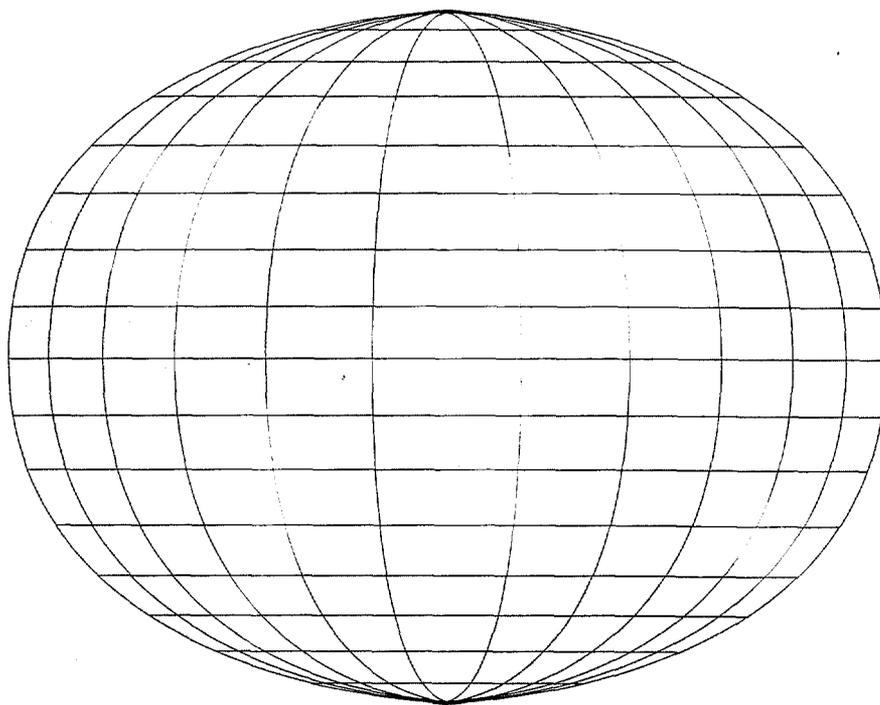


Report of Audit

PD-ABN-987
93719

Financial Audit of the Ministry of Health's Teaching Hospital Organization, Expenditures Incurred Under the Population/Family Planning II and III Projects (USAID/Egypt Project Nos. 263-0144 and 263-0227)

Report No. 6-263-97-018-N
April 30, 1997



FINANCIAL INFORMATION CONTAINED
IN THIS REPORT MAY BE PRIVILEGED.
THE RESTRICTION OF 18 USC 1905 SHOULD
BE CONSIDERED BEFORE ANY INFORMATION
IS RELEASED TO THE PUBLIC.

Regional Inspector General for Audit
Cairo, Egypt

OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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USAID



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

CAIRO, EGYPT

April 30, 1997

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley
FROM: RIG/A/C, Lou Mundy *Lou Mundy*
SUBJECT: Financial Audit of the Ministry of Health's Teaching Hospital Organization, Expenditures Incurred Under the Population/Family Planning II and III Projects (USAID/Egypt Project Nos. 263-0144 and 263-0227)

The attached report, transmitted on March 16, 1997, by Allied Accountants, presents the results of a financial audit of the Teaching Hospital Organization (Organization), an entity established by the Ministry of Health (Ministry) to implement Project Implementation Letters (PILs) Nos. 26 and 8B of the Population/Family Planning II and III Projects (USAID/Egypt Project Nos. 263-0144 and 263-0227). The Organization was established to improve the quality of family planning services through training and service delivery interventions.

We engaged Allied Accountants to perform a financial audit of the Organization's incurred expenditures of \$496,511 (equivalent to LE1,686,601) for the period July 1, 1993 through March 31, 1994 for PIL No. 26 and April 1, 1994 through April 30, 1996 for PIL No. 8B, and incurred Revenue Agreement expenditures of \$118,120 (equivalent to LE401,609) for the period July 1, 1993 through April 30, 1996. The purpose of the audit was to evaluate the propriety of costs incurred during these periods. Allied Accountants also evaluated the Organization's internal controls and compliance with applicable laws, regulations and agreement terms as necessary in forming an opinion regarding the Fund Accountability Statements.

The audit report questions \$1,515 (equivalent to LE5,148) in costs billed to USAID/Egypt by the Organization and \$841 (equivalent to LE2,858) in revenue earned and expenditures incurred under the Revenue Agreement. The questioned costs related primarily to

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expenses not approved in implementation plans, non-negotiated check amounts not reimbursed to USAID/Egypt, entertainment costs, attendance fees, and bonuses. Additionally, the auditors noted two material internal control weaknesses.

In response to the draft report, responsible Organization officials provided additional explanation to the report findings. Allied Accountants reviewed the Organization's response to the findings and where applicable made adjustments to the report or provided further clarification of their position (see Appendices A and B).

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 make a management decision on the ineligible costs of \$1,515 detailed on pages 14 and 15 of the Allied Accountants audit report and the questioned costs of \$841 (ineligible costs of \$568 and unsupported costs of \$273) relating to the Revenue Agreement detailed on page 16 of the Allied Accountants audit report, and recover from the Ministry of Health the amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Egypt obtain evidence that the Ministry of Health, through its Teaching Hospital Organization, has addressed the internal control material weaknesses (inadequate controls over journal entry adjustments and fixed assets) detailed on pages 19 and 20 of the Allied Accountants audit report.

In response to Recommendation No. 1, the Mission reported that it had sustained and collected from the Organization the ineligible costs of \$1,515 and determined that of the \$841 in questioned costs, \$273 is allowable and the remaining \$568 was sustained and credited to the Revenue Account (see Appendix C). Based on the Mission's management decision and final action, Recommendation No. 1 is closed upon issuance of this report.

In response to Recommendation No. 2, the Mission provided evidence that the Organization will revise its Financial Procedures Manual to address the fixed asset control weaknesses identified in the audit report (see Appendix C). The Mission response also provided evidence that the Organization has revised its Financial Procedures Manual to require the Executive Director approval of all expenditures and adjusting entries in the accounting records. Based on the Mission's management decisions, Recommendation No. 2 is resolved upon issuance of this report. It will be considered to have had final action when the Mission presents acceptable evidence that the required actions have been taken with regard to the implementation of Executive Director approval of expenditures and adjusting entries and of control procedures over fixed assets.

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The two reportable conditions identified by the auditor's review of the Organization's internal control structure, as well as the three non-material noncompliance issues, should be handled directly between Mission and Organization officials.

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

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Teaching Hospital Organization

Audit of Local Expenditures Incurred Under the
Population/Family Planning II Project
Grant Agreement No. 263-0144
Project Implementation Letter No. 26,
Population/Family Planning III Project
Grant Agreement No. 263-0227
Project Implementation Letter No. 8B, and
the Revenue Agreement

Fund Accountability Statements
for the Period July 1, 1993 to April 30, 1996

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

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Teaching Hospital Organization

Audit of Local Expenditures Incurred Under the
Population/Family Planning II Project
Grant Agreement No. 263-0144
Project Implementation Letter No. 26,
the Population/Family Planning III Project
Grant Agreement No. 263-0227
Project Implementation Letter No. 8B, and
the Revenue Agreement

Fund Accountability Statements
for the Period July 1, 1993 to April 30, 1996

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ALLIED ACCOUNTANTS

Ragheb, Istanbouli & El Kilany

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Public Accountants & Business Advisors
Fellows & Members of the Egyptian Society of Accountants & Auditors



المحاسبون المتضامنون

راغب، اسطنبولي والكيلاني
مراسلو آرثر أندرسن وشركاه
محاسبون قانونيون وخبراء تنظيم وإدارة
زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

March 16, 1997

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

Dear Mr. Mundy:

This report presents the results of the financial audit of the Teaching Hospital Organization Subproject funded by the United States Agency for International Development Mission to Egypt (USAID/Egypt), with Project Implementation Letter (PIL) No. 26 under Grant Agreement No. 263-0144 for the Population/Family Planning II Project, Project Implementation Letter No. 8B, Grant Agreement No. 263-0227 for the Population/Family Planning III Project, and the Revenue Agreement. We were engaged to perform an audit of the operating expenditures incurred and reimbursed for the period July 1, 1993 to March 31, 1994 for PIL No. 26, for the period April 1, 1994 to April 30, 1996 for PIL No. 8B, and for the revenue earned and expenses incurred under the related Revenue Agreement for the period July 1, 1993 to April 30, 1996.

Background

Grant Agreement No. 263-0144 between the Arab Republic of Egypt and the United States of America for the Population/Family Planning II Project was signed on June 30, 1983. The project continues under the follow-up Grant No. 263-0227 Population Family Planning III Project (POP III) which was signed on September 23, 1992. The POP III Grant Agreement expires on July 31, 1997. The Project has eight subprojects, implemented by three Government of Egypt (GOE) agencies and the private sector.

The Ministry of Health is implementing the Teaching Hospital Organization Subproject (the project), through the Teaching Hospital Organization. The purpose of the project is to improve the quality of family planning services through training and service delivery interventions. Funds for this project were provided through Project Implementation Letter (PIL) No. 26, signed on August 1, 1989, and expired on March 31, 1994 and PIL No. 8B signed on May 9, 1994. PIL No. 8B expires on June 30, 1997.

As part of both PILs Nos. 26 and 8B, a Revenue Agreement was signed between the United States Agency for International Development and the Ministry of Health. The purpose of the agreement was to establish the guidelines and procedures for the use of the revenues generated from the sale of contraceptives and family planning services under the Project. The Revenue Agreement will continue in force until canceled by USAID or until USAID discontinues donating contraceptives to the THO. The Revenue Agreement under both PILs contained the same terms and conditions.

Audit Objectives, Scope, and Methodology

The objective of this engagement was to conduct a financial audit of USAID/Egypt resources managed by the Teaching Hospital Organization (THO), under Project Implementation Letter No. 26 as part of Grant Agreement No. 263-0144 for the period July 1, 1993 to March 31, 1994;

Project Implementation Letter No. 8B as part of Grant Agreement No. 263-0227 for the period April 1, 1994 to April 30, 1996; and the Revenue Agreement for the period July 1, 1993 to April 30, 1996. The specific objectives of our engagement were to:

1. Express an opinion on whether the fund accountability statements for the USAID/Egypt financed projects present fairly, in all material respects, funds received and costs incurred for the audit period in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including the cash basis and/or modifications of the cash basis;
2. Determine if the costs reported as incurred under the Teaching Hospital Organization Subproject are in fact allowable, allocable, and reasonable in accordance with the terms of the PILs, Revenue Agreement, and Grant Agreements;
3. Evaluate and obtain a sufficient understanding of the internal control structure of Teaching Hospital Organization as it relates to the Teaching Hospital Organization Subproject, assess control risk, and identify reportable conditions, including material internal control weaknesses;
4. Perform tests to determine whether Teaching Hospital Organization complied, in all material respects, with the PILs, Revenue Agreement, Grant Agreement terms and applicable laws and regulations; and
5. Determine if Teaching Hospital Organization has taken corrective action on prior audit report recommendations.

The scope of the financial cost-incurred audit was all the funds provided by USAID/Egypt and the expenditures remitted for the Teaching Hospital Organization Subproject under PIL No. 26 for the period July 1, 1993 to March 31, 1994, PIL No. 8B for the period April 1, 1994 to April 30, 1996 and the revenue earned and expenditures incurred under the Revenue Agreement for the period July 1, 1993 to April 30, 1996.

The methodology of the audit consisted of evaluation of the internal control, testing of expenditures remitted under the PILs and the Revenue Agreement, and testing of THO's compliance with the PILs, Revenue Agreement, Grant Agreements, and the applicable laws and regulations.

Our testing included systematic and judgmental selection of costs incurred for each significant account disclosed in the fund accountability statement. We tested expenditures as follows:

<u>Budget Line Item</u>	<u>Actual</u>	<u>Tested Amount</u>	<u>Percent</u>
Funds provided by USAID/Egypt for PIL No. 26 (LE) (Equivalent in US \$)	373,133 110,394	373,133 110,394	100%
Expenditure for PIL No. 26 (LE) (Equivalent in US \$)	258,890 76,595	79,650 23,565	31%
Funds provided by USAID/Egypt for PIL No. 8B (LE) (Equivalent in US \$)	1,473,594 433,410	1,473,594 433,410	100%
Expenditures for PIL No. 8B (LE) (Equivalent in US \$)	1,427,711 419,916	296,649 87,250	21%

Expenditures for Revenue Agreement (LE)	401,609	203,834	51%
(Equivalent in US \$)	118,120	59,951	

Our testing included, but was not limited to, the following procedures:

1. A review of direct expenditures billed to and reimbursed by USAID/Egypt. A review of the revenue earned and expenditures incurred under the Revenue Agreement. Records were reconciled to reports submitted to USAID/Egypt.
2. A review of the funds provided by USAID/Egypt to ensure that they were deposited in a separate bank account, and that the related transactions were properly recorded. We also performed a review of the procedures used to control cash.
3. A review of Project Ledgers to determine whether costs reported were properly recorded. A review reconciliation of direct costs billed to and reimbursed by USAID/Egypt to the project ledgers.
4. A review of procurement procedures to determine that sound commercial practices, including competitive bids, were used.
5. A review of training, travel and transportation charges to determine whether they were adequately supported, approved, and in accordance with the project implementation plans.
6. A visit to four clinics, out of the eight project clinics, to review existence of fixed assets, personnel attendance records, and supporting documents for revenue reported.
7. A determination of whether advances of funds were justified based on existing documentation, including a reconciliation of funds advanced, disbursed and available.
8. A review of whether project income and/or reimbursements, if any, representing recoveries of direct costs, were recorded as income or credited to project cost accounts. This includes a determination whether revenue earned was used with prior USAID/Egypt approval to further the project's activities.
9. A review of the status of host country contributions to determine if the Government of Egypt provided the contributions as required in the PILs.
10. A determination of whether USAID direct procurements were accounted for and that adequate controls were in place.

During our audit planning, we considered the Teaching Hospital Organization's internal control structure as it relates to PILs Nos. 26 and 8B and the Revenue Agreement to obtain an understanding of the design of relevant control policies and procedures, and whether those policies and procedures have been placed in operation. We obtained a sufficient understanding of the internal control structure to plan the audit and to determine the nature and extent of tests to be performed.

Initial planning began with an entrance conference attended by RIG/A/C, USAID/Egypt Project Officer, THO officials and our audit team. At the end of the field work we held a meeting with the Teaching Hospital Organization management staff to discuss unresolved findings identified during our fieldwork.

The Grant Agreements, the PILs, their amendments and the Revenue Agreement were reviewed to gain an understanding of the agreement terms and applicable laws and regulations.

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

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 33 of Chapter 3 of Government Auditing Standards (1994 revision) since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected every three years to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

Results of Audit

Fund Accountability Statements for PILs Nos. 26 and 8B

Our audit identified US \$1,515 (LE 5,148) in aggregate questioned costs related to the operating expenditures as follows:

- US \$454 (LE 1,538) ineligible costs for PIL No. 26, and
- US \$1,061 (LE 3,610) ineligible costs for PIL No. 8B.

The details of costs questioned are presented in the Fund Accountability Statements - Audit Findings section of this report. We considered the questioned costs in forming our audit opinion on the fund accountability statements.

Fund Accountability Statement for the Revenue Agreement

Our audit identified US \$841 (LE 2,858) in aggregate questioned costs related to the revenue earned and expenditures incurred, US \$568 (LE 1,930) ineligible costs and US \$273 (LE 928) unsupported costs. The details of the questioned costs are presented in the Fund Accountability Statement - Audit Findings section of this report. We considered the questioned costs in forming our audit opinion on the fund accountability statement.

Internal Control Structure

Our evaluation of the internal control structure identified four reportable conditions: 1) controls over adjusting journal entries were inadequate, 2) controls over fixed assets were inadequate, 3) personnel records were incomplete, and 4) interest earned on a time deposit was not recorded. We assessed conditions 1) and 2) as being material weaknesses. Details related to these matters are set forth in the Internal Control Structure - Audit Findings section of this report.

Compliance with Applicable Laws and Regulations

We identified three instances of noncompliance: 1) Revenue Agreement reports submitted to USAID/Egypt which exceeded the general ledger, 2) instances of ineligible expenses reimbursed with project funds, and 3) THO did not pay or withhold social insurance for project employees. These conditions do not have a material effect on the fund accountability statements. Details related to these matters are set forth in the Compliance with Applicable Laws and Regulations - Audit Findings section of this report

Follow-Up of Prior Audit Recommendations

THO was audited under USAID/Egypt's Non-federal Audit Program for costs incurred for the period June 1, 1989 to June 30, 1993. The field work for the prior audit was completed on June 28, 1994 and the final report was submitted to USAID/Egypt/RIG/A/C on September 20, 1994. The report contained twelve recommendations in the Internal Control Structure report and three recommendations in the Compliance with Applicable Laws and Regulations report. Following is a summary of the status of these recommendations.

Internal Control Structure

Our review indicated that eight of the twelve recommendations contained in the prior audit report on the Internal Control Structure were implemented. The four recommendations that were not implemented are addressed in our report on the Internal Control Structure under Findings Nos. 1 to 3. See Internal Control Structure - Audit Findings section of this report.

Compliance with Laws and Regulations

Our review indicated that the three recommendations contained in the prior audit report on Compliance with Applicable Laws and Regulations were implemented.

Management Comments

The Teaching Hospital Organization has provided comments on the results of the audit findings. The entire management response is included as Appendix A. Our response to management's comments is included as Appendix B. We have deleted or modified the findings for which adequate supporting documentation was provided by the Teaching Hospital Organization.

Allied Accountants

ALLIED ACCOUNTANTS

Ragheb, Istanbuli & El Kilany
A Member Firm of ARTHUR ANDERSEN & CO. SC
Public Accountants & Business Advisors
Fellows & Members of the Egyptian Society of Accountants & Auditors



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زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

Report of Independent Public Accountants

We have audited the accompanying fund accountability statements of the Teaching Hospital Organization of funds received and costs incurred by the Teaching Hospital Organization Subproject relating to the costs financed by the United States Agency for International Development for the periods: July 1, 1993 to March 31, 1994 under Project Implementation Letter No. 26. Grant Agreement No. 263-0144; April 1, 1994 to April 30, 1996 under Project Implementation Letter No. 8B. Grant Agreement No. 263-0227; and July 1, 1993 to April 30, 1996 for the revenue generated and expenses incurred under the related Revenue Agreement. These fund accountability statements are the responsibility of the management of the Teaching Hospital Organization. Our responsibility is to express an opinion on these fund accountability statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement. Our audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. Our audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall fund accountability statements presentation. 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 (1994 revision) since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected every three years to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

As described in Note 2, the accompanying fund accountability statements have been prepared on the cash basis. A cash basis is a comprehensive basis of accounting other than generally accepted accounting principles, because revenues and expenditures are recognized when received or paid rather than when earned or incurred. Accordingly, the accompanying fund accountability statements are not intended to present results in accordance with generally accepted accounting principles.

In our opinion, the fund accountability statements referred to above present fairly, in all material respects, funds received, revenue generated and costs incurred by the Teaching Hospital Organization under the Teaching Hospital Organization Subproject, funded by the United States Agency for International Development through Project Implementation Letter No. 26. Grant Agreement No. 263-0144 for the period July 1, 1993 to March 31, 1994, Project Implementation Letter No. 8B. Grant Agreement No. 263-0227 for the period April 1, 1994 to April 30, 1996, and the Revenue Agreement

for the period July 1, 1993 to April 30, 1996, in conformity with the cash basis of accounting described in Note 2.

This report is intended for the information of the management and others within the Teaching Hospital 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.

October 28, 1996

Allied Accountants/Arthur Andersen Egypt

Allied Accountants

Teaching Hospital Organization

Audit of Local Expenditures Incurred Under the
Population/Family Planning II Project
Grant Agreement No. 263-0144
Project Implementation Letter No. 26

Fund Accountability Statement
for the Period July 1, 1993 to March 31, 1994

<u>Budget Elements</u>	<u>Budget</u> (Note 4) US \$	<u>Actual</u> US \$	<u>Questioned Costs (Note 5)</u>	
			<u>Ineligible</u> US \$	<u>Unsupported</u> US \$
Source of funds:				
Cash balance as of June 30, 1993		50,421		
Funds provided by USAID/Egypt		110,394		
Reimbursement of expenses disallowed in prior audit		3,628		
Others		<u>490</u>		
Total funds available		164,933		
Expenditures:				
Project management salaries	10,908	7,425		
Clinical management salaries	30,055	29,104		
Medical records	1,463	1,463		
Medical supplies	5,204	4,330		
Office supplies	3,254	3,049		
Transportation	4,875	4,086	218	
Information, education, and communication materials	799	799		
Training	14,301	14,011	232	
Contingency	1,775	1,720		
Egyptian technical assistance	896	68		
Renovations		3,121		
Maintenance	4,241	4,031	4	
Non-medical equipment	1,022	1,022		
Medical equipment	7,967	2,049		
Head office capital expenditures	<u>317</u>	<u>317</u>	<u>-</u>	
Total expenditures	<u>87,077</u>	<u>76,595</u>	<u>454</u>	
Balance		<u>88,338</u>		

The accompanying notes are an integral part of this Fund Accountability Statement

Teaching Hospital Organization

Audit of Local Expenditures Incurred Under the
Population/Family Planning III Project
Grant Agreement No. 263-0227
Project Implementation Letter No. 8B

Fund Accountability Statement for the Period April 1, 1994 to April 30, 1996 .

<u>Budget Elements</u>	<u>Budget</u>	<u>Actual</u>	<u>Questioned Costs (Note 5)</u>	
	(Note 4)		<u>Ineligible</u>	<u>Unsupported</u>
	US \$	US \$	US \$	US \$
Source of funds:				
Funds provided by USAID/Egypt		433,410		
Expenditures:				
Salaries-headquarters	91,977	76,432		
Salaries-family planning units	42,825	40,517		
Expendable commodities	56,115	40,830	962	
General administration	41,480	27,019		
Transportation	30,514	18,995		
Technical assistance	21,414	19,335		
Training courses	179,141	99,809	99	
Non-expendable commodities	32,574	18,508		
Renovation	<u>95,931</u>	<u>78,471</u>	-	
Total expenditures	<u>591,971</u>	<u>419,916</u>	<u>1,061</u>	
Balance		<u>13,494</u>		

The accompanying notes are an integral part of this Fund Accountability Statement

Teaching Hospital Organization

Audit of Local Expenditures Incurred Under the
Population/Family Planning II Project
Grant Agreement No. 263-0144 and
Population/Family Planning III Project
Grant Agreement No. 263-0227
Revenue Agreement

Fund Accountability Statement
for the Period July 1, 1993 to April 30, 1996

<u>Budget Elements</u>	<u>Actual</u>	<u>Questioned Costs (Note 5)</u>	
		<u>Ineligible</u>	<u>Unsupported</u>
	US \$	US \$	US \$
Source of funds:			
Cash balance in cash as of June 30, 1993	29,585		
Revenue earned	139,408		273
Interest on time deposit	<u>1,529</u>		
Total funds available	170,522		
Expenditures	<u>118,120</u>	<u>568</u>	<u> </u>
Balance	<u>52,402</u>	<u>568</u>	<u>273</u>

The accompanying notes are an integral part of this Fund Accountability Statement

Teaching Hospital Organization

Audit of Local Expenditures Incurred Under the
Population/Family Planning II Project
Grant Agreement No. 263-0144
Project Implementation Letter No. 26.
Population/Family Planning III Project
Grant Agreement No. 263-0227
Project Implementation Letter No. 8B. and
the Revenue Agreement

Notes to the Fund Accountability Statements
for the Period July 1, 1993 to April 30, 1996

Note 1: Project Activities

Grant Agreement No. 263-0144 between the Arab Republic of Egypt and the United States of America for the Population/Family Planning II Project was signed on June 30, 1983. The project continues under the follow-up Grant No. 263-0227 Population Family Planning III Project (POP III) which was signed on September 23, 1992. The POP III Grant Agreement expires on July 31, 1997. The Project has eight subprojects, implemented by three Government of Egypt (GOE) agencies and the private sector.

The Ministry of Health is implementing the Teaching Hospital Organization Subproject (the project), through the Teaching Hospital Organization. The purpose of the project is to improve the quality of family planning services through training and service delivery interventions. Funds for this project were provided through Project Implementation Letter (PIL) No. 26, signed on August 1, 1989, and expired on March 31, 1994 and PIL No. 8B signed on May 9, 1994. PIL No. 8B expires on June 30, 1997.

As part of both PILs Nos. 26 and 8B, a Revenue Agreement was signed between the United States Agency for International Development and the Ministry of Health. The purpose of the agreement was to establish the guidelines and procedures for the use of the revenues generated from the sale of contraceptives and family planning services under the Project. The Revenue Agreement will continue in force until canceled by USAID or until USAID discontinues donating contraceptives to the THO. The Revenue Agreement under both PILs contained the same terms and conditions.

Note 2: Basis of Presentation

The fund accountability statement have been prepared on the cash basis. Consequently, revenues and expenditures are recognized when received or paid rather than when earned or incurred.

Note 3: Exchange Rate

Expenditures incurred in Egyptian Pounds (LE) have been converted to US Dollars (US \$) at an average exchange rate of LE 3.38 to US \$1 for PIL No. 26 and LE 3.40 to US \$1 for PIL No. 8B and the Revenue Agreement.

Note 4: Budget

The budget for PIL No. 26, as presented in the fund accountability statement, represents funds available for the expenses incurred during the audit period. It has been calculated for reporting purposes only by deducting the expenditures reported in the prior audit report as of June 30, 1993 from the total budget approved as of March 31, 1994, as follows:

Approved budget as of March 31, 1994	US \$570.073
Expenditures per prior audit report as of June 30, 1993	(482.996)
Budget available for the audit period	US \$ <u>87.077</u>

The budget for PIL No. 8B is the budget approved as of April 30, 1996.

Note 5: Questioned Costs

Fund Accountability Statements for PILs Nos. 26 and 8B.

Questioned costs are expenditures that we have determined are not in accordance with the Grant Agreement, PILs or other applicable USAID/Egypt regulations and are presented in two separate categories: ineligible and unsupported. "Ineligible" costs are deemed to be unallowable because they are not program related, unreasonable, or prohibited by the Grant Agreement or applicable laws and regulations. "Unsupported" costs are expenditures which are not supported by adequate documentation.

Our audit identified US \$1.515 (LE 5.148) in aggregate questioned costs as follows:

- US \$454 (LE 1.538) ineligible costs for PIL No. 26, and
- US \$1.061 (LE 3.610) ineligible costs for PIL No. 8B.

The basis for questioning specific costs are set forth in the "Audit Findings" section of this report.

Fund Accountability Statement for the Revenue Agreement

Costs identified in the Audit Findings section of this report are expenditures that we have determined are not in accordance with the Revenue Agreement or were unsupported. Our audit identified US \$841 (LE 2.858) in aggregate questioned costs, US \$568 (LE 1.930) ineligible costs and US \$273 (LE 928) unsupported costs. The basis for these conclusions are set forth in the "Audit Findings" section of this report.

Teaching Hospital Organization

Audit of Local Expenditures Incurred Under the
Population/Family Planning II Project
Grant Agreement No. 263-0144
Project Implementation Letter No. 26,
Population/Family Planning III Project
Grant Agreement No. 263-0227
Project Implementation Letter No. 8B, and
the Revenue Agreement

Fund Accountability Statements
for the Period July 1, 1993 to April 30, 1996

Summary of Audit Findings

<u>Budget Element</u>	<u>Questioned Costs</u> <u>Ineligible</u> US \$	<u>Unsupported</u> US \$
<i>Project Implementation Letter No. 26</i>		
Transportation		
Finding No. 2	218	
Training		
Finding No. 4	232	
Maintenance		
Finding No. 3	<u>4</u>	
Subtotal for PIL No. 26	454	
<i>Project Implementation Letter No. 8B</i>		
Expendable commodities		
Finding No. 5	962	
Training Courses		
Finding No. 6	<u>99</u>	
Subtotal for PIL No. 8B	<u>1,061</u>	
Subtotal for PILs Nos. 26 and 8B	1,515	
<i>Revenue Agreement</i>		
Revenue earned		
Finding No. 8		273
Expenditures		
Finding No. 7	568	
Subtotal for the Revenue Agreement	<u>568</u>	<u>273</u>
Total	<u>2,083</u>	<u>273</u>

Teaching Hospital Organization

Audit of Local Expenditures Incurred Under the
Population/Family Planning II Project
Grant Agreement No. 263-0144
Project Implementation Letter No. 26.
Population/Family Planning III Project
Grant Agreement No. 263-0227
Project Implementation Letter No. 8B, and
the Revenue Agreement

Fund Accountability Statements
for the Period July 1, 1993 to April 30, 1996

Audit Findings

Project Implementation Letter No. 26

Finding No. 1: Unsupported Costs

Finding deleted.

Finding No. 2: Expenses not Approved in the Implementation Plan

THO paid and was reimbursed by USAID/Egypt US \$218 (LE 738) for a telephone bill. The Implementation Plan approved by USAID/Egypt did not include a line item for communications or general and administrative expenses. Project Grant Agreement No. 263-0144, Standard Provisions, Annex 2, Section B.2 states that the grantee will carry out the Project in accordance with plans approved by USAID. The expense was approved by the previous Financial Controller, and was recorded under the transportation line item since funds were not available in the approved implementation plan.

USAID/Egypt was billed for ineligible expenses of US \$218 (LE 738).

Finding No. 3: Payment of Sales Taxes

THO paid and was reimbursed for sales taxes of US \$4 (LE 15). Project Grant Standards Provision, Annex 2, Section B.4.a of Grant Agreement No. 263-0144 indicates that THO should not pay any identifiable taxes, tariffs, duties or other levies imposed under the laws of Egypt with USAID funds. The Financial Controller indicated that THO was not exempted from payment of taxes until a decree was issued in June 1994. Also, the accountant represented that the Government of Egypt did not always have funds available to pay these costs. These costs were reported in the fund accountability statement as follows:

	<u>US \$</u>	<u>LE</u>
Maintenance	<u>4</u>	<u>15</u>

USAID/Egypt was billed for ineligible expenses of US \$4 (LE 15).

Finding No. 4: Checks Were not Cashed at Bank

During our audit we noted that checks of US \$ 232 (LE 785) issued on project funds had not cleared the bank. Project Grant Agreement No. 263-0144, Standards Provision, Annex 2, Section B.5 requires that the grantee shall maintain books, records, documents, and other evidence relating to the USAID sponsored project or program to show without limitation all costs incurred under the grant, and the receipt and use of goods and services acquired under the grant. The bank account for PIL No. 26 was closed and no final project reconciliation was performed. Thus, these checks were not identified and no credit was reported in the final Certified Fiscal Report. As a result, USAID/Egypt was billed for expenses that were not incurred.

	<u>US \$</u>	<u>LE</u>
Training	<u>232</u>	<u>785</u>

USAID/Egypt was billed for ineligible expenses of US \$232 (LE 785)

Project Implementation Letter No. 8B

Finding No. 5: Entertainment Costs

THO incurred costs and was reimbursed by USAID/Egypt for payment of US \$962 (LE 3,272) related to a celebration for the opening of a new clinic. PIL No. 8A, Section 2.A.2, Grant Agreement No. 263-0227 indicates that the Project will support information, education, and communication through mass media campaigns toward target audiences. In addition, the Federal Acquisition Regulations in Section 31.205-14 state that entertainment costs are not allowable. According to the Executive Director and Financial Controller the expense is Project-related under the information, education, and communication line item, because the purpose of the celebration was to promote the project. This cost was reported in the fund accountability statement as follows:

	<u>US \$</u>	<u>LE</u>
Expendable commodities	<u>962</u>	<u>3,272</u>

USAID/Egypt was billed for ineligible expenses of US \$962 (LE 3,272).

Finding No. 6: Attendance Fees Paid to Project Employees

During our review we noted that Project employees were paid to attend quarterly project meetings. Project Implementation Letter No. 8B, Amendment No. 3, indicates that meeting attendance fees should be paid only to people not working directly for the project. The Executive Director indicated that the attendance fees payment compensated the employees for attending meetings after working hours, in lieu of overtime. This cost was reported in the fund accountability statement as follows:

	<u>US \$</u>	<u>LE</u>
Training courses	<u>99</u>	<u>338</u>

USAID was billed for ineligible expenses of \$99 (LE 338)

Revenue Agreement

Finding No. 7: Payment of Bonus

During our audit we noted that THO used revenue-generated funds to pay bonuses to headquarters employees of US \$568 (LE 1.930). The bonuses were paid without conforming to an established policy and without USAID/Egypt approval. Article 4.2 of the Revenue Agreement states that USAID/Egypt must approve in writing the expenditure of any funds covered by the Revenue Agreement. The Executive Director indicated that these bonuses were paid based on the recommendation from the Minister of Population.

Unauthorized bonus of US \$568 (LE 1.930) were paid from the Revenue Agreement.

Finding No. 8: Revenue Overstated in the General Ledger

During our audit we noted that revenue reported by the clinics was overstated in the general ledger by US \$273 (LE 928). Project Standard Provisions, Annex II, Section B.5 of Grant Agreement No. 263-0227 requires the grantee to maintain, in accordance with generally accepted accounting principles, books and records to show, without limitation, the receipt and use of goods and services acquired under the grant. Also, Article 2.3 of the Revenue Agreement indicates that THO should implement an accounting system in conformance with generally accepted accounting standards. The accountant and Financial Controller indicated that they would investigate the issue, but they could not provide an explanation.

Unsupported revenue earned of US \$273 (LE 928) was recorded and reported to USAID/Egypt.

ALLIED ACCOUNTANTS

Ragheb, Istanbouli & El Kilany

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Public Accountants & Business Advisors

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المحاسبون المتضامنون

راغب، إستانبولي والكيلاني

مراسلو آرثر أندرسن وشركاه

محاسبون قانونيون وخبراء تنظيم وإدارة

زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

Report of Independent Public Accountants On Internal Control Structure

We have audited the accompanying fund accountability statements of the Teaching Hospital Organization of funds received and costs incurred by the Teaching Hospital Organization Subproject relating to costs financed by the United States Agency for International Development for the periods: July 1, 1993 to March 31, 1994 under Project Implementation Letter No. 26, Grant Agreement No. 263-0144; April 1, 1994 to April 30, 1996 under Project Implementation Letter No. 8B, Grant Agreement No. 263-0227; and July 1, 1993 to April 30, 1996 for the revenue generated and expenses incurred under the related Revenue Agreement. We have issued our report thereon dated October 28, 1996.

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

We did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 33 of Chapter 3 of Government Auditing Standards (1994 revision) since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected every three years to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

The management of the Teaching Hospital Organization 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. Among the objectives of the 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, transactions are executed in accordance with management's authorization and in accordance with the terms of the agreements; and transactions are recorded properly to permit the preparation of the fund accountability statements referred to above in conformity with the basis of accounting described in Note 2 to the fund accountability statements. 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.

In planning and performing our audit, we considered the Teaching Hospital Organization's internal control structure as it relates to the Teaching Hospital Organization Subproject under Grant

Agreements Nos. 263-0144 and 263-0227, Project Implementation Letters Nos. 26 and 8B, respectively, and the Revenue Agreement. With respect to the internal control structure, we obtained an understanding of the design of the relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing an opinion on the fund accountability statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted 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 judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with assertions of management in the fund accountability statements. Our audit disclosed the following conditions: a) controls over adjusting journal entries were inadequate, b) controls over fixed assets were inadequate, c) personnel records were incomplete, and d) interest earned on a time deposit was not recorded. For more details refer to Findings Nos. 1 to 4 in this report.

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 the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We consider conditions a) and b) above as being material weaknesses.

We also noted certain matters involving the internal control structure and its operation that we have reported to the management of the Teaching Hospital Organization and USAID/Egypt in a separate letter dated October 28, 1996.

This report is intended for the information of the management and others within the Teaching Hospital 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.

October 28, 1996

Allied Accountants/Arthur Andersen Egypt

Allied Accountants

Teaching Hospital Organization

Audit of Local Expenditures Incurred Under the
Population/Family Planning II Project
Grant Agreement No. 263-0144
Project Implementation Letter No. 26.
Population/Family Planning III Project
Grant Agreement No. 263-0227
Project Implementation Letter No. 8B. and
the Revenue Agreement

Internal Control Structure Audit Findings

Finding No. 1: Inadequate Control Over Adjusting Journal Entries

THO has established procedures to correct deficiencies noted in the prior audit as they relate to controls over expenditures. However, we noted that journal entries for adjustments are recorded in the general ledger without authorization from the Executive Director. According to the THO policies the Executive Director should approve all the project accounting transactions. The accountant indicated that since the Financial Controller reviewed and approved the adjusting journal entries, it was assumed that approval from the Executive Director was not necessary. The Executive Director indicated that in the future he will review and approve these entries.

Recommendation

We recommend that all the adjusting journal entries are approved by the Executive Director.

Finding No. 2: Controls Over Fixed Assets Register Were Inadequate

During our audit we noted the following deficiencies related to controls over fixed assets:

- Fixed assets acquired with project funds or provided directly by USAID/Egypt for the period October 1990 to April 1995 were not recorded in the fixed assets register at headquarters offices;
- One of the clinics visited did not keep fixed assets records;
- The fixed assets records did not include date of acquisition, source of funding, serial number, and brand;
- In two of the clinics we noted that the physical inventory was not reconciled to the fixed assets register;
- The commodity report submitted to USAID/Egypt identified some assets as donated, while the fixed assets register reported that the assets were procured with project funds; and
- The fixed assets were not tagged with the USAID logo.

Project Standard Provisions, Annex II, Section B.5 of Grant Agreement No. 263-0227 requires the grantee to maintain in accordance with generally accepted accounting principles consistently applied, books and records to show, without limitation the receipt and use of goods and services acquired under the grant. Section B.8 of this document also requires the grantee to mark the goods financed by USAID with the USAID logo. THO indicated that most of the fixed assets that were not recorded were purchased or received in the prior Project administration. The Financial Controller also indicated that he has performed only selective physical inspection and for that reason not all deficiencies have been corrected. These deficiencies could result in unauthorized use or disposition of assets.

Recommendation:

We recommend that THO:

- a) Record in the fixed assets register, at headquarters and clinics, the fixed assets acquired with project funds or procured directly by USAID/Egypt (donated);
- b) Update the fixed asset register periodically. The register should indicate source of funding, acquisition cost, date of purchase, description of the item, serial number or other identification number, location and condition, and, if applicable, disposition, date and reason;
- c) Keep a file with documentation related to the equipment procured directly by USAID or donated by other sources, supported with the warehouse receipt;
- d) At least annually, perform a complete physical inventory and compare it to the fixed assets register; and
- e) Ensure that all the equipment procured with project funds is appropriately tagged with the USAID logo.

Finding No. 3: THO Personnel Records Were Incomplete

While testing expenses incurred under salaries we noted that the personnel files were not complete. In some cases there were no documents such as salary history, vacation records, resumes, certifications for the Government of Egypt employees on leave without pay, management authorizations for salary increases, and certificates of birth. This is contrary to Grant Agreement No. 263-0227, Standard Provisions Annex II, Section B.2 (a) which stipulates that the Grantee should implement the Project with sound technical, financial, and management practices in conformity with contracts or other arrangements. THO indicated in the response to prior recommendations that this deficiency had been corrected, however no follow-up was performed to ensure that the personnel manager, who maintains the personnel files, was keeping complete personnel files. This could result in payment of salaries not in accordance with grant terms or unauthorized salary increases.

Recommendation

We recommend that THO:

- a) Update the personnel records to include support for salaries paid, including salary history, management authorization for salary increases, vacation records, resumes, and other documents required by the local laws, and
- b) assign a person other than the personnel manager to periodically review the personnel files to ensure they are updated.

Finding No. 4: THO did not Record Interest on a Time Deposit

During our audit we noted that THO did not record the interest earned on a time deposit. The time deposit was opened on October 19, 1995. According to the bank statement the interest earned as of April 30, 1996 was of US \$1,548 (LE 5,264). Project Standard Provisions, Annex II, Section B.5 of Grant Agreement No. 263-0227 requires the grantee to maintain in accordance with generally accepted accounting principles consistently applied, books and records to show, without limitation the receipt and use of goods and services acquired under the grant. The Financial Controller indicated that THO has requested the bank to provide bank statements to record the interest earned without success. This information was provided by the bank after we requested a confirmation from the bank. As a result, the records for the Revenue Agreement did not show all funds earned with project funds.

Recommendation

We recommend that THO obtain monthly bank statements for the time deposits, review the calculation of interest earned and record the interest in the records.

Follow-Up of Prior Audit Recommendations

The Teaching Hospital Organization Subproject, Project Implementation Letter No. 26, was audited under USAID/Egypt's Non-Federal Audit Program for costs incurred for the period June 1, 1989 through June 30, 1993. The fieldwork for the prior audit was completed on June 28, 1994 and the final report was submitted to USAID/RIG/A/C on September 20, 1994. Eight of the twelve recommendations contained in the report on Internal Control Structure have been implemented. The four recommendations that were not implemented are addressed under Findings Nos. 1 to 3 above.

ALLIED ACCOUNTANTS

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المحاسبون المتضامنون

راغب، إستانبولي والكيلاني
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محاسبون قانونيون وخبراء تنظيم وإدارة
زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

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

Report of Independent Public Accountants On Compliance With Applicable Laws and Regulations

We have audited the accompanying fund accountability statements of the Teaching Hospital Organization of funds received and costs incurred by the Teaching Hospital Organization Subproject relating to costs financed by the United States Agency for International Development for the periods: July 1, 1993 to March 31, 1994 under Project Implementation Letter No. 26, Grant Agreement No. 263-0144; April 1, 1994 to April 30, 1996 under Project Implementation Letter No. 8B, Grant Agreement No. 263-0227; and July 1, 1993 to April 30, 1996 for the revenue generated and expenses incurred under the related Revenue Agreement. We have issued our report thereon dated October 28, 1996.

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 misstatements.

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 (1994 revision) since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we participate in the Arthur Andersen & Co. worldwide internal quality control program which requires our office to be subjected, every three years, to an extensive quality control review by partners and managers from other Arthur Andersen & Co. offices.

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

The results of our tests of compliance indicated that with respect to items tested, the Teaching Hospital Organization complied, in all material respects, with the provisions referred to in the fourth paragraph of this report.

The results of our tests of compliance disclosed the following instances of noncompliance: 1) Revenue Agreement reports submitted to USAID/Egypt which exceeded the general ledger, 2) ineligible expenses were paid with project funds, and 3) Teaching Hospital Organization did not withhold or pay social

insurance for project employees. These conditions do not have a material effect on the fund accountability statements and are disclosed for reporting purposes only. Refer to Finding Nos. 1 to 3 of this report for further detail.

We also noted certain matters involving immaterial instances of noncompliance that we have reported to the management of the Teaching Hospital Organization and USAID/Egypt in a separate letter dated October 28, 1996.

This report is intended for the information of the management and others within the Teaching Hospital 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.

October 28, 1996
Allied Accountants/Arthur Andersen Egypt

Allied Accountants

Teaching Hospital Organization

Audit of Local Expenditures Incurred Under the
Population/Family Planning II Project
Grant Agreement No. 263-0144
Project Implementation Letter No. 26.
Population/Family Planning III Project
Grant Agreement No. 263-0227
Project Implementation Letter No. 8B, and
the Revenue Agreement

Compliance with Laws and Regulations Audit Findings

Finding No. 1: Reports for the Revenue Agreement did not Agree with General Ledger

The cash reconciliation related to the Revenue Agreement, which shows revenue earned, expenses, adjusting entries, and balance available exceeded the expenses and revenue recorded in the general ledger for the Revenue Agreement. The reports submitted to USAID/Egypt were prepared from this reconciliation. Article 2.3 of the revenue agreement requires THO to implement an accounting system conformed to generally accepted accounting principles. The analysis of the differences noted was provided to the accountant but no reconciliation or explanation of the differences were provided. As a result, we could not determine the effect of these differences on the fund accountability statement. The differences noted are as follows:

	US \$	LE
Revenue earned	1,578	5,364
Expenses	2,065	7,022
Deposits	2,012	6,842
Interest on time deposits	308	1,047
Others	233	793
Cash transferred to new bank account, on March 31, 1994	<u>1,771</u>	<u>6,021</u>
Total	<u>7,967</u>	<u>27,089</u>

Recommendation

We recommend that THO:

- a) Perform a reconciliation between the general ledger and the cash reconciliation and the reports submitted to USAID/Egypt, analyze the difference and perform the necessary adjustments. The reconciliation process should be performed on monthly basis.
- b) Submit to USAID/Egypt a revised report on the Revenue Agreement with explanation of the differences.

Finding No. 2: Ineligible Expenses Reimbursed with Project Funds

As discussed in Findings Nos. 2 to 7 of the Fund Accountability Statements - Audit Finding section, the Project was reimbursed for ineligible expenses as follows:

- Expenses not approved in Implementation Plans.
- Taxes.
- Entertainment costs.
- Attendance fees for Project employees, and
- Bonuses not approved in Revenue Agreement

Project Grant Agreement No. 263-0227, Standard Provisions, Annex 2, Section B.2 requires the grantee to execute the project in conformity with documents, plans, specifications, contracts, schedules or other arrangements as approved by USAID. For the expenses not included in the implementation plan and sales taxes, THO indicated that the GOE could not provide funds to pay the expenses. The entertainment, attendance fees, and bonuses THO considered these expenses to be necessary and project related. As a result, THO did not comply with the PILs and Grant Agreements.

Recommendation

We recommend that THO:

1. Require the Financial Manager to review the expenses billed to USAID/Egypt to ensure they are in compliance with agreement terms and are adequately supported.
2. Require prior USAID/Egypt approval for the expenses that are not approved in the implementation plans or the Revenue Agreement.

Finding No. 3: THO did not Pay Social Insurance on the Project Employees

While testing expenditures related to personnel we noted that THO did not withhold or pay social insurance for the project employees. Project Implementation Letter No. 8A (which includes procedures for PIL No. 8A) Section 2.A.2 indicates that social insurance employer share is an unallowable cost, to be covered by the Government of Egypt (GOE) contribution to the Project. THO indicated that the employees are paying their entire liability directly since GOE funds are not available. As a result, THO did not comply with the PIL and Grant Agreement requirements.

Recommendation:

We recommend that THO:

- a) Ensure that the Government of Egypt (GOE) contributes the employer's share of the social insurance, and
- b) Withhold from the salaries the employee's share of the social insurance.

Follow-Up of Prior Audit Recommendations

The Teaching Hospital Organization Subproject, Project Implementation Letter No. 26, was audited under USAID/Egypt's Non-Federal Audit Program for costs incurred for the period June 1, 1989 through June 30, 1993. The fieldwork for the prior audit was completed on June 28, 1994 and the final report was submitted to USAID/RIG/A/C on September 20, 1994. The three recommendations contained in the report on Compliance with Applicable Laws and Regulations have been implemented.

Teaching Hospital Organization

Audit of Local Expenditures Incurred Under the
Population/Family Planning II Project
Grant Agreement No. 263-0144
Project Implementation Letter No. 26.
Population/Family Planning III Project
Grant Agreement No. 263-0227
Project Implementation Letter No. 8B, and
the Revenue Agreement

for the Period July 1, 1993 to April 30, 1996

Management Comments

THO
TEACHING HOSPITAL ORGANIZATION
FAMILY PLANNING CENTRAL OFFICE



الهيئة العامة
للمعاهد والمستشفيات التعليمية
تنظيم الأسرة

س 8452

To: Ms Loze Zeron
Audit Manager
Allied Accountants,
Arthur Andersen,
Egypt

Subject: Draft Financial Audit
Report on the Teaching
Hospital Organization,
Pill Nos 2B and 8B
Under Usaid/Egypt Project
Nos 263-0144 and 263-0227

Dear Ms. Luze

With reference to the above mentioned subject and with reference to the exit conference held on January 23th,1997 at AM in USAID office . Please find attached herewith a copy of the response of this audit draft report according to the date fixed in the conference which is Feb.27th,1997 .

Thank you and warm regards...

Sincerely yours,

Dr. Mostafa Sadek
Dr. Mostafa Sadek
Executive Manager
THO / FPS

Pil # 26

Finding #1

Training:

According to Audit report, LE 29,050 under training line item had no supporting documents.

THO Response:

Attached copy of supporting documents of LE 29,050 related to training line item. This amounts were adjusted and recorded as follows:-

<u>LE</u>	
28,600	recorded as an advance - not reported to USAID
450	recorded as an advance - not reported to USAID
<u>-----</u>	
29,050	

Expenses:

		<u>LE</u>	
Jv # 196	dated 08/10/1992	591.40	not reported to USAID
Jv # 203	dated 08/16/1992	2,852.25	not reported to USAID
Jv # 212	dated 12/05/1992	2,622.70	not reported to USAID
Adj. # 5	dated Nov. 1993	<u>10,358.00</u>	not reported to USAID
		16,424.95	

Overtime through training courses	<u>326.65</u>	not reported to USAID
	16,751.60	

Deposit at HQ/NIB Bank Acct.on Apr'94 11,562.40
Deposit at HQ/NIB Bank Acct.on Apr'94 500.00

Jv # 236 dated 12/29/1993	<u>236.00</u>
	<u>29,050.00</u>

Total actual training amounts were reported to USAID in Feb.'94 report and deposits were reported in March'94.

Pil # 26

Finding # 1

Renovation

According to audit report, no supporting documents were available to support repair for renovation at a clinic.

THO response:

Attached copy of supporting documents of LE 4,917 related to renovations. Original documents are available at HQ Office.

Pil # 26

Finding # 4

Checks not cashed at Bank

According to audit report, LE 1,438 represented checks not cashed at Bank.

THO response:

According to THO review, the following checks were issued to return primary insurance for bidding (this insurance amounts were not reported to USAID as income or expenses - when THO received this primary insurance they credited accounts payable, and when they paid it back they debited accounts payable).

The following amounts are represented the primary insurance should be returned to the vendors and not to be considered as question costs:

<u>Date</u>	<u>Check #</u>	<u>LE</u>
28/02/94	281262	231.00
28/02/94	281263	61.00
28/02/94	281264	57.00
		<u>653.00</u>

Revenue Agreement

Finding # 8

Bank Deposits not available for Revenue earned

According to Audit Report:

1) The following revenues earned had no bank deposits available support it :

EL-Mataria	Nov'93	LE1,589
Damanhour	Dec'93	LE 997
El-Sahel	Jul'93	LE1,421
Sohag	April'94	LE 546

2) The following are overstating of revenue earned reported by the clinic in the general ledger:

El -Sahel	Jul'93	LE 582
Sohag	Oct'95	LE 346

THO response:

Through Pop II (Pil #26) the hospitals used to issue checks to HQ according to money available in their bank accounts and not according to revenue earned reports (this is meaning that one check can covers more than one period). At the end of Pop II, and according to HQ instruction, all the hospitals transferred the balances in their bank accounts to HQ bank account. Starting Pop III a new system was followed; that each hospital had to send in cash and on a monthly basis, revenue earned through the previous month at the same time they submit their reports, and HQ/Financial staff reviewing it, to be sure that what in the report is equal to cash deposited.

According to attached documents LE 4,553 and LE 928 are not considered question costs:

1) EL Mataria hospital submitted 2 checks:

# 9158104	dated 21/25/93	LE 5,000.05
# 9158103	dated 21/20/93	<u>LE 3,019.35</u>
		LE 8,019.40

to cover revenue earned from 06/30/1993 to 12/31/1993, which is including revenue earned report for month of Nov'93

2) Damanhour hospital submitted one check # 8306021 dated 03/27/1994 with total amount of LE 11,474.05, to cover revenue earned from 01/07/1993 to 02/28/1994 which is including

LE 228.50	revenue earned during 12/9/1993
LE 274.40	revenue earned during 12/13/93

LE 224.70
LE 268.85
LE 996.54

revenue earned during 12/21/93
revenue earned during 12/30/93

3) El-Sahel hospital submitted check # 8019888 dated 08/25/93 of LE 2,003.25 to cover revenue earned for a period including month of Jul.93

4) Sohag hospital:

a) For the amount of LE 546, attached is copy of cash deposit in HQ bank account # 726351 dated 05/29/1994 which is including on LE 546.00 related to Sohag hospital for revenue earned through April'94.

b) For the amount of LE 346 for Oct.95, attached copy of cash deposit in HQ bank account dated 11/13/1995 which is including on LE 570.50 related to Sohag hospital for revenue earned through Oct,95.

THO/POP II POP III Revenue Agreement

Finding #	Line-Item	Audit Question Costs		THO Respond				Costs Approved By Audit	Not Investigated Yet
		Ineligible	Unsupported	Ineligible Costs		Unsupported Costs			
				Agrees	Disagrees	Agrees	Disagrees		
PIL# 26									
1									
	Training Renovation		29,050 4,917				29,050 4,917		
2									
	Transportation		738		738				
3									
	Maintenance		15		15				
4									
	Training		59		59				
			531		531				
			65		65				
			57		57				
			55		55				
			32		32				
			4		4				
			7		7				
			81		81				
			67		67				
			373		373				
			107		107				
Total PIL # 26			2,191	33,967	1,538	653	0	33,967	0
PIL # 8B									
5									
	Entertainmnet		1,986						1,986
			1,286						1,286
6									
	Training		250						250
			88						88
Total PIL # 8B			3,610	0	0	0	0	0	3,610

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THO/POP II POP III Revenue Agreement

Finding #	Line-Item	Audit Question Costs		THO Respond					
		Ineligible	Unsupported	Ineligible Costs		Unsupported Costs		Costs Approved By Audit	Not Investigated Yet
				Agrees	Disagrees	Agrees	Disagrees		
Revenue Agreement									
7									
	Payment Of Bonus	1,930							1,930
8									
	Revenue Earned		1,589				1,589		
			997				997		
			1,421				1,421		
			546				546		
			582				582		
			346				346		
Total Rev. Agreement		1,930	5,481	0	0	0	5,481	0	1,930
TOTALS		7,731	39,448	1,538	653	0	39,448	0	5,540

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THO AUDIT RESPONSE
I. INTERNAL CONTROL STRUCTURE
AUDIT FINDINGS

Finding No. 1: Inadequate Control Over Adjusting Journal Entries

Recommendation:

We recommend that all the adjusting journal entries are approved by the Executive Director.

THO RESPONSE:

The financial procedures will be revised to include the approval of all adjusting journal entries by the Executive Director.

Finding No. 2: Controls Over Fixed Assets Register Were Inadequate

Recommendation:

We recommend that THO:

- a) Record in the fixed assets register, at headquarters and clinics, the fixed assets acquired with project funds or procured directly by USAID/Egypt (donated)
- b) Update the fixed asset register periodically. The register should indicate source of funding, acquisition cost, date of purchase, description of the item, serial number or other identification number, location and condition, and, if applicable, disposition, date and reason.
- c) Keep a file with documentation related to the equipment procured directly by USAID or donated by other sources, supported with the warehouse receipt.
- d) At least annually, perform a complete physical inventory and compare it to the fixed assets register. and
- e) Ensure that all the equipment procured with project funds is appropriately tagged with the USAID logo.

THO RESPONSE:

THO financial procedures will be revised to include the following with regard to fixed assets:

1. A fixed asset register will be established in which a record will be kept listing all assets acquired with project funds or donated by USAID.
2. The register will be updated periodically and contain information regarding the source of funding, the acquisition cost, date of purchase, description of the item, serial number, location and condition.
3. Appropriate documentation will be maintained regarding the fixed assets.
4. An annual physical inventory will be conducted comparing the fixed assets to the fixed asset register.
5. All USAID equipment will be tagged with the USAID emblem.

Finding No. 3: THO Personnel Records Were Incomplete

Recommendation:

We recommend that THO:

- a) Update the personnel records to include support for salaries paid, including salary history, management authorization for salary increases, vacation records, resumes, and other documents required by the local laws. and
- b) Assign a person other than the personnel manager to periodically review the personnel files to ensure they are updated.

THO RESPONSE:

THO will ensure that personnel records are current and include support for the amount of salaries paid, any salary increases, vacation records and other documents required by Egyptian law. The THO will assign a person from the administrative department to periodically review the personnel files to ensure that they are complete.

Finding No. 4: THO did not Record Interest on a Time Deposit

Recommendation:

We recommend that THO obtain monthly bank statements for the time deposits, review the calculation of interest earned and record the interest in the records.

THO RESPONSE:

The THO will request the bank to provide monthly statements which detail the amount of interest earned on the bank account so that interest will can be recorded in the THO records.

II. COMPLIANCE WITH LAWS AND REGULATIONS
AUDIT FINDINGS

Finding No. 1: Reports for the Revenue Agreement did not Agree with General Ledger

Recommendation:

We recommend that THO:

- a) Perform a reconciliation between the general ledger and the cash reconciliation and the reports submitted to USAID/Egypt, analyze the difference and perform the necessary adjustments. The reconciliation process should be performed on monthly basis.
- b) Submit to USAID/Egypt a revised report on the Revenue Agreement with explanation of the differences.

THO RESPONSE:

In the future, on a monthly basis, the THO will perform a reconciliation between the general ledger, the cash reconciliation and the USAID reports submitted to analyze any differences the perform any necessary adjustments. The THO will also submit a revised Revenue Report for the period under question in Finding No. 1.

Finding No. 2: Ineligible and Unsupported Expenses Reimbursed with Project Funds

Recommendation:

We recommendation that THO:

1. Require the Financial Manager to review the expenses billed to USAID/Egypt to ensure they are in compliance with agreement terms and are adequately supported.
2. Require prior USAID/Egypt approval for the expenses that are not approved in the implementation plans or the Revenue Agreement.

THO RESPONSE:

The current financial procedures require that the financial manager review the expenses billed to USAID. This procedure will be reemphasized and strictly adhered to by the financial manager. In the

future, the THO will request prior approval for any expense which is not found in the implementation plans or the Revenue Agreement.

Finding No. 3: THO did not Pay Social Insurance on the Project Employees

Recommendation:

- a) Ensure that the Government of Egypt (GOE) contributes the employer's share of the social insurance. and
- b) Withhold from the salaries the employee's share of the social insurance.

THO RESPONSE:

In the future, the THO will request funds from the GOE for the employer's share of the social insurance and begin withholding from the salaries, the employee's share of the social insurance.

Teaching Hospital Organization

Audit of Local Expenditures Incurred Under the
Population/Family Planning II Project
Grant Agreement No. 263-0144
Project Implementation Letter No. 26.
Population/Family Planning III Project
Grant Agreement No. 263-0227
Project Implementation Letter No. 8B. and
the Revenue Agreement

for the Period July 1, 1993 to April 30, 1996

Auditors' Response to Management Comments

Our comments below address the Teaching Hospital Organization (THO) responses to the findings on the fund accountability statements in our audit report of the Teaching Hospital Organization Subproject for the costs financed by the United States Agency for International Development for the periods: July 31, 1993 to March 31, 1994 under Project Implementation Letter No. 26, Grant Agreement No. 263-0144, for the period April 1, 1994 to April 30, 1996 under Project Implementation Letter No. 8B, Grant Agreement No. 263-0227, and revenue generated and expenses incurred under the Revenue Agreement for the period July 1, 1993 to April 30, 1996. We have modified or deleted those findings on questioned costs for which adequate supporting documents were provided. THO agrees with the findings on Internal Control Structure and Compliance with Applicable Laws and Regulations, as a result, these findings are unchanged.

Fund Accountability Statements

Project Implementation Letter No. 26

Finding No. 1: Unsupported Costs

THO provided adequate supporting documents. Finding is deleted.

Finding No. 2: Expenses not Approved in the Implementation Plan

THO agrees with finding.

Finding No. 3: Payment of Sales Taxes

THO agrees with finding.

Finding No. 4 Checks were not Cashed at Bank

THO provided sufficient evidential matter to support US \$193 (LE 653) of the ineligible expenses. US \$ 232 (LE 785) remain as questioned costs.

Project Implementation Letter No. 8B

Finding No. 5: Entertainment Costs

THO did not provide additional supporting documents. The finding remains unchanged.

Finding No. 6: Attendance Fees Paid to Project Employees

THO did not provide additional supporting documents. The finding remains unchanged.

Revenue Agreement

Finding No. 7: Payment of Bonus

THO did not provide additional supporting documents. The finding remains unchanged.

Finding No. 8: Revenue Overstated in the General Ledger

THO provided supporting documents to evidence deposits of revenue earned of US \$1,339 (LE 4,553). Additional documents provided did not support the finding related to revenue overstated in the general ledger. As a result, US \$273 (LE 928) remain questioned.

Internal Control Structure

THO agrees with findings.

Compliance with Applicable Laws and Regulations

THO agrees with findings.

Teaching Hospital Organization

Audit of Local Expenditures Incurred Under the
Population/Family Planning II Project
Grant Agreement No. 263-0144
Project Implementation Letter No. 26.
Population/Family Planning III Project
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the Revenue Agreement

for the Period July 1, 1993 to April 30, 1996

United States Agency for International Development
Mission in Egypt's Response to the Audit Report

USAID

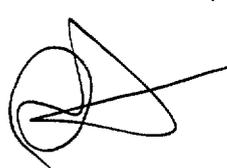


CAIRO, EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

MEMORANDUM

24 APR 1997

DATE: April 23, 1997
TO: L. Mundy, RIG/A/C
FROM: Shirley A. Hunter, OD/FM/FA 
SUBJECT: Financial Audit of the Teaching Hospital Organization, Expenditures Incurred under the Population/Family Planning II and III Projects (USAID/Egypt Project No: 263-0144 and 263-0227) Draft Report dated March 23, 1997

Following are the actions taken by the Mission to close the two recommendations under the subject audit:

Recommendation No. 1:

We recommend that USAID/Egypt make a management decision on the ineligible costs of \$1,515 detailed on pages 14 and 15 of the audit report, and the questioned costs of \$841 (ineligible costs of \$568 and unsupported costs of \$273) related to the Revenue Agreement detailed on page 16 of the audit report, and recover from the Ministry of Health the amounts determined to be unallowable.

Mission Response:

Based on the Mission review, the total amount of \$1,515 (LE 5,148) questioned under PILs 26 and 8B is determined to be sustained and was refunded by Check No. 25315745 dated April 22, 1997 in the amount of LE 5,148, and GR#000001 (Attachment No. 1). In addition, of the \$841 questioned under the Revenue Agreement, \$568 (LE 1,930) is sustained and \$273 (LE 928) is not sustained. The sustained amount of LE 1,930 was credited to the Revenue Account as reflected in the THO Settlement No. 9 (Attachment No. 2).

Following is the Mission's determination regarding the amounts allowed and amounts sustained:

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PIL No. 26:

Finding No. 1 was deleted upon issuance of the final draft report.

Finding No. 2:

The ineligible amount of \$218 (LE 738)

This amount represents the cost of a telephone bill. Telephone expenses are not approved in the Implementation Plan.

THO agreed to refund this amount. Therefore, \$218 (LE 738) is sustained.

Finding No. 3:

The ineligible amount of \$4 (LE 15)

This amount represents sales tax which is not eligible for reimbursement by USAID.

THO agreed to refund this amount. Therefore, \$4 (LE 15) is sustained.

Finding No. 4:

The ineligible amount of \$232 (LE 785) represents the cost of two checks issued but did not clear the bank.

Therefore, \$232 (LE 785) is sustained.

PIL No. 8B:

Finding No. 5:

The ineligible amount of \$962 (LE 3,272) represents entertainment costs related to the opening of a new clinic. THO has submitted the documents in support of this amount, which covers the cost of photographs for the opening; a video; and food and beverage for the ceremony. Mission believes that these costs were not budgeted for; were not approved by the Project Officer, and did not further the project objectives. Therefore \$962 (LE 3,272) is sustained.

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Finding No. 6:

The ineligible amount of \$99 (LE 338) represents attendance fees paid to Project employees. The training course was held at the central office at Galaa hospital, and fees for project employees were not budgeted for. Therefore, \$99 (LE 338) is sustained.

The Revenue Agreement:**Finding No. 7:**

The ineligible amount of \$568 (LE 1,930) represents payment of bonuses to headquarters employees. The bonuses were paid without conforming to an established policy and without USAID/Egypt approval.

Mission has reviewed the documents submitted by THO. However, in the absence of an established policy for payment of these bonuses, and that no prior USAID approval was obtained, this amount is considered ineligible.

Therefore, \$568 (LE 1,930) is sustained, and was credited to the Revenue Account by Settlement No. 9 (Attachment No. 2).

Finding No. 8:**Personnel:**

The unsupported amount of \$273 (LE 928).

This amount represents revenue overstated in the General Ledger (G/L), and consists of two amounts (LE 582 and LE 346). Mission believes that this finding is considered an internal control weakness and not questioned cost, since this overstatement does not require a refund by THO to the Revenue Account. To address this internal control finding, Mission has requested THO to provide further explanation/documentation. Mission review of the documentation has revealed that:

- LE 582 for El Sahel hospital for the month of July 1993: THO has stated that it is their practice to record the revenue amounts in the G/L based on the checks received, not necessarily on the reports submitted, i.e. on cash versus accrual basis. Mission has reviewed the checks received from the hospital and compared them to the G/L. The amounts of the two checks (July 1993 for LE 2,003.25 and August/September 1993 for (LE 3,238.6) were accurately recorded in the general ledger for LE 5,241.85. (See Attachment No. 3) for copies of the two checks, and the G/L page showing the cumulative amount of the two months).

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- LE 346 for Sohag hospital for the month of October 1995: THO submitted a cash receipt, a copy of the G/L, and the report submitted by the hospital and they all reflect the same amount. (See Attachment No. 4).

Therefore, the \$273 (LE 928) should not be sustained.

Based on the above, Mission requests closure of Recommendation No. 1 upon issuance of the final report.

Recommendation No. 2:

We recommend that USAID/Egypt obtain evidence that the Ministry of Health, through its Teaching Hospital Organization, has addressed the internal control material weaknesses (inadequate controls over journal entry adjustments and fixed assets) detailed on pages 19 and 30 of the audit report.

Mission Response:

In the response to the draft report, THO has accepted the findings and stated that the Financial Procedures Manual will be revised to include procedures to address the findings.

Finding No. 1:

This finding recommends that all the adjusting entries be approved by the Executive Director. THO has submitted a revised section to the Financial Procedures which states that the Executive Director approves all expenditures and also approves all adjusting entries in the accounting records (Attachment No. 5, Section 1.2.1 of the revised manual). Based on this action, Mission requests resolution of the finding. Closure will be requested upon THO's submission of evidence that adjusting entries are in fact approved by the Executive Director.

Finding No. 2:

This finding relates to inadequate controls over the fixed assets register. In their letter dated April 21, 1997, and attached revised manual (Attachment No. 6), THO has revised the Financial Procedures Manual to include additional procedures to ensure adequate control over fixed assets. The finding recommends that:

- a. THO record in the fixed asset register, at headquarters and clinics, the fixed assets acquired with project funds and those acquired directly by USAID/Egypt (donated).

- * THO has revised the procedures manual to include a column in the fixed asset register in the headquarters and clinics. This finding will be closed upon obtaining evidence that the fixed asset registers have been actually revised to reflect this information.

- b. Update the fixed asset register periodically. The register should indicate source of funding, acquisition cost, date of purchase, description of the item, serial number and other identification number, location and condition, and if applicable, disposition, date and reason.

- * As stated under a above, the manual contains a revised form for the fixed asset register. The revised form includes the following: source of funding, acquisition cost, date of purchase, description, serial number (ID#), as well as physical location and condition. This finding will be closed upon obtaining evidence that the fixed asset register has been actually revised to reflect this information.

- c. Keep a file with documentation related to the equipment procured directly by USAID or donated by other sources, supported with the warehouse receipt.

- * The fixed asset register includes the journal voucher number. The Journal voucher includes as part of its attachments, copy of the warehouse receipt (form 112) as well as the invoice and other supporting documents. As stated above, this finding will be closed upon obtaining evidence that the fixed asset register has been actually revised to reflect this information.

- d. At least annually, perform a complete physical inventory and compare it to the fixed asset register.

- * According to THO's revised procedures, an annual physical inventory is conducted by THO financial staff and form #121 which is a GOE Physical Inventory/Asset Register Reconciliation Report is completed. This finding will be closed upon obtaining a copy of the latest form #121 report completed for the clinics and the headquarters.

- e. Ensure that all the equipment procured with project funds is appropriately tagged with the USAID logo.

- * According to the THO manual, all fixed assets purchased with USAID funds will be tagged as project property, which those imported from USA, will have the USAID emblem. This finding will be closed upon conducting a field visit and performing sample review to ensure proper tagging of USAID-funded assets.

Based on the above actions, Mission requests resolution of Recommendation No. 2.

Closure will be requested from M/MPI/MIC upon obtaining evidence of revising the fixed asset register, completing form #121 physical inventory; and verifying the proper tagging of the USAID funded fixed assets.

Att: a/s

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