written approval from USAID for exceeding the budgeted amount This amount is considered questioned cost due to the material over budgeted expenditures therefore we consider this amount to be ineligible

##### SDP Response

SDP has two responses on this finding

- 1 The overbudgeted expenditure is for a sub line item which according to USAID letter dated Dec 22, 1997 stating that in case that the shifts of funds is within a single line-item, administrative approval falls within SDP project management authority and USAID approval is not required
2. There were a misposting in an amount of LE 90,677 (total costs of purchasing chairs for the central office This amount was approved under "Facility Renovation " and not "supplies" Thus, an adjustment of LE 90,677 has been done to reduce the sub-line item SDP/CO supplies and charge it correctly to Renovation (See USAID approval dated Jan 9, 1996), The above mentioned adjustments will appear in the certified fiscal report of Feb 1998

Beheira

- 1 The ineligible amount of LE 3,860 (\$1,135) page 13 of the audit report This amount represents sales taxes paid to several suppliers and reimbursed from USAID According to OMB Circular A122 Attach B Section 4 a and the project agreement "any assistance provided under the agreement will be free from any taxation or fees imposed under laws in Egypt and the Ministry of Health must pay these taxes out of funds other than those provided by USAID Therefore we consider this amount to be ineligible

SDP Response

SDP accepts the eligibility of this amount Appendix (8) is a copy of the check issued by Beheira to return the tax amount and the adjustment made in our books

Gharbia

- 1 The ineligible amount of LE 360 (\$106) page 13 of the audit report This amount represents sales taxes paid to several suppliers and reimbursed from USAID According to OMB Circular A122 Attach B Section 4 a and the project agreement "any assistance provided under the agreement will be free from any taxation or fees imposed under laws in Egypt and the Ministry of Health must pay these taxes out of funds other than those provided by USAID Therefore we consider this amount to be ineligible

SDP Response

SDP accepts the ineligibility of this amount Appendix 9 shows a copy of the check of the returned amount and the adjustment made in our books Both the check and the adjustment with the amount of LE 374 80 and not LE 360 00 is mentioned in Audit Report (see audit detailed work-papers which show that the amount of sales taxes is LE 374 80)

Sharkia

- 1 The ineligible amount of LE 368 (\$108) page 14 of the audit report. This amount represents sales taxes paid to several suppliers and reimbursed from USAID. According to OMB Circular A122 Attach B Section 4 a and the project agreement "any assistance provided under the agreement will be free from any taxation or fees imposed under laws in Egypt and the Ministry of Health must pay these taxes out of funds other than those provided by USAID. Therefore we consider this amount to be ineligible.

SDP Response

SDP accepts the ineligibility of this amount. Appendix (10) represents a copy of the check No 6123937 dated 1/4/98 by Sharkia Governorate. Check amounting to LE 314 was reconciled by transaction No 2405 dated 1/4/98. The difference which is LE 54 has been previously reconciled in Sharkia books by reconciliation number 154 dated Sept 22, 1997, copy of letter of Sharkia attached.

Qena

- 1 The ineligible amount of LE 370.75 (\$109) page 14 of the audit report. This amount represents sales taxes paid to several suppliers and reimbursed from USAID. According to OMB Circular A122 Attach B Section 4 a and the project agreement "any assistance provided under the agreement will be free from any taxation or fees imposed under laws in Egypt and the Ministry of Health must pay these taxes out of funds other than those provided by USAID. Therefore we consider this amount to be ineligible.

SDP Response

SDP accepts the eligibility of this amount. Appendix (11) shows a copy of the check issued in the amount and adjustment made in our books.

- 2 The ineligible amount of LE 27,200 (\$8,000) page 14 of the audit report. During the audited period, SDP II Qena Governorate paid \$8,000 for purchase of supplies for Nurses schools. This amount was not budgeted for in the project financial plan. According to OMB Circular A122 attach a 4 "a cost is allowable when it is allocable to a particular cost objective such as a grant activity. Therefore, we consider this amount to be ineligible.

SDP Response

Appendix (12) shows that this amount was budgeted for in PY1 budget and is within the approved financial plan - under supplies.

Domit

- 1 The ineligible amount of LE 1900 (\$559) page 14 of the audit report. This amount represent a check paid for the purchasing of supplies for a computer room in Domiat without supporting documents. According to OMB Circular A122 Attach A Section A 2 g "amounts recorded should be properly supported. Domiat governorate management could not explain the above therefore we consider this amount to be unsupported.

#### SDP Response

The support document was misplaced. Appendix (13) represents the support documents required.

- 2 The ineligible amount of LE 505 (\$149) page 15 of the audit report. This amount represents sales taxes paid to several suppliers and reimbursed from USAID. According to OMB Circular A122 Attach B Section 4 a and the project agreement "any assistance provided under the agreement will be free from any taxation or fees imposed under laws in Egypt and the Ministry of Health must pay these taxes out of funds other than those provided by USAID. Therefore we consider this amount to be ineligible.

#### SDP Response

SDP accepts the ineligibility of this amount. Appendix (14) shows bank voucher clarifying addition of amount in our bank account, and copy of adjustment transaction No. 1 dated Feb 2, 1998 into Domiat Books.

INTERNAL CONTROL STRUCTURE  
Ministry of Health's Systems Development Project II  
Audit Period April 1, 1996 June 30, 1997

**Finding 1 Budget Control Procedures**

**Condition**

While performing our audit we noted various incidents where the project management exceeded the budgeted line items in the central office and the Governorates. Controlling costs means keeping actual costs in line with the project's financial plan. Although the project did not exceed the overall budget, we noted lack of internal control procedures over the budgetary process for the Central Office and Governorates.

**Recommendation**

We recommend SDP II Central Office management review its budgeting and monitoring control procedures to ensure that any modification to the original budget should be communicated to the Governorate level in order to ensure that the Governorates expenditures are in accordance with the plans and decisions of SDP II management.

**SDP Response**

The auditors state that the project management exceeded the budgeted line items in the central office and the governorates. We assume the auditors have made this statement about the central office because of the following questioned costs: Finding 2-Administration (2) and Finding 4-Supplies (1). Please see the SDP response to these questioned costs. In neither case, did the SDP exceed the major line item of Administration or Supplies. The sub-line item budget was exceeded. The project management has the authority to shift funds between sub-line items within a major line item of the budget as long as the major line item is not exceeded by 15%. The USAID Project Officer has reiterated that in a letter which is attached to the response to the questioned costs.

The statement regarding the governorates exceeding the budgeted line items is more difficult to ascertain. There is one questioned cost in Qena under the Supplies (1) category of Finding-4. Please refer to the response to this questioned cost. This cost is also allowable.

The auditors only give a verbal explanation to the SDP regarding the governorates exceeding of the budget. They verbally told the accounting staff that during the audit period, the central office revised the budgets of all of the governorates without informing the governorates of the changes. The result was that one governorate, Beheira, exceeded its budget in one line-item. The SDP

accounting staff verified that the verbal statement made by the auditors was correct. Changes were made in the governorate budgets without informing them.

Currently the SDP monitors the expenditures compared to budget on a monthly basis for the Central Office and all 27 governorates to ensure compliance with the budget. The procedure is that any change in any budget line-item for any governorate should be communicated to that governorate on a timely basis. In the future, the SDP will emphasize that procedure in order to ensure that there is no confusion as to what the spending levels should be for each line item in every governorate budget. The SDP recognizes the importance of monitoring expenditures in the central office and each governorate for proper internal control of project resources.



Ministry of Health's Systems Development Project II,  
Under Project Implementation Letter (PIL) No 4B,  
USAID/Egypt Project No 263-0227

**AUDITOR'S RESPONSE**



Ministry of Health's Systems Development Project II,  
Under Project Implementation Letter (PIL) No 4B,  
USAID/Egypt Project No 263-0227

**Auditor's Response**

The System Development Project II (SDP II) management provided comments relating to the draft report presented at the exit conference on January 14, 1998. In response to their comments, we reviewed additional supporting documents provided by SDP II management. Please note that the finding references used below correspond to those used in our draft and final reports.

**I Questioned Costs**

**Finding 1 – Training**

**Central Office**

- 1 Based upon our review of the documents and clarifications provided to us in SDP II management's response, we have removed this questioned cost from our final report.

**Domiat**

- 1 Based upon our review of the documents and clarifications provided to us in SDP II management's response, we have removed this questioned cost from our final report.

**Finding 2 – Administration**

**Central Office**

- 1 Based upon our review of the documents and clarifications provided to us in SDP II management's response, we have removed this questioned cost from our final report.
- 2 Based upon our review of the documents and clarifications provided to us in SDP II management's response, we have removed this questioned cost from our final report.



### **Finding 3 – Renovation**

#### **Central Office**

- 1 Based upon our review of the documents and clarifications provided to us in SDP II management's response, we have removed this questioned cost from our final report

#### **Kalubia**

- 1 SDP II's management agrees with this finding. Kalubia governorate has refunded the unsupported amount of \$225 to SDP II's bank account and adjusted its records. SDP II has not refunded the amount to USAID or adjusted the certified fiscal report. Therefore, the questioned cost has remained in our final report. The Mission should remove this finding when SDP II refunds this amount to USAID and adjusts its certified fiscal report.

### **Finding 4 – Supplies**

#### **Central Office**

- 1 Based upon our review of the documents and clarifications provided to us in SDP II management's response, we have removed this questioned cost from our final report

#### **Beheira**

- 1 SDP II's management agrees with this finding. The ineligible amount of \$1,135 has been deposited at SDP II's bank account, however, SDP II has not refunded the amount to USAID or adjusted the certified fiscal report. Therefore, the questioned cost has remained in our final report. The Mission should remove this finding when SDP II refunds this amount to USAID and adjusts its certified fiscal report.

#### **Gharbia**

- 1 SDP II's management agrees with this finding. The ineligible amount of \$110 has been deposited at SDP II's bank account, but the certified fiscal report has not been adjusted yet. Therefore, this questioned cost has remained in our final report. The Mission should remove this finding when SDP II refunds this amount to USAID and adjusts its certified fiscal report.



### **Sharkia**

- 1 SDP II's management agrees with this finding. The ineligible amount of \$108 has been deposited at SDP II's bank account, but the certified fiscal report has not been adjusted yet. Therefore, this questioned cost has remained in our final report. The Mission should remove this finding when SDP II refunds this amount to USAID and adjusts its certified fiscal report.

### **Qena**

- 1 SDP II's management agrees with this finding. The ineligible amount of \$109 has been deposited at SDP II's bank account, but the certified fiscal report has not been adjusted yet. Therefore, this questioned cost has remained in our final report. The Mission should remove this finding when SDP II refunds this amount to USAID and adjusts its certified fiscal report.
- 2 Based upon our review of the documents and clarifications provided to us in SDP II management's response, we have removed this questioned cost from our final report.

### **Domiat**

- 1 Based upon our review of the documents and clarifications provided to us in SDP II management's response, we have removed this questioned cost from our final report.
- 2 SDP II's management agrees with this finding. The ineligible amount of \$148 has been deposited at SDP II's bank account, but the certified fiscal report has not been adjusted yet. Therefore, this questioned cost has remained in our final report. The Mission should remove this finding when SDP II refunds this amount to USAID and adjusts its certified fiscal report.

## **II Internal Control Structure**

### **Finding 1 Budget Control Procedures**

SDP II's management agrees with this finding. SDP II's management stated that certain corrective actions have been taken and implemented. These corrective actions have been taken subsequent to the audit period. Therefore, this finding has remained in our final report. In our opinion, the corrective actions addressed by SDP II management, are sufficient for the Mission to remove this finding.



Appendix C

Ministry of Health's Systems Development Project II,  
Under Project Implementation Letter (PIL) No 4B,  
USAID/Egypt Project No 263-0227

**MISSION'S COMMENTS**

35

**USAID**



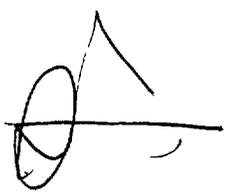
UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO EGYPT

**MEMORANDUM**

**DATE** March 17, 1998

**TO** Lou Mundy, RIG/A/C

**FROM** Shirley A Hunter, Division Chief, FM/FA 

**SUBJECT** Financial Audit of the Ministry of Health's  
Systems Development Project, Costs Incurred under  
the USAID/Egypt's Population/Family Planning III  
Project No 263-0227  
Draft Report dated February 22, 1998

Following is the Mission response to Recommendation No 1 under the subject audit

**Recommendation No 1**

We recommend that USAID/Egypt make a final management decision on the questioned costs of \$1,835 (ineligible costs of \$1,610 and unsupported costs of \$225) detailed on pages 12 through 14 of the audit report, and recover from the Ministry of Health the amounts determined to be unallowable

**Mission Response**

In their response to the draft audit report, SDP agreed with all the findings totalling \$1,835 since they represent overbilling and sales taxes Accordingly, Mission issued Bill of Collection (BOC) No CO-263-81749 dated February 25, 1998 in the amount of \$1,835 (LE 6,241) (Attachment No 1) The sustained amount was deducted from the SDP January 1998 Voucher No 8-2701, as detailed in the attached table (Attachment No 2)

Based on the above action, please issue the final report with the recommendation closed upon issuance

Thank you for your cooperation

Att a/s

106 Kasr El Aini Street  
Garden City  
Cairo Egypt

-36