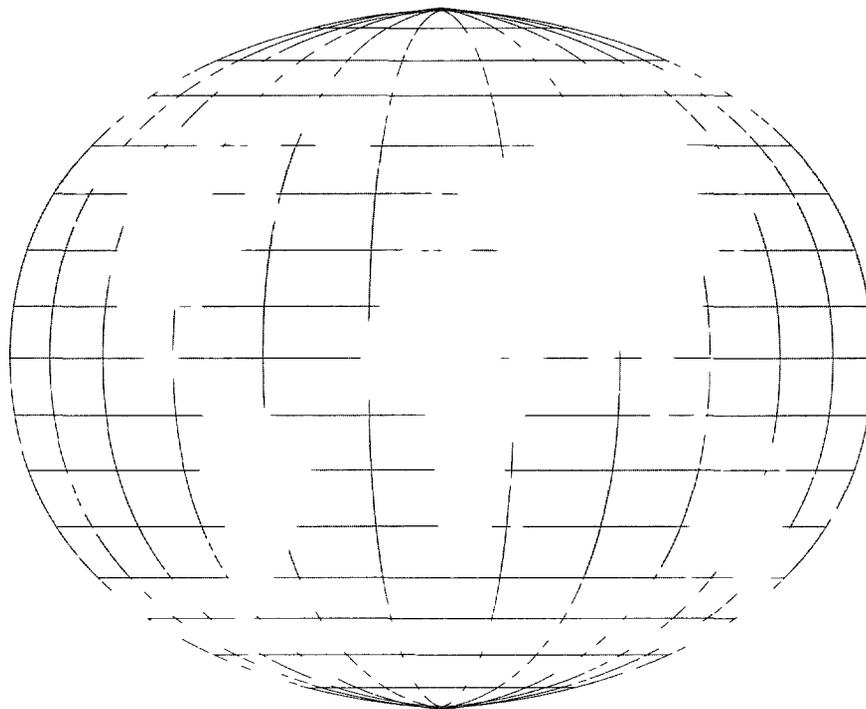


Report of Audit

PD-ABR-642
102499

Financial Audit of the Ministry of Health's Teaching Hospital Organization, Expenditures Incurred Under Project Implementation Letter No. 8B Under USAID/Egypt's Population/Family Planning III Project (Project No. 263-0227)

Report No. 6-263-99-011-N
September 2, 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



PD-ABR-642
10249-

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

CAIRO EGYPT

Report No 6-263-99-011-N
September 2, 1999

MEMORANDUM

TO DIRECTOR USAID/Egypt, Richard M Brown
FROM Acting RIG/A/C, Thomas C Asmus
SUBJECT Financial Audit of the Ministry of Health's Teaching Hospital Organization, Expenditures Incurred Under Project Implementation Letter No 8B Under USAID/Egypt's Population/Family Planning III Project (Project No 263-0227)

The attached report, transmitted on May 13, 1999, by Mohamed Hilal & Co, presents the results of a financial audit of the Teaching Hospital Organization (the Organization), an entity established by the Ministry of Health to implement Project Implementation Letter 8B of the Population/Family Planning III Project (USAID/Egypt Project No 263-0227) The Organization was established to improve the quality of family planning services through training and service delivery interventions

We engaged Mohamed Hilal & Co to perform a financial audit of USAID/Egypt resources managed by the Organization related to expenditures under PIL No 8B Expenditures subject to the audit included \$714,637 for PIL No 8B, \$106,530 in cost sharing contributions by the Government of Egypt and incurred Revenue Agreement expenditures of \$99,428 during the period May 1, 1996 through June 30, 1998 The purpose of the audit was to evaluate the propriety of costs incurred during this period Mohamed Hilal & Co also evaluated the Organization's internal controls and compliance with applicable laws, regulations and agreement terms including revenue and cost sharing as necessary in forming an opinion regarding the Fund Accountability Statement

The audit report questioned a total of \$329 in costs billed to USAID/Egypt by the Organization and \$8,848 in revenue earned and expenditures incurred under the Revenue Agreement The questioned costs related primarily to an unsupported opening balance for the Revenue Fund and earnings not reported to USAID The auditors noted two reportable conditions (neither was considered material) in the Organization's internal control structure,

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and no material instances of noncompliance with applicable laws, regulations, and agreement terms. Also, the auditors' review of cost sharing contributions did not identify any reportable conditions.

In response to the draft report, Organization officials provided additional documentation and explanations to the report findings. Mohamed Hilal & Co reviewed the Organization'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 \$329 (unsupported costs of \$259 and ineligible costs of \$70) detailed on pages 11 and 12 of the Mohamed Hilal & Co audit report and the questioned amount of \$8,848 (unsupported revenue of \$8,739 and ineligible costs of \$109) relating to the Revenue Agreement detailed on page 22, and recover from the Ministry of Health the amounts determined to be unallowable.

In response to Recommendation No 1, USAID/Egypt determined that questioned costs of \$329 relating to the Fund Accountability Statement are sustained. Also, the Mission determined that ineligible costs of \$109 relating to the Revenue Agreement are sustained but the unsupported revenue of \$8,739 is allowed. The Organization refunded the total sustained amount of \$438. 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



**Audit of USAID Resources
Managed by
The Ministry of Health's
Teaching Hospital Organization,
PIL No 8B,
Project No 263-0227,
For the Period from
May 1, 1996 through June 30, 1998**



Audit of USAID Resources Managed by the Ministry of Health's
Teaching Hospital Organization, under Project Implementation Letter
(PIL) No 8B, USAID/ Egypt Project No 263-0227,
For the period from May 1, 1996 through June 30, 1998

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May 13, 1999

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

Dear Mr Burris,

This report presents the results of our financial audit of United States Agency for International Development (USAID) resources managed and the expenditures incurred by the Ministry of Health's Teaching Hospital Organization (THO), under Project Implementation Letter (PIL) No 8B, USAID/ Egypt Project No 263-0227, during the period from May 1, 1996 through June 30, 1998

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 THO project. The purpose of THO project is to contribute to the level and effectiveness of contraceptive use among married couples through delivery of high quality hospital based clinical Family Planning (FP) services.

USAID/Egypt has issued PIL No 8B to support comprehensive "up-grading" of the MOH Family Planning Service Systems in 8 Egyptian governorates. This is being achieved through establishing decentralized, sustainable, integrated FP services delivery program within the THO system through

- Strengthening central office management structure and staffing
- Improving management, administration and financial systems
- Increasing the number of FP clients
- Training THO/FPS and staff to provide FP services
- Implementing an effective model of recruitment of FP clients in hospital settings
- Implementing an effective quality assurance program

PIL No 8B was amended seven times through June 30, 1998. The total commitment as of June 30, 1998 was \$1,260,108 (equivalent to LE 4,284,367)



Audit Objectives and Scope

The objective of this engagement was to conduct a financial audit of USAID resources managed by the Ministry of Health's Teaching Hospital Organization (THO) under Project Implementation Letter (PIL) No 8B, USAID/ Egypt Project No 263-0227. The Audit covered the period from May 1, 1996 through June 30, 1998.

The specific objectives of this audit were to

- 1 Express an opinion on whether the Fund Accountability Statement for PIL No 8B, USAID/Egypt THO 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 recipient, assess control risk, and identify reportable conditions including material internal control weaknesses,
- 4 Perform tests to determine whether the recipient complied, in all material respects, with the PIL terms, revenue agreement including cost sharing and applicable laws and regulations,
- 5 Determine if the recipient has taken corrective actions on prior audit report recommendations

The preliminary planning and review procedures started on January 23, 1999 and consisted of the following actions

- Meeting with the 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 line 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 sample size and plan the Governorate sites to visit

The fieldwork segment of our audit commenced on March 15, 1999 and was completed on May 13, 1999. The scope of our work was to audit costs incurred by THO and reimbursed by USAID/Egypt under PIL No. 8B during the period from May 1, 1996 through June 30, 1998. The scope of work also included review of cost sharing contribution and revenue agreement.

Our audit included an examination of costs incurred in the THO Central Office and 4 of the 8 FP units during the period from May 1, 1996 through June 30, 1998. 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, 1998 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 Central Office and the four FP units included in our sample was \$351,933 (equivalent to LE 1,196,571) out of total expenditures of \$714,637 (equivalent to LE 2,429,771) which represents a coverage of 49% of the total expenditures incurred during the audited period. Project costs incurred and tested were converted to US dollars at the applicable exchange rate.

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

1. Reconciling THO 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 THO 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 THO 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.



- 4 Review cost sharing schedule and determine whether cost sharing contributions were provided and accounted for by the recipient in accordance with terms of agreement

Results of Audit

Fund Accountability Statement

Our audit identified total questioned costs of \$329 (equivalent to L E 1,119), which represents ineligible costs of \$70 (equivalent to L E 238) and unsupported costs of \$259 (equivalent to L E 881)

Review of Cost Sharing Contribution

Our review did not identify any reportable condition related to the recipient's Cost Sharing Contribution

Revenue Fund Statement

Our review identified total questioned amounts of \$8,848 (equivalent to L E 30,083), which represents ineligible costs of \$109 (equivalent to L E 371) and unsupported revenue of \$8,739 (equivalent to L E 29,713)

Internal Control Structure

Our audit identified two reportable conditions related to the recipient's internal control structure. These reportable conditions are related to the internal control procedures over safeguarding of the project assets and recording and reporting of transactions. However, we do not consider these reportable conditions to be material. This matter is fully described in our report on internal controls. We noted other immaterial matters involving the internal control structure which we have reported to the THO management in a separate management letter dated May 13, 1999.

Compliance with Laws and Regulations

Our audit identified no material instances of noncompliance with agreement terms and applicable laws and regulations. We noted other immaterial instances of noncompliance which we have reported to the THO management in a separate management letter dated May 13, 1999.



Follow up on Prior Audit Recommendation

We have reviewed the prior independent auditor's report dated October 28, 1996. The report questioned \$1,061 (equivalent to LE 3,610) as ineligible costs. The questioned costs related primarily to entertainment and attendance fees billed to USAID/Egypt. The previous audit report also questioned \$841 (equivalent to LE 2,858). These questioned costs represent ineligible costs of \$ 568 related to payment of unapproved bonus to Headquarter employees and unsupported costs of \$ 273 related to overstatement of revenue balance in the general ledger. The auditors also noted two reportable conditions of material weaknesses in the project's internal control structure and three instances of non-compliance.

We have considered these findings in performing our audit and we noted that all questioned costs were properly addressed by THO. Other unresolved internal control and non-compliance findings are addressed in the following related reports.

Management Comments

THO management comments have been obtained and are included in Appendix A of this report. In response to THO 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 THO 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

May 13, 1999

Report on the Fund Accountability Statement
Independent Auditor's Report

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

We have audited the accompanying fund accountability statement of Ministry of Health's Teaching Hospital Organization (THO), under Project Implementation Letter (PIL) No 8B, USAID/ Egypt Project No 263-0227, for the funds received and project costs incurred during the period from May 1, 1996 through June 30, 1998. The fund accountability statement is the responsibility of THO 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 \$329 (equivalent to L E 1,119), which represents ineligible costs of \$70 (equivalent to L E 238) and unsupported costs of \$259 (equivalent to L E 881)

In our opinion, except for the effects of the questioned costs, the fund accountability statement referred to in the first paragraph, presents fairly, in all material respects, THO fund balance as of June 30, 1998 and its funds received and costs incurred during the period from May 1, 1996 to June 30, 1998, on the basis of accounting described in Note 2

In accordance with Governmental Auditing Standards, we have issued two separate reports both dated May 13, 1999, the first on THO 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 THO 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

May 13, 1999

Ministry of Health's Teaching Hospital Organization
Population/Family Planning Project III
Project No 263-0227
PIL No 8B

Fund Accountability Statement

May 1, 1996 to June 30, 1998

Total USAID/Egypt Funds Received \$
1,106 882

<u>Expenditures Elements</u>	<u>Total Budget</u>	<u>Actual Expenditures</u>			<u>Questioned Costs</u>		<u>Finding No</u>
		<u>From Inception to 4/30/96</u>	<u>From 5/01/96 to 6/30/98</u>	<u>As of 6/30/98</u>	<u>Ineligible</u>	<u>Unsupported</u>	
		\$	\$	\$	\$	\$	
Salaries HQ	207,830	76,432	125,396	201,828			
Salaries FPU	86,744	40,517	44,747	85,264		0	1
Expendable Commodities	117,541	40,830	64 164	104,994			
General Adminstartion	73,564	27,019	26,406	53,425	70		2
Transportation	52 379	18,947	27,133	46,080		259	3
Technical Assistance	38,461	19,335	18,831	38,166			
Training Course	443,972	99,857	293,117	392,974		0	4
Non Expendable Commodities	141,096	18,508	94,793	113,301			
Renovation	98,521	78,471	20,050	98,521			
Total	1,260,108	419,916	714,637	1,134 553	70	259	
Fund Balance				-27,671			

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





Ministry of Health's Teaching Hospital Organization
Project Implementation Letter (PIL) No 8B
USAID/Egypt Project No 263-0227

Notes to the Fund Accountability Statement

For the period from May 1, 1996 through June 30, 1998

Note 1 - Scope of Statement

The fund accountability statement is the representation and the responsibility of THO management

The "Total Budget" column represents the total budget amounts approved by USAID for THO, under PIL No 8B from inception to June 30, 1998. The main budget categories are presented for reporting purposes only.

The "Actual Expenditures" columns identify the costs incurred by THO cumulatively and by two different audited periods. The "From Inception to 4/30/1996" column presents the project costs incurred during the first and second audit periods which was audited by other auditor. The "From 5/01/96 to 6/30/1998" column presents the project costs incurred during the period under this audit. The "As of 6/30/1998" column presents the cumulative project costs incurred up to June 30, 1998. 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 May 1, 1996 through June 30, 1998.



Note 4 – Fund Balance

The fund balance represents the difference between funds received from USAID and costs incurred by THO during the period from inception to June 30, 1998

	\$
Total Funds Received	1,106,882
Less	
Total Costs Incurred	<u>(1,134,553)</u>
Fund Balance as of June 30, 1998	(27,671)

Note 5 – Questioned Costs

The “Questioned Costs” columns represent the costs questioned during the period from May 1, 1996 through June 30, 1998. 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 Teaching Hospital Organization
Project Implementation Letter (PIL) No 8B
USAID/Egypt Project No 263-0227

Details of Questioned Costs

Item Description	Questioned Costs	
	<u>Ineligible</u> \$	<u>Unsupported</u> \$
Finding 1 – Salaries FPU		
Based on the documents and clarifications provided to us in THO management's response, we have removed this finding		---
Total Finding 1 – Salaries FPU		---
Finding 2 – General Administration		
Vouchers # 523 & 551 & 558 dated 6/97 include sales taxes Since USAID regulations do not allow payment of sales taxes as per OMB circular A122 section 4 a Therefore, we consider this amount to be ineligible	70	
Total Finding 2 – General Administration	70	



Details of Questioned Costs (Cont'd)

Item Description	Questioned Costs	
	<u>Ineligible</u> \$	<u>Unsupported</u> \$
Finding 3 – Transportation		
4 participants attended a training course and were paid for 21 days of per-diem instead of 13 days. These amounts were paid under voucher # 364 dated 5/12/96. We could not find supporting documents for the amounts paid in excess of actual duration. According to OMB Circular A122 Attach A Section A 2 g “amounts reported should be properly supported” Therefore, we consider this amount unsupported		259
Total Finding 3 – Transportation		<hr/> <hr/> 259
Finding 4 – Training Courses		
Based on the documents and clarifications provided to us in SDP II management’s response, we have removed this finding		---
Total Finding 4 – Training Courses		<hr/> <hr/> ---

Report on the Cost Sharing Schedule
Independent Auditor's Review Report

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

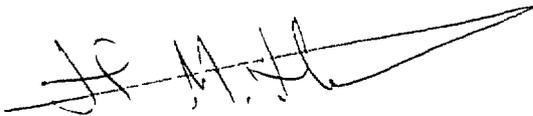
We have reviewed the accompanying cost sharing schedule of Ministry of Health's Teaching Hospital Organization (THO) under Project Implementation Letter (PIL) No 8B, USAID/ Egypt Project No 263-0227, for the period from May 1, 1996 through June 30, 1998

Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA) The purpose of our review was to determine if cost sharing contributions were provided and accounted for in accordance with the terms of the agreement We also considered the internal controls related to the provision of and accounting for cost share contributions

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data It is substantially more limited in scope than an examination, the objective of which is the expressing of an opinion on the cost sharing schedule Accordingly we do not express such an opinion

Based on our review, nothing came to our attention that caused us to believe that THO has not provided and accounted for cost sharing contributions in accordance with the terms of agreements

This report is intended for the information of the United States Agency for International Development and THO 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

May 13, 1999

**Ministry of Health's Teaching Hospital Organization
Population/Family Planning Project III
Project No 263-0227
PIL No 8B**

Cost Sharing Schedule

May 1, 1996 to June 30, 1998

<u>Description</u>	<u>Budget</u>	<u>Actual Expenditures</u>			<u>Questioned Costs</u>		<u>REF (NOTES)</u>
		<u>From Inception to 4/30/96</u>	<u>From 5/01/96 to 6/30/98</u>	<u>As of 6/30/98</u>	<u>Ineligible</u>	<u>Unsupported</u>	
	\$	\$	\$	\$	\$	\$	
Cash	194,163	87,633	106 530	194,163			4
In-Kind	0			0			5
Total	<u>194,163</u>	<u>87,633</u>	<u>106,530</u>	<u>194,163</u>	<u>0</u>	<u>0</u>	

* The accompanying notes are integral part of this cost sharing schedule





Ministry of Health's Teaching Hospital Organization
Project Implementation Letter (PIL) No 8B
USAID/Egypt Project No 263-0227

Notes to the Cost Sharing Schedule

For the period from May 1, 1996 through June 30, 1998

Note 1 - Scope of Statement

The cost sharing schedule is the representation and the responsibility of THO management

The "Budget" column represents the total budget amounts provided by GOE as cash contribution for THO, under PIL No 8B from inception to June 30, 1998

The "Actual Expenditures" columns identify the expenditures disbursed from GOE fund as cash contribution to THO cumulatively and by two different audited periods. The "From Inception to 4/30/1996" column presents the disbursed amounts during the previous audit period which was audited by other auditor. The "From 5/01/96 to 6/30/1998" column presents the disbursed amounts during the period under this audit. The "As of 6/30/1998" column presents the cumulative disbursements up to June 30, 1998. These columns are presented for reporting purposes only.

The "Questioned Costs" columns represent review results and are included in the cost sharing schedule for presentation purposes only.

Note 2 - Basis of Accounting

The cost sharing schedule 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 May 1, 1996 through June 30, 1998.



Note 4 – Cash Contribution

The cash contribution represents the actual amount disbursed from the GOE fund as cash contribution. It does not include any revenue funds earned from sales of USAID donated contraceptives. Funds earned from the sales of contraceptives are reported in the revenue fund statement. The PIL agreements states that the minimum THO cash contribution should be \$65,627 (equivalent to L E 223,130). THO cash contribution exceeded this amount. The total contribution as of 6/30/98 was \$194,163 (equivalent to L E 660,154).

Note 5 – In-Kind Contribution

THO provides In-Kind contribution such as training and office space, clinics, utilities and other operating and maintenance costs. However, reporting of In-Kind contribution is not required by the agreement.

Report on the Revenue Agreement
Independent Auditor's Review Report

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

We have reviewed the accompanying revenue fund statement of Ministry of Health's Teaching Hospital Organization (THO) under Contraceptive Revenue Agreement dated May 9, 1994, USAID/ Egypt Project No 263-0227, for the revenues earned and project costs incurred during the period from May 1, 1996 through June 30, 1998

Our review was conducted in accordance with standards established by the American Institute of Certified Public Accountants (AICPA) The purpose of our review was to determine if revenues earned and cost incurred were accounted for in accordance with the terms of the revenue agreement We also considered the internal controls related to the provision of and accounting for revenues earned and costs incurred under the agreement

A review consists principally of inquiries of recipient personnel and analytical procedures applied to financial data It is substantially more limited in scope than an examination, the objective of which is the expressing of an opinion on the revenue fund statement Accordingly we do not express such an opinion

As detailed in the accompanying revenue fund statement and as more fully described in Note 5 thereto, the results of our review disclosed identified total questioned amounts of \$8,848 (equivalent to L E 30,083), which represents ineligible costs of \$109 (equivalent to L E 371) and unsupported revenue of \$8,739 (equivalent to L E 29,713)

Based on our review, except as noted above, nothing came to our attention that caused us to believe that THO has not provided and accounted for revenues earned and costs incurred under the agreement



This report is intended for the information of the United States Agency for International Development and THO 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

May 13, 1999



Ministry of Health's Teaching Hospital Organization
Population/Family Planning Project III
Project No 263-0227
PIL No 8B

Revenue Fund Statement

May 1, 1996 to June 30, 1998

	\$	<u>Questioned Amounts</u>		<u>Finding No</u>
		<u>Ineligible</u>	<u>Unsupported</u>	
	\$	\$	\$	
Opening Balance	48,319		7,733	1 a
<u>Revenues</u>				
USAID Donated Contraceptives	53,165			
Second Generation Contraceptives	65,470			
Others	12,274		1 006	1 b
Total	130 908	0	8 739	
<u>Expenses</u>				
Salaries	80 815			
Purchasing Contraceptive Methods	9,512			
Supplies	711			
Bank Expenditures	112			
Others	8,278	109		2
Total	99,428	109	0	
Fund Balance	79,800			

* The accompanying notes are integral part of this revenue fund statement



Ministry of Health's Teaching Hospital Organization
Project Implementation Letter (PIL) No 8B
USAID/Egypt Project No 263-0227

Revenue Agreement
Notes to the Revenue Fund Statement

For the period from May 1, 1996 through June 30, 1998

Note 1 - Scope of Statement

The revenue fund statement is the representation and the responsibility of THO management

The opening balance represents the revenue fund balance as of May 1, 1996. The total revenues represent the revenues earned during the audited period. The total expenses represent expenditures incurred from the revenue account during the audited period. The fund balance represents the revenue balance as of June 30, 1998, end of audited period. These information are presented for reporting purposes only.

The "Questioned Amounts" columns represent review results and are included in the revenue fund statement for presentation purposes only.

Note 2 - Basis of Accounting

The revenue fund 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 revenue earned and expenditures paid from the revenue account 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 May 1, 1996 through June 30, 1998.



Note 4 – Fund Balance

The fund balance represents the difference between the revenue earned and costs incurred from the revenue account by THO during the period from inception to June 30, 1998

Note 5 – Questioned Costs

The “Questioned Amounts” columns represent the costs and revenue questioned during the period from May 1, 1996 through June 30, 1998. Questioned amounts are presented in two separate categories. The “Ineligible” column represents the costs and revenue that are prohibited by the agreement. The “Unsupported” column represents the costs and revenue that are not supported with adequate documentation. All questioned amounts are detailed in the “Details of Questioned Amounts” section of this report.



Ministry of Health's Teaching Hospital Organization
Project Implementation Letter (PIL) No 8B
USAID/Egypt Project No 263-0227

Revenue Agreement
Details of Questioned Amounts

Item Description	Questioned Amounts	
	<u>Ineligible</u>	<u>Unsupported</u>
	\$	\$
Finding 1 – Fund Balance		
a The opening balance reported in the revenue fund report as of 4/30/96 is less than the balance per GL THO needs to report this difference to USAID and adjust the report accordingly		7,733
b This amount represents earning from selling scrap that was not reported to USAID THO should report this amount to USAID by adjusting the revenue fund report		1,006
Total Finding 1 – Fund Balance		8,739
Finding 2 – Expenses		
Ineligible expenses for coffee breaks not approved by USAID As per the revenue agreement, article 4 2, USAID must approve in writing all expenditures other than that outlined in article 1 2 of the agreement We consider this amount to be ineligible and therefore, THO has to refund this amount from source other than USAID and revenue funds		109
Total Finding 2 – Expenses		109

Report on the Internal Control Structure
Independent Auditor's Report

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

We have audited the fund accountability statement of Ministry of Health's Teaching Hospital Organization (THO) under Project Implementation Letter (PIL) No 8B, USAID/ Egypt Project No 263-0227, for the funds received and project costs incurred during the period from May 1, 1996 through June 30, 1998 and issued our report thereon dated May 13, 1999. We also reviewed the separate cost sharing schedule and the revenue fund statement to determine whether they were provided and accounted for in accordance with the terms of the agreements.

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.

The management of THO 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 in accordance with the terms and agreements, and transactions are recorded properly to



permit the preparation of fund accountability statement in conformity with the basis of accounting described in Note 2 to the fund accountability statement. 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.

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

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants (AICPA). 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 recipient's ability to record, process, summarize and report financial data consistent with the assertions of management in the fund accountability statement, cost sharing schedule and revenue fund statement.

Finding 1 Fixed Assets Register

Condition

The project does not maintain a complete fixed assets register. Physical inspection count is not practiced by the project.

Criteria

A fixed assets register has to be maintained by the project. Annual inventory must be conducted on the recipient's assets and compared with the fixed assets register. Ref: PIL Agreement section 3 USAID Financial Management Requirements.

Cause

The project does not implement proper internal control procedures over the project's assets as stated in the above criteria.



Effect

Lack of controls over the safeguarding of assets against unauthorized acquisition, use or disposition that could result in losses or misuse of the project assets

Recommendation

A Fixed Assets register should be maintained and should include the following information

- 1 Description of the equipment
- 2 Manufacturer's serial number
- 3 Source of the equipment
- 4 Acquisition date and total cost
- 5 Unit acquisition cost
- 6 Location and condition of equipment

Annual physical count should be conducted and reconciled with the fixed assets register

Finding 2 Recording of Transactions

Condition

During our audit we noted several discrepancies between the subsidiary ledger and the general ledger THO do not use journal entry to record the adjustments They also report to USAID from the subsidiary ledger Therefore, the CFR does not agree with the general ledger

Criteria

Financial Management Guidance section III B "Accounting records should be maintained to properly account for AID funds and other assets"

Cause

Lack of internal control procedures to ensure proper reconciliation of records

Effect

Improper reporting of transactions



Recommendation

We recommend THO to maintain proper internal control procedures to ensure proper recording and reporting of transactions which leads to accurate reconciliation of balances. All transactions must be recorded through journal entries. Monthly reconciliation between the General and sub-ledgers should be performed prior to reporting to USAID.

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 none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control structure and its operation that we have reported to the management of THO in a separate letter dated May 13, 1999.

This report is intended for the information of the United States Agency for International Development and THO 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

May 13, 1999

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

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

We have audited the fund accountability statement of Ministry of Health's Teaching Hospital Organization (THO) under Project Implementation Letter (PIL) No 8B, USAID/ Egypt Project No 263-0227, for the funds received and project costs incurred during the period from May 1, 1996 through June 30, 1998 and issued our report thereon dated May 13, 1999. We also reviewed the separate cost sharing schedule and the revenue fund statement to determine whether they were provided and accounted for in accordance with the terms of the agreements.

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 the agreement terms and laws and regulations applicable to THO is the responsibility of THO management. As part of obtaining reasonable assurance about whether the fund accounting statement is free of material misstatement, we performed tests of THO compliance with certain provisions of agreement terms and laws and regulations. However, the objective of our audit of the fund accountability



statement was not to provide an opinion on overall compliance with such provisions Accordingly, we do not express such an opinion We also performed tests of THO's compliance with certain provisions of agreement terms and laws and regulations applicable to the provision of cost sharing contribution and revenue agreement

The results of our tests indicated that, with respect to the items tested, THO 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 THO had not complied, in all material respects, with those provisions

Our audit identified three instances of noncompliance with agreement terms, which we do not consider material instances of noncompliance with agreement terms and applicable laws and regulations These finding are related to the following a) THO does not deduct social insurance from employees salaries, b) THO commingles USAID fund with other GOE funds, c) THO does not comply with the terms of the revenue agreement as to obtaining USAID's approval on all expenditures from the revenue account We reported this finding and other non-material instances of noncompliance to the THO management in a separate management letter dated May 13, 1998

This report is intended for the information of the United States Agency for International Development and THO 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

May 13, 1999



Appendix A
Page 1 of 1

Ministry of Health's Teaching Hospital Organization
Project Implementation Letter (PIL) No 8B
USAID/Egypt Project No 263-0227

Management's Response

T H O

TEACHING HOSPITAL ORGANIZATION
FAMILY PLANNING CENTRAL OFFICE



الهيئة العامة
للمعاهد والمستشفيات التعليمية
بمصر
بمصر

To : Mr. Amr Fathallah
Partner
Grant Thoruton International
Mohamed Helal & CO.

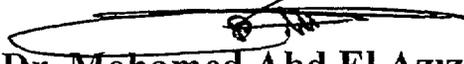
Subject : Draft Financial Audit Report
on the Teaching Hospitals Organization
PIL No. 8 B , under USAID / EGYPT
Project No. 263-0227

Dear Mr. Amr ,

With reference to the above mentioned subject and the conference held on June 1st , 1999 at AM in USAID office Please find attached a copy of the response on the audit draft report according to the date fixed in the conference on July 6th , 1999 .

Thank you for your kind cooperation and kind attention

Sincerely Yours ,


Dr Mohamed Abd El Aziz Sweed
Executive Director
THO/FPS

cc Dr. Ayman Abd El Mohsen
Project Management Specialist
Population Office , USAID/Egypt



THO AUDIT RESPONSE

I - FUND ACCOUNTABILITY STATEMENT

For the period from May 1st, 96 through June 30th, 98

• Finding No. 1 : Salaries FPU

Recommendation .

THO Management could not support the amounts paid for secretarial services .

THO Response .

1- Voucher # 259 and 507 .

The attendance sheet has been completed and a copy was given to your financial consultant

2- Voucher # 268 :

Please find attached a copy from the completed documents

• Finding No 2 : General Administration :

Recommendation .

THO has paid sales taxes , since USAID regulations do not allow payment of sales taxes .

THO Response :

THO agrees on paying the ineligible sales taxes but in the future , THO will not pay any sales taxes from the USAID fund



II - REVENUE FUND STATEMENT

• Finding No. 1 · Fund Balance ·

(1 a) Recommendation .

The opening balance reported in the revenue fund report is less than the balance per GL .

THO Response ·

This amount will be added on the opening cumulative balance in the quarter report April - May - June 1999 .

(1.b) Recommendation

THO should report the earning from the selling scrap to USAID

THO Response :

THO will record the earning from the selling scrap in the subsidiary ledger as the USAID will be informed by that in the quarter report April - May - June 1999

• Finding No 2 Expenses ·

Recommendation

Ineligible expenses for coffee breaks not approved by USAID as per the revenue agreement article 4.2 , USAID must approve in writing all expenditures other than outlined in article 1 2 of the agreement

THO Response

In the future , THO will not fund any expenses for coffee breaks from USAID fund .



• Finding No. 3 Transportation :

Recommendation :

Four participants attended a training course and were paid for 21 days of per-diem instead of 13 days

THO Response :

Please find attached a copy from the approval taken from the Executive Manager on paying the attendance fees for 21 days .

• Finding No 4 Training Courses :

Recommendation .

Paying training per-diem for participant who did not attend the training course .

THO Response

The participant attend the lecture late and the training coordinator signed by his time of coming .



Ministry of Health's Teaching Hospital Organization
Project Implementation Letter (PIL) No 8B
USAID/Egypt Project No 263-0227

Auditor's Comments

The THO management provided comments related to the draft report presented at the exit conference on June 1, 1999. In response to their comments, we reviewed additional supporting documents provided by THO management. Please note that the finding references used below correspond to those used in our draft and final report.

I Questioned Costs (Fund Accountability Statement)

Finding 1 – Salaries FPU

THO management presented the supporting documents for the unsupported amount of \$490 (equivalent L E 1,667). Based on the documents and clarification provided, we have removed this finding.

Finding 2 – General Administration

THO management agreed with our finding and will refund the sales taxes of \$70 (equivalent to LE 238) to USAID. The questioned cost remains pending the remittance of the funds to USAID. Therefore, this finding remains in our final report pending USAID's final decision.

Finding 3 – Transportation

THO management presented the supporting documents for the unsupported amount of \$259 (equivalent L E 880). We believe the supporting documents provided are not sufficient to close our recommendation. Therefore, this finding remains in our final report pending USAID's final decision.

Finding 4 – Training Courses

THO management presented the supporting documents for the unsupported amount of \$29 (equivalent L E 100). Based on the documents and clarification provided, we have removed this finding.



II Questioned Amounts (Revenue Agreement)

Finding 1 - Fund Balance

- a THO management agreed with our finding. The difference of \$7,733 will be added to the opening balance for the USAID report of next quarter. The questioned revenue remains till THO submits a corrected report to USAID. Therefore, this finding remains in our final report pending USAID's final decision.

- b THO management will record the earnings from selling scrap of \$ 1,006 in the subsidiary ledger and report the adjustment to USAID. The questioned revenue remains till THO submits a corrected report to USAID. Therefore, this finding remains in our final report pending USAID's final decision.

Finding 2 – Expenses

THO management will obtain USAID approval for coffee break expenses funded from the revenue account. This finding remains in our final report pending USAID's approval.



Appendix C
Page 1 of 1

Ministry of Health's Teaching Hospital Organization
Project Implementation Letter (PIL) No 8B
USAID/Egypt Project No 263-0227

Mission's Response



CAIRO EGYPT

MEMORANDUM

DATE August 29, 1999

TO Darryl Burris, RIG/A/C

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

SUBJECT Financial Audit of the Ministry of Health's Teaching Hospital Organization (THO), Expenditures Incurred Under Project Implementation Letter (PIL) No 8B, Under USAID/Egypt's Population/Family Planning III Project No 263-0227 Draft Report Dated July 28, 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 \$329 (Unsupported costs of \$259 and ineligible costs of \$70) detailed on pages 11 and 12 of the Mohamed Hilal & Co audit report and the questioned amount of \$8,848 (unsupported revenue of \$8,739 and ineligible costs of \$109) relating to the Revenue Agreement detailed on page 22, and recover from the Ministry of Health the amounts determined to be unallowable

Mission Response

Mission has determined that the entire questioned amount of \$329(LE1,119) relating to the Fund Accountability Statement is sustained Mission has also determined that the \$109 (LE371) ineligible costs relating to the Revenue Agreement is sustained and the remaining unsupported revenue of \$8,739 (LE29,713) is not sustained

In summary, the \$438 (LE1,490) total amount determined to be sustained has been refunded under check No 35650494, dated August 23, 1999, Receipt No 18734, dated August 24, 1999, (Attachment A)

Details of the questioned amounts follows

a) Fund Accountability Statement

Finding No 2, Ineligible sales taxes of \$70(LE238)

This amount represents sales taxes charged to USAID THO agreed with the finding, and subsequently refunded the amount

Finding No 3, Unsupported transportation costs of \$259(LE881)

This amount represents unsupported training per-diem costs charged to USAID in excess of the actual duration THO agreed with the finding, and subsequently refunded the amount

b) Revenue Agreement

Finding No 1 a, Unsupported revenue of \$7,733(LE26,293)

This finding represents amounts not previously reported to USAID in the opening balance of the revenue fund report as of 4/30/96, although it is reflected in THO's balance per the General Ledger

Finding No 1 b, Unsupported revenue of \$1,006(LE3,420)

This amount represents proceeds from selling scrap, which was not reported to USAID

Finding No 2, Ineligible costs of \$109(LE371)

This amount represents ineligible expenses for coffee breaks not approved by USAID THO agreed with the finding, and subsequently refunded the amount

To comply with proper reporting regarding the \$8,739(LE29,713) of unsupported revenue, THO submitted the Revenue Fund Report for the quarter ending June 1999, evidencing the inclusion of \$8,739 (LE29,713), which reflects the total revenue amount not previously reported to USAID, with a statement that the amount mentioned in the Revenue Fund Report corresponds to that in their General Ledger, (Attachment B)

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

Thank you for your cooperation

Att a/s

Cc A Mohsen, HDD/PH
T. Noury, HDD/PH