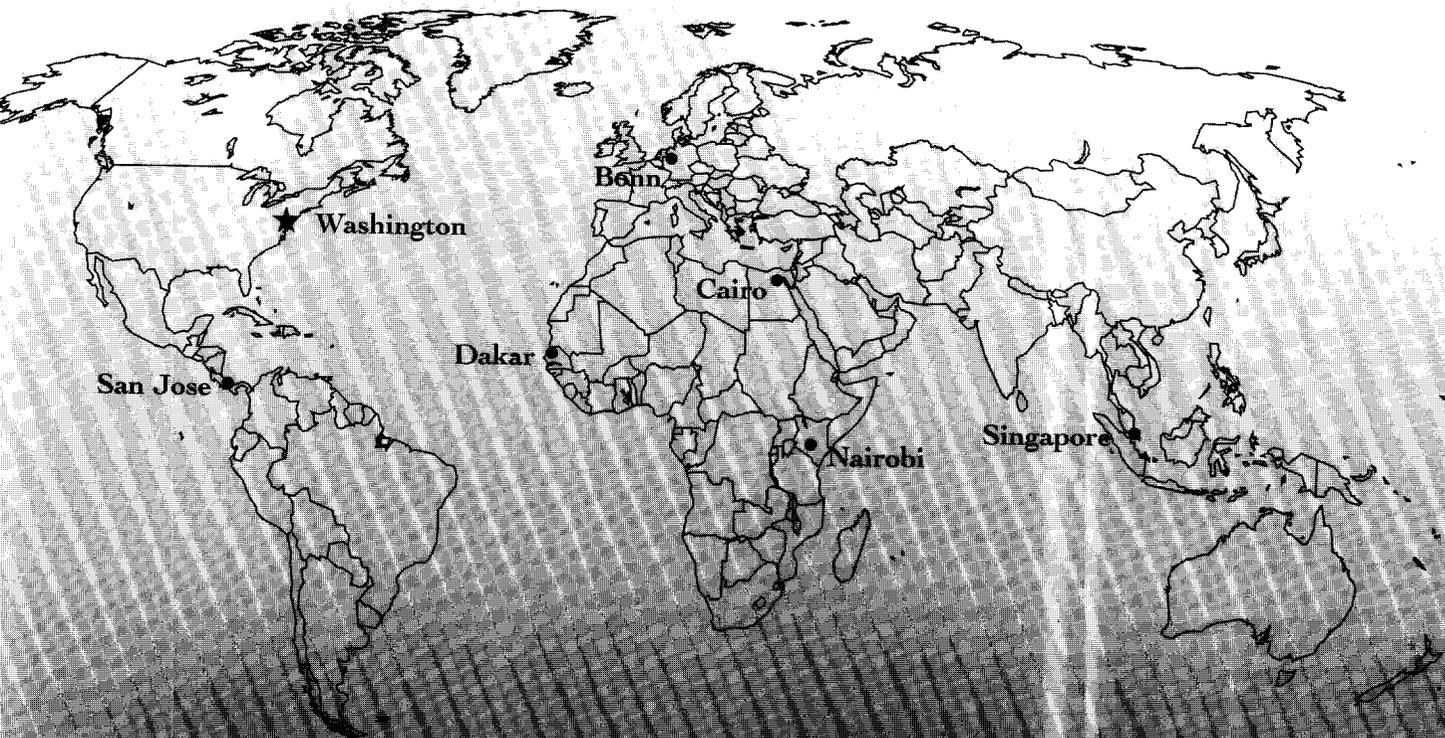


Regional Inspector General for Audit
Cairo, Egypt

**Financial Audit of the National Population Council's
Egyptian Demographic and Health Survey 2 Project Under
USAID/Egypt's Population/Family Planning II Project
(USAID/Egypt Project No. 263-0144)**

Report No. 6-263-96-12-N
March 14, 1996





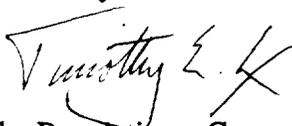
**UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
OFFICE OF THE REGIONAL INSPECTOR GENERAL/AUDIT**

CAIRO, EGYPT

March 14, 1996

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley

FROM: Acting RIG/A/C, Timothy E. Cox 

SUBJECT: Financial Audit of the National Population Council's Egyptian Demographic and Health Survey 2 Project Under USAID/Egypt's Population/Family Planning II Project (USAID/Egypt Project No. 263-0144)

The attached report, transmitted on January 10, 1996, by KPMG Hazem Hassan, presents the results of a financial audit of the National Population Council's (Council) Project Implementation Letter No. 36 Egyptian Demographic and Health Survey 2 Project conducted under the Population/Family Planning II Project; USAID/Egypt Project No. 263-0144. The purpose of the Council's Project is to provide Egypt with information on fertility and child mortality levels and family planning awareness.

We engaged KPMG Hazem Hassan to perform a financial audit of the Council's incurred expenditures of \$162,465 (equivalent to LE541,511) for the period January 1, 1992 through July 30, 1993. The purpose of the audit was to evaluate the propriety of costs incurred during this period. KPMG Hazem Hassan also evaluated the Council's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statement.

The audit report questions \$19,592 (equivalent to LE65,298) in costs billed to USAID/Egypt by the Council. The questioned costs related primarily to salaries, fuel purchases, printing costs, and contributions determined by the auditors to be ineligible. Additionally, the auditors noted two reportable conditions in the Council's internal control structure, as well as two instances of material noncompliance with agreement terms.

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In response to the draft report, responsible Council officials provided additional explanation to the questioned costs. KPMG Hazem Hassan reviewed the Council's response to the findings and where applicable made adjustments to the report or provided further clarification of their position (see Appendices I and II).

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 ineligible questioned costs of \$19,592 detailed on pages 12 through 15 of the KPMG Hazem Hassan audit report, and recover from the National Population Council the amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Egypt obtain evidence that the National Population Council has addressed the two material noncompliance issues (exceeding approved budget and charging USAID/Egypt for unallowable costs) detailed on pages 21 and 22 of the KPMG Hazem Hassan audit report.

In its response to the audit report, the Mission determined that \$19,292 of the questioned costs in Recommendation No. 1 are considered allowable. The remaining \$300 is sustained. Therefore, Recommendation No. 1 is resolved and will be considered closed upon the recovery of funds, offset of funds, or issuance of a bill for collection for the sustained amount.

In response to Recommendation No. 2, the Mission provided evidence that the National Population Council has developed a chart of accounts and the staff has received training on USAID financial requirements. Therefore, Recommendation No. 2 is resolved and closed upon issuance of this report.

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

Attachment: a/s



Financial Audit of the
National Population Council
(NPC)

Project Implementation Letter (PIL) No.36
Related to the Egyptian Demographic and Health
Survey 2 Project (EDHS2)
Under Population/Family Planning II Project
No.263-0144
for the Period from January 1, 1992
to July 30, 1993

Financial Audit of the
National Population Council
(NPC)
Project Implementation Letter (PIL) No.36
Related to the Egyptian Demographic and Health
Survey 2 Project (EDHS2)
Under Population/Family Planning II Project
No.263-0144
for the Period from January 1, 1992
to July 30, 1993

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

January 10, 1996

Dear Mr. Mundy,

This report represents the results of our financial audit of the National Population Council (NPC) for Project Implementation Letter (PIL) No. 36 related to the Egyptian Demographic and Health Survey 2 Project (EDHS2) under the Population/Family Planning II Project No.263-0144 for the period from January 1, 1992 to July 30, 1993.

Background

NPC is the primary organization, in Egypt, for addressing Egypt's population concerns. NPC is responsible for coordinating and providing developmental support for population and family planning programs, at the national and governorate levels, to the private and public sectors.

On January 21, 1992 a master technical agreement was signed by the NPC and the Institute for Resource Development (IRD). This master agreement included the work plan of the EDHS2. The objective of EDHS2 is to provide Egypt with information on fertility and child mortality levels and family planning awareness.

According to the master technical agreement, NPC took the responsibility for guiding, implementing and coordinating

the project; IRD took the responsibility for providing technical assistance for the survey.

On February 18, 1992 the USAID/Egypt approved the master technical agreement and initiated PIL No. 36 to finance the Egyptian pound (LE) portion, which is performed by NPC. USAID/Washington financed the US dollar portion which is performed by the IRD.

The effective date of PIL No. 36 was January 1, 1992 and the completion date was May 31, 1993. Later on, the completion date was amended to be July 30, 1993. The PIL approved a budget of LE860,405 (equivalent to \$258,147). The PIL was amended and the total budget was decreased to LE533,907 (equivalent to \$160,183).

Audit Objectives and Scope

The objective of this engagement is to conduct a financial audit of USAID/Egypt's resources, managed by the NPC, as they relate to the above mentioned PIL. The audit covered the period from January 1, 1992 through July 30, 1993. Accordingly, the audit included an examination of the NPC's expenses, compliance with PIL terms and a review of the NPC's internal controls.

The specific objectives were to:

1. express an opinion on whether the fund accountability statement, for the USAID financed project of the NPC, 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 whether the costs reported as incurred under the PIL are, in fact, allowable, allocable, and reasonable in accordance with the terms of the PIL;
3. evaluate and obtain a sufficient understanding of the internal control structure of NPC, assess control risk, and identify reportable conditions, including material internal control weaknesses and;

4. perform tests to determine whether NPC complied, in all material respects, with the PIL's terms and applicable laws and regulations.

Preliminary planning and review procedures started in May 1995 and consisted of:

- discussions with RIG/A/C;
- a review of the PIL and the technical master agreement;
- interviews and discussions with the NPC key personnel concerning the status of the PIL and the technical master agreement, accomplishments during the period, the statutory reporting requirements, the PIL budget, procedures governing actual expenditures by NPC and reimbursement by USAID;
- reviews of the NPC organizational structure, procurement and personnel manuals, financial and accounting policies and procedures manual.

The field work was completed on August 15, 1995. The scope of our work was to audit costs incurred by NPC and reimbursed by USAID/Egypt under PIL No.36. Within each budget line item, we selected amounts for testing on a judgmental basis to test the majority of the related amounts. We tested expenditures of \$87,760 from total expenditures of \$162,465.

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

1. Reconciling NPC's accounting records to invoices issued to USAID/Egypt and testing costs for allowability, allocability, reasonableness, and appropriate support;
2. Determining that payroll costs were appropriate and conformed with the terms of the PIL and the relevant regulations;
3. Determining that transportation, printing, data processing and other charges were adequately supported and approved;
4. Establishing the adequacy of NPC's control over project equipment funded by USAID/Egypt.

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

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

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

Results of Audit

PIL No.36 Fund Accountability Statement

Our audit identified a total of questioned costs of \$19,592 (equivalent to LE65,298) which is represented in ineligible costs.

Internal Control

Our audit identified the following reportable conditions:

- Bank reconciliations are not prepared.
- Controls over the project costs classification are inadequate.

Compliance with Laws and Regulations

Our tests of compliance disclosed two instances of material noncompliance with the terms of PIL No.36 regarding the allowability of costs charged to USAID/Egypt.

Supplementary Information

The supplementary fund accountability statement, presented in the functional currency, and schedules of questioned costs, including dates, numbers of vouchers and amounts, were communicated to NPC's management and are available upon request.

Management Comment

We have reviewed NPC's response to the Questioned Costs incurred, which are included in Appendix I. Where applicable, we have made adjustments in our report or provided further clarification of our position in Appendix II. For those items not adjusted in the final report, the responses provided by NPC's management have not changed our understanding of the fund accountability statement, reportable conditions in the Report on Internal Control Structure or our finding in the Report on Compliance with Laws and Regulations.

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

Hazem Hassan
Hazem Hassan & Co.
Cairo, Egypt

FUND ACCOUNTABILITY STATEMENT

KPMG Hazem Hassan

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Report on the Fund Accountability Statement Independent Auditor's Report

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

We have audited the accompanying fund accountability statement of the National Population Council (NPC) for Project Implementation Letter (PIL) No.36 related to the Egyptian Demographic and Health Survey 2 Project (EDHS2) under the Population/Family Planning II Project No.263-0144 for the period from January 1, 1992 through July 30, 1993. This statement is the responsibility of NPC's management. Our responsibility is to express an opinion on this statement 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, 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 from 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 the significant estimates made by management, as well as evaluating the presentation of the overall fund accountability statement. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we have participated in the 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.

The aforementioned fund accountability statement does not include the cost of USAID/Egypt's direct procurement of vehicles, equipment, and technical assistance provided by USAID/Egypt directly to NPC, or the total revenues and costs incurred by NPC on an organization-wide basis.

As described in Note 1, the accompanying fund accountability statement has 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 statement are questioned costs of \$19,592. The basis for questioning these costs is more fully described in the "Details of Questioned Costs" section of this report.

In our opinion, except for the effects of the questioned costs as discussed in the preceding paragraph, the fund accountability statement, referred to above, presents fairly, in all material respects, the amounts received and the costs incurred pursuant to the Project Implementation Letter (PIL) No.36 related to the Egyptian Demographic and Health Survey 2 Project (EDHS2) under the Population/Family Planning II Project No.263-0144 for the period from January 1, 1992 through July 30, 1993 in conformity with the basis of accounting described in Note 1.

H. Hassan
Hazem Hassan & Co.
Cairo, Egypt

August 15, 1995

NATIONAL POPULATION COUNCIL
(NPC)
Fund Accountability Statement
Project Implementation Letter (PIL) No.36
Under the Egyptian Demographic and Health Survey 2 Project (EDHS2)
For the period from January 1, 1992 through July 30, 1993

USAID/Egypt fund received \$ 347,313

<u>Expenditures</u>	<u>Questioned Costs</u>				<u>Finding No. & pg.</u>
	<u>Budget</u>	<u>Actual</u>	<u>Ineligible</u>	<u>Unsupported</u>	
	\$	\$	\$	\$	
Salaries	103,610	115,888	13,525		1.a)through f)pg.12 to 14
Transport & Allowance	39,975	25,952	1,500		2.a)through b)pg.14
Printing	7,094	8,062	968		3.a) pg.15
Data Processing	3,570	3,330			
Other costs	5,934	9,233	3,599		4.a)through c)pg.15
Total Expenditures	<u><u>160,183</u></u>	<u><u>162,465</u></u>	<u><u>19,592</u></u>	<u><u>---</u></u>	
USAID/Egypt Fund as of July 30, 1993		<u><u>184,848</u></u>			

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

NATIONAL POPULATION COUNCIL
(NPC)
Fund Accountability Statement
Project Implementation Letter (PIL) No.36

Notes to the Fund Accountability Statement

Note 1: Accounting Basis

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

Note 2: Basis of Presentation

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

Note 3: Translation Rate

Expenditures paid in Egyptian Pounds (LE) have been translated into US Dollars (\$). The period average exchange rate method was used. This rate is \$1 = LE3.333.

Note 4: Questioned Costs

Questioned Costs are presented in two separate categories - ineligible or unsupported - and consist of audit findings made on the basis of the

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

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

Note 5: Salaries

This line item is represented in:

	<u>Budget</u>	<u>Actual</u>
	\$	\$
Administrative Staff	6,982	8,022
Sampling	42,840	51,897
Pretest	1,152	1,152
Training	10,118	8,871
Field Work	35,073	37,694
Quality Control	2,006	2,006
Data processing staff	5,439	6,246
Total Salaries	<u>103,610</u>	<u>115,888</u>

Note 6: Amounts in the fund accountability statement are presented after the necessary reclassifications. These reclassifications are made by the Non-Federal Auditor "KPMG Hazem Hassan & Co.", and they are as follows:

Note 6. (contd.)

<u>Line Item</u>	<u>Amounts as per records</u> \$	<u>Classifications</u> \$	<u>Amount as per the fund account- ability statement</u> \$
1. Salaries			
1.1 Admin. staff	8,022	-	8,022
1.2 Sampling staff	42,649	9,248	51,897
1.3 Pretest Staff	1,152	-	1,152
1.4 Training staff	10,118	(1,247)	8,871
1.5 Field work staff	35,133	2,561	37,694
1.6 Quality Control Staff	2,006	-	2,006
1.7 Data processing staff	<u>6,246</u>	<u>-</u>	<u>6,246</u>
	105,326	10,562	115,888
2. Transportation and Allowance	40,548	(14,596)	25,952
3. Printing	6,494	1,568	8,062
4. Data Processing	3,330	-	3,330
5. Other costs	<u>6,767</u>	<u>2,466</u>	<u>9,233</u>
	<u>162,465</u>	<u>-0-</u>	<u>162,465</u>

Details of Questioned Costs

Project Implementation Letter No.36
Fund Accountability Statement

Our audit identified the following items related to the Project Implementation Letter (PIL) No.36 that are ineligible or unsupported.

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
1. <u>Salaries</u>		
a) The Administrative staff salaries were charged to USAID/Egypt. The PIL No. 36 listed the exact salaries and number of staff which should have been charged to USAID/Egypt. This amount represents salaries for Administrative staff paid in excess of the approved budget. Additionally, this amount was paid to a greater number of employees than was provided for in the budget. The excessive salaries, paid to NPC employees and charged to USAID/Egypt, are considered unallowable.	1,040	
b) Based on documents and the clarification provided to us subsequent to the issuance of the draft report, this finding has been removed.		---

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
c) The salaries of the sampling staff were charged to USAID/Egypt. The PIL No. 36 listed the exact salaries which should have been charged to USAID/Egypt. This amount represents salaries for sampling staff paid in excess of the approved budget. The excessive salaries paid to NPC employees, and charged to USAID/Egypt, were considered to be unallowable.	9,057	
d) Based on documents and the clarification provided to us subsequent to the issuance of the draft report, this finding has been removed.	---	
e) The field work staff salaries were charged to USAID/Egypt. The PIL No. 36 listed the exact salaries which should have been charged to USAID/Egypt. This amount represents salaries for field work staff paid in excess of the approved budget. These salaries, paid to NPC employees and charged to USAID/Egypt, were considered to be unallowable.	2,621	

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
f) The salaries of the data processing staff were charged to USAID/Egypt. The PIL No. 36 listed the exact salaries which should have been charged to USAID/Egypt. This amount represents salaries for data processing staff paid in excess of the approved budget. These salaries, paid to NPC employees and charged to USAID/Egypt, were considered to be unallowable	807	
Total Line Item	<u><u>13,525</u></u>	<u><u>---</u></u>
 2. <u>Transportation & Allowance</u>		
a) NPC purchase fuel coupons from fuel stations at the beginning of the month and use these coupons during the month instead of cash. This amount represents the cost of fuel coupons. Article IV of the Master Technical Agreement stated that "the NPC will arrange for transporting teams from Cairo to the governorates. Within the governorates, NPC offices will assist the interviewing teams with transportation as needed". Also, the USAID/Egypt's approved budget did not include such expenses. Therefore, this amount is considered to be unallowable.	1,500	
b) Based on documents and the clarification provided to us subsequent to the issuance of the draft report, this finding has been removed.	---	
Total Line item	<u><u>1,500</u></u>	

<u>Item Description</u>	<u>Questioned Costs</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
	<u>\$</u>	<u>\$</u>
3. <u>Printing Costs</u>		
a) The printing costs were charged to USAID/Egypt. The PIL No. 36 listed the exact budget which should have been charged to USAID/Egypt. This amount represents printing costs in excess of the approved budget. These costs were considered to be unallowable.	968	
Total Line item	<u>968</u>	
4. <u>Other costs</u>		
a) Based on documents and the clarification provided to us subsequent to the issuance of the draft report, this finding has been removed.	---	
b) This amount represents contribution to the Higher Institute of Nursing. Under the OMB circular No.A-122, donations are not allowable. Therefore, this amount is considered to be unallowable.	300	
c) The PIL No.36 listed the exact budget which should have been charged to USAID/Egypt. This amount represents costs in excess of the approved budget. These costs were considered to be unallowable.	3,299	
Total Line Item	<u>3,599</u>	
Total Questioned Costs		<u>\$19,592</u>

INTERNAL CONTROL STRUCTURE

KPMG Hazem Hassan

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Report on the Internal Control Structure Independent Auditor's Report

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

We have audited the accompanying fund accountability statement of the National Population Council (NPC) for the Project Implementation Letter (PIL) No.36 related to the Egyptian Demographic and Health Survey 2 Project (EDHS2) under the Population/Family Planning II Project No.263-0144 for the period from January 1, 1992 to July 30, 1993 and have issued our qualified report thereon on August 15, 1995.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we have participated in the 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 NPC, we considered its internal control structure related to PIL No.36, funded by USAID/Egypt, in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statement and not to provide assurance on the internal control structure.

The management of NPC 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 transactions are executed in accordance with the terms of the PIL, and are recorded properly to permit the preparation of a reliable fund accountability statement in accordance with the cash basis of accounting.

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

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

- 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 implemented, 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 are related 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:

Finding No.1

NPC has not prepared bank reconciliations.

A good internal control system requires that bank reconciliations be prepared, on a monthly basis, to explain the difference between the cash balance per bank statement and per cash book.

NPC management believed that bank statements were sufficient to control the USAID/Egypt fund.

The lack of bank reconciliations may lead to a discrepancy between the cash book and the bank statement which could affect the fair representation of the fund accountability statement.

We recommend that, if NPC were to receive further USAID funds, NPC should prepare, review and approve monthly bank reconciliations.

Finding No.2

Controls over the project costs classification are inadequate. During our audit we noted many instances where incurred costs were misclassified in the accounting records.

A sound internal control system is one that the management can rely upon to record, process, summarize and report financial data consistent with the management's assertions in the fund accountability statement.

We believe that this finding is attributable to the fact that NPC has no chart of accounts detailing what types of costs are to be included in each budget line item. As a result, many instances of misclassification were noted which affected the presentation of the fund accountability statement.

We recommend that, if NPC were to receive future USAID funds, NPC should develop such a chart of accounts.

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 statement being audited, may occur and not be detected, within a timely period, by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses, as defined above. However, we believe that the reportable conditions described above are not material weaknesses.

We also noted other matters involving the internal control structure and its operation that we reported to the management of NPC in a separate communication dated August 15, 1995.

This report is intended for the information of NPC'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.

M. Hassan
Hazem Hassan & Co.
Cairo, Egypt

August 15, 1995

COMPLIANCE WITH LAWS AND REGULATIONS

19A



Hazem Hassan

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

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

We have audited the accompanying fund accountability statement of the National Population Council (NPC) for the Project Implementation Letter (PIL) No.36 related to the Egyptian Demographic and Health Survey 2 Project (EDHS2) under the Population/Family Planning II Project No.263-0144 for the period from January 1, 1992 to July 30, 1993 and have issued our qualified report thereon on August 15, 1995.

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

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we have participated in the 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 NPC is the responsibility of NPC's management. As part of obtaining reasonable assurance about whether the fund accountability statement is free of material misstatement, we performed tests on NPC'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.

Material instances of noncompliance are violations of laws, regulations, contracts, grants or binding policies and procedures that cause us to conclude that the aggregation of misstatements, resulting from these violations, is material to the fund accountability statement. The results of our tests of compliance disclosed the following material instance of noncompliance, the effect of which has been reflected in the NPC's fund accountability statement.

1. Instances of noncompliance with the USAID/Egypt's approved budget

During our audit we noted that NPC exceeded the USAID/Egypt's approved budget.

PIL No.36 listed the exact amounts which should have been charged to USAID/Egypt.

We believe that this finding is attributable to the fact that NPC has no chart of accounts detailing what type of costs are to be included in each budget line item. Accordingly, many costs were misclassified in the accounting records and the accumulated costs incurred for each line item could not be accurately determined.

The effect of this instance of noncompliance has been reported in the "Details of Questioned Cost" section of this report.

We recommend that, if NPC were to receive further USAID fund, NPC should develop a chart of accounts.

2. Instances of noncompliance with the provisions of the PIL No.36 and OMB Circular No. A-122

During our audit we noted that NPC paid and charged USAID/Egypt certain costs that are not in compliance with the PIL provisions.

PIL No.36 listed the exact amounts and type of costs which should have been charged to USAID/Egypt.

NPC's management believed that these amounts were essential to complete the project and therefore chargeable to USAID/Egypt.

We recommend that, if NPC were to receive further USAID fund, NPC should take a training course on USAID regulations and comply with those regulations.

We considered these material instances of noncompliance in forming our opinion on whether NPC's fund accountability statement is presented fairly, in all material respects, in conformity with the cash basis of accounting. This report does not affect our report, dated August 15, 1995, on the fund accountability statement.

Except as described above, the results of our tests of compliance indicate that, with respect to the items tested, NPC complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that NPC had not complied, in all material respects, with those provisions.

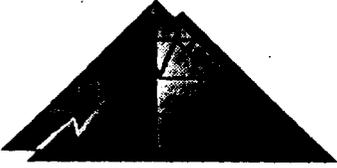
This report is intended for the information of NPC's management and others within the organization and the United States Agency for International Development. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Hazem Hassan & Co.
Cairo, Egypt

August 15, 1995

APPENDIX I

NPC'S MANAGEMENT'S RESPONSE



المجلس القومي للسكان

المقرر أ.د. ماهر مهران

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December 18, 1995

Dear Sir

Attached, please find the NPC response to the findings of the draft of NFA Report on the National Population Council, PIL No.36, local Expenditures Incurred Under the Population, Family PlanningII Project No.263-0144, that was submitted on November 22. I appreciate your effort to continue this report.

Thank You, Best Regards

Your Sincerely

Samira Sadek
23-12-95
Samira Sadek

Foreign Agreement Director

First, before respond to the findings, I have two general comments as clarification:

- a. Project-budget prepared one year a head of the fieldwork. It is used as an illustrative (or estimated) budget only. Conditions are usually changed during the implementation. For example, cost of transportation, living expenses, and cost of papers for printing increased overtime. Also, sometimes more employees than the number mentioned in the budget are needed to implement the survey according to the timetable. Due to previous clarifications exceeding the budget of a line item is one possibility.

- b. The original budget for the project was LE 860405. All expenses based on this budget up to May 31, 1993. The total amount spent was LE 541,521.65 USAID reduced the budget to cover expenses through May 31, 1993 plus the preliminary report workshop and the Arabic version of preliminary report by a letter sent to NPC dated June 17, 1993. LE 326,498.51 was decommitted with the PIL reducing the total budget to LE 533,906.49 (A copy of the letter attached). Accordingly, The Total cost in the items of LE 59298 which considered ineligible are not right, since we did not informed in appropriate time.

FINDINGS

1. SALARIES

- a. The number of employee are usually determined during the preparation of the budget as the expected number to be used. In the actual work sometimes we need more personnels inorder to have the work finish according to the work plan (See general comment "a").
- b. This amount covers the cost of a coffee break during the preliminary report seminar. This seminar extended from 9AM - 2PM (The agenda is attached). Also during the presentation a coffee break was given. The number of invited people was around 30.
- c. This is because of reducing the budget. See general comment "b".
- d. For international telephone calls. during the implementation of the survey the technical Director kept on contact with DHS international (Macro) at US for technical assistant, to ask and respond on different questions in questionnaire, sample,... etc.

This was done by Fax's and Telephone calls.

The Telephone number used are: 301-572-0200

301-290-2800

Fax number 301-572-0999

301-290-2999

We are sorry for not keeping a logbook for this. In current survey we already has logbook for Fax's and telephone calls.

- c. This is due to the reduction of the budget. See general comment "b".
- f. This is due to the reduction of the budget. See general comment "b".

2. TRANSPORTATION & ALLOWANCE

- a. According to the master technical Agreement stated that (page 5 of workplan)
"The NPC will arrange for transporting teams from Cairo to the governorates in which they will be working. Within the governorates NPC offices will assist the interviewing teams with transportation as needed".
Accordingly, the teams have to cover the transportation expenses which should be done through the budget which included a line item for transportation.
- b. Same comment as 1-d for international calls.

3. PRINTING COSTS

This is due to the reduction occurred in the budget. See general comment "b".

Other Costs

- a. A full day seminars for the final report was held on February 10th, 1994. The agenda for this seminar was from 9AM - 5PM. (See attachment). 80 persons were invited to this meeting. Accordingly a break had to be given during the meeting. Coffee and snakes were served during the break for refreshment.
- c. This is due to the reduction occurred in the budget. See general comment "b".

INTERNAL CONTROL

Finding No. 1:

Although bank reconciliations were not done on a monthly bases, but it was done at the end of the project.

Now, bank reconciliations are conducted every month for new projects.

Finding No. 2:

Concerning misclassification problem which is due to the absence of a chart of accounts.

Since the NPC had hired a new financial manger. The NPC develops a chart of accounts and hence following the project accounts.

COMPLIANCE WITH LAW AND REGULATIONS

1. Instances of Noncompliance with the USAID/Egypt's Approved Budget

Concerning this findings, as was mentioned in the general comment "b" a reduction of the budget was done by LE 326,498.51 and NPC was informed by June 18, 1993. The amount which spent up to May 31, 1993 already exceeded the budget after reduction.

Concerning misclassification problem which is due to the absence of a chart of accounts.

Since the NPC had hired a new financial manger. The NPC develops a chart of accounts and hence following the project accounts.

2. Instances of Noncompliance with the Provisions of the PIL No

NPC staff have taken such training and they are now following USAID regulations and comply with those regulations

APPENDIX II

AUDITOR'S COMMENTS

AUDITOR'S COMMENTS

Our comments below, are in response to the NPC's management relating to those situations where we believe additional clarification is warranted.

I. **Fund Accountability Statement**

1. **Salaries**

- a) We believe that the salaries were paid to a greater number of employees than was provided for in the budget. This excessive amount should have been approved by USAID and reflected in a revised budget to become effective. Therefore, the finding will remain the same.
- b) Based on the documents and clarifications provided to us, subsequent to the issue of the draft report, this finding was removed.
- c) We still believe that the salaries paid to the sampling staff were in excess of the approved USAID budget. Therefore, this finding will remain the same.
- d) Based on the documents and clarifications provided to us, subsequent to the issue of the draft report, this finding was removed.
- e) We still believe that the salaries paid to the field work staff were in excess of the approved USAID budget. Therefore, this finding will remain the same.
- f) We still believe that the salaries paid to the data processing staff were in excess of the approved USAID budget. Therefore, this finding will remain the same.

2. Transportation & Allowance

- a) We still believe that transportation expenses charged to USAID should be actual expenditures and according to the technical agreement. Therefore, this finding will remain the same.
- b) Based on the documents and clarifications provided to us, subsequent to the issue of the draft report, this finding was removed.

3. Printing Costs

- a) We still believe that printing costs paid were in excess of the approved USAID budget. Therefore, this finding will remain the same.

4. Other Costs

- a) Based on the documents and clarifications provided to us, subsequent to the issue of the draft report, this finding was removed.
- b) No reply was given to us. Therefore, this finding will remain the same.
- c) We still believe that Other Costs, paid in excess of the approved budget, without prior approval from USAID, is unallowable. Therefore, this finding will remain the same.

II. Internal Control

- 1 & 2) NPC's management response did not change our position. These findings will remain the same.

III. Compliance with Laws and Regulations

- NPC's management response did not change our position. These findings will remain the same.

APPENDIX III
MISSION'S COMMENTS



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

March 6, 1996

CAIRO, EGYPT

MEMORANDUM

TO : Lou Mundy, RIG/A/C

FROM : Shirley Hunter, OD/FM/FA

SUBJECT : Financial Audit of the National Population Council's Egyptian Demographic and Health Survey 1 Project under USAID/Egypt's Population/Family Planning II Project (USAID/Egypt Project No. 263-0144) - Draft Report dated January 16, 1996.

RECEIVED
07 MAR 1996

Following is the Mission response to the two recommendations under the subject draft report:

Recommendation No. 1:

We recommend that USAID/Egypt resolve the ineligible questioned costs of \$19,592 detailed on pages 12 through 15 of the audit report, and recover from the National Population Council the amounts determined to be unallowable.

Mission Response:

Of the ineligible questioned costs of \$19,592, \$19,292 were identified due to the under reporting of accrued expenditures in a budget amendment to the original PIL No. 36 for NPC. PIL No. 36 provided budget approval for LE 860,405 for the period January 1, 1992 to May 31, 1993. In late May, NPC requested a three-month extension to the PIL and reduced the budgeted amount to LE 533,906.49. The budget included LE 517,000 in actual expenses and estimated LE 12,300 for May, and LE 4,000 for June and July.

PIL No. 36 Amendment 1 was approved by the Mission on June 17, at LE 533,906.49. The accrued expenditures against the original PIL No. 36 were not included in the budget. This resulted in a decommitting of LE 19,292 for goods and services which had already been received, accepted, and subsequently approved by the Project Officer (memo attached).

1. Salaries:

Findings a, c, e, f:

The ineligible amounts of \$13,525 (LE 45,077) page 12

In the attached memo, the Project Officer responded that all salaries were spent and charged to the original budget prior to issuance of the Amendment No. 1 which reduced the budget. In addition, as in all surveys, the salary sub-line items are illustrative, and the project management has the responsibility for managing the timely implementation of the survey. Therefore, these payments are not considered excessive and are allowable.

Based on the above, Mission believes the total amount of \$13,525 (LE 45,077) is allowed, and therefore, requests closure of these findings.

2. Transportation and Allowance:

- a. The ineligible amount of \$1,500 (LE 5,000) page 14

The Project Officer in the memo dated February 26, 1996, has quoted the Master Technical Agreement, Article II of the workplan (p.3) which states that "The NPC will assist in providing transportation for the field teams to the governorates. Funds for their local transportation within the governorates will be provided through the project budget." These expenses are included in the approved budget under "transportation" line item, and, therefore, are considered allowable.

Therefore, this amount is allowed and Mission requests closure of this finding.

3. Printing costs:

- a. The ineligible amount of \$968 (LE 3,227) page 15

The Project Officer in the memo dated February 26, 1996, has stated that these costs were charged against the original PIL 36 budget and therefore, are considered allowable.

Therefore, this amount is allowed and Mission requests closure of this finding.

4. Other costs:

- b. The ineligible amount of \$300 (LE 1,000) page 15

* This amount represents contribution to the Higher Institute of Nursing, which is ineligible for reimbursement.

Therefore, this amount is sustained.

c. The ineligible amount of \$3,299 (LE 10,994) page 15

The Project Officer responded that these amounts were disbursed and properly charged against the original budget of PIL No. 36. No specific language was included in the PIL to restrict exceeding the sub-line items, and thus, the amount is allowable.

Therefore, this amount is allowed and Mission requests closure of this finding.

In summary, of the total amount questioned (\$19,592), \$19,292 (LE 64,298) is allowed and \$300 (LE 1,000) is sustained.

Attached is a summary table of the amounts allowed and sustained.

Recommendation No. 2:

We recommend that USAID/Egypt obtain evidence that the National Population Council has addressed the material non-compliance issues (exceeding approved budget and charging USAID/Egypt for unallowable costs) detailed on pages 21 and 22 of the audit report.

Mission Response:

As stated in the attached Project Officer memo dated February 26, 1996, the instances of non-compliance related to exceeding the USAID approved budget, and non-compliance with PIL and OMB Circular Provisions have been addressed in the response to Recommendation No. 1 above.

Furthermore, the PIL 36 activity was completed in July 1993. However, since NPC is currently receiving USAID funds under the follow-on POP III Project (PIL 6B), Mission has ensured that the non-compliance issues are adequately addressed through training by a CPA firm (Hazem Hassan) in the following areas:

- 1 - USAID Financial Requirements: Principles of Cost Allocation and contracting
- 2 - International and Egyptian Accounting Standards
- 3 - The IDP Forum: Integrating IDP with the NPC

In addition, Hazem Hassan has assisted NPC in preparing a Chart of Accounts for the current activity (copy attached).

Based on the above, Mission believes corrective actions have been taken and requests closure of Recommendation No. 2.

Please issue the final report.

Att: a/s

cc: HRDC/P: A. Selim