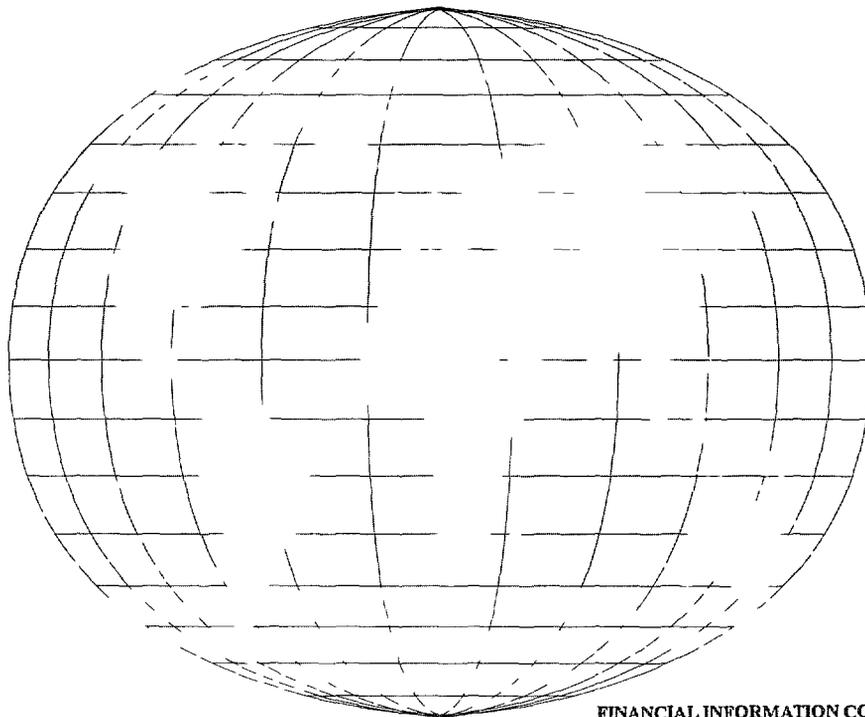


Report of Audit

**Financial Audit of the Curative Care Organization,
Expenditures Incurred Under Project Implementation
Letter No. 20 Under USAID/Egypt's Cost Recovery
for Health Project No. 263-0170**

**Report No. 6-263-99-010-N
August 22, 1999**



**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 REGIONAL INSPECTOR GENERAL**

CAIRO EGYPT

Report No 6-263-99-010-N
August 22, 1999

MEMORANDUM

TO DIRECTOR USAID/Egypt, Richard M Brown

FROM RIG/A/C, Darryl T Burris *DS(Burris)*

SUBJECT Financial Audit of the Curative Care Organization, Expenditures Incurred Under Project Implementation Letter No 20 Under USAID/Egypt's Cost Recovery for Health Project No 263-0170

The attached report, transmitted on July 8, 1999, by KPMG Hazem Hassan, presents the results of a financial audit of the Curative Care Organization (CCO) related to expenditures under the subject project implementation letter (PIL) The PIL provided funding for staff development, training, and installation of information systems in order to enable CCO staff to develop more accurate performance and utilization measures of CCO resources

We engaged KPMG Hazem Hassan to perform a financial audit of USAID/Egypt resources managed by CCO related to expenditures under PIL No 20 Expenditures subject to the audit included \$847,206 (equivalent to LE 2,880,501) during the period January 1, 1997 through September 30, 1998 The purpose of the audit was to evaluate the propriety of costs incurred during this period KPMG Hazem Hassan also evaluated CCO'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 questioned a total of \$44,522 (equivalent to LE 151,376) in costs billed to USAID/Egypt under PIL No 20 The majority of these questioned costs related to ineligible expenditures for hotel expenses billed in error to USAID/Egypt, and three training courses which had not been held The auditors noted no material weaknesses in CCO's internal control structure, and no material instances of noncompliance with applicable laws, regulations, and agreement terms

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

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 \$44,522 (all ineligible) detailed on pages 12 through 19 of the KPMG Hazem Hassan audit report, and recover from the Curative Care Organization the amounts determined to be unallowable

In response to Recommendation No 1, USAID/Egypt determined that of the \$44,522 questioned, \$2,893 is allowed and \$41,629 is sustained. The Mission deducted the sustained amount from CCO's voucher number 9-6599. We consider this Recommendation to have received a management decision and final action. Therefore, Recommendation No 1 is closed upon report issuance.

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

Attachment a/s

Financial Audit of
Curative Care Organization (CCO)
USAID/Egypt Project No 263-0170
Project Implementation Letter No 20
for the period January 1, 1997 through September 30, 1998

" Financial information contained in this report may be privileged. The restrictions of 18 USC 1905 should be considered before any information is released to the public "

Financial Audit of
Curative Care Organization (CCO)
USAID/Egypt Project No 263-0170
Project Implementation Letter No 20
for the Period January 1, 1997 Through September 30, 1998

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Mr Darryl Burris
Regional Inspector General for Audit-Cairo
United States Agency for International Development
Cairo, Egypt

July 8, 1999

Dear Mr Burris,

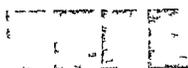
This report presents the results of our financial audit of Curative Care Organization (CCO) related to expenditures under USAID/Egypt Project No 263-0170 for PIL No 20 for the period from January 1, 1997 through September 30, 1998

Background

CCO has been considered, by some local and world experts, as first class, non profit, quasi-government, multihospital system, that provides a full range of high quality medical and health care program and services, in cost-effective manner to all social classes of Egypt's population. The CCO organization "model" is considered an excellent transition structure for a government looking for possible solution to moving "public" curative care institutions to a more "market" oriented system which can be financially viable over the long term and still meet the medical care of the poor.

Project Implementation Letter (PIL) No 20 of USAID/Egypt Project No 263-0170 was to provide funding for staff development, training and installation of information systems in order to enable CCO staff to develop more accurate performance and utilization measures of CCO resources.

This PIL was initiated to merge the support activities previously provided through PILs No 6 and No 9 into one PIL. With the implementation of PIL No 20, PIL No 6 (Project Support Services) and PIL No 9 (In Country Training) were discontinued. The funds committed under this PIL amounted to \$175,000 (equivalent to LE595,000) for the period from February 1, 1995 through December 31, 1995. The PIL was amended 8 times increasing the total amount committed to \$1,090,649 (equivalent to LE3,708,209) and extending the completion date to September 30, 1998.



Audit Objectives and Scope

The objective of this engagement was to conduct a financial audit of USAID/Egypt's resources managed by Curative Care Organization (CCO), USAID/Egypt Project No 263-0170 under Project Implementation Letter (PIL) No 20 for the period January 1, 1997 through September 30, 1998. The audit encompassed an examination of CCO's expenses, billed to and reimbursed by USAID/Egypt, in order to determine whether they were in compliance with the terms and conditions of the PIL, and USAID/Egypt rules and regulations. We also reviewed internal controls associated with CCO's management of the PIL.

The specific objectives were to

- 1 Express an opinion on whether the fund accountability statement, for the USAID financed PIL presents fairly, in all material respects, revenues received and costs incurred for the period under audit, in conformity with generally accepted accounting principles or other comprehensive bases of accounting,
- 2 Determine whether the costs, reported as incurred under the PIL, are, in fact, allowable, allocable, and reasonable in accordance with the terms of the PIL,
- 3 Evaluate and obtain sufficient understanding of the internal control structure of CCO, assess control risk, and identify reportable conditions, including material internal control weaknesses,
- 4 Perform tests to determine whether CCO complied, in all material respects, with the terms and conditions of the PIL, and with applicable laws and USAID/Egypt rules and regulations, and
- 5 Determine whether CCO has taken corrective action on prior audit report recommendations,

Preliminary planning and review procedures started in April 1999 and consisted of

- discussions with RIG/A/C officials,
- a review of the PIL,

- interviews and discussions with CCO's key personnel concerning the status of the PIL, accomplishments during the period, the statutory reporting requirements, the PIL budgets, and procedures governing actual expenditures incurred by CCO and billed to and reimbursed by USAID/Egypt, and
- review of the CCO organizational structure and CCO's established policies and procedures and controls related to personnel, procurement, financial accounting and reporting, and billing to USAID/Egypt

The field work segment of our audit was completed on May 6, 1999. The scope of our work was to audit costs incurred by CCO and reimbursed by USAID/Egypt under PIL No 20. Within each budget line item, we selected transactions on a judgmental basis in order to perform substantive tests of details. We tested expenditures of \$310,419 (equivalent to LE1,055,418) out of total expenditures amounting to \$847,206 (equivalent to LE2,880,501).

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

1. Reconciling CCO's accounting records to invoices issued to USAID/Egypt and testing costs for allowability, allocability, reasonableness, and adequate supporting documentation,
2. Determining whether payroll costs were appropriate and consistent with the terms of the PIL and applicable rules and regulations, and were adequately supported and approved,
3. Determining whether project expenditures billed to USAID/Egypt were appropriate and consistent with the terms of the PIL and were adequately supported and approved, and
4. Checking the adequacy of CCO's control over project equipment funded by USAID/Egypt.

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

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

Results of Audit

PIL No 20 Fund Accountability Statement

Our audit identified ineligible questioned costs totaling \$44,522 (equivalent to LE151,376).

Internal Control

Our audit did not identify any material weaknesses associated with CCO's internal controls.

Compliance with Laws and Regulations

Our audit did not identify any material instances of noncompliance that are required to be disclosed in our report in accordance with Government Auditing Standards, except for the questioned costs referred to above.

Follow-up on the Previous Audit Report

The previous NFA audit report included questioned costs of \$1,052 (equivalent to LE3,576). Our follow-up procedures in conjunction with the current period audit indicated that such questioned costs had been refunded to USAID/Egypt.

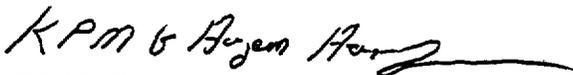
Supplementary Information

A supplementary fund accountability statement, presented in the functional currency, and detailed schedules of questioned costs including dates, numbers of vouchers and accounts, were communicated to CCO's management and is available upon request.

Management Comments

We have reviewed CCO's response to the questioned costs identified as a result of our audit, which is included in Appendix I. Where applicable, we have made adjustments in our report or provided further clarification of our position in Appendix II. For those items not adjusted in our final report, the responses provided by management have not changed our report on the fund accountability statement, our report on internal controls, or our report on compliance with laws and regulations.

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



KPMG Hazem Hassan
Cairo, Egypt

FUND ACCOUNTABILITY STATEMENTS



Hazem Hassan

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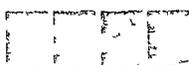
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Report on the Fund Accountability Statement Independent Auditor's Report

Mr Darryl Burriss
Regional Inspector General for Audit-Cairo
United States Agency for International Development
Cairo, Egypt

We have audited the accompanying fund accountability statement of funds received and costs incurred locally in Egypt by Curative Care Organization (CCO), USAID/Egypt Project No 263-0170 under Project Implementation Letter (PIL) No 20 for the period January 1, 1997 through September 30, 1998. The fund accountability statement is the responsibility of CCO's management. Our responsibility is to express an opinion on the fund accountability statement based upon our audit.

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



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

As described in Note 1, the fund accountability statement has been prepared on the cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. Included in the fund accountability statement are questioned costs of \$44,522. The basis for questioning these costs is described in the "Details of Questioned Costs" section of this report.

In our opinion, except for the effects of the questioned costs referred to in the preceding paragraph, the fund accountability statement presents fairly, in all material respects, the amounts received and costs incurred by CCO pursuant to USAID/Egypt Project No. 263-0170 through PIL No. 20.

Our audit was performed for the purpose of forming an opinion on the fund accountability statement. The accompanying schedule of USAID/Egypt direct procurement is presented for purposes of additional analysis and is not a required part of the fund accountability statement. Such information has been subjected to the auditing procedures applied in the audit of the fund accountability statement and, in our opinion, is fairly stated, in all material respects, in relation to the fund accountability statement.



KPMG Hazem Hassan
Cairo, Egypt

May 6, 1999

Cairo Curative Organization (CCO)
Fund Accountability Statement
Project Implementation Letter (PIL) No. 20
Under USAID/Egypt Project No. 263-0170
For the Period January 1, 1997 Through September 30, 1998

USAID/Egypt Fund Received

\$
702 000

<u>Project Support Element</u>	<u>Budget</u>	<u>Cumulative project expenditures Through Dec 31, 1996</u>	<u>Actual expenditures current period</u>	<u>Reclassification</u>	<u>Actual Current Period Expenditures After Reclassification</u>	<u>Cumulative project expenditures Through Sep 30, 1998</u>	<u>Questioned Costs</u>		<u>Finding & Pg. No.</u>
	\$	\$	\$	\$	\$	\$	<u>Ineligible</u>	<u>Unsupported</u>	
Salaries	81 514	23 099	54 621	-588	54 033	77 132			
Consultants Fees	135 071	88,747	44 853	0	44 853	133 600			
Supplies	52 072	26 952	25 118	0	25 118	52 070			
Equipment	89 363	29 412	59 940	0	59 940	89 352			
Equipment Maintenance	24 836	21 012	3 823	0	3 823	24 835	231		Finding No 2 a) and b) P 12 and 13
Office Furniture	52 334	5 882	46 451	0	46 451	52 333			
Telecommunication	12 681	4 573	8 391	0	8 391	12 964	1 222		Finding No 3 P 13
Administrative Support Services	12 002	3 178	8 824	0	8 824	12 002			
Information Education and Communication	50 162	0	48 706	588	49 294	49 294			
Work Shop and Research Studies	42 039	0	51 571	-656	50 915	50 915	30 478		Finding No 5 a) b), c) d) P 14 15 16 and 17
Renovations and Site Prep	238 932	0	238 931	0	238 931	238 931			
Travel and Perdiem	2 250	0	2,041	656	2 697	2,697	128		Finding No 6 a) and b) P 18 and 19
Sub-total	793 256	202 855	593 270	0	593 270	796 125	32 059	0	
Training Element									
Training Supplies	17 066	5 301	11 749	0	11 749	17 050			
Training Allowances	26 905	6 151	20 814	0	20 814	26 965			
Training Services	229 601	21 253	208 042	0	208 042	229 295	12 463		Finding No 7 P 19
Translation Activities	19 817	8 985	10 409	0	10 409	19 394			
Training & Translation Admin Services	4 004	1 004	2 922	0	2 922	3,926			
Sub-total	297 393	42 694	253 936	0	253 936	296 630	12 463	0	
Total Expenditures	1 090 649	245 549	847 206	0	847 206	1 092 755	44 522	0	

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

Cairo Curative Organization (CCO)
Project Implementation Letter (PIL) No 20
Under USAID/Egypt Project No 263-0170
USAID/Egypt Direct Procurement
for the Period January 1, 1997 through September 30, 1998

<u>Quantity</u>	<u>Description</u>	<u>Actual</u>	
		<u>\$</u>	<u>LE</u>
3	Vehicles (Chevrolet Mini-van)	68,655	233,427
SEVERAL	Spare Parts for Cars	13,278	45,145
<hr/> <u>Total</u> <hr/>		<hr/> 81,933 <hr/>	<hr/> 278,572 <hr/>

Curative Care Organization (CCO)
Under USAID/Egypt Project No 263-0170
Project Implementation Letter (PIL) No 20

Notes to the Fund Accountability Statements

Note 1 Accounting Basis

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

Note 2 Basis of Presentation

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

Note 3 Translation Rate

The expenditures of PIL No 20 which were paid in Egyptian Pounds (LE), have been translated into US Dollars (\$). The period average exchange rate method was used. This rate is \$1 = LE3.40.

Note 4 Reclassification

The column labeled "Reclassification" presents adjustments to correct classification errors between amounts recorded in the project ledgers and amounts billed to and reimbursed by USAID/Egypt for the period under audit.

Note 5 Questioned Costs

Questioned Costs are presented in two separate categories - ineligible or unsupported - and consist of audit findings made on the basis of the terms of the PIL and applicable rules and regulations, which prescribe the nature and

treatment of reimbursable costs Costs in the column labeled "Ineligible" are supported by vouchers or other documentation but are ineligible for reimbursement because they are either unreasonable, not program related, or are prohibited by the PIL or applicable laws and regulations

Costs in the column labeled "Unsupported" are also included in the classification of "Questioned Costs" and are related to costs that are not supported by adequate documentation All questioned costs are detailed in the "Details of Questioned Costs" section of this report

Note 6 Revenues and Expenditures

Expenditures reported in the fund accountability statement represent costs incurred by the project for the period January 1, 1997 through September 30, 1998 However, project expenditures for the month of September, 1998 amounting to \$45,108 (equivalent to LE153,369) were billed to USAID/Egypt but not reimbursed during the period covered by our audit Also, revenues reported in the fund accountability statement include an amount of \$59,050 (equivalent to LE200,769) which represents reimbursement of costs incurred by CCO and billed to USAID/Egypt in the period prior to that covered by our audit

Note 7 Budget

The budget figures set forth in the fund accountability statement represent the project's cumulative budget, as amended, from the inception of the project through September 30, 1998 Such information has been included in the fund accountability statement for presentation purposes only

Fund Accountability Statement
Details of Questioned Costs

Curative Care Organization (CCO)
Project Implementation Letter (PIL) No 20
Fund Accountability Statement
Details of Questioned Costs

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	\$	\$
1) <u>Equipment</u>		
Based on documents and clarifications provided to us, subsequent to the issuance of our draft report, this finding has been removed	---	
2) <u>Equipment Maintenance</u>		
a) Based upon our audit of equipment maintenance expenses, we noted that CCO billed USAID/Egypt, with several amounts that were subsequent to the effective date of Amendment No 5, dated June 3,1997 which prohibited the continued funding of such costs CCO's management indicated that such amounts had been billed in error According to Amendment No 5, the equipment maintenance line item was deleted Accordingly, this amount is considered to be ineligible	170	

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
2) <u>Equipment Maintenance</u>		
b) Based upon our audit of equipment maintenance expenses, we noted that this amount represents computer maintenance costs, that were charged to USAID/Egypt. However, this amount was not actually paid and the check is still maintained by CCO. Additionally, these expenses were incurred subsequent to the issuance of amendment No 5 which prohibited the continued funding of such costs. CCO's management indicated that such amounts had been billed in error. According to Amendment No 5, the equipment maintenance line item was deleted. Accordingly, this amount is considered to be ineligible.		
Total line item	61	---
	<u>231</u>	<u>---</u>
3) <u>Telecommunication</u>		
Based upon our audit of telecommunication expenses, we noted that this amount represents the cost of a telephone line for the project, that was charged to USAID/Egypt. However, this amount was not actually paid to the telecommunication company which provided the line. CCO's management indicated that this amount will ultimately be paid. According to USAID rules and regulations, only actual expenditures should be charged to USAID. Accordingly, this amount is considered to be ineligible.		
Total line item	1,222	---
	<u>1,222</u>	<u>---</u>

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
4) <u>Information and Education</u>		
Based on documents and clarifications provided to us, subsequent to the issuance of our draft report, this finding has been removed		---
Total line item	<u>---</u>	<u>---</u>
5) <u>Workshop and Research Studies</u>		
a) Based upon our audit of workshop and research studies costs, we noted that this amount represents advance payments, which were paid to "a hotel" and charged to USAID/Egypt as actual expenses. Based upon our review of actual invoices submitted from the hotel, we noted that the advance was refunded to the project and deposited in its bank account, and the actual expenses were also billed to USAID/Egypt (i.e. in addition to the advance payment). CCO's management indicated that such amount was billed in error. According to USAID rules and regulations, only actual expenditures should be charged to USAID. Accordingly, this amount is considered to be ineligible costs	26,470	

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
5) <u>Workshop and Research Studies</u>		
b) Based upon our audit of workshop and research study costs, we noted an amount of \$952 representing sales taxes which were billed to USAID. These taxes were deducted from the hotel invoice and not charged to the project. However, such amount was billed to USAID/Egypt. CCO's management indicated that such amount was billed in error. According to Section B 4 of the project grant agreement, any assistance provided under the agreement will be free from any taxation or fees imposed under laws in effect in Egypt. Accordingly, this amount is considered to be ineligible	952	

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
5) <u>Workshop and Research Studies</u>		
<p>c) Based upon our audit of workshop and research study costs, we noted an amount of \$2,571 representing costs incurred and billed to USAID/Egypt in excess of the project's approved budget (after the allowable 15% reallocation between line items) CCO's management agrees with this finding and indicated that they will attempt to obtain retroactive USAID/Egypt Project Officer approval According to the PIL Agreement, the CCO may adjust costs among budget line item categories in an amount not to exceed 15% of any individual line item Any adjustment over 15% will require USAID/Egypt's prior written approval Also, no reallocation is permitted between the two budget elements without prior written approval of USAID/Egypt Discussions with management revealed that no approvals had been obtained for the amounts disbursed in excess of the approved budget Accordingly, this amount is considered to be ineligible</p>	2,571	

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
5) <u>Workshop and Research Studies</u>		
d) Based upon our audit of workshop and research study costs, we noted that this amount represents the cost of a conference that was charged to USAID/Egypt. However, this amount was not actually paid and the check is still maintained by CCO. CCO's management indicated that this amount will ultimately be paid subsequently to the supplier. According to USAID rules and regulations only actual expenditures should be charged to USAID. Accordingly, this amount is considered to be ineligible.		
Total line item	485 <u>30,478</u>	<u>---</u>

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
6) <u>Travel and Per diem</u>		
a) Based upon our audit of travel and per diem costs, we noted an amount of \$109 representing costs incurred and billed to USAID/Egypt in excess of the project's approved budget (after the allowable 15% reallocation between line items) CCO's management agrees with this finding and indicated that they will attempt to obtain retroactive USAID/Egypt Project Officer approval According to the PIL Agreement, the CCO may adjust costs among budget line item categories in an amount not to exceed 15% of any individual line item Any adjustment over 15% will require USAID/Egypt's prior written approval Also, no reallocation is permitted between the two budget elements without prior written approval of USAID/Egypt Discussions with management revealed that no approvals had been obtained for the amounts disbursed in excess of the approved budget Accordingly, this amount is considered to be ineligible	109	

25

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
6) <u>Travel and Per diem</u>		
b) Based upon our audit of travel and per diem expenses, we noted that an amount of \$19 representing the cost of per diem was charged to USAID/Egypt. However, this amount was not actually paid and the related checks are still maintained by CCO. CCO's management indicated that this amount will ultimately be paid to the suppliers. According to USAID rules and regulations, only actual expenditures should be charged to USAID. Accordingly, this amount is considered to be ineligible.		
Total line item	19	---
	<u>128</u>	<u>---</u>
7) <u>Training Services</u>		
Based upon our audit of training service costs, we noted that this amount represents the cost of three training courses, which were paid to vendor as an advance payment. However, these courses have not been held as of the completion date of our audit. CCO's management indicated that such courses will be ultimately conducted. However, no evidence was provided to us to substantiate this representation. According to USAID rules and regulations, only actual expenditures should be charged to USAID. Accordingly, this amount is considered to be ineligible.		
Total line item	12,463	---
Total Questioned Costs	<u>12,463</u>	<u>---</u>
	<u>44,522</u>	<u>---</u>
		<u>44,522</u>

INTERNAL CONTROLS

Report on the Internal Control Structure
Independent Auditor's Report

Mr Darryl Burris
Regional Inspector General for Audit-Cairo
United States Agency for International Development
Cairo, Egypt

We have audited the accompanying fund accountability statement of the Curative Care Organization (CCO) pursuant to Project Implementation Letter (PIL) No 20 under USAID/Egypt Project No 263-0170 for the period January 1, 1997 through September 30, 1998, and have issued our report thereon dated May 6, 1999

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

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

The management of CCO is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that the transactions are executed in accordance with the management's authorization and recorded properly to permit the preparation of the fund accountability statement in accordance with the cash basis of accounting. Because of the inherent limitations in internal controls, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of internal controls 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 the fund accountability statement of Curative Care Organization (CCO), related to funds received and locally incurred costs under USAID/Egypt Project No 263-0170 for Project Implementation Letter (PIL) No 20 for the period January 1, 1997 through September 30, 1998, we obtained an understanding of internal controls. With respect to internal controls, we obtained an understanding of the design of relevant policies and procedures and whether they had been placed in operation, and we assessed control risk, in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement but not to provide an opinion on internal controls. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a 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 statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the

 Hazem Hassan

internal control structure and its operations that we consider to be material weaknesses as defined above

However, we noted other matters, involving the internal control structure and its operation, that we have reported to the management of CCO in a separate letter dated May 6, 1999

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



KPMG Hazem Hassan
Cairo, Egypt

May 6, 1999

COMPLIANCE WITH LAWS AND REGULATIONS

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

Mr Darryl Burris
Regional Inspector General for Audit-Cairo
United States Agency for International Development
Cairo, Egypt

We have audited the accompanying fund accountability statement of the Curative Care Organization (CCO) pursuant to Project Implementation Letter (PIL) No 20 under USAID/Egypt Project No 263-0170 for the period January 1, 1997 through September 30, 1998, and have issued our report thereon dated May 6, 1999

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

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

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

The results of our tests disclosed no matters of noncompliance that are required to be reported herein under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that have been reported to CCO's management in a separate letter dated May 6, 1999.

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



KPMG Hazem Hassan & Co
Cairo, Egypt

May 6, 1999

Follow-up on previous NFA Report

Follow-up on previous NFA Report

We have followed up on the findings and recommendations identified in the previous NFA report for PIL No 20 for the period February 1, 1995 through December 31, 1996, as required by paragraph 10 of chapter 4 of Government Auditing Standards

With respect to questioned costs amounting to \$1,052 noted in the previous NFA report, our follow-up indicated that, subsequent to resolution and closure procedures performed by USAID/Egypt, such questioned costs had been reimbursed by CCO to USAID/Egypt

There were no material internal control nor compliance matters in the previous NFA report requiring follow-up

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APPENDIX I
MANAGEMENT RESPONSE

AIRO CURATIVE ORGANIZATION
39 CORNICH EL NIL
115R EL KADIMA
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AX 989 - 033

الموسسة العلاجية بالقاهرة
٩٨٩ كورنيش النيل
مصر القديمة
القاهرة ، مصر
تليفون ٣٦٤ - ٤٥ ٣ / ٩٨١ - ٣٢١
فاكس ٩٨٩ - ٣٣

Mr KPMG HAZEM HASSAN
Public Accountants & Consultants
72 Mohi Eldin Abul Ezz Street
Mohandseen Cairo
Egypt

July 1, 1999

Attached the CCO Financial Report In response of USAID
Financial Audit (Hazem Hassan office) Project No 263 -0170 , Project
Implementation Letter) PIL No 20 for the period January 1,1997
through September 30,1998

Best Regards

Yours Sincerely,

syda Dr Mohsen Mohamad

CCO Chairman



CCO Financial Report

In response of USAID Financial Audit) Hazem Hassan office (Project No 263 – 0170 , Project Implementation Letter)PIL(No 20 for the period January 1,1997 through September 30,1998

1 Equipment

LE 39595 52 were spent by check No 292157 on 15/9/98 for supply of telephone system and telephones under the Equipment Line Item LE 2500 were deduced from the total amount the supplier) Arab Manufacturing Organization (deserves , which represent the remaining work of telephone network installation According to Auditing Report and what has been agreed upon during Exit Conference dated 10/6/99 , included is the check of LE 2500 for USAID to be withdrawn from Misr Bank This amount should be paid to supplier (Arab Manufacturing Organization) by USAID on condition that he completes the work agreed upon

2 Equipment Maintenance

A) LE 785 00 were spent under Equipment Maintenance Line Item Details as following

LE	225 00	Check No	203485	on	27/7/98
LE	110 00	Check No	29216	on	30/9/98
LL	300 00	Check No	203452	on	15/6/98
IF	150 00	Check No	29958	on	26/3/98

This amount was spent after Amendment 5 had been issued on 3 5 98 Included is the project officer approval for spending this amount under Equipment Maintenance Line Item , according to the urgent need to PCs repair as there had been no money in the local financing component to spend on Equipment Maintenance

The amount spent was very small and there was still surplus under Equipment Maintenance Line Item even after approval

B) Check of LE 225 00 in the name of the supplier "Computer and Engineering World" has been withdrawn As the supplier did not present Maintenance service invoice till now , this check was not given to him

Included is the check No 203485 dated 27/7/98 of LE 206 25 This amount should be pay later by USAID to supplier when he presents maintenance service invoice

3 Telecommunication

Check No 837237 dated 21/8/1996 of L E 4154 35 in the name of National Authority of Telecommunication This check had been received by the Authority on 22/8/1996 Till now the Authority did not withdraw this check from the National Investment Bank According to Auditing Report and what has been agreed upon during Exit conference dated 10/6/1999 USAID will withdraw L E 4154 35 from National Investment Bank and USAID will pay this amount to the telecommunication Authority when required

4 Information :

Check No 311232 dated 31/7/1997 of L E 15000 was withdrawn It represents the cost of preparing five books each 48 pages We showed Mr Wail , the accounting supervisor all the work done related to that check

5 Workshops

-) Check No 203431 dated 13/5/1998 of L E 45000 and check No 203600 dated 15/6/1998 of L E 45000 in name of "Forty Grand Hotel" were withdrawn according to Auditing Report and what has been agreed upon during Exit conference dated 10/6/1999 CCO has to pay L E 90000 to USAID reconciliation should be made between the amounts owed by both CCO & USAID USAID has to pay to CCO
- B) Regarding L E 3236 3 which represent sales taxes for the workshop in "Forty Grand Hotel" and according to Auditing Report and what has been agreed upon during Exit Conference dated 10/6/1999 , reconciliation should be made between the amounts owed by both CCO & USAID as descrtied above (5-A)
- C) Concerning L E 8742 which exceed the allocated amount under Workshop Line Item , Total expenses were L E 173113 including L E 90000 which was mentioned in (5-A)
As L E 90000 were repaid to USAID as stated in (5-A) , the total expenses under Workshops Line Item would be L E 83113 (173113 - 90000 = 83113) , consequently there would be no excess in expenses under Workshops Line Item
The allocated amount after amendment was L E 142931
Net expenses L E 83113
- D) Check No 292186 dated 22/9/1998 of L E 1502 5 in the name of 'Basma Hotel at Aswan' , was withdrawn under Workshops Line

Item As the Hotel did not come to receive the check till now and according to Audit Report and what has been agreed upon during Exit Conference dated 10/6/1999 , included is the check No 292186 dated 22/9/1998 of L E 1502 50 in the name of “Basma Hotel at Aswan “ USAID will pay this amount to the hotel on request

6 Travel and Perdiem

A) L E 370 were spent under Travel and Perdiem Line Item According to Audit Report and what has been agreed upon during Exit Conference dated 10/6/1999 , included is the Project Officer approval on spending L E 370 under Travel and Perdiem Line Item

B) The following check were withdrawn which amount to L E 2292 4 The suppliers did not come to receive these check till now

Check No	Date	Amount	Supplier
292188	22/9/98	L E 2229 .	Carlson Co
292174	21/9/98	L E 14 60	Ahmed El-sayed Barakat
292172	21/9/98	L E 19 40	Mohammed Amer Abdelhamid
292167	21/9/98	L E 14 40	Abdallah Abdallah El-Sherbiny
292166	21/9/98	L E 14 60	Fawziy Fahim El-Ghazaly

According to Audit Report and what has been agreed upon during Exit Conference dated 10/6/1999 , included the five check mentioned above USAID will pay these amount to suppliers on their request

7 Training Services

Check No 292243 of L E 56358 8 dated 30/9/1998 which is retained at ICL will be delivered back to CCO CCO will bay to ICL the amount of L E 13983 8 which represent the actual training course already carried out by ICL

List of Check Included
National Investment Bank Check to be delivered to USAID related
to PIL 20

No	Check	Date	Amount L E	Supplier
1	203485	27/7/98	206 25	Computer & Engineering World
2	292186	22/9/98	1502 50	Basma Hotel at Aswan
3	292188	22/9/98	2229 00	Carlson CO
4	292174	21/9/98	14 60	Ahmed El-sayed Barakat
5	292172	21/9/98	19 60	Mohammed Amer Abdelhamid
6	292167	21/9/98	14 60	Abdallah Abdallah El-Sherbiny
7	292166	21/9/98	14 60	Fawziy Fahim El-Ghazaly

List of Check Included
Local component

No	Check	Date	Amount L E	Supplier
1	80686	5/7/1999	2500	USAID

CAIRO CURATIVE ORGANIZATION
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تليفون ٣٦٤ - ٤٥٣ / ٩٨١ - ٣٢١
فاكس ٩٨٩ - ٣٣

PROJECT NO 263-0170

JUNE 29, 1999
Dr Sameh EL_Gayar
Project officer
Cost Recovery for Health Project
USAID / CAIRO
~~Cairo Center Building~~
~~Garden City, Cairo~~

Dear Dr Sameh EL_Gayar

Further to the CCO Financial Audit for the period of 1/7/1997 through 30/9/1998 , the following are our justifications for certain audit findings which require your kind approval

1 Finding No 1

LE 785 were spent on Equipment Maintenance Details are as following

LE 225	check No	203485	on	27/7/98
LE 110	check No	29206	on	30/9/98
LE 300	check No	203452	on	15/6/98
LE 150	check No	29958	on	26/3/98

Total 785
===

The above mentioned amounts were spent on maintaining the computer PCs that were purchased through CRHP / CCO project Although it was done after Amendment No 5 of PIL # 20 , it was envisioned as crucial and essential task for an efficient continuation of our program activities

USAID approval



Date

7/1/1999

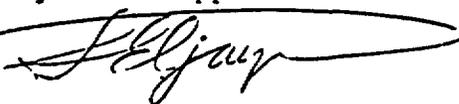
CAIRO CURATIVE ORGANIZATION
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القاهرة ، مصر
شعبان ١٤١١ - ٢ / ١٤١١ - ٤٥ - ٣٦٤
فاكس ٣٣ - ٩٨٩

2 Finding No 2

LE 370 were spent on Travel and Perdiem Line Item Although this amount exceeded the 15% allowance, yet it was necessary for carrying out the Annual Plan already approved by USAID
We are looking for your kind approval

USAID approval



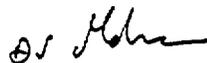
Date 7/6/1999

Finally we want to mention that your continuous cooperation and efficient management of subject project is very well appreciated

Best Regards

Yours Sincerely,

Dr. Mohsen Mohamad



CCC Chairman

Mug'at

APPENDIX II
AUDITOR'S COMMENTS

Auditor's Comments

Page 1 of 2

Finding No 1

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed

Finding No 2 (a)

This questioned cost was retroactively approved by USAID/Egypt subsequent to the issuance of the draft report

Finding No 2 (b)

The check associated with this amount was not delivered to USAID/Egypt nor to the supplier Therefore, this questioned cost is included in our final report

Finding No 3

The check associated with this amount was neither withdrawn by the supplier nor refunded to USAID/Egypt Therefore, this questioned cost is included in our final report

Finding No 4

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed

Finding No 5 (a)

This amount was not refunded to USAID/Egypt Therefore, this questioned cost is included in our final report

Finding No 5 (b)

This amount was not refunded to USAID/Egypt Therefore, this questioned cost is included in our final report



Finding No 5 (c)

No approval was obtained for such excision budget Therefore, this questioned cost is included in our final report

Finding No 5 (d)

This check associated with this amount was not delivered to USAID/Egypt nor to the supplier Therefore, this questioned cost is included in our final report

Finding No 6 (a)

This questioned cost was retroactively approved by USAID/Egypt subsequent to the issuance of the draft report

Finding No 6 (b)

For the check number 292188 amounting to \$636

Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed

For the remaining checks amounting to \$19

The checks associated with these amounts were not delivered to USAID/Egypt nor to the supplier Therefore, this questioned cost is included in our final report

Finding No 7

The check associated with this amount was not delivered to USAID/Egypt nor to the supplier Therefore, this questioned cost is included in our final report

4/8

APPENDIX III
MISSION'S RESPONSE



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO EGYPT

MEMORANDUM

DATE August 16, 1999

TO Darryl Burris, RIG/A/C

FROM *Mary Eileen Devitt*
Mary Eileen Devitt, Division Chief, FM/FA

SUBJECT Financial Audit of the Curative Care Organization (CCO),
Expenditures Incurred Under Project Implementation Letter (PIL)
No 20 Under USAID/Egypt's Cost Recovery for Health Project
No 263-0170 Final Draft Audit Report dated July 19, 1999

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

Recommendation No 1

We recommend that USAID/Egypt make a management decision on the questioned costs of \$44,522 (all ineligible) detailed on pages 12 through 19 of the KPMG Hazem Hassan audit report, and recover from the Curative Care Organization the amounts determined to be unallowable

Mission response

Mission has determined that of the \$44,522 (LE151,376) questioned under the audit, \$2,893 (LE9,838) is allowed and \$41,629 (LE141,538) is sustained

Mission response to the audit findings follows

Finding No 2a Ineligible Equipment Maintenance costs for \$170 (LE579)

This amount represent billings to USAID subsequent to the effective date of Amendment No 5, dated June 3, 1997 which prohibited the continued funding of equipment maintenance costs In response to the audit report, CCO provided a justification stating that these costs were essential for efficient continuation of the program activities The Project Officer (PO) agreed to CCO's request, and provided a retroactive approval for this cost, (Attachment A)

Therefore, the \$170 is allowed

Finding No 2b Ineligible Equipment Maintenance costs for \$61 (LE206)

Similar to finding No 2a this amount represents computer maintenance costs billed to USAID subsequent to the effective date of Amendment No 5, dated June 3, 1997 which prohibited the continued funding of computer maintenance costs The Project Officer (PO) provided a retroactive approval for this cost, (Attachment A)

Additionally, this amount was charged to USAID/Egypt, although the check is still maintained by CCO and was not delivered to the vendor CCO mentioned that several attempts were made urging the vendor to pick up their check

The Fund Accountability Statement (FAS) has been prepared on the basis of cash receipts and disbursements Consequently, revenues are recognized when they are actually received, and expenditures are recognized when they are actually paid Accordingly, only actual expenditures supported by evidence of receipt of check/cash should be charged to USAID

Therefore, the \$61 is sustained

Finding No 3 Ineligible Telecommunication costs for \$1,222 (LE4,154)

This amount represents the cost of a telephone line for the project that was charged to USAID/Egypt However this amount was not actually paid to the Telecommunication Company which provided the service CCO mentioned that several attempts were made urging the vendor to cash their check

The FAS has been prepared on the basis of cash receipts and disbursements Consequently, revenues are recognized when they are actually received, and expenditures are recognized when they are actually paid Since the check has been received by the vendor, yet it has not been cashed to date, therefore, this amount should not be charged to USAID

Therefore, the \$1,222 is sustained

Finding No 5a Ineligible Workshop costs for \$26,470 (LE90,000)

This amount represents advance payments, which were paid to a hotel and charged to USAID/Egypt as actual expenses Per KPMG/Hazem Hassan (KPMG/HH) audit report, this amount was subsequently refunded to the project and deposited in CCO's bank account Further, the actual expenses were billed again to USAID/Egypt, thus resulting in a duplicate payment

In view of the above, the duplicate payment charged to USAID should be refunded

Therefore, the \$26,470 is sustained

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Finding No 5b Ineligible Sales Taxes for \$952 (LE3,236)

This amount represents sales taxes, which were billed to USAID/Egypt

KPMG/HH stated that according to Section B 4 of the Project Grant Agreement, any assistance provided under the agreement should be free from any taxation or fees imposed under laws in effect in Egypt

Accordingly, this amount is not allowable

Therefore, the \$952 is sustained

Finding No 5c Ineligible Workshop and Research Studies costs for \$2,571 (LE8,742)

This amount represents costs incurred and billed to USAID/Egypt in excess of the project's approved budget, taking into consideration the allowable 15% reallocation between the line items

The ineligible sustained amount of \$26,470, pertains to finding No 5a above Also, the ineligible amount of \$2,571 questioned in this finding relates to the same line item (Workshop and Research Studies) The \$26,470 ineligible amount was deducted from CCO's voucher No 9-6599, as mentioned in page No 5 of this memorandum This caused the overall line item expenditure balance to be reduced by \$26,470 and thus, resulting in the total expenditures pertaining to the line item, to be within the approved budget

Therefore, the \$2,571 is allowed

Finding No 5d Ineligible Workshop and Research Studies costs for \$485 (LE1,650)

This amount represents the cost of a conference that was charged to USAID/Egypt as follows

Net amount to be paid to the vendor	\$ 442
Amount deducted from Vendor's check, to be remitted to the tax authorities on behalf of the vendor	\$ 43

Total amount billed to USAID	<u>\$ 485</u>

The auditors questioned these costs as being charged to USAID/Egypt, although the check of \$442 was not received by the vendor

USAID obtained and reviewed the supporting documents and receipts, presented by CCO evidencing that the \$43 (LE147) was paid to the tax authorities, on behalf of the vendor, (Attachment B)

The \$442 (LE1,503) check is still maintained by CCO and not delivered to the vendor

CCO mentioned that several attempts were made urging the vendor to receive their check

The FAS has been prepared on the basis of cash receipts and disbursements. Consequently, revenues are recognized when they are actually received, and expenditures are recognized when they are actually paid. Accordingly, only actual expenditures supported by evidence of receipt of check/cash should be charged to USAID.

Therefore, of the \$485 questioned, \$43 is allowed and \$442 is sustained

Finding No 6a Ineligible Travel and Per Diem costs for \$109 (LE370)

This amount represents costs incurred and billed to USAID/Egypt in excess of the project's approved budget taking into consideration the allowable 15% reallocation between the line items

In their response to the audit report, CCO provided a justification stating that these costs were necessary for carrying out the annual plan, which have been approved by USAID. The PO agreed to CCO's request, and provided a retroactive approval for these costs, (Attachment C)

Therefore, the \$109 is allowed

Finding No 6b Ineligible Per Diem costs for \$19 (LE64)

This amount represents per diem costs, charged to USAID/Egypt, although the checks are still maintained by CCO. CCO mentioned that several attempts were made urging the vendors to receive their checks.

The FAS has been prepared on the basis of cash receipts and disbursements. Consequently, revenues are recognized when they are actually received, and expenditures are recognized when they are actually paid. Accordingly, only actual expenditures supported by evidence of receipt of check/cash should be charged to USAID.

Therefore, the \$19 is sustained

Finding No 7 Ineligible Training Services for \$12,463(LE42,375)

This amount represents the costs of training courses, which were paid to the vendor as an advance payment, although the training services were not provided.

Since no service was provided, USAID should not be charged by this amount.

Therefore, the \$12,463 is sustained

Based on the above, of the \$44,522 (LE151,376) questioned, \$2,893 (LE9,838) is allowed and \$41,629 (LE141 538) is sustained Accordingly, the sustained amount was deducted from CCO voucher No 9-6599, (Attachment D)

CCO's National Investment Bank (NIB) line of credit has been fully replenished, therefore the equivalent to the sustained amount should not be replenished to CCO's NIB account

Conclusion

In view of the above, Mission requests closure of Recommendation No 1 under the subject audit upon issuance of the final report

Thank you for your cooperation

Att a/s

Cc Sameh El Gayyar, HDD/PH
Sameh Habib, FM/FA
Amina Mohamed, FM/FO/PA
Magda Henein, FM/FO/PA
Lucy Zakhary, FM/FP/AP
FM Reading File

