

Regional Inspector General for Audit
Cairo, Egypt

**Audit of Regional Center for Training and Satellite Training
Center's (RCT/STC) Local Expenditures Incurred Pursuant to
Project Implementation Letter (PIL) No. 29 and Related
Revenue Account Under the Population/Family Planning
Project No. 263-0144**

**Report No. 6-263-94-012-N
March 22, 1994**



**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.**



UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL/AUDIT

March 22, 1994

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford
FROM : RIG/A/Cairo, Philippe L. Darcy
SUBJECT : Audit of the Regional Center for Training and
Satellite Training Center's (RCT/STC) Costs
Incurred under Project Implementation Letter (PIL)
No. 29 and the Related Revenue Account, under
USAID/Egypt Population/Family Planning Project No.
263-0144

The attached report dated September 9, 1993, by Hazem Hassan & Co. presents the results of a financial audit of the Regional Center for Training and Satellite Training Centers (RCT/STC) incurred costs under the Population/Family Planning Project No. 263-0144 funded by USAID/Egypt. The main goal of RCT/STC is to contribute to the strengthening of family planning services, in Egypt and through out the middle east, by institutionalizing improved family planning education and training opportunities.

We engaged Hazem Hassan & Co. to perform a financial audit of RCT/STC incurred expenditures of LE3,193,496 (equivalent to \$1,010,600), LE 192,542 (equivalent to \$60,931) in the revenue account, and LE 130,818 (equivalent to \$41,398) in expenditures from the revenue account, for the period June 1, 1990 to March 31, 1993. The purpose of the audit was to evaluate the propriety of costs incurred during that period. Hazem Hassan & Co. evaluated RCT/STC's internal controls and compliance with applicable laws, regulations and grant terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Hazem Hassan & Co. questioned LE4,409 (equivalent to \$1,395) in costs billed to USAID by RCT/STC and identified LE72,452 (equivalent to \$22,928) of ineligible revenues and costs. The questioned costs included refurbishing costs, instructors fees, and training costs. Hazem Hassan & Co. noted weaknesses in RCT/STC's internal controls relating to insurance, the payment process, and misclassification of costs. Additionally, they noted four instances of noncompliance relating to unbudgeted expenses, tuition fees, and Egyptian tax and labor laws.

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

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

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

Hazem Hassan has reviewed RCT/STC's response to the findings. The response provided by RCT/STC has not changed the auditors understanding of the facts underlying the questioned costs of the Fund Accountability Statement, the revenue account, or the reportable conditions in the Reports on Internal Controls and Compliance.

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

Recommendation No. 1: We recommend that USAID/Egypt resolve questioned costs of \$1,395 and ineligible revenues and costs of \$22,928 as detailed on page 16 of the audit report.

This recommendation is considered unresolved and can be resolved when RIG/A/C receives the Mission's formal determination as to the amounts sustained or not sustained. The recommendation can be closed when any amounts determined to be owed to USAID are paid by RCT/STC.

Recommendation No. 2: We recommend that USAID/Egypt require RCT/STC to address the inadequate internal control procedures as detailed on pages 19 through 21 of the audit report.

This recommendation is considered unresolved and can be resolved when the Mission provides our office with a copy of its request that RCT/STC address its internal control weaknesses. The recommendation can be closed when RIG/A/C has assessed RCT/STC's response and USAID/Egypt's follow-up for adequacy.

Recommendation No. 3: We recommend that USAID/Egypt require RCT/STC to address the non-compliance issues detailed on pages 24 through 26 of the audit report.

This recommendation is considered unresolved and may be resolved when the Mission provides our office with copies of its request that RCT/STC address its noncompliance issues. This recommendation can be closed when RIG/A/C has assessed RCT/STC's responses and USAID/Egypt's follow-up for adequacy.

Please advise this office within 30 days of any actions planned or taken to close the recommendations. We appreciate the courtesies extended to the staff of Hazem Hassan & Co. and to our office.

v

RECEIVED
15 FEB 1994

FINANCIAL AUDIT OF
REGIONAL CENTER FOR TRAINING AND
SATELLITE TRAINING CENTER'S (RCT/STC)
LOCAL EXPENDITURES INCURRED PURSUANT TO
PROJECT IMPLEMENTATION LETTER (PIL) NO. 29
AND RELATED REVENUE ACCOUNT
UNDER THE POPULATION/FAMILY PLANNING PROJECT
No. 263 - 0144

C

TABLE OF CONTENTS

	<u>PAGE</u>
<u>INTRODUCTION</u>	
Background	1
Audit objectives and scope	2
Results of audit	4
Management Comments	5
<u>FUND ACCOUNTABILITY STATEMENT</u>	
Independent auditor's report	7
Fund accountability statements and notes	10
Details of questioned costs	16
<u>INTERNAL CONTROL STRUCTURE</u>	
Independent auditor's report	17
<u>COMPLIANCE WITH AGREEMENTS AND APPLICABLE LAWS AND REGULATIONS</u>	
Independent auditor's report	22
Report on compliance audit	24
<u>APPENDICES</u>	
Appendix I: Supplementary fund accountability statement	
Appendix II: Schedules of ineligible costs	
Appendix III: RCT/STC's management response	
Appendix IV: Auditor's comments	

KPMG Hazem Hassan & Co.

Accountants & Consultants

74 Mohi Eldin Abul Ezz Street
Mohandiseen, Cairo
Egypt.

Telephone : 3499588 - 3499677
Telex : 93796 - 20457 HHCO UN
Telefax : 3497224 - 3487819

Mr. Philippe L. Darcy
Regional Inspector General For Audit,
United States Agency For
International Development,
Mission to Egypt,
Cairo, Egypt.

February 1, 1994

Dear Mr. Darcy:

This report presents the result of our financial audit of the Regional Center for Training and Satellite Training Center's (RCT/STC) local expenditures which incurred under the Project Implementation Letter (PIL) No. 29 and related revenue account under USAID/Egypt's Population/Family Planning Project No. 263-0144 for the period June 1, 1990 through March 31, 1993.

Background

The Regional Center for Training (RCT) is a project affiliated with the Department of Obstetrics and Gynecology of the Faculty of Medicine, Ain Shams University.

The RCT was established in 1980 as a collaborative program between Ain Shams University and the Johns Hopkins Program for International Education in Reproductive Health (JHOPIEGO). The main goal of RCT is to contribute to the strengthening of family planning services, in Egypt and throughout the Middle East, by institutionalizing improved family planning education and training opportunities.

According to the family planning training needs, suitable physical sites were identified to establish 15 Satellite Training Centers (STC) in different governorates of Egypt as

a part of the nation-wide network of family planning centers throughout Egypt.

In June 1990, the Project Implementation Letter (PIL) No. 29 was signed by USAID/Egypt and RCT/STC in collaboration with the National Population Council (NPC). PIL No. 29 started by financing the STC activities. Beginning in April 1991, PIL No. 29 also financed RCT's activities as a continuation of the fund previously provided by JHOPIEGO.

RCT/STC uses the cash basis to account for its expenditures and revenues. The accounting system is manual.

Based on the approved budget, RCT/STC obtained an advance from USAID to finance the agreed activities. That advance was deposited in a revolving LE non-interest-bearing bank account maintained in the National Investment Bank (NIB). For replenishment purposes, RTC/STC submits a monthly voucher to USAID showing the total disbursements during the month, the balance in the revolving account, and the cash required for the next month. In addition, RCT/STC has a self-generating income activity. The revenue is deposited in a revenue account.

Audit Objective and Scope

The principle objective of this audit engagement was to conduct a financial audit of USAID/Egypt's funds provided to RCT/STC pursuant to PIL No. 29 and the related revenue account. The specific objectives of this audit were to:

1. Express an opinion on whether the fund accountability statement for USAID financed project of RCT/STC presents fairly, in all material respects, project revenues received and costs incurred for the period under audit in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including the cash receipts and disbursements basis and modifications of the cash basis;
2. Determine if the costs reported as incurred under the PIL are in fact allowable, allocable, and reasonable in accordance with the terms of the PIL;

3. Evaluate and obtain a sufficient understanding of the internal control structure of RCT/STC, assess control risk, and identify reportable conditions, including material internal control weaknesses; and
4. Perform tests to determine whether RCT/STC complied, in all material respects, with PIL terms and applicable laws and regulations.

Preliminary planning and review procedures were started in August, 1993 and consisted of:

- discussion with RIG/A/C;
- reviewing the grant agreements and the PIL;
- interviewing the RCT/STC key personnel and discussing with them the grant status, accomplishments during the period, the statutory reporting requirements, the grant budget and actual expenditures and reimbursement procedures from USAID;
- reviewing the RCT/STC's organizational structure, procurement and personnel manuals, financial and accounting policies and procedures manual.

The field work was completed on September 9, 1993. The scope of our work was to audit RCT/STC's costs incurred and reimbursed by USAID under PIL No. 29. Within each budget line item, we selected disbursements for testing on a judgmental basis. We tested disbursements of LE1,176,115 out of a total disbursement of LE3,193,496. Our tests included, but were not limited to, the following:

1. Reconciling cash receipts to USAID/Egypt records.
2. Reconciling RCT/STC's accounting records to invoices submitted to USAID/Egypt, and testing of costs for allowability, allocability, reasonableness and appropriate support.
3. Visiting some of the RCT/STC's 15 centers to make physical inspections and a count of project assets and to establish the adequacy of RCT/STC's control over these assets.

4. Determining that payroll costs were appropriate and conformed with the terms of the grant agreements and relevant regulations.

The scope of the revenue account audit was all revenue and expenditures from the separate bank account established to receive and expend self generated income. We tested one hundred percent of the transactions from this separate account. Our tests were designed to determine whether expenditures from the revenue account were eligible under the applicable terms and provisions.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision), 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 46 of Chapter 3 of Government Auditing Standards (1988 Revision), 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 (1988 Revision) is not material because we participate in the KPMG worldwide internal quality control program. This program requires our office to be subject, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

As part of our examination, we made a study and evaluation of relevant internal controls and reviewed RCT/STC's compliance with applicable laws and regulations.

Results of audit

The Project Implementation Letter (PIL) No. 29

Our audit identified LE4,409 (equivalent to \$1,395) as ineligible costs.

Revenue Account

Our audit identified LE72,452 (equivalent to \$22,928) as ineligible revenues and costs.

Internal control structure

During our audit, we noted the following internal control weaknesses:

1. Lack of insurance for RCT/STC's assets.
2. Fidelity insurance is not maintained.
3. Lack of control over payment process.
4. Misclassification among budget line items.

Compliance with terms of agreements and applicable laws and regulations

No material items of noncompliance were noted. However, we found instances of noncompliance with revenue and grant agreements and instances of noncompliance with Egyptian tax law.

Management Comments

We have reviewed RCT/STC's response to the financial cost-incurred audit which is included as Appendix III. Where applicable, we have provided further clarification of our position in Appendix IV. The responses provided by RCT/STC have not changed our understanding of the facts underlying the questioned costs of the fund accountability statements, reportable conditions in the Report on Internal Control Structure or findings in the Report on Compliance with Laws and Regulations.

KPMG Hazem Hassan & Co.

This report is intended solely for the use of the United States Agency for International Development and may not be suitable for any other purpose.

Hazem Hassan & Co.

A handwritten signature in black ink, appearing to be 'H. Hassan', written over the printed name 'Hazem Hassan & Co.'.

Cairo, Egypt

KPMG Hazem Hassan & Co.

Accountants & Consultants

74 Mohi Eldin Abul Ezz Street
Mohandiseen, Cairo
Egypt.

Telephone : 3499586 - 3499677
Telex : 93796 - 20457 HHCO UN
Telefax : 3497224 - 3487819

INDEPENDENT AUDITOR'S REPORT

Mr. Philippe L. Darcy
Regional Inspector General for Audit,
United States Agency for
International Development,
Mission to Egypt,
Cairo, Egypt.

We have audited the accompanying fund accountability statements of the Regional Center for Training and Satellite Training Centers (RCT/STC) local expenditures incurred and revenues received pursuant to the Project Implementation Letter (PIL) No. 29 under USAID/Egypt's Population/Family Planning Project No. 263-0144 for the period from June 1, 1990 through March 31, 1993 and related revenue account. These statements are the responsibility of RCT/STC's management. Our responsibility is to express an opinion on these statements based upon our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision), 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 statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the presentation of the overall fund accountability statements. We believe that our audit provides a reasonable basis for our opinion.

- 7 -

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 46 of Chapter 3 of Government Auditing Standards (1988 Revision) 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 (1988 Revision) is not material because we participate in the KPMG worldwide internal quality control program. This program requires our office to be subject, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

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

Included in the fund accountability statements are questioned costs and revenues of \$1,395 and \$22,928 relating to the Project Implementation Letter (PIL) No. 29 and the revenue account, respectively. The basis for questioning these costs is more fully described in the "Details of Questioned Costs" section of this report on page 16.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the fund accountability statements, referred to above, present fairly, in all material respects, the local expenditures incurred and revenues received, translated to US dollars, by RCT/STC pursuant to PIL No. 29 under USAID/Egypt's Population/Family Planning project No. 263-0144 for the period from June 1, 1990 through March 31, 1993 and the related revenue account in conformity with the basis of accounting described in Note 1.

Our audit was conducted for the purpose of forming an opinion on the fund accountability statements included in the first paragraph. The supplemental information, included in Appendix I, is presented for the purpose of additional analysis and is not required as part of the basic fund accountability statements of RCT/STC.

Such information has been subjected to the auditing procedures applied in the audit of the basic fund accountability statements and, in our opinion, is fairly stated in all material respects in relation to the basic fund accountability statements taken as a whole.

Hazem Hassan & Co.



Cairo, Egypt
September 9, 1993

REGIONAL CENTER FOR TRAINING AND SATELLITE
TRAINING CENTER (RCT/STC)
FUND ACCOUNTABILITY STATEMENT
Project Implementation Letter (PIL) No. 29
Pursuant to USAID/Egypt's Project No. 263-0144
For the Period June 1, 1990 Through March 31, 1993

REVENUES

Cash received during the period	\$ 1,009,442
	<u>\$ 1,009,442</u>

EXPENDITURES

	Budget (Note 4)	Actual Cost (Note 5)	Ineligible Cost (Note 6)	Audit Finding Reference
	<u> </u>	<u> </u>	<u> </u>	
A. STC				
Training equipment	\$ 59,491	\$ 35,757		
Office equipment	98,426	72,058		
STC personnel	126,631	87,188		
Training material	313,474	222,073	\$ 1,395	item I pg.16
Technical assistance	67,401	61,755		
B. RCT				
Staff Salaries	395,178	323,407		
Professional fees	8,165	3,465		
Staff development	7,428	2,579		
Travel	178,025	74,845		
Commodities	164,987	92,194		
General				
administration	37,379	17,362		
Technical assistance	29,704	17,917		
	<u>\$1,486,289</u>	<u>\$1,010,600</u>	<u>\$ 1,395</u>	
USAID fund balance as of March 31, 1993		\$ (1,158)		
		=====		

See accompanying notes to the fund accountability statements.

REGIONAL CENTER FOR TRAINING AND SATELLITE
TRAINING CENTER (RCT/STC)
FUND ACCOUNTABILITY STATEMENT
THE REVENUE ACCOUNT
Project Implementation Letter (PIL) No. 29
Pursuant to USAID/Egypt's Project No. 263-0144
For the Period June, 1990 Through March 31, 1993

	Actual amount	Ineligible amount (Note 6)	Audit Finding Reference
REVENUES			
Tuition fees from USAID- supported projects (Note 7)	\$ 29,738	\$ 17,206	item II pg.16
Tuition fees from third country participants (Note 8)	24,916		
Miscellaneous revenue (Note 9)	5,251		
Bank interest (Note 10)	1,026		
Total Revenue	\$ 60,931	\$ 17,206	
EXPENDITURES			
Cost of training courses to USAID-supported projects	\$ 25,295	\$ 5,722	item III pg.16
Cost of training courses to third country participants	14,443		
Miscellaneous (Note 11)	1,660		
Total Expenditures	\$ 41,398	\$ 5,722	
USAID Fund Balance as of March 31, 1993	\$ 19,533	\$ 22,928	
	=====	=====	

See accompanying notes to the fund accountability statements.

REGIONAL CENTER FOR TRAINING AND SATELLITE TRAINING
CENTER (RCT/STC)
NOTES TO THE FUND ACCOUNTABILITY STATEMENTS

Note 1: Accounting Basis

The fund accountability statements are prepared on the basis of cash receipts and disbursements. Consequently, costs are recognized when paid rather than when the obligation is incurred and revenues are recognized when received rather than when earned. The accounting basis of cash receipts and disbursements is a comprehensive basis of accounting other than generally accepted accounting principles.

Note 2: Basis of Presentation

The fund accountability statements are the representation of RCT/STC's management and are the responsibility of the said management. The ineligible cost column represents the audit results and is included in the fund accountability statements for presentation purposes only.

Note 3: Reporting Currency

RCT/STC maintain their books and accounts in Egyptian pounds (LE) as a functional currency. The functional currency was translated into US Dollars (\$) as a reporting currency. The period average exchange rate method was used to translate the fund accountability statements. This exchange rate is \$1 = LE3.16.

Note 4: Budget

The "Budget" column includes USAID/Egypt's approved costs for PIL No. 29. It covers the period June 1, 1990 through May 31, 1993.

Note 5: Expenditures classification

STC Training Equipment represents the cost of purchasing training equipment to be used in the STC (such as T.V. monitors, projectors, blackboards, flip chart papers).

STC Office Equipment represents costs of purchasing office equipment for the mobilization of the satellites (such as desks, chairs and typewriters).

STC Personnel represents costs of salaries and wages of the STC staff.

Training Materials represents cost of trainees' kits and honoraria for certain lectures.

Technical Assistance represents costs of ongoing technical assistance to the STC, that is to be provided in the areas of family planning outreach, data processing and analysis management analysis and hospital services.

Staff Salaries represents cost of salaries and wages paid to the RCT staff.

Professional Fees represents cost of lecturers' fees and fees for executive board meetings.

Staff Development represents on-the-job training for RCT/STC staff by technical consultants and attendance at appropriate seminars and short-courses in Egypt.

Travel represents costs of transportation, lodging and per diem for RCT staff.

Commodities represents costs of consumable administration, training and communication materials.

General Administration represents costs of RCT and STC maintenance, telephone and communications.

Technical Assistance represents costs of staff training, communication and management consultants' fees.

Note 6: Ineligible costs

Questioned costs are presented in "Ineligible Costs" which consist of audit findings proposed on the basis of the terms of PIL No.29, the grant agreements and USAID regulations. Ineligible costs are supported by vouchers or other documentation but are ineligible for reimbursement because they are not program related, unreasonable, prohibited by the PIL, the grant agreements or applicable laws and regulations. All ineligible costs are detailed in the "Details of Questioned Costs" section of this report on page 16.

Note 7: Tuition fees from USAID - supported projects

This line item includes tuition fees for training courses conducted for USAID-supported projects such as Health Insurance Organization (HIO) and Egyptian Junior Medical Doctors Association (EJMDA).

Note 8: Tuition fees from third country participants

This line item represents tuition fees for training courses conducted for Lebanese trainees, which are a non-USAID funded group.

Note 9: Miscellaneous revenue

Miscellaneous revenue includes rent of conference room to outsiders and fees for workshop preparation.

Note 10: Bank interest

Bank interest represents interest received on RCT/STC revenue interest-bearing account.

Note 11: Miscellaneous expenditures

This line item represents the cost of preparation for workshops, given by outsiders, such as photocopying and stationery.

DETAILS OF QUESTIONED COSTS

I The eligibility of training material costs amounted to \$1,395

1. RCT/STC paid an amount of \$715 (Schedule No.1, page 31) as refurbishing costs of Sohag Satellite Training Center.

According to the grant agreement, the mother agencies are responsible for refurbishing the Satellite Training Centers. Consequently these costs are ineligible.

2. The grant agreement stated that instructors fees should not exceed LE900 for each training course. Our audit showed that RCT/STC paid certain instructors fees to physicians in excess of the approved budget. The excessive amount is \$680 (Schedule No.1, page 31). Based on the terms of the grant agreement, we considered the \$680 ineligible.

II The eligibility of training tuition fees amounted to \$17,206 collected from USAID-supported projects

RCT/STC collected training tuition fees amounting to \$17,206 (Schedule No. 2, page 32) from USAID-supported projects.

The Project Implementation Letter (PIL) No. 29 Amendment No. 1 stated that no tuition fees are to be charged for training courses to USAID-supported projects. Consequently, we considered those revenues ineligible.

III The eligibility of certain costs, amounting to \$5,722, for training courses to USAID - supported projects

RCT/STC incurred certain costs amounting to \$5,722 (Schedule No. 3, page 32) related to training courses requested by USAID-supported family planning projects. Those costs are not in compliance with the line items of the agreement. PIL No. 29 Amendment No. 1 stated that training costs for USAID-supported projects should follow the same line items as stated in the agreement. We considered the \$5,722 ineligible according to the provision of PIL No. 29.

KPMG Hazem Hassan & Co.

Accountants & Consultants

74 Mohi Eldin Abul Ezz Street
Mohandiseen, Cairo
Egypt.

Telephone: 3499588 - 3499677
Telex : 93796 - 20457 HHCO UN
Telefax : 3497224 - 3487819

REPORT ON INTERNAL CONTROL STRUCTURE

INDEPENDENT AUDITOR'S REPORT

Mr. Philippe L. Darcy
Regional Inspector General for Audit,
United States Agency for
International Development,
Mission to Egypt,
Cairo, Egypt.

We have audited the fund accountability statements of the Regional Center for Training and Satellite Training Center's (RCT/STC) local expenditures incurred and revenues received pursuant to Project Implementation Letter (PIL) No. 29 under USAID/Egypt's Population/Family Planning Project No. 263 - 0144 for the period from June 1, 1990 through March 31, 1993 and the related revenue account and have issued our report thereon dated September 9, 1993.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision), 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 statements are free of material misstatement.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 46 of Chapter 3 of Government Auditing Standards (1988 Revision)

because no such quality 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 (1988 Revision) is not material because we participate 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 planning and performing our audit of RCT/STC, we considered its internal control structure related to PIL No. 29, funded by USAID/Egypt, in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statements and not to provide assurance on the internal control structure.

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

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

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

- Financial accounting system
- Cash receipts and banks
- Equipment
- Payroll
- Expenditures

For all of the control categories listed above, we obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation, and assessed the control risk.

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

1. Lack of insurance for RCT/STC's assets

We noted that productive assets, such as equipment and cash, were not insured. This exposes RCT/STC to assets and operating losses.

Recommendation 1

We recommend that a comprehensive insurance policy be purchased covering all significant assets for which the RCT/STC assumes the responsibility for maintenance and safekeeping.

2. Fidelity insurance is not maintained

RCT/STC does not maintain a fidelity insurance for their employees involved in inventory, cash or cash in transit.

Recommendation 2

We recommend that fidelity coverage be purchased to cover all employees involved in custodial activities.

3. Lack of control over the payment process

It is not evident from our review of supporting documentation if and when an invoice has been paid. The internal control standards require management to reasonably ensure that all assets are safeguarded against waste, loss, unauthorized use, and misappropriation. Unless paid invoices are marked "Paid", the possibility exists that an invoice may be paid more than once.

Recommendation 3

We recommend that RCT/STC stamp every invoice which has been paid.

4. Certain costs were misclassified among budget line items

During the course of our audits, we noted numerous instances in which costs were misclassified among budget line items. For example:

	<u>Date</u>	<u>Payment Voucher No.</u>	<u>Amount \$</u>
Transportation cost classified as "General Administration" rather than "Travel costs"	October 1991	301	253
Lecture fees and costs of training courses classified as "Commodities" rather than Training Material	November 1991	444	209
	December 1991	536	439

Proper classification of costs is a basic assertion in any financial statements, and improper classifications result in incorrect and misleading financial information.

Recommendation 4

RCT/SCT should implement controls to ensure that all costs are properly classified. For example, all accounting entries should be approved by management prior to being entered into the accounting system.

A material weakness is a condition in which the design or operation of the specific elements of the internal control structure 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.

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 that the reportable conditions described above are not material weaknesses.

This report is intended for the information of RCT/STC's management and others within the organization and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Hazem Hassan & Co.

Cairo, Egypt
September 9, 1993



Hazem Hassan & Co.

Accountants & Consultants

74 Mohi Eldin Abul Ezz Street
Mohandiseen, Cairo
Egypt.

Telephone : 3499588 - 3499677
Telex : 93796 - 20457 HHCO UN
Telefax : 3497224 - 3487819

REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS

INDEPENDENT AUDITOR'S REPORT

Mr. Philippe L. Darcy
Regional Inspector for General Audit,
United States Agency for
Internal Development,
Mission to Egypt,
Cairo, Egypt.

We have audited the fund accountability statements of the Regional Center for Training and Satellite Training Centers (RTC/STC) local expenditures incurred and the revenues received by the Regional Center for Training and the Satellite Training Center (RCT/STC) pursuant to Project Implementation Letter (PIL) No. 29 under USAID/Egypt's Population/Family Planning project No. 263-0144 for the period from June 1, 1990 through March 31, 1993 and the related revenue account and have issued our report thereon dated September 9, 1993.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards (1988 Revision), 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.

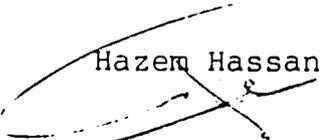
We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 46

of Chapter 3 of Government Auditing Standards (1988 Revision), because no such quality 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 (1988 Revision), is not material because we participate in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

Compliance with laws, regulations, contracts, grants and binding policies and procedures applicable to RCT/STC is the responsibility of RCT/STC's management. As part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatement, we performed tests on RCT/STC's compliance with certain provisions of laws, regulations, contracts, grants and binding policies and procedures. However, our objective was not to provide an opinion on compliance with such provisions. Our testing of transactions and records disclosed certain instances of noncompliance with those laws and regulations which are identified in the "Report on Compliance - Audit Findings" section of this report on page 24.

Other results of our tests indicated that with respect to the items tested, RCT/STC complied, in all material respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that RCT/STC had not complied, in all material respects, with these provisions.

This report is intended for the information of RCT/STC's management and others, within the organization, and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report which is a matter of public record.


Hazem Hassan & Co.

Cairo, Egypt
September 9, 1993

REPORT ON COMPLIANCE
AUDIT FINDINGS

The following instances of noncompliance with the applicable regulations and the provisions of the agreements came to our attention during the audit:

1. Instances of noncompliance with the provisions of the agreements

- 1.1 RCT/STC paid an amount of \$715 (see item I in the "Details of Questioned Cost" section of this report on page 16) as refurbishing costs of Sohag training center.

According to the grant agreement RCT/STC is not responsible for refurbishing the satellite training center.

- 1.2 According to the grant agreement RCT/STC should not have paid more than LE900 in instructor's fees for each training course. Our audit identified certain instances in which RCT/STC paid instructors fees in excess of the approved budget (see item I.2 in the "Details of Questioned Cost" section of this report on page 16).

Recommendation 1

We recommend that RCT/STC take the necessary corrective action in order to be in compliance with the grant agreement.

2. Instance of noncompliance with the revenue agreement

RCT/STC collected tuition fees from USAID-supported projects. These tuition fees amounted to \$17,206 (see item II in the "Details of Questioned Costs" section of this report on page 16). According to PIL No. 29 amendment No. 1, tuition fees should not be charged for training courses to USAID-supported projects.

RCT/STC incurred certain costs related to the aforementioned training courses. An amount of \$5,722 (see item III in the "Details of Questioned Cost" section of this report on page 16) is not in compliance with the line items of the agreement. According to PIL No. 29 amendment No. 1, training costs for USAID-supported projects should follow the same line items as stated in the agreement.

Recommendation 2

We recommend that RCT/STC take the following actions:

- refund the tuition fees collected from USAID-supported projects.
- take the necessary corrective steps to bring the training costs incurred by USAID-supported projects in compliance with the line items of the agreement.

3. Instance of noncompliance with the Egyptian tax laws

We noted that RCT/STC has stopped remitting the withholding taxes to the tax authority since March 1991, for commercial tax, and September 1991, for wages and salaries tax.

According to the tax law No. 157/1981, the withholding taxes should be remitted, to the appropriate tax authority, every three months. Noncompliance with this article exposes RCT/STC to penalties.

Recommendation 3

We recommend that RCT/STC remit the withholding tax to avoid probable penalties.

4. Instance of noncompliance with the Labor Law

During our audit, we noted that certain personnel files maintained by RCT/STC do not include all documents required by the Labor Law and RCT/STC regulations.

Recommendation 4

We recommend that RCT/STC complete all personnel files to satisfy the Egyptian Labor Law.

APPENDIX I

SUPPLEMENTARY FUND ACCOUNTABILITY
STATEMENTS

REGIONAL CENTER FOR TRAINING AND SATELLITE
TRAINING CENTERS (RCT/STC)
FUND ACCOUNTABILITY STATEMENT EXPRESSED IN LE
Project Implementation Letter (PIL) No. 29
Pursuant to USAID/Egypt's Project No. 263-0144
For the Period June 1, 1990 Through March 31, 1993

REVENUE

Cash received during the period	LE3,189,837
	<u>LE3,189,837</u>

EXPENDITURES

	<u>Budget</u>	<u>Actual Cost</u>	<u>Ineligible Cost</u>	<u>Schedule No.</u>
<u>A. STC</u>				
Training equipment	LE 187,991	LE 112,991		
Office equipment	311,028	227,704		
STC personnel	400,156	275,515		
Training material	990,578	701,751	LE4,409	(1)
Technical assistance	212,988	195,145		
	<u>LE4,696,678</u>	<u>3,193,496</u>	<u>LE4,409</u>	
<u>B. RCT</u>				
Staff salaries	1,248,762	1,021,968		
Professional fees	25,800	10,950		
Staff development	23,474	8,149		
Travel	562,560	236,510		
Commodities	521,358	291,332		
General administration	118,119	54,865		
Technical assistance	93,864	56,616		
	<u>LE4,696,678</u>	<u>3,193,496</u>	<u>LE4,409</u>	
USAID Fund Balance as of March 31, 1993		<u>LE(3,659)</u>		

REGIONAL CENTER FOR TRAINING AND SATELLITE
TRAINING CENTER (RCT/STC)
FUND ACCOUNTABILITY STATEMENT EXPRESSED IN LE
THE REVENUE ACCOUNT
Project Implementation Letter (PIL) No. 29
Pursuant to USAID/Egypt's Project No. 263-0144
For the Period June 1, 1990 Through March 31, 1993

	<u>Actual</u> <u>amount</u>	<u>Ineligible</u> <u>amount</u>	<u>Schedule</u> <u>No.</u>
REVENUES			
Training tuition fees from USAID-supported projects	LE 93,972	LE 54,372	(2)
Training tuition fees from third country participants	78,736		
Miscellaneous revenues	16,594		
Bank interest	3,240		
Total revenues	<u>LE192,542</u>	<u>LE 54,372</u>	
EXPENDITURES			
Cost of training courses to USAID-supported projects	LE 79,934	LE 18,080	(3)
Cost of training courses to third country participants	45,639		
Miscellaneous	5,245		
Total revenues	<u>LE130,818</u>	<u>LE 18,080</u>	
USAID Fund balance as of March 31, 1993	LE 61,724 =====	LE 72,452 =====	

APPENDIX II

SCHEDULES OF INELIGIBLE COSTS

Training Material

<u>Ineligible cost</u>	<u>Date</u>	<u>P.V. No:</u>	<u>LE</u>	<u>Amount \$</u>
Furbishing of Sohag satellite training center	June 1991	6/adj	2,259	715
			<u>2,259</u>	<u>715</u>
Instructors fees in excess of the approved budget	August 1991	123	50	16
	November 1991	445	555	176
	February 1992	727	595	188
	February 1992	728	345	109
	March 1992	832	605	191
			<u>2,150</u>	<u>680</u>
			<u>4,409</u>	<u>1,395</u>
			=====	=====

Schedule No. (2)

Training tuition Fees Collected
From USAID - supported Projects

<u>Ineligible revenues</u>	<u>Date</u>	<u>Amount</u>	
		<u>LE</u>	<u>\$</u>
Total tuition fees collected	1990 & 1991	93,972	29,738
Less			
Tuition fees refunded to EJMDA		(39,600)	(12,532)
		<u>54,372</u>	<u>17,206</u>
		=====	=====

Schedule No. (3)

Cost of Training Courses
to Third Country Participants

<u>Ineligible costs</u>	<u>Amount</u>	
	<u>LE</u>	<u>\$</u>
The following costs are in excess of the approved budget		
Instructors fees	3,372	1,067
Miscellaneous costs	2,800	886
Training kits	7,931	2,510
Equipment	3,977	1,259
	<u>18,080</u>	<u>5,722</u>
	=====	=====

APPENDIX III

RCT/STC's MANAGEMENT RESPONSE

TO: Mr. Mootaz EL-Sherbini
(Manager – Hazem & Co)

FROM: Dr. Roushdi Ammar
(Project Director – RCT)

SUBJECT: Management Comment

DATE: 12 January 1994.

RCT MANAGEMENT COMMENT
ON THE FINANCIAL AUDIT FINDINGS
FOR THE PERIOD
JUNE 1, 90 THROUGH MARCH 31, 93

- * This report represents RCT management comment on the financial audit findings of the (RCT/STC) local expenditures which were detected by Hazem Hassan's under the project implementation letter (PIL) No. 29 and related revenue account under USAID/Egypt's population/Family Planning Project No. 263.01 for the period June 1, 90 through March 31, 93.

- * This report is intended solely for the use of the united states agency for international development and may not be used for any other purpose.

FINDINGS AND MANAGEMENT COMMENTS

1. Finding 1:

Lack of insurance for RCT/STCs assets.

Management comment:-

As, it is so important to maintain this kind of insurance. We took it in our consideration in the new budget (POP 3)

2. Finding 2:

Fidelity insurance is not maintained.

Management comment:-

It is also taken in our consideration in the new budget (POP 3).

3. Finding 3:

Lack of control over the payment process.

Management comment:-

We have already had an RCT/STC stamp for invoices which has been paid.

4. Finding 4:

Certain costs were misclassified among budget line items.

Management comment:-

These misclassification are already classified and an internal auditor has already been employed to review all accounting entries to the budget line item's before being entered into the accounting system.

5. Finding 5:

Regarding RCT personnel files are incomplete.

Management comment:-

All RCT employees were officially informed to complete their files. Full cooperation in this area is expected.

6. Finding 6:

Taxation is not paid till June, 93.

Management comment:-

All taxes deducted till 30 June, 93 were paid through checks # 188249 - 241701 - 241702 - 241703 at Investment Bank, and it shall be paid on a Quarterly Basis since then.

7. Finding 7:

Amount of 715 USD disbursed on Sohag STC and not mentioned in the budget.

Management comment:-

Sohag's STC was the first satellite with the USAID initiated on June 1st 93, we prepared the hospital for the governor's visit with Dr. Maher Mahran and the Minister of Health as the hospital had no resources to prepare the STC at that time. An approval from our project officer shall be obtained.

8. Finding 8:

Amount of 680 USD paid for trainers in excess.

Management comment:-

This amount was disbursed through the period 12 October, 90 till 16 Jan, 92 on 36 sessions. Each 2 hours sessions tutor fees amounted to 50 L.E yielding a total amount of 1800 L.E. The agreement assured that the STC's manager and physician should have 50% of these sessions, this means 900 L.E., but at that time in Alex.'s STC there were no STC manager or physician employed yet. If we had sent RCT physicians to Alex. to manage these course as it is included in our budget line items it would have costed more than we had disbursed. As the budget was not flexible at that time.

An approval shall be obtained from our project officer.

9. Finding 9:

Amount of 17205 of 17205 USD revenue from training courses (eligible).

Management comment:-

This revenue resulted from RCT activity (training) before the USAID agreement therefore it should not be under the USAID agreement conditions as it was not also mention definitely, and it is kept in a separate account # 2505 dated 27/6/90. This revenue resulted in 27 June, 1990 and the first USAID check was in 5 September, 1990.

10. Finding 10:

Amount of 5722 USD (eligible costs).

Management comment:-

These costs incurred before the USAID agreement as they are actual costs disbursed at that time on training courses managed at that time by the RCT before the USAID agreement as explained in finding # 9.

APPENDIX IV
AUDITOR'S COMMENTS

AUDITOR'S COMMENTS

GENERAL

The following responses address only those comments made by the management of the Regional Center for Training and Satellite Training Center (RCT/STC) which relate to situations where we believe additional information or clarification is warranted.

Note:

Our responses follow the format used by RCT/STC in Appendix III.

FINDINGS 1 THROUGH 6

RCT/STC concurs with findings 1 through 6 and has started to implement the relevant recommendations.

FINDINGS 7 AND 8

Obtaining USAID approval after the date of the event is an after fact approval. Accordingly, our opinion remains the same.

FINDINGS 9 AND 10

PIL No. 29, dated June 27, 1990, stated that the grant was made available to RCT/STC in accordance with the Sub-Project Proposal.

Article II D. (c) of the Sub-Project Proposal states that "Tuition will not be charged for training courses for those participants working within a USAID-supported project."

The above article was affirmed by PIL No. 29, Amendment No. 1.

Furthermore, RCT/STC charged the Egyptian Junior Medical Doctors Association (EJMDA) with tuition fees of LE39,600 for training courses conducted through November 1990; in November, 1990, RCT/STC received a letter from USAID authorizing RCT/STC to refund to EJMDA the LE39,600, based on the criterion stated in the above paragraph. In addition, the letter stated that the costs of these courses should be charged against and in accordance with budget line items.

Based on the aforementioned, our position remains the same.

CONCLUSION

RCT/STC's comments did not cause us to change our position. All questionable costs, reportable internal control conditions and instances of noncompliance, remain unchanged.

1/2



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO EGYPT

March 20, 1994

MEMORANDUM

TO: Philippe L. Darcy, RIG/A/C

FROM: Amanda Levenson, OD/FM/FA *A. Levenson*

SUBJECT: Audit of Regional Center for Training and Satellite Training Center's (RCT/STC) Costs Incurred Under Project Implementation Letter (PIL) No. 29 and the Related Revenue Account under USAID/Egypt Population/Family Planning Project No. 263-0144 Draft Report

Mission is working closely with the implementing agency to resolve and close the three recommendations under the subject audit, and has no comments to offer at this time. Please issue the final report.

APPENDIX VI

REPORT DISTRIBUTION

	<u>No. of Copies</u>
U.S. Ambassador to Egypt	1
Administrator (A/AID)	1
Mission Director, USAID/Egypt	5
Assistant Administrator for Bureau for Near East, AA/NE	2
Associate Administrator for Finance and Administration, AA/FA	1
Associate Administrator for Operations, AA/OPS	1
Office of Press Relations, XA/PR	1
Office of Financial Management, FA/FM	1
Bureau for Legislative Affairs, LEG	1
Office of the General Counsel, GC	1
Country Desk	1
POL/CDIE/DI, Acquisitions	1
FA/MCS	1
IG	1
AIG/A	1
IG/A/PSA	1
IG/A/PPO	2
IG/LC	1
AIG/I	1
IG/RM/C&R	5
Other RIG/A's	1 each