

Regional Inspector General for Audit
Cairo, Egypt

**Audit of Project Revenues Received and Expenditures
Incurred by the Health Insurance Organization Under
the Cost Recovery for Health Project
(USAID/Egypt Project No. 263-0170)**

**Report No. 6-263-96-005-N
November 16, 1995**



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ANY INFORMATION IS RELEASED TO THE PUBLIC.**



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

CAIRO, EGYPT

November 16, 1995

MEMORANDUM

TO: DIRECTOR USAID/Egypt, John R. Westley

FROM: RIG/A/C, Lou Mundy *Lou Mundy*

SUBJECT: Audit of Revenues Received and Expenditures Incurred by the Health Insurance Organization Under the Cost Recovery for Health Project (USAID/Egypt Project No. 263-0170)

The attached report transmitted on July 15, 1995 by Price Waterhouse presents the results of a financial audit of revenues received and expenditures incurred by the Health Insurance Organization (Organization) under Project Implementation Letters (PILs) Nos. 6 and 10, of the Cost Recovery for Health Project (Project); USAID/Egypt Project No. 263-0170. The Project supports the Ministry of Health in expanding and improving health care and cost recovery services through three components. Component I implements cost recovery systems in the Ministry of Health facilities, Component II focuses on improving the operational effectiveness and efficiency of the Organization, and Component III expands financing of private health practices.

Under the Project, PIL No. 6 promotes improved management information systems in two leading health care systems using cost recovery. It also provides for the establishment and support of the Management Information System Center. PIL No. 10 covers materials development and training costs in the area of management and administration of pediatric protocols used by Ministry of Health and Organization physicians and nurses providing health insurance services to school children.

We engaged Price Waterhouse to perform a financial audit of Project revenues received and expenditures incurred by the Organization during the periods January 1, 1990 through

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1993 for PIL No. 10. The purpose of the audit was to evaluate the propriety of expenditures of \$314,199 (equivalent to LE1,027,423) incurred during the audit periods and to evaluate, as necessary, the Organization's internal control structure and compliance with applicable laws, regulations, and agreement terms in forming their opinion regarding the Organization's Fund Accountability Statement.

The audit report questions \$32,617 in costs (\$17,866 funded by PIL No. 6 and \$14,751 funded by PIL No. 10) billed to USAID/Egypt by the Organization. The questioned costs related primarily to salaries, office supplies, training, travel, and equipment determined to be ineligible or unsupported by the auditors. Additionally, the auditors noted one material weakness and three reportable conditions in the Organization's internal controls as well as two instances of material noncompliance with applicable laws, regulations, and agreement terms.

In response to the draft report, responsible Organization officials provided additional explanation to the questioned costs and have taken or initiated action to resolve the internal control and compliance issues. Price Waterhouse reviewed the Organization's response and where applicable made adjustments to the report or provided further clarification of their position (see Appendices A and B).

USAID/Egypt management officials also provided comments (see Appendix C) which resolved \$13,658 of the \$32,617 questioned by Price Waterhouse. Specifically, USAID/Egypt stated that \$7,316 represented costs for advertising on behalf of the technical assistance contract funded under the Project which should have been paid under the contract directly. The advertising expenses were to assist in recruiting personnel to work at the Organization and to find supplemental office space for the contract team. To resolve the draft report's recommendation, the Mission retroactively approved these expenses under PIL No. 6 based on the fact that they were allowable, justifiable, and directly contributed to the achievement of the Project's objectives. The remaining \$6,342 (\$13,658 less \$7,316) was sustained by USAID/Egypt and has already been refunded by the Organization to the Mission. As for the remaining unresolved questioned costs of \$18,959, the Mission noted that these costs are under review.

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 the questioned costs of \$18,959 (ineligible costs of \$16,923 and unsupported costs of \$2,036) detailed on pages 8 to 10 of the Price Waterhouse audit report, and recover from the Health Insurance Organization the amounts determined to be unallowable.

recover from the Health Insurance Organization the amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Egypt obtain evidence that the Health Insurance Organization has addressed the material internal control weakness (inconsistency in applying accrual based accounting) detailed on page 12 of the Price Waterhouse audit report.

Recommendation No. 3: We recommend that USAID/Egypt obtain evidence that the Health Insurance Organization has addressed the two material noncompliance issues (inconsistency in applying accrual based accounting and noncompliance with requirements for managing USAID/Egypt purchased assets) detailed on page 16 of the Price Waterhouse audit report.

Recommendation No. 1 is unresolved and will be considered resolved upon the Mission's determination of the amount of recovery; it will be considered closed upon the recovery of funds, offset of funds, or issuance of a bill for collection. Recommendation Nos. 2 and 3 are unresolved and will be considered resolved upon the Mission's presentation of an acceptable plan of action which addresses the reported deficiencies; it will be considered closed when the Mission presents acceptable evidence that the required actions have been taken.

The three reportable conditions identified by the auditor's review of the Organization's internal control structure should be handled directly between the Mission and Organization officials.

Please advise this office within 30 days of any action planned or taken to close the recommendations. 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.

HEALTH INSURANCE ORGANIZATION

**PROJECT IMPLEMENTATION LETTERS NO. 6 AND 10
UNDER THE USAID/EGYPT
COST RECOVERY FOR HEALTH PROJECT
GRANT AGREEMENT NO. 263-0170**

**FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION
FOR THE PERIODS**

**JANUARY 1, 1990 THROUGH MAY 31, 1994 (PIL NO. 6)
NOVEMBER 15, 1992 THROUGH DECEMBER 31, 1993 (PIL NO. 10)**

HEALTH INSURANCE ORGANIZATION
PROJECT IMPLEMENTATION LETTERS NO. 6 AND 10
UNDER THE USAID/EGYPT
COST RECOVERY FOR HEALTH PROJECT
GRANT AGREEMENT NO. 263-0170

FUND ACCOUNTABILITY STATEMENT
AND ADDITIONAL INFORMATION
FOR THE PERIODS
JANUARY 1, 1990 THROUGH MAY 31, 1994
NOVEMBER 15, 1992 THROUGH DECEMBER 31, 1993

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Price Waterhouse



July 15, 1995

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

Dear Mr. Mundy:

This report presents the results of our financial related audit of project revenues received and costs incurred by the Health Insurance Organization of the Cost Recovery for Health Project. The audit population includes revenues received and costs incurred by the Health Insurance Organization under Project Implementation Letters ("PIL's") Nos. 6 and 10 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Grant Agreement No. 263-0170 ("Grant Agreement") for the periods January 1, 1990 through May 31, 1994 for PIL No. 6 and November 15, 1992 through December 31, 1993 for PIL No. 10.

Background

USAID/Egypt entered into the Grant Agreement with the Government of Egypt ("GOE") on September 30, 1988. The Grant Agreement established the Cost Recovery for Health Project ("CRHP"). CRHP supports the Ministry of Health ("MOH") in expanding and improving health care and cost recovery services. There are three components to CRHP. Component I implements cost recovery systems in GOE/MOH facilities. Component II focuses on improving the operational effectiveness and efficiency of the Health Insurance Organization ("HIO") and the Curative Care Organization. Component III expands financing of private health practices.

To improve the operational effectiveness and efficiency of HIO, PIL No. 6 dated February 1, 1990, and PIL No. 10, dated December 9, 1992, were issued. PIL No. 6 promotes improved management information systems in two leading health care systems currently using cost recovery systems. It also provides for the establishment and support of the Management Information System Center ("MISC"). PIL No. 6 was amended nine times during the audit period. Amendment No. 8 approved funding of 777,000 Egyptian pounds ("LE") through May 31, 1994, not to exceed 242,813 US dollars ("\$"). PIL No. 10 covers materials development and training costs in the area of management and administration of medical pediatric protocols for the HIO and MOH physicians and nurses assigned to provide health insurance services to school children. PIL No. 10 was amended twice. The second amendment approved a budget of LE 481,323, not to exceed \$145,856.

Audit Objectives and Scope

The objective of this engagement was to perform a financial related audit of project revenues received and costs incurred by HIO under PIL's Nos. 6 and 10 of the Grant Agreement during the periods January 1, 1990 through May 31, 1994 for PIL No. 6 and November 15, 1992 through December 31, 1993 for PIL No. 10 (the "audit periods"). Specific objectives were to perform and determine the following:



1. Express an opinion on whether the fund accountability statement for USAID/Egypt financed HIO presents fairly, in all material respects, project revenues received and costs incurred for the periods 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 PIL's Nos. 6 and 10 are in fact allowable and allocable in accordance with the terms of the PIL's;
3. Evaluate and obtain a sufficient understanding of the internal control structure of HIO, as it relates to PIL's Nos. 6 and 10, assess control risk, and identify reportable conditions including material internal control weaknesses; and
4. Perform tests to decide whether HIO complied, in all material respects, with the terms of PIL's Nos. 6 and 10 and applicable laws and regulations.

Preliminary planning and review procedures began in January 1995. These procedures consisted of discussions with personnel from the office of the Regional Inspector General for Audit in Cairo and HIO management as well as a review of a Financial Analysis Support Team report. Audit fieldwork commenced in May 1995 and was completed in June 1995.

The scope of our audit included a population of \$ 314,199, equivalent to LE 1,027,423, of expenditures incurred between PIL's Nos. 6 and 10 during the audit periods. On a judgmental basis, we selected and tested project costs incurred of \$ 157,085, equivalent to LE 512,920 (50%).

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

1. Reconciling HIO project accounting records to billings issued to USAID/Egypt to ensure that project costs were appropriately supported.
2. Testing project costs funded by USAID/Egypt for allowability and allocability.
3. Determining if fixed asset purchases were appropriate and conformed with the terms of the Grant Agreement, PIL's Nos. 6 and 10, and applicable laws and regulations.
4. Determining if salary costs were adequately supported and approved.
5. Establishing the adequacy of HIO control procedures to safeguard project funds/assets.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of 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 that 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 since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program that requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

As part of our examination of HIO, we made a study and evaluation of relevant internal controls as they relate to PIL's Nos. 6 and 10. We also reviewed the project's compliance with applicable laws and regulations.

Results of Audit

Fund accountability statements

Our audit procedures identified total questioned costs of \$ 32,617, equivalent to LE 107,150. We identified ineligible project costs of \$ 30,361, equivalent to LE 99,821. Unsupported project costs totalling \$ 2,256, equivalent to LE 7,329, were also identified. The fund accountability statement and the details of ineligible and unsupported project costs, both as incurred in Egyptian pounds, are included in supplemental schedules to this report.

Internal control structure

Our audit procedures identified four reportable conditions in the internal control structure of HIO. The first reportable condition, considered a material weakness, relates to HIO's inconsistent application of the accrual basis of accounting. The reportable conditions, which are not considered material weaknesses, relate to weak controls surrounding the recording of cash transactions, vouchers and control over and safeguarding of USAID/Egypt financed assets.

Compliance with agreement terms and applicable laws and regulations

Our audit procedures identified two material instances of non-compliance. The first relates to HIO's non-compliance with the accrual basis of accounting. The second relates to non-compliance with requirements for managing USAID/Egypt purchased assets.

Management comments and disposition of questioned costs

HIO management comments have been obtained and are included in Appendix A to this report. Based on several of the questioned costs we identified, HIO management issued two checks to USAID/Egypt totaling LE 9,976. In response to management's comments, we either provided further clarification of our position in Appendix B or have adjusted our findings.

Mission Response

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

This report is intended for the information of HIO management and others within the organization and USAID/Egypt. This restriction is not intended to limit the distribution of this report which is a matter of public record.

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

June 19, 1995

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

We have audited the fund accountability statement of project revenues received and costs incurred by the Health Insurance Organization ("HIO") of the Cost Recovery for Health Project ("CRHP") under Project Implementation Letters ("PIL's") Nos. 6 and 10 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Grant Agreement No. 263-0170 ("Grant Agreement") for the periods January 1, 1990 through May 31, 1994 for PIL No. 6 and November 15, 1992 through December 31, 1993 for PIL No. 10. The fund accountability statement is the responsibility of HIO management. Our responsibility is to express an opinion on this statement based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 since no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

As described in Note 2, the fund accountability statement has been prepared on the modified cash basis of accounting for receipts and disbursements. Consequently, revenues are recognized when received and expenditures are recognized when the obligation is incurred. Accordingly, the fund accountability statement is not intended to present results in accordance with accounting principles generally accepted in the United States of America.

As detailed in the fund accountability statement and more fully described in Note 5 thereto, the results of our tests disclosed total questionable costs of \$ 32,617, equivalent to LE 107,150, of which \$ 30,361, equivalent to LE 99,821, were ineligible and \$ 2,256, equivalent to LE 7,329, were unsupported. Project costs that are ineligible for USAID/Egypt reimbursement are those that are not program related or are prohibited by either PIL's Nos. 6 or 10, the Grant Agreement, or applicable laws and regulations. Unsupported project costs are those not supported with either adequate documentation or lacked proper authorization.



In our opinion, except for the effects of the questionable project costs discussed in the preceding paragraph, the fund accountability statement referred to in the first paragraph presents fairly, in all material respects, project revenues received and costs incurred by HIO of CRHP under PIL's No. 6 and 10 of the Grant Agreement for the periods January 1, 1990 through May 30, 1994 for PIL No. 6 and November 15, 1992 through December 31, 1993 for PIL No. 10 in conformity with the basis of accounting described in Note 2.

Our audit was conducted for the purpose of forming an opinion on the fund accountability statement described in the first paragraph of this report. The information included in the Supplemental Schedules not attached to this report were prepared for purposes of additional analysis and not as a required part of the fund accountability statement. This information has been subjected to the auditing procedures applied in the audit of the fund accountability statement and, in our opinion, except for the effects of the questionable project costs detailed in this report, such information is fairly stated, in all material respects, in relation to the fund accountability statement taken as a whole.

This report is intended for the information of HIO management and others within the organization and USAID/Egypt. This restriction is not intended to limit the distribution of this report which is a matter of public record.

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HEALTH INSURANCE ORGANIZATION

**PROJECT IMPLEMENTATION LETTERS NOS. 6 AND 10
UNDER THE USAID/EGYPT COST RECOVERY FOR HEALTH PROJECT
GRANT AGREEMENT NO. 263-0170**

**FUND ACCOUNTABILITY STATEMENT
MODIFIED CASH BASIS IN US DOLLARS
FOR THE PERIODS
JANUARY 1, 1990 THROUGH MAY 31, 1994 (PIL NO. 6)
NOVEMBER 15, 1992 THROUGH DECEMBER 31, 1993 (PIL NO. 10)**

	<u>Budget</u> <u>(Note 1)</u>	<u>Actual</u> <u>(Note 1)</u>	<u>Project Cost</u> <u>Reclassifications</u> <u>(Note 4)</u>	<u>Revised</u> <u>Actual</u> <u>(Note 1)</u>	<u>Questionable Project Costs</u> <u>Ineligible</u> <u>(Note 5)</u>	<u>Unsupported</u> <u>Project Costs</u> <u>(Note 5)</u>	<u>Finding</u> <u>Ref.</u> <u>(Note 5)</u>
REVENUES - USAID/EGYPT	\$ <u>388,669</u>	\$ <u>348,241</u>	\$ -	\$ <u>348,241</u>			
EXPENSES							
<u>PIL No. 6</u>							
Salaries	\$ 51,563	\$ 60,500	\$ -	\$ 60,500	\$ 2,856	\$ 10	Page 8, (A)
Office Supplies	13,438	7,153	(1,818)	5,335	2,657	-	Page 8, (B)
Office Equipment	76,563	75,268	1,818	77,086	1,229	-	Page 8, (C)
Maintenance	1,875	1,501	-	1,501	-	-	
Travel and Per Diem	14,687	13,320	1,641	14,961	742	2,036	Page 9, (D)
Training	14,375	12,090	(1,641)	10,449	7,316	-	Page 9, (E)
Communication Equipment	68,750	50,236	-	50,236	1,020	-	Page 10, (F)
Renovation	<u>1,562</u>	-	-	-	-	-	
Sub-total PIL No. 6	<u>242,813</u>	<u>220,068</u>	-	<u>220,068</u>	<u>15,820</u>	<u>2,046</u>	
<u>PIL No. 10</u>							
Development of Training Modules & Materials	12,290	1,048	-	1,048	-	210	Page 10, (A)
Printing Training Materials	56,535	38,592	-	38,592	-	-	
Travel	21,233	-	-	-	-	-	
Local Transportation Allowances	646	-	-	-	-	-	
Projectors, Televisions and VCRs	<u>55,152</u>	<u>54,491</u>	-	<u>54,491</u>	<u>14,541</u>	-	Page 10, (B)
Sub-total PIL No. 10	<u>145,856</u>	<u>94,131</u>	-	<u>94,131</u>	<u>14,541</u>	<u>210</u>	
Total Expenses	\$ <u>388,669</u>	<u>314,199</u>	-	<u>314,199</u>	\$ <u>30,361</u>	\$ <u>2,256</u>	
OUTSTANDING BALANCE (Note 1)		\$ <u>34,042</u>	\$ -	\$ <u>34,042</u>			

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

HEALTH INSURANCE ORGANIZATION
PROJECT IMPLEMENTATION LETTERS NOS. 6 AND 10
UNDER THE USAID/EGYPT
COST RECOVERY FOR HEALTH PROJECT
GRANT AGREEMENT NO. 263-0170

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF STATEMENT:

HIO's fund accountability statement includes project revenues received and costs incurred under PIL's Nos. 6 and 10 of the Grant Agreement for the periods January 1, 1990 through May 31, 1994 for PIL No. 6 and November 15, 1992 through December 31, 1993 for PIL No. 10 (the "audit periods").

"Budget" includes USAID/Egypt approved project costs in accordance with the most recent budget amendments for PIL's Nos. 6 and 10 during the audit periods and is presented for informational purposes only. PIL No. 6, Amendment No. 8, and PIL No. 10, Amendment No. 2, approved project costs of \$ 242,813, equivalent to 777,000 Egyptian pounds ("LE") and \$ 145,856, equivalent to LE 481,323, respectively, during the audit periods. "Budget" in LE has been converted to US dollars at the last PIL amendment exchange rates of LE 3.2 and LE 3.3 to one US dollar for PIL's Nos. 6 and 10, respectively.

"Actual" represents cumulative project revenues received and costs incurred by HIO under PIL's Nos. 6 and 10 during the audit periods. Actual revenues received during the audit periods included \$254,110 or LE 823,317 under PIL No. 6 and \$ 94,131 or LE 314,398 under PIL No. 10. "Revised actual" represents actual project costs adjusted for project cost reclassification as explained in Note 4 below. Expenditures in LE have been converted to US dollars, as explained below in Note 3.

NOTE 2 - BASIS OF PRESENTATION:

HIO's fund accountability statement is principally prepared on a cash basis. Project revenues are recognized when received and project costs are recognized when the obligation is incurred.

NOTE 3 - FOREIGN EXCHANGE:

Actual project revenues and costs incurred in LE have been converted to US dollars at weighted average exchange rates of LE 3.24 and LE 3.34 to one US dollar for PIL's Nos. 6 and 10, respectively. These rates were calculated by weighing annual expenditures at the annual average exchange rates during the respective audit periods.

NOTE 4 - PROJECT COST RECLASSIFICATION:

Certain project costs associated with various budget line items were recorded in the project's accounting records under an incorrect budget line item. These project costs have been reclassified to the proper budget line item to facilitate a more appropriate comparison between actual and budgeted project costs.

NOTE 5 - QUESTIONABLE PROJECT COSTS:

Questionable project costs are presented in two categories, ineligible and unsupported. Project costs that are ineligible for USAID/Egypt reimbursement are those not program related or prohibited by either PIL's Nos. 6 or 10, the Grant Agreement, or applicable laws and regulations. Unsupported project costs are those not supported with either adequate documentation or proper authorization.

NOTE 5 - QUESTIONABLE PROJECT COSTS (Cont'd):

PIL NO. 6	Questionable Costs	
	Ineligible	Unsupported
Item Description:		
A. Salaries:		
1. Employer's share of social insurance was paid by HIO and billed to USAID/Egypt. Grant Agreement Amendment No. 2, section 5.9(a), states that payments of taxes, tariffs and duties and other levies, including social insurance, shall be paid from funds other than those provided under the Grant. We tested \$ 919 of payments made and estimated payments of \$ 1,106 during the audit period. Accordingly, we question \$ 2,025 as ineligible project costs.	\$ 2,025	\$
2. A check was issued and cleared the bank. However, the amount billed to USAID/Egypt was \$ 16 higher than the amount of the check. Accordingly, we consider it unsupported. HIO management later provided us support for \$ 6. We have removed this amount from our finding.		10
3. Net billings in excess of amounts recorded in the general ledger are considered ineligible.	<u>831</u>	
Total Salaries Line Item	<u>2,856</u>	<u>10</u>
B. Office Supplies:		
1. Certain sales taxes were paid. Grant Agreement Amendment No. 2, section 5.9(a), states that payments of taxes, tariffs, duties and other levies, including social insurance, shall be paid from funds other than those provided under the Grant. We question \$ 189 as ineligible.	189	
2. Net billings in excess of amounts recorded in the general ledger are considered ineligible.	<u>2,468</u>	
Total Office Supplies Line Item	<u>2,657</u>	
C. Office Equipment:		
1. A check was issued from HIO's USAID/Egypt funded account. The amount was billed to USAID as office equipment. The check was subsequently cancelled. However, the monthly billings to USAID/Egypt have not been reduced by this amount. The amount is therefore ineligible.	819	
2. A payment to a vendor was recorded in the USAID/Egypt general ledger when it was actually paid out of GOE funds. It was errantly billed to USAID and has not been reduced from the monthly billings. The amount is considered ineligible.	<u>410</u>	<u>-</u>
Total Office Equipment Line Item	<u>1,229</u>	<u>-</u>

NOTE 5 - QUESTIONABLE PROJECT COSTS (Cont'd):

	<u>Questionable Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
PIL NO. 6		
<u>Item Description:</u>		
D. Travel & Per Diem:		
1. Net billings of \$ 643 in excess of amounts recorded in the general ledger are considered ineligible.	\$ 643	\$
2. Payment for a workshop held in January 1990 included amounts for "nightclub" and "laundry." Office of Management and Budget Circular A-122, specifically disallows entertainment expenses and considers laundry costs to be an item covered by per diem. We question \$ 99 as ineligible.	99	
3. Payment for workshops held in January and February of 1990 lacked documentation and authorization. It is considered unsupported.		1,542
4. Reimbursements to consultants and HIO employees for travel lacked train receipts. We question \$ 494 as unsupported.		494
Total Travel and Per Diem Line Item	<u>742</u>	<u>2,036</u>
E. Training:		
1. HIO provided adequate support. The finding has been removed from our final report.		
2. Advertisements were placed in Egyptian newspapers for the following:		
a. Requests for proposals for hardware and software installation.		
b. Personnel recruitment for Cambridge Consulting Corporation.		
c. Office space search.		
PIL No. 6 does not allow such types of advertising expenditures. Payments of \$ 7,316 are considered ineligible.	7,316	
3. HIO provided adequate support. The finding has been removed from our final report.		
Total Training Line Item	<u>7,316</u>	

NOTE 5 - QUESTIONABLE PROJECT COSTS (Cont'd):

	<u>Questionable Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
PIL NO. 6		
<u>Item Description:</u>		
F. Communication Equipment:		
1. Vendor refunds received due to penalties for delivery delays were not refunded to USAID/Egypt. Grant Agreement Standard Provisions, Paragraph D.2, states that refunds must be credited to USAID/Egypt. The monthly USAID/Egypt billings have not been reduced for refunds. We question \$ 172 as ineligible.	\$ 172	\$ -
2. Net billings in excess of amounts recorded in the general ledger are considered ineligible.	<u>848</u>	<u>-</u>
Total Communication Equipment Line Item	<u>1,020</u>	<u>-</u>
Total PIL No. 6 Questionable Costs	\$ <u>15,820</u>	\$ <u>2,046</u>
PIL No. 10		
A. Development of Training Modules and Materials		
1. HIO issued a check for lecturer's fees. However, two consultants failed to collect the monies due them. These monies were returned to the GOE financed account instead of the USAID/Egypt account. The billings to USAID/Egypt have not yet been reduced. We question \$ 210 as unsupported.	<u>-</u>	<u>210</u>
Total Development Of Training Modules and Materials Line Item	<u>-</u>	<u>210</u>
B. Projectors, TVs and VCRs		
1. Net billings in excess of amounts recorded in the general ledger are considered ineligible.	782	-
2. Assets were transferred to district offices. The asset register at HIO headquarters detailed the initial transfer, but further transfers were not noted. We could not verify the existence of 4 televisions, 6 VCRs and 1 fax machine. We therefore question these costs as ineligible.	<u>13,759</u>	<u>-</u>
Total Projectors, TVS and VCRS Line Item	<u>14,541</u>	<u>-</u>
Total PIL No. 10 Questionable Costs	<u>14,541</u>	<u>210</u>
TOTAL INELIGIBLE AND UNSUPPORTED COSTS	\$ <u>30,361</u>	\$ <u>2,256</u>
TOTAL QUESTIONABLE COSTS		\$ <u>32,617</u>



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

June 19, 1995

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

We have audited the fund accountability statement of project revenues received and costs incurred by the Health Insurance Organization ("HIO") of the Cost Recovery for Health Project ("CRHP") under Project Implementation Letters ("PIL's") Nos. 6 and 10 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Grant Agreement No. 263-0170 ("Grant Agreement") for the periods January 1, 1990 through May 31, 1994 for PIL No. 6 and November 15, 1992 through December 31, 1993 for PIL No. 10, and have issued our report thereon dated June 19, 1995.

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

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

In planning and performing our audit of HIO, we considered its internal control structure as it relates to PIL's Nos. 6 and 10 in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of HIO 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, that transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements, and are recorded properly to permit the preparation of reliable financial reports and to maintain accountability over the entity's assets. 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 determined the significant internal control structure policies and procedures to be in the categories of cash receipts and disbursements, fund custody, project accounting and safeguarding of assets. For these internal control structure categories, 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.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a 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 financial 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 audit disclosed the following reportable condition which we believe constitutes a material weakness.

REPORTABLE CONDITION - MATERIAL WEAKNESS

1. HIO inconsistently applies accrual based accounting.

HIO applies accrual based accounting when recording costs in their fund accountability statement. Costs are recorded, and billed to USAID/Egypt, when incurred. During our audit, we noted instances where HIO billed USAID/Egypt for costs that were recorded in the fund accountability statement that lacked substance and had not yet been incurred by HIO. It appears that HIO uses this procedure to enhance its cash flow.

Grant Agreement Standard Provisions, paragraph B.5, approves generally accepted accounting principles that are consistently applied. Accrual based accounting does not permit the recording of costs until the costs have been incurred. We identified \$ 6,801 or LE 22,113 of costs which have been recorded and billed to USAID/Egypt which have not yet occurred. These amounts are detailed in Note 5 to the fund accountability statement.

Recommendation No. 1

HIO management should consistently and properly record costs when incurred in accordance with accrual based accounting. Only after costs have been incurred and properly recorded, should they be billed to USAID/Egypt.

* * * * *

REPORTABLE CONDITIONS - NON MATERIAL WEAKNESSES

We also noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement. Our audit disclosed the following reportable conditions that are not considered material weaknesses.



2. Controls for recording cash transactions are weak.

During our audit, we noted that when checks are processed, they are not recorded in the bank book until they are signed. The time between processing a check and obtaining the necessary signatures at times is significant. We noted that cancelled or voided checks are not always recorded in the bank book. In addition, HIO does not perform monthly bank reconciliations. As a result of these deficiencies, HIO management cannot properly trace checks. There is no easy way of determining the status of missing checks. Processed checks could be cancelled, voided, awaiting signature or lost.

Statement of Auditing Standard No. 55 ("SAS No. 55"), **Consideration of the Internal Control Structure in a Financial Statement Audit**, states that one of the requisite elements of a proper internal control system is the effective control in the design and use of adequate documents and records to help ensure the proper recording of transactions and events.

Recommendation No. 2

We recommend that HIO management design procedures to ensure that checks are immediately recorded in the bank book once they are processed. Voided or cancelled checks should also be recorded in the bank book in order to maintain a numerical check sequence. In addition, monthly bank reconciliations should be performed, detailing uncleared items and adjustments.

* * * * *

3. Paid vouchers are not cancelled when paid.

We noted that paid vouchers are not cancelled when paid. Voucher files may include open vouchers, vouchers for which a check has been issued but is awaiting signature, and paid vouchers. There is no way of determining which phase of HIO's payment process vouchers are in. Such a payment system may lead to paying an invoice more than once.

SAS No. 55 states that one of the requisite elements of a proper internal control system is the effective control in the design and use of adequate documents and records to help ensure the proper recording of transactions and events.

Recommendation No. 3

We recommend that HIO management design procedures within their internal control system to ensure that payment vouchers are adequately controlled. Vouchers should be marked "paid" at the time of payment and show the date of payment. Additionally, HIO management should create a separate file for unprocessed vouchers, whether they are open or awaiting check signature.

* * * * *

4. HIO does not properly maintain their fixed asset register nor do they insure USAID/Egypt financed assets.

During our audit, we selected several assets from the fixed asset register to verify their existence. According to the asset register, our selected sample of \$ 28,478 should have been located at the governorate central offices in Port Said and Giza. However, upon arrival, we could not locate \$ 13,759 of these assets. We were provided documents which showed that the missing assets had been transferred to different HIO facilities. These transfers were done without the knowledge of HIO's head office. As a result, the asset register was not properly updated.



SAS No. 55 states that one of the requisite elements of a proper internal control system is the adequate safeguarding and access to and use of an entity's assets. A proper internal control system includes the use of records to help ensure the proper recording of transactions and events coupled with independent checks such as comparisons between actual assets and recorded assets. In order to accomplish this comparison, the asset register must contain accurate information regarding the location of the assets, asset numbers, etc. Without such information, the asset register is of little or no use. Consequently, controls over safeguarding of assets are substantially diminished.

In addition, during our testing we noted that HIO does not maintain insurance against the loss or destruction of equipment other than vehicles. The potential loss to the project could be severe and costly if HIO's information system equipment were damaged or stolen.

Office of Management and Budget Circular A-110 states that insurance for real property and equipment must be provided. Whether this applies to foreign aid recipients is up to the awarding federal agency. We believe it prudent for HIO to insure select, critical equipment.

Recommendation No. 4

We recommend that HIO implement control procedures to verify, on a quarterly basis, the accuracy of the information in the fixed asset register, in particular, the location of the assets. We also recommend that HIO consider insuring assets that are critical to its operations.

* * * * *

This report is intended for the information of HIO 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.

Price Waterhouse

Price Waterhouse



**REPORT OF INDEPENDENT ACCOUNTANTS
ON COMPLIANCE WITH LAWS AND REGULATIONS**

June 19, 1995

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

We have audited the fund accountability statement of project revenues received and costs incurred by the Health Insurance Organization ("HIO") of the Cost Recovery for Health Project ("CRHP") under Project Implementation Letters ("PIL's") Nos. 6 and 10 of the United States Agency for International Development Mission to Egypt ("USAID/Egypt") Grant Agreement No. 263-0170 ("Grant Agreement") for the periods January 1, 1990 through May 31, 1994 for PIL No. 6 and November 15, 1992 through December 31, 1993 for PIL No. 10, and have issued our report thereon dated June 19, 1995.

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

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

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

Material instances of noncompliance are failures to follow requirements or violations of prohibitions contained in laws, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the fund accountability statement. The results of our tests of compliance disclosed two material instances of noncompliance.



1. HIO does not consistently apply accrual based accounting.

The Fourth Amendment to the Grant Agreement, dated September 29, 1993, specifically states that "The Grantee shall maintain accounting books, records . . . adequate to show without limitation, all costs incurred under the Grant," and "project books and records shall be maintained in accordance with one of the following methods: (1) generally accepted accounting principles prevailing in the United States or (2) generally accepted accounting principles prevailing in the country of the Grantee." Generally accepted accounting principles, whether U.S. or Egyptian, require that consistency be used in the accounting principles chosen. HIO records and bills expenses to USAID/Egypt prior to payment. Most of these are valid expenses. However, some are estimates for the receipt of future goods and services. Accrual based accounting does not permit recording of expenses until they have been incurred.

We identified \$ 6,801 or LE 22,113 of costs which have been recorded and billed to USAID/Egypt which have not yet been incurred. These amounts are detailed in Note 5 to the fund accountability statement.

Recommendation No. 1

We recommend, as discussed in the Report on Internal Control Structure, Recommendation No. 1, that HIO consistently and properly record costs when incurred in accordance with accrual based accounting. Only after costs have been incurred and properly recorded, should they be billed to USAID/Egypt.

* * * * *

2. HIO does not comply with requirements for managing USAID/Egypt purchased assets.

During our audit, we selected several assets from the fixed asset register to verify their existence. According to the asset register our selected assets of \$ 28,478 should have been located at the governorate central offices in Port Said and Giza. However, upon arrival, we could not locate \$ 13,759 of these assets. We were provided documents which showed that the missing assets had been transferred to different HIO facilities. These transfers were done without the knowledge of HIO's head office. As a result, the asset register was not properly stated.

Section 8.5b of the Project Grant Standard Provisions states that the grantee will maintain records, "adequate to show, without limitation, all costs incurred under the Grant, (and) the receipt and use of goods and services acquired under the Grant."

Recommendation No. 2

We recommend that HIO implement control procedures to verify the accuracy of the information in the fixed asset register, in particular, the location of the assets.

* * * * *

We considered these material instances of noncompliance in forming our opinion on whether the fund accountability statement referred to above is presented fairly, in all material respects, in conformity with the basis of accounting described in Note 2 to the fund accountability statement. This report does not affect our report on the fund accountability statement, dated June 19, 1995.

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Except as described above, the results of our tests of compliance indicate that with respect to the items tested, HIO management 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 HIO had not complied, in all material respects, with those provisions.

This report is intended for the information of HIO 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.

Pricewaterhouse

HEALTH INSURANCE ORGANIZATION
PROJECT IMPLEMENTATION LETTERS NOS. 6 AND 10
UNDER THE USAID/EGYPT
COST RECOVERY FOR HEALTH PROJECT
GRANT AGREEMENT NO. 263-0170

MANAGEMENT COMMENTS

HEALTH INSURANCE ORGANIZATION (HIO)
COST RECOVERY FOR HEALTH PROJECT



الهيئة العامة للصحة
مشروع استرداد التكاليف

E. Training:-

- 1- The amount of L.E. 338.00. HIO submitted proper supporting documents to Price Waterhouse. Therefore, it is considered closed.
- 2- The HIO Chairman and the Project Director have approved to charge the foreign component with these expenses as the ads were placed in Egyptian Newspapers. U.S.A.I.D. Project Officer was aware of these arrangements.
- 3- HIO cancelled the mentioned cheques and new cheques were issued. (copy attached).

F. Communication Equipments:-

- 1- The amount of L.E. 558.00 is refunded to U.S.A.I.D. / Egypt, cheque no. 350533, dated 7/9/1995.
- 2- The amount of L.E. 2,748.00 is refunded to U.S.A.I.D./Egypt, cheque no. 350533, dated 7/9/1995.

PIL 10:-

A. Development of Training Modules and Material:-

- 1- The amount of L.E. 700.00 is refunded to U.S.A.I.D./Egypt, cheque no. 1265, dated 7/9/1995.

B. Projectors, T.V.s and VCR:-

- 1- The amount of L.E. 2,613 represents:-
 - * L.E. 1,270.90 disallowed by U.S.A.I.D. in November 1994. However, it is unjustified as HIO did not exceed 15% over budget allowances.
 - * L.E. 1,343.00 for blank video tapes. However, as HIO did not use the money it is refunded to the U.S.A.I.D., cheque no. 350533, dated 7/9/1995.

HEALTH INSURANCE ORGANIZATION
PROJECT IMPLEMENTATION LETTERS NOS. 6 AND 10
UNDER THE USAID/EGYPT
COST RECOVERY FOR HEALTH PROJECT
GRANT AGREEMENT NO. 263-0170

MANAGEMENT COMMENTS

HEALTH INSURANCE ORGANIZATION (HIO)
COST RECOVERY FOR HEALTH PROJECT



مركز خدمات التأمين الصحي
مشروع استرداد النفقات

2- HIO submitted properly signed GOE forms to Price Waterhouse, having the location of each item. Therefore, we consider the matter closed.

Your cooperation in this respect is highly appreciated.

Best regards

Faisal Taie
Eng. Faisal Taie 13.9.95
Supervisor of HIO
MIS Computers Center

Laila Salem
Mrs. Laila El Garadini
Financial Manager

N.B.: see attachments 1, 2, & 3 which are considered an integral part of our response.

cc. Mr. Carl Abdul Rahman, Project Officer, U.S.A.I.D.

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HEALTH INSURANCE ORGANIZATION
PROJECT IMPLEMENTATION LETTERS NOS. 6 AND 10
UNDER THE USAID/EGYPT
COST RECOVERY FOR HEALTH PROJECT
GRANT AGREEMENT NO. 263-0170

MANAGEMENT COMMENTS

HEALTH INSURANCE ORGANIZATION (HIO)
COST RECOVERY FOR HEALTH PROJECT



الهيئة العامة للصحة العامة
مشروع استرداد التكاليف

مركز خدمات المعلومات والبحوث الأيون • ٢٠٠٠ شارع الجمهورية - ميدان التحرير - القاهرة - مصر 11561

(Attachment 1)

Statement of Amounts Due to U.S.A.I.D.

Two cheques have been issued . cheque no. (000 1265) from National Investment Bank and cheque no. (350 533) from Misr Bank, Roxy Branch.

No.	Amount Due To U.S.A.I.D.	Amount Due From U.S.A.I.D.
1.	L.E. 3002.00 Underbiling amount. Training difference between what was cashed & what was paid by cheques to U.S.A.I.D. through P/L 6.	L.E. 20,607 Difference of items according to the letter of Price Waterhouse Office
2.	L.E. 5359.00 Difference in salary deducted from voucher no. 33, P/L 6, December 92	
3.	L.E. 1270.00 Difference value in VCR & TV sets , November 93.	
	L.E. 9976.00 Payable to U.S.A.I.D./EGYPT	
Total	L.E. 20,607	L.E. 20,607

* Cheque no. 1265 with the amount of L.E. 1827.00 & cheque no. 350533 with the amount of 3149.00 totalling to L.E. 9976.00 paid to U.S.A.I.D./ Egypt

Faisal Tawel
13-9-95

Laiba Salem

HEALTH INSURANCE ORGANIZATION
PROJECT IMPLEMENTATION LETTERS NOS. 6 AND 10
UNDER THE USAID/EGYPT
COST RECOVERY FOR HEALTH PROJECT
GRANT AGREEMENT NO. 263-0170

MANAGEMENT COMMENTS

HEALTH INSURANCE ORGANIZATION (HIO)
COST RECOVERY FOR HEALTH PROJECT



الهيئة العامة للصحة
مشروع استرداد النفقات

مركز معلومات وإستشارات الأمانة العامة للصحة والتنمية - القاهرة - جمهورية مصر العربية - 11511 - 11512 - 11513 - 11514 - 11515 - 11516 - 11517 - 11518 - 11519 - 11520 - 11521 - 11522 - 11523 - 11524 - 11525 - 11526 - 11527 - 11528 - 11529 - 11530 - 11531 - 11532 - 11533 - 11534 - 11535 - 11536 - 11537 - 11538 - 11539 - 11540 - 11541 - 11542 - 11543 - 11544 - 11545 - 11546 - 11547 - 11548 - 11549 - 11550 - 11551 - 11552 - 11553 - 11554 - 11555 - 11556 - 11557 - 11558 - 11559 - 11560 - 11561 - 11562 - 11563 - 11564 - 11565 - 11566 - 11567 - 11568 - 11569 - 11570 - 11571 - 11572 - 11573 - 11574 - 11575 - 11576 - 11577 - 11578 - 11579 - 11580 - 11581 - 11582 - 11583 - 11584 - 11585 - 11586 - 11587 - 11588 - 11589 - 11590 - 11591 - 11592 - 11593 - 11594 - 11595 - 11596 - 11597 - 11598 - 11599 - 11600 - 11601 - 11602 - 11603 - 11604 - 11605 - 11606 - 11607 - 11608 - 11609 - 11610 - 11611 - 11612 - 11613 - 11614 - 11615 - 11616 - 11617 - 11618 - 11619 - 11620 - 11621 - 11622 - 11623 - 11624 - 11625 - 11626 - 11627 - 11628 - 11629 - 11630 - 11631 - 11632 - 11633 - 11634 - 11635 - 11636 - 11637 - 11638 - 11639 - 11640 - 11641 - 11642 - 11643 - 11644 - 11645 - 11646 - 11647 - 11648 - 11649 - 11650 - 11651 - 11652 - 11653 - 11654 - 11655 - 11656 - 11657 - 11658 - 11659 - 11660 - 11661 - 11662 - 11663 - 11664 - 11665 - 11666 - 11667 - 11668 - 11669 - 11670 - 11671 - 11672 - 11673 - 11674 - 11675 - 11676 - 11677 - 11678 - 11679 - 11680 - 11681 - 11682 - 11683 - 11684 - 11685 - 11686 - 11687 - 11688 - 11689 - 11690 - 11691 - 11692 - 11693 - 11694 - 11695 - 11696 - 11697 - 11698 - 11699 - 11700 - 11701 - 11702 - 11703 - 11704 - 11705 - 11706 - 11707 - 11708 - 11709 - 11710 - 11711 - 11712 - 11713 - 11714 - 11715 - 11716 - 11717 - 11718 - 11719 - 11720 - 11721 - 11722 - 11723 - 11724 - 11725 - 11726 - 11727 - 11728 - 11729 - 11730 - 11731 - 11732 - 11733 - 11734 - 11735 - 11736 - 11737 - 11738 - 11739 - 11740 - 11741 - 11742 - 11743 - 11744 - 11745 - 11746 - 11747 - 11748 - 11749 - 11750 - 11751 - 11752 - 11753 - 11754 - 11755 - 11756 - 11757 - 11758 - 11759 - 11760 - 11761 - 11762 - 11763 - 11764 - 11765 - 11766 - 11767 - 11768 - 11769 - 11770 - 11771 - 11772 - 11773 - 11774 - 11775 - 11776 - 11777 - 11778 - 11779 - 11780 - 11781 - 11782 - 11783 - 11784 - 11785 - 11786 - 11787 - 11788 - 11789 - 11790 - 11791 - 11792 - 11793 - 11794 - 11795 - 11796 - 11797 - 11798 - 11799 - 11800 - 11801 - 11802 - 11803 - 11804 - 11805 - 11806 - 11807 - 11808 - 11809 - 11810 - 11811 - 11812 - 11813 - 11814 - 11815 - 11816 - 11817 - 11818 - 11819 - 11820 - 11821 - 11822 - 11823 - 11824 - 11825 - 11826 - 11827 - 11828 - 11829 - 11830 - 11831 - 11832 - 11833 - 11834 - 11835 - 11836 - 11837 - 11838 - 11839 - 11840 - 11841 - 11842 - 11843 - 11844 - 11845 - 11846 - 11847 - 11848 - 11849 - 11850 - 11851 - 11852 - 11853 - 11854 - 11855 - 11856 - 11857 - 11858 - 11859 - 11860 - 11861 - 11862 - 11863 - 11864 - 11865 - 11866 - 11867 - 11868 - 11869 - 11870 - 11871 - 11872 - 11873 - 11874 - 11875 - 11876 - 11877 - 11878 - 11879 - 11880 - 11881 - 11882 - 11883 - 11884 - 11885 - 11886 - 11887 - 11888 - 11889 - 11890 - 11891 - 11892 - 11893 - 11894 - 11895 - 11896 - 11897 - 11898 - 11899 - 11900 - 11901 - 11902 - 11903 - 11904 - 11905 - 11906 - 11907 - 11908 - 11909 - 11910 - 11911 - 11912 - 11913 - 11914 - 11915 - 11916 - 11917 - 11918 - 11919 - 11920 - 11921 - 11922 - 11923 - 11924 - 11925 - 11926 - 11927 - 11928 - 11929 - 11930 - 11931 - 11932 - 11933 - 11934 - 11935 - 11936 - 11937 - 11938 - 11939 - 11940 - 11941 - 11942 - 11943 - 11944 - 11945 - 11946 - 11947 - 11948 - 11949 - 11950 - 11951 - 11952 - 11953 - 11954 - 11955 - 11956 - 11957 - 11958 - 11959 - 11960 - 11961 - 11962 - 11963 - 11964 - 11965 - 11966 - 11967 - 11968 - 11969 - 11970 - 11971 - 11972 - 11973 - 11974 - 11975 - 11976 - 11977 - 11978 - 11979 - 11980 - 11981 - 11982 - 11983 - 11984 - 11985 - 11986 - 11987 - 11988 - 11989 - 11990 - 11991 - 11992 - 11993 - 11994 - 11995 - 11996 - 11997 - 11998 - 11999 - 12000

(Attachment 3)

Material instances of non-compliance

Finding no. 1 (page 16):-

See our response for finding no. 1 in attachment 2.

Finding no. 2 (page 16):-

See our response for finding no. 4 in attachment 2.

Handwritten signature

*Handwritten signature: Faisal (ail.)
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HEALTH INSURANCE ORGANIZATION
PROJECT IMPLEMENTATION LETTERS NOS. 6 AND 10
UNDER THE USAID/EGYPT
COST RECOVERY FOR HEALTH PROJECT
GRANT AGREEMENT NO. 263-0170

INDEPENDENT ACCOUNTANTS' RESPONSE

Management of the Health Insurance Organization ("HIO") provided comments to our draft report presented at the exit conference held on August 15, 1995. These comments are included, unedited, in Appendix A to this report. We have reviewed these comments and either adjusted our final report or clarified our positions. Our response below parallels the findings in our audit report and management comments.

RESPONSE TO HIO MANAGEMENT COMMENTS TO QUESTIONABLE COSTS
DETAILED IN SUPPLEMENTAL SCHEDULE NO. 2

PIL 6

(A) Salaries:

1. HIO disagreed with LE 6,045 of the questioned amount stating that they received nothing in writing from USAID/Egypt. However, the Grant Agreement clearly states that payments for taxes, tariffs and other levies, including Social Insurance, will be made from funds other than those provided by the Grant. We understand that this policy was not communicated directly. Nevertheless, it is the Grantees' responsibility to familiarize themselves with all applicable USAID regulations. HIO stated that corrective action was taken regarding the remaining LE 516 in July 1995. However, this action was taken outside our audit period and after the conclusion of field work. Our position remains unchanged.
2. HIO provided sufficient supporting documentation for LE 20 of the questioned amount. We have removed this amount from our final report. HIO states that corrective action was taken regarding the remaining LE 33 in July 1995. However, this action was taken outside our audit period and after the conclusion of field work. LE 33 of the original questioned cost remains in our final report.
3. HIO agreed with our finding. They stated that corrective action was taken in July 1995. However, this action was taken outside of our audit period and after the conclusion of field work. Our final report remains unchanged.

(B) Office Supplies:

- 1-2. HIO agreed with our findings. They stated that corrective action was taken in July 1995. However, this action was taken outside of our audit period and after the conclusion of field work. Our final report remains unchanged.

(C) Office Equipment:

1. HIO agreed with our finding. They stated they took corrective action. However, this action was taken outside our audit period and after the conclusion of field work. Our final report remains unchanged.
2. HIO agreed with our finding. They stated that corrective action was taken in July 1995. However, this action was taken outside of our audit period and after the conclusion of field work. Our final report remains unchanged.

(D) Travel and Per Diem:

1. HIO agreed with our finding. They stated that corrective action was taken in July 1995. However, this action was taken outside of our audit period and after the conclusion of field work. Our final report remains unchanged.

(D) Travel and Per Diem (Cont'):

2. HIO provided a certified copy of the receipt for this expenditure. However, Office of Management and Budget Circular A-122 specifically disallows entertainment expenditures and considers laundry costs to be an item covered by per diem. Therefore, our position remains unchanged.
3. HIO provided certain supporting documentation for the questionable lodging expenditures. However, no documentation was provided proving the related training seminar was actually held. Therefore, our position remains unchanged.
4. HIO submitted a copy of section 6FAM141a of the Foreign Affairs Manual in support of questioned amounts relating to travel receipt requirements. This manual applies to USAID expatriate personnel and not HIO personnel. Therefore, our position remains unchanged.

(E) Training:

1. HIO provided sufficient supporting documentation. This finding has been removed from our final report.
2. HIO states that the USAID project officer was aware of these advertisements. However, such expenditures are not eligible for reimbursement under PIL No. 6. Until written approval is received from USAID, our position remains unchanged.
3. HIO provided sufficient supporting documentation. This finding has been removed from our final report.

(F) Communication Equipment:

- 1-2. HIO agreed with our findings. They stated that corrective action was taken in July 1995. However, this action was taken outside of our audit period and after the conclusion of field work. Our final report remains unchanged.

PIL 10

(A) Development of Training Modules and Materials:

1. HIO agreed with our finding. They stated that corrective action was taken in July 1995. However, this action was taken outside of our audit period and after the conclusion of field work. Our final report remains unchanged.

(B) Projectors, TV's and VCR's:

1. HIO states that LE 1,271 should be allowable because the amount did not exceed 15% of the budget. However, the fact remains that the amount was questioned because billings were in excess of costs incurred. HIO further states that correcting action was taken regarding the remaining balance in July 1995. However, this corrective action was taken outside our audit period and after conclusion of field work. Our position remains unchanged.
2. We received with HIO management's response, documentation regarding the location of the missing equipment. However, we did not verify the existence of these items as field work had concluded. Accordingly, our position remains unchanged.

**RESPONSE TO HIO MANAGEMENT COMMENTS TO THE REPORT ON INTERNAL CONTROL
STRUCTURE**

Reportable Condition - Material Weakness

1. Management concurred with our finding. They stated that they now apply the accrual basis of accounting. However, we were unable to verify this. Our finding remains unchanged.

Reportable Conditions - Non-Material Weakness

2. Management agreed with our recommendation. However, we did not verify any corrective measures taken. Our position remains unchanged.
3. Management agreed with our recommendation to use a "paid" stamp. However, we have not verified that this control is currently in place. Management also states that the current system for preparing certificates and paying them is acceptable. However, we feel that the current system does not provide for adequate control over payment vouchers. Our position remains unchanged.
4. HIO provided us with copies of GOE form 111 giving the location of each item that we were unable to locate during our field visits. However, we have not verified the existence of these assets at their new locations. Regardless, the concept of our finding remains. The fixed asset register was not properly updated for changes in the status of fixed assets. Our position remains unchanged.

**RESPONSE TO HIO MANAGEMENT COMMENTS TO THE REPORT ON COMPLIANCE WITH LAWS AND
REGULATIONS**

1. See response #1 to the Report on Internal Control Structure.
2. See response #4 to the Report on Internal Control Structure.

HEALTH INSURANCE ORGANIZATION
PROJECT IMPLEMENTATION LETTERS NOS. 6 AND 10
UNDER THE USAID/EGYPT
COST RECOVERY FOR HEALTH PROJECT
GRANT AGREEMENT NO. 263-0170

MISSION RESPONSE

USAID



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

November 6, 1995

MEMORANDUM

To : Lou Mundy, RIG/A/C

From : Shirley Hunter, OD/FM/FA 

Subject : Audit of Project Revenues Received and Costs Incurred by the Health Insurance Organization (HIO) under Grant Agreement No. 263-0170 for the Cost Recovery for Health Project, Project Implementation Letters (PILs) Nos. 6 and 10. Draft Report dated October 2, 1995

Following is the Mission response the draft report on the subject audit:

Recommendation No. 1:

We recommend that USAID/Egypt resolve the questioned costs of \$32,617 (ineligible costs of \$30,361 and unsupported costs of 2,256) detailed on pages 8 to 10 of the audit report, and recover from the Health Insurance Organization the amounts determined to be unallowable.

Mission Response:

Based on Mission review of the documents submitted, of the \$32,617 (LE 107,150) questioned, \$7,316 (LE 23,704) is allowed, \$6,342 (LE 20,607) has been refunded, and \$18,959 (LE 62,839) is under review by the Mission. Following are the details of the Mission's determination:

A. Amounts Allowed:

PIL 6: Finding E.2.

E2. The ineligible amount of \$7,316 (LE 23,704) page 9 of the audit report.

* This amount represents the costs of advertizing not allocable to PIL 6. The Project Officer in his memo dated September 19, 1995 (copy attached), has provided a retroactive approval for incurring these expenses under PIL 6 based on the fact that they were clearly allowable and justifiable, and they were adequately supported.

Therefore, this amount should be removed from the final report.

B. Amounts Refunded:

HIO has submitted the following three checks (copies attached):

Check No. 001265 dated 9/7/95 in the amount of LE 1,827
 Check No. 350533 dated 9/7/95 in the amount of LE 8,149
 Check No. 350548 dated 11/6/95 in the amount of LE 10,631

The three checks represent refund for the following findings:

PIL (6)

Finding A1	- LE	516	(partial refund)
Finding A2	- LE	33	
Finding A3	- LE	2,691	
Finding B1	- LE	611	
Finding B2	- LE	7,995	
Finding C2	- LE	1,329	
Finding D1	- LE	2,083	
Finding F1	- LE	558	
Finding F2	- LE	2,748	

Sub-Total LE 18,564 (\$5,730)

PIL (10)

Finding A1	- LE	700	
Finding B1	- LE	1,343	(partial refund)

Sub-Total LE 2,043 (\$ 612)

G. Total B LE 20,607 (\$6,342)

C. Amounts Under Review (Revised Questioned Costs):

PIL 6

Finding A1	- LE	6,045	
Finding C1	- LE	2,654	
Finding D2	- LE	320	
Finding D3	- LE	4,997	
Finding D4	- LE	1,599	

Sub-Total LE 15,615 (\$4,820)

PIL 10

Finding B1 - LE 1,270
Finding B2 - LE 45,954

Sub-Total LE 47,224 (14,139)

G. Total C. LE 62,839 (\$18,959)

The Project Officer is working with HIO to resolve and close the internal control and non-compliance issues identified in Recommendations 2 and 3 under the subject audit, and to submit an acceptable plan of action with target dates.

Please issue the final report.

Att: a/s

cc: HRDC/H: R. Ainsworth
C. Rahmaan



CAIRO, EGYPT

ATTACHMENT C
UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

September 19, 1995

Gen. Faisel Taie
MIS Computer Center Supervisor
Health Insurance Organization
20, Al Ahrām St.
Heliopolis, Egypt

SUBJECT: Follow up to Questioned Costs in the Draft Audit Report
(PIL No. 6)

Dear Gen. Taie:

Thank you for your letter of August 29, 1995 (Ref. 402/95), concerning the questioned cost of LE 23,704 for advertising on behalf of Cambridge Consulting Corporation (CCC) for staff recruitment which was a finding of the subject audit. We agree that it was appropriate for the auditors to question the allocability of this cost to PIL No. 6. This cost should have been paid by CCC directly. However, it appears that this is an eligible cost since it is clearly allowable and justifiable, and has adequate supporting documentation. Because of this, we are hereby giving retroactive approval for this LE 23,704 cost to be allocated to PIL No. 6 Training line item.

Thank you for your cooperation in this matter.

Yours truly,

Carl Abdou Rahmaan
Project Officer
Cost Recovery for Health Project

To: Sherif Fouad Ahmed Zohdi@FM.FA@CAIRO
Cc: Richard Ainsworth@HRDC.H@CAIRO
Bcc:
From: Carl Abdou Rahmaan@HRDC.H@CAIRO
Subject: HIO Audit
Date: Thursday, November 9, 1995 15:17:28 CAI
Attach:
Certify: N
Forwarded by:

Sherif

Per discussion, we provided retroactive approval of the advertrising costs because they were done to assist in recruiting personnel to work at HIO with payment to be made under the CCO TA contract funded under the project and to find supplemental office space for the CCO contract team pending completion of the HIO MIS center. These activities directly contribute to the achievement of the project objectives and were less expensive than if done directly by CCO since they were local expenditures and could be done by HIO without having to pay overhead or other charges if funded under the CCO contract.

Carl

جمهورية مصر العربية

بنك الاستثمار القومي ٣٥٠٥٣٣

NATIONAL INVESTMENT BANK

باب التوكيل - القاهرة

٥١٠٨٩٠٠٠٠٨٩

بنك الاستثمار القومي - امانة التأمين القومية

٩ / ٧ سنة ١٩٩٥

USD0/FNC/Cairo

مبلغ قدره ثمانمائة وستين جنيهاً مصرياً فقط

توقيع اول

توقيع ثانياً

٨١٤٩

CBE BANKNOTE PRINTING PRESS

مصر - القاهرة - بنك الاستثمار القومي

بنك مصر
BANQUE MISR

٠٠٠١٢٦٥

مخرج استرداد نفقات العلاج بالتأمين الصحي

٩٥/٩/٧ التاريخ DATE

٣٧/١٠٥٦٨/١ / ١ = روكبى

USD0/FNC/Cairo

مبلغ قدره ثمانمائة وستين جنيهاً مصرياً فقط

توقيع اول

توقيع ثانياً

٨١٤٩

CBE BANKNOTE PRINTING PRESS

GENERAL RECEIPT

2. Date: 09/14/95

1. Post: USAID/ CAIRO, EGYPT

3. Received from: 263-170 CK #0350533-01265

4. Permanent address: USAID/ CAIRO, EGYPT

5. The amount of: EGYPTIAN POUNDS 9,976.00 By check

6. Rate of exchange: 3.4006 To US \$ 1.00

7. Received by: Name : NADIA A. ATTALLA Title: CLASS B CASHIER

9. US \$ EQUIV. \$ 2,933.60

10. Accounting classification:

\$2,933.60-LE 9,976.00-

5-C 889

11. Received for:

HIO COST RECOVERY PROJ PIL # ... CK # 0350533 LE 9149 + CK # 01265 LE 12-7

DATE DUE

Sch. _____

PP XP 10/1

OPTIONAL FORM 158 (DEPT OF STATE - REVISED 1/79)

COPY 1 - RAMO PARIS (USC)

GENERAL RECEIPT

No.: A 000550

1. Post: USAID/ CAIRO, EGYPT

2. Date: 09/14/95

3. Received from: 263-170 CK #0350533-01265

4. Permanent address: USAID/ CAIRO, EGYPT

5. The amount of: EGYPTIAN POUNDS 9,976.00 By check

6. Rate of exchange: 3.4006 To US \$ 1.00

7. Received by: Name : NADIA A. ATTALLA Title: CLASS B CASHIER

9. US \$ EQUIV. \$ 2,933.60

10. Accounting classification:

\$2,933.60-LE 9,976.00-

11. Received for:

HIO COST RECOVERY PROJ PIL # ... CK # 0350533 LE 9149 + CK # 01265 LE 12-7

COPY 3 - RETAINED BY CASHIER (SUPPORT TRANSMITTAL)

OPTIONAL FORM 158 (DEPT OF STATE - REVISED 1/79)

جمهورية مصر العربية

بنك الاستثمار القومي ٠٣٥٠٥٤٨

NATIONAL INVESTMENT BANK

٠٨٦ ٢٩٩٠٨١٩

باللوح - الشايف

جهة الصرف القاهرة

١١ / ٦ سنة ١٩٩٥

بنك الاستثمار القومي - هيئة التأمين لعم

USDO/FNC/Cairo

ادفعوا لأمير مبلغا وقدره ١٠٦٣١.٢٩ جنيه مصري

توقيع أول

توقيعات

١٠٦٣١

CBR BANKNOTE PRINTING PRESS

البنك المصري - القاهرة

GENERAL RECEIPT

No.: A 000624

1. Post: USAID/ CAIRO, EGYPT

2. Date: 11/06/95

3. Received from: 263-170 CK # 0350548

4. Permanent address: USAID/CAIRO, EGYPT

5. The amount of: EGYPTIAN POUNDS 10,631.00 By check

6. Rate of exchange: 3.3940 To US \$ 1.00

7. Received by: Name : NADIA A. ATTALLA Title: CLASS B CASHIER

8. Signature:

9. US \$ EQUIV. \$ 3,132.29

10. Accounting classification: S3,132.29-LE 10,631.00-

11. Received for: PIL # 6 + 10 COST RECOVERY CK # 0350548

COPY 2 - RANC/PARIS (USDO)

OPTIONAL FORM 158 (DEPT OF STATE - REVISED 1/79)

GENERAL RECEIPT

No.: A 000624

1. Post: USAID/ CAIRO, EGYPT

2. Date: 11/06/95

3. Received from: 263-170 UK # 0350548

4. Permanent address: USAID/CAIRO, EGYPT

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