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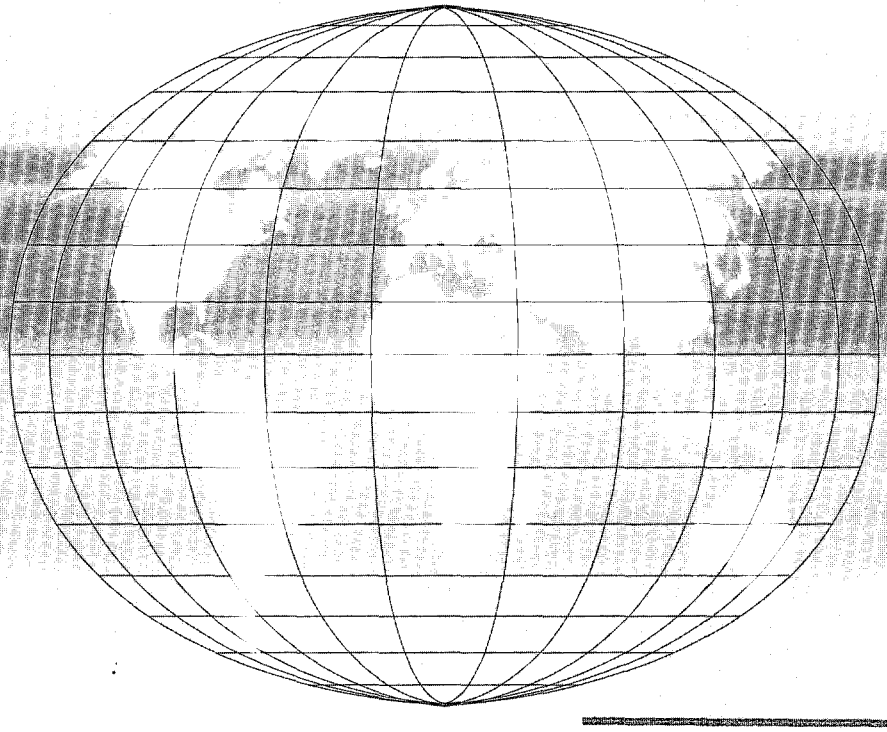
Report of Audit

Financial Audit of the Ministry of Health, Expenditures Incurred Under Project Implementation Letters Nos. 4, 7, 13, 14, and 24 Under USAID/Egypt's Cost Recovery for Health Project No. 263-0170

Report No. 6-263-98-008-N
January 8, 1998



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Regional Inspector General for Audit
Cairo, Egypt

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

USAID

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

CAIRO, EGYPT

Report No. 6-263-98-008-N
January 8, 1998

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley

FROM: RIG/A/C, Lou Mundy

SUBJECT: Financial Audit of the Ministry of Health, Expenditures Incurred Under Project Implementation Letters Nos. 4, 7, 13, 14, and 24 of USAID/Egypt's Cost Recovery for Health Project No. 263-0170

The attached report, transmitted on November 18, 1997, by KPMG Hazem Hassan, presents the results of a financial audit of the Ministry of Health related to expenditures under the subject project implementation letters (PILs) for Component No. 1 of the Cost Recovery for Health Project (CRHP) No. 263-0170. CRHP's overall purpose is to establish a sound financial basis for the health sector through cost recovery systems in order to expand and improve health care delivery and increase sustainability and productivity. The purposes of the PILs are as follows:

PIL No. 4	Project support services
PIL No. 7	In-country training
PIL No. 13	Start-up funds for 5 pilot facilities
PIL No. 14	Accounting/budgeting system
PIL No. 24	Support services and training (replacing PILs Nos. 4 & 7)

We engaged KPMG Hazem Hassan to perform a financial audit of USAID/Egypt resources managed by the Ministry of Health related to expenditures under the above PILs. Expenditures subject to the audit included: $744,784 (equivalent to LE 2,524,818) and $221,857 (equivalent to LE 752,095) for PILs Nos. 4 and 7 respectively during the period July 1, 1994 through January 31, 1996; $51,524 (equivalent to LE 175,181) for PIL No. 13 during the period June 1, 1994 through December 31, 1994; $116,319

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(equivalent to LE 394,320) for PIL 14 during the period March 1, 1994 through June 30, 1996; and $148,969 (equivalent to LE 506,495) for PIL No. 24 during the period February 1, 1996 through June 30, 1996. The purpose of the audit was to evaluate the propriety of costs incurred during these periods. KPMG Hazem Hassan also evaluated the Ministry'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 questioned a total of $30,818 (equivalent to LE 104,482) in costs billed to USAID/Egypt under the above PILs. The majority of these questioned costs related to unsupported consultant costs and office furniture costs. The auditors noted two reportable conditions in the Ministry's internal control structure, which in their opinion were not material weaknesses to the system of internal control, and identified one material instance of the Ministry's noncompliance with applicable laws, regulations, and agreement terms.

In response to the draft report, Ministry officials provided additional documentation and explanations to the report findings. KPMG Hazem Hassan reviewed the Ministry's response to the findings and, where applicable, made adjustments to the report (see Appendices I and II).

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

> **<u>Recommendation No. 1:</u> We recommend that USAID/Egypt make a management decision on the questioned costs of $30,818 ($5,234 ineligible and $25,584 unsupported) detailed on pages 18 through 29 of the KPMG Hazem Hassan audit report, and recover from the Ministry of Health the amounts determined to be unallowable.**
>
> **<u>Recommendation No. 2:</u> We recommend that USAID/Egypt obtain evidence that Ministry of Health has addressed the material noncompliance issue (lack of sound record retention policies and procedures) detailed on page 35 of the KPMG Hazem Hassan audit report.**

In response to Recommendation No. 1, USAID/Egypt officials reported that the Ministry has agreed to refund the ineligible amount of $5,234 and has not been able to provide documentation for unsupported office furniture costs of $12,799. However, USAID/Egypt officials stated that they needed to perform additional field review of Ministry records of the remaining unsupported costs of $12,785 to make a final

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determination of sustained questioned costs. Recommendation No. 1 remains open pending the Mission's management decision regarding those remaining questioned costs.

In response to Recommendation No. 2, USAID/Egypt officials reported that since April 1995 the Mission has provided considerable assistance to the Ministry to address continuous problems in their project accounting system. And that since the project's completion date is September 30, 1998, the Mission believes the resolution of the questioned costs in Recommendation No. 1 should be sufficient to resolve and close Recommendation No. 2.

While we recognize the Mission's assistance already provided the Ministry under this Project, we also note, as stated in the Mission's response, that in spite of the Mission's assistance there are continuing weaknesses in the Ministry's project accounting system. We also note that, while the Project is scheduled to terminate in September 1998, there remains over two years of the Ministry's expenditures under this Project yet to be audited. Therefore, we believe that to reach a management decision on Recommendation No. 2 the Mission needs to describe an acceptable plan of action which addresses the material noncompliance issue—assuring that the Ministry implements a sound record retention policy and procedure in accordance with USAID requirements. Recommendation No. 2 remains open pending the Mission's management decision.

The reportable conditions identified by the auditor's review of the Ministry's internal control structure detailed on pages 31 and 32 should be handled directly between Mission and Ministry 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

Financial Audit of
Cost Recovery for Health Project (CRHP)
USAID/Egypt Cooperative Agreement No. 263-0170
Project Implementation Letter Nos. 4 and 7
for the period July 1, 1994 through January 31, 1996
Project Implementation Letter No. 13
for the period June 1, 1994 through December 31, 1994
Project Implementation Letter No. 14
for the period March 1, 1994 through June 30, 1996
and
Project Implementation Letter No. 24
for the period February 1, 1996 through June 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."

Financial Audit of
Cost Recovery for Health Project (CRHP)
USAID/Egypt Cooperative Agreement No. 263-0170
Project Implementation Letter Nos. 4 & 7
for the period July 1, 1994 through January 31, 1996
Project Implementation Letter No. 13
for the period June 1, 1994 through December 31, 1994
Project Implementation Letter No. 14
for the period March 1, 1994 through June 30, 1996
and
Project Implementation Letter No. 24
for the period February 1, 1996 through June 30, 1996

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

November 18, 1997

Dear Mr. Mundy,

This report represents the results of our financial audit of Cost Recovery for Health Project (CRHP) related to expenditures under USAID/Egypt Cooperative Agreement No. 263-0170, through PIL Nos. 4 & 7 for the period July 1, 1994 to January 31, 1996, PIL No. 13 for the period June 1, 1994 through December 31, 1994, PIL No. 14 for the period March 1, 1994 through June 30, 1996 and PIL No.24 for the period February 1, 1996 through June 30, 1996.

Background

A Grant Agreement between the Arab Republic of Egypt and the United States of America was signed on September 30, 1988 for the Cost Recovery for Health Project (CRHP) No. 263-0170. The CRHP's overall purpose is to establish a sound financial basis for the health sector through cost recovery systems in order to expand and improve health care delivery and increase sustainability and productivity.

Component One of the CRHP - "Implementing Cost Recovery Systems in Government of Egypt/Ministry of Health" calls for adopting and implementing cost recovery systems throughout Ministry of Health facilities.

PIL No.4

This PIL was initiated to cover the project support budget. USAID/Egypt committed LE 826,400 to cover the period from April 1, 1989 to March 31, 1990. The PIL was amended fourteen times increasing the total amount committed to LE 4,927,044 (equivalent to $1,537,783) and extending the completion date to January 31, 1996. Total costs incurred during the period covered by our audit are LE 2,524,818.

PIL No. 7

This PIL was initiated to provide funds to cover in-country training for the employees in five hospitals. USAID/Egypt committed LE 529,300 to cover the period from September 14, 1990 to September 30, 1991. The PIL was amended nine times increasing the total committed amount to LE 1,619,296 (equivalent to $478,552) and extending the completion date to January 31, 1996. Total costs incurred during the period covered by our audit are LE 752,095.

PIL No. 13

This PIL was initiated to provide the start-up funds for five pilot projects. USAID/Egypt committed LE1,489,019 to cover the period from October 14, 1993 to October 13, 1994. The PIL was amended once increasing the total amount committed to LE 2,978,150 (equivalent to $883,691) and extending the completion date to December 31, 1994. Total costs incurred during the period covered by our audit are LE 175,181.

PIL No. 14

This PIL was initiated to cover costs of the National Health Accounts and Budget Tracking Systems. USAID/Egypt committed LE 496,225 to cover the period from November 1, 1993 to October 30, 1994. The PIL was amended five times increasing the total amount committed to LE 1,457,194 (equivalent to $432,638) and extending the completion date to December 31, 1997. Total costs incurred during the period covered by our audit are LE 394,320.

PIL No. 24

This PIL was initiated to cover the local costs of the Project Directorate. USAID/Egypt committed LE500,000 to cover the period from February 1, 1996 to April 30, 1996. The PIL was amended five times increasing the total amount committed to LE2,211,609 and extending the completion date to April 30, 1997. Total costs incurred during the period covered by our audit are LE 506,495.

Previous Non-Federal Audit

A Non-Federal Audit (NFA) was conducted by Allied Accountants and the report was issued on August 15, 1995 for PILs Nos. 4 and 7 for the period June 1, 1991 through June 30, 1994. One material instance of non-compliance and one material internal control weakness were noted in the previous NFA report. During our audit we performed certain follow up procedures related to the findings and recommendations set forth in the previous NFA report. The procedures included follow up of previously identified recommendations for improvement related to internal controls and follow up of previously identified questioned costs. The results of our procedures in this regard are set forth in the section of our report entitled "Follow up on previous NFA report."

Audit Objectives and Scope

The objective of this engagement was to conduct a financial audit of USAID/Egypt's resources managed by Cost Recovery for Health Project (CRHP) related to expenditures under USAID/Egypt Cooperative Agreement No. 263-0170, through PIL Nos. 4 & 7 for the period July 1, 1994 to January 31, 1996, PIL No. 13 for the period June 1, 1994 through December 31, 1994, PIL No. 14 for the period March 1, 1994 through June 30, 1996 and PIL No.24 for the period February 1, 1996 through June 30, 1996. The audit encompassed an examination of CRHP's expenses, billed to and reimbursed by USAID/Egypt, in order to determine whether they were in compliance with the terms and conditions of the PILs, and applicable USAID/Egypt rules and regulations. We also reviewed internal controls associated with CRHP's management of the PILs.

The specific objectives were to:

1. express an opinion on whether the fund accountability statements, for the USAID/Egypt financed PILs of CRHP present fairly, in all material respects, revenues received and costs incurred for the periods under audit, in conformity with generally accepted accounting principles or other comprehensive bases of accounting;

2. determine whether the costs, reported as incurred under the PILs, are, in fact, allowable, allocable, and reasonable in accordance with the terms of the PILs;

3. evaluate and obtain sufficient understanding of the internal control structure of CRHP, assess control risk, and identify reportable conditions, including material internal control weaknesses;

4. perform tests to determine whether CRHP complied, in all material respects, with the terms and conditions of the PILs, and with applicable laws and USAID/Egypt rules and regulations; and

5. determine whether CRHP has taken corrective action on prior audit report recommendations.

Preliminary planning and review procedures started in May 1997 and consisted of:

- discussions with RIG/A/C officials;

- a review of the PILs;

- interviews and discussions with CRHP's key personnel concerning the status of the PILs, accomplishments during the period, the statutory reporting requirements, the PILs budgets, and procedures governing actual expenditures incurred by CRHP and billed to and reimbursed by USAID/Egypt; and

- reviews of the CRHP organizational structure and CRHP's established policies and procedures and controls related to personnel, procurement, financial accounting and reporting, and billing to USAID/Egypt.

The field work segment of our audit was completed on September 12, 1997. The scope of our audit was to audit costs incurred by CRHP and reimbursed by USAID/Egypt under Cooperative Agreement No. 263-0170 through PILs Nos. 4, 7, 13, 14 and 24. Within each budget line item, we selected transactions on a judgmental basis in order to perform substantive tests of details. Our sample size is as follows:-

PIL	Total Expenditures		Tested Amount		Percent
No.	LE	$	LE	$	%
PIL No. 4	2,524,818	744,784	1,064,000	313,864	42
PIL No. 7	752,095	221,857	510,031	150,452	68
PIL No.13	175,181	51,524	115,753	34,045	66
PIL No.14	394,320	116,319	235,531	69,478	60
PIL No.24	506,495	148,969	252,740	74,335	50
Total	**4,352,909**	**1,283,453**	**2,178,055**	**642,174**	**50%**

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

1. Reconciling CRHP's accounting records to invoices issued to USAID/Egypt and testing costs for allowability, allocability, reasonableness, and adequate supporting documentation;

2. Determining whether payroll costs were appropriate and consistent with the terms of the PILs and applicable rules and regulations, and were adequately supported and approved;

3. Determining whether other direct costs were appropriate and consistent with the terms of the PILs and were adequately supported and approved; and

4. Assessing the adequacy of CRHP'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 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, 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.

Results of Audit

Our audit identified the following questioned costs :

PIL	Ineligible		Unsupported		Total questioned costs	
No.	LE	$	LE	$	LE	$
PIL No. 4	7,874	2,323	35,000	10,325	42,874	12,648
PIL No. 7	9,314	2,747	4,175	1,232	13,489	3,979
PIL No.13	-----	-----	-----	-----	-----	-----
PIL No.14	-----	-----	43,388	12,799	43,388	12,799
PIL No.24	555	164	4,176	1,228	4,731	1,392
Total	**17,743**	**5,234**	**86,739**	**25,584**	**104,482**	**30,818**

Internal Control

Our audit identified two reportable conditions associated with the project's internal control structure. These reportable conditions were in the areas of procurement and cash management. These matters are more fully described in our Report on Internal Controls.

Compliance with Laws and Regulations

Our audit identified one instance of material non-compliance that is required to be reported in accordance with Government Auditing Standards. This instance related to the questioned costs noted during our audit and is more fully described in our Report on Compliance with Laws and Regulations.

Management Comments

We have reviewed Management's response to the questioned costs identified as a result of our audit, which is included in Appendix 1. Where applicable, we have made adjustments in our report on provided further clarification of our position in Appendix II. For those items not adjusted in our final report, the responses provided by Management have not changed our report on the fund accountability statement, our report on internal controls, or our report on compliance with laws and regulations.

This report is intended for the information of the United States Agency for International Development and CRHP's management and others within the organization. However, this report is a matter of public record and its distribution is not limited.

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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 statements of funds received and costs incurred by Cost Recovery for Health Project (CRHP) related to expenditures under USAID/Egypt Cooperative Agreement No. 263-0170 through PIL Nos. 4 & 7 for the period July 1, 1994 to January 31, 1996, PIL No. 13 for the period June 1, 1994 through December 31, 1994, PIL No. 14 for the period March 1, 1994 through June 30, 1996 and PIL No.24 for the period February 1, 1996 through June 30, 1996. The fund accountability statements are the responsibility of CRHP's management. Our responsibility is to express an opinion on the fund accountability statements based upon our audit.

Except as discussed in the following paragraphs, 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. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the presentation of the fund accountability statements. We believe that our audit provides a reasonable basis for our opinion.

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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 statements do not include the cost of USAID/Egypt's direct procurement of vehicles, equipment and technical assistance provided directly to CRHP nor the total revenues and costs incurred by CRHP on an organization-wide basis.

As described in Note 1, the fund accountability statements have been prepared on the cash basis which is a comprehensive basis of accounting other than generally accepted accounting principles. Included in the fund accountability statements are questioned costs of $12,648 for PIL No.4, $3,979 for PIL No.7, $12,799 for PIL No.14, and $1,392 for PIL No.24. The bases for questioning these costs is described in the "Details of Questioned Costs" section of this report.

In our opinion, except for the effects of the questioned costs referred to in the preceding paragraph, the fund accountability statements present fairly, in all material respects, the amounts received and costs incurred pursuant to USAID/Egypt Cooperative Agreement No. 263-0170 through PIL Nos. 4 & 7 for the period July 1, 1994 to January 31, 1996, PIL No. 13 for the period June 1, 1994 through December 31, 1994, PIL No. 14 for the period March 1, 1994 through June 30, 1996 and PIL No.24 for the period February 1, 1996 through June 30, 1996, in conformity with the basis of accounting described in Note 1.

KPMG Hazem Hassan
Cairo, Egypt
September 12, 1997

FUND ACCOUNTABILITY STATEMENTS

Ministry of Health
Cost Recovery for Health Project (CRHP)
Fund Accountability Statement
USAID/EGYPT Grant No.263-0170
Project Implementation Letter (PIL) No.4
For the Period From July 1,1994 through January 31,1996

	$				
USAID/EGYPT funds received	954,574				
		Questioned Costs		Finding	Pg
Expenditures	**Actual**	**Ineligible**	**Unsupported**	**No.**	**No.**
Travel &Per-Diem	105,804	1,413		1)a,c	pg.18
Office Equip.& furniture	40,675	881		2)b	pg.19
Consultants	159,955		10,325	3)a	pg.19
Building Renovations	70,709				
Office Supplies	33,848	29		5)b	pg. 20
Salaries	289,783				
Maintenance	29,015				
Training	2,772				
Telecommunication	12,223				
Total Expenditures	**744,784**	**2,323**	**10,325**		

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

Ministry of Health
Cost Recovery for Health Project (CRHP)
Fund Accountability Statement
USAID/EGYPT Grant No.263-0170
Project Implementation Letter (PIL)No.7
For the Period From July 1,1994 through January 31,1996

	$
USAID/EGYPT funds received	302,166

Expenditures	Actual	Reclassification	Actual After Reclassification	Questioned Costs Ineligible	Questioned Costs Unsupported	Finding No.	Pg No.
Travel &Per Diem	72,848		72,848	2,747	1,232	1)a,d	pg.22&23
Trainers/Consultants	18,853	5,512	24,365				
Training Honoraria	26,700	(5,512)	21,188				
Rental of Conference Space	56,234		56,234				
Learning Materials	37,340		37,340				
Sec.& Admin.Support	1,277		1,277				
Translation	758		758				
Training Equip.& Materials	7,847		7,847				
Total Expenditures	**221,857**	**0**	**221,857**	**2,747**	**1,232**		

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

Ministry of Health
Cost Recovery for Health Project (CRHP)
Fund Accountability Statement
USAID/EGYPT Grant No.263-0170
Project Implementation Letter (PIL) No.13
For the Period From June 1,1994 through December 31,1994

	$
USAID/EGYPT funds received	51,524
Expenditures	**Actual**
Support Services	6,853
Commodities	44,671
Total Expenditures	**51,524**

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

Ministry of Health
Cost Recovery for Health Project (CRHP)
Fund Accountability Statement
USAID/EGYPT Grant No.263-0170
Project Implementation Letter (PIL)No.14
For the Period From March 1,1994 through June 30,1996

	$				
USAID/EGYPT funds received	116,319				
		Questioned Costs		Finding	Pg
Expenditures	**Actual**	**Ineligible**	**Unsupported**	**No.**	**No.**
Transportation & Per diem	14,622				
Office Equipment	3,436				
Research Studies & Workshops	28,210				
Office Supplies	6,820				
Office Furniture	12,799		12,799	4)a	pg.26&27
Contracted Employees	22,344				
Consultants	14,344				
Local Training	13,744				
Total Expenditures	**116,319**		**12,799**		

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

Ministry of Health
Cost Recovery for Health Project (CRHP)
Fund Accountability Statement
USAID/EGYPT Grant No.263-0170
Project Implementation Letter (PIL)No.24
For the Period From February 1,1996 through June 30,1996

	$				
USAID/EGYPT funds received	148,969				
		Questioned Costs		Finding	Pg
Expenditures	**Actual**	**Ineligible**	**Unsupported**	**No.**	**No.**
Employee Salaries	57,436		671	1)b	pg.28
Staff Per Diem/Lodging	18,682	164		2)b	pg.28&29
Building Renovation	22,853				
Consultant Fees	30,658		557	4)a	pg.29
Supplies	4,289				
Equipment	5,498				
Equipment Maintenance	547				
Staff Transportation	1,318				
Telecommunication	1,654				
Training Transportation	500				
Training Per Diem/Lodging/Meals	1,090				
Training Allowances	1,279				
Training Services	3,165				
Total Expenditures	**148,969**	**164**	**1,228**		

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

Cost Recovery for Health Project (CRHP)
Ministry of Health
Cooperative Agreement No.263-0170
Project Implementation Letters (PILs) Nos. 4, 7, 13, 14 and 24

Notes to the Fund Accountability Statements

Note 1: **Accounting Basis**

The fund accountability statements have 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 statements are the representation and the responsibility of CRHP's management. The "Questioned Costs" columns represent audit results and are included in the fund accountability statements for presentation purposes only.

Note 3: **Translation Rate**

The expenditures of PILs Nos. 4, 7, 13, 14 and 24 which were paid in Egyptian Pounds (LE), have been translated into US Dollars ($). The period average exchange rate method was used. This rate is $1 = LE3.39. for PILs Nos.4, 7 and 14 and $1 = LE3.4 for PILs Nos. 13 and 24.

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 PILs and applicable rules and 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 PILs 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: **Source of Data**

The column labeled "Actual" is the responsibility of CRHP management and represents the cumulative costs billed to and reimbursed by USAID/Egypt for PIL Nos. 4 & 7 for the period July 1, 1994 to January 31, 1996, PIL No. 13 for the period June 1, 1994 through December 31, 1994, PIL No. 14 for the period March 1, 1994 through June 30, 1996 and PIL No. 24 for the period February 1, 1996 through June 30, 1996. The "actual after reclassifications" column represents actual project costs adjusted for project cost reclassification as explained in Note 6 below.

Note 6: **Project Cost Reclassifications**

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

Note 7: **USAID/Egypt Funds Received**

USAID/Egypt's funds received represent those received under USAID/Egypt Cooperative Agreement No. 263-0170 through PIL Nos. 4 & 7 for the period July 1, 1994 to January 31, 1996, PIL No. 13 for the period June 1, 1994 through December 31, 1994, PIL No. 14 for the period March 1, 1994 through June 30, 1996 and PIL No. 24 for the period February 1, 1996 through June 30, 1996. The following schedule summarizes the amounts reimbursed during the period covered by our audit and the amounts reimbursed subsequent to the periods audited:

PIL Number	Amounts received during the periods covered by our audit and related to costs incurred prior to these periods $	Amounts received in and related to the periods covered by our audit $	Amounts received subsequent to the periods covered by our audit and related to costs incurred during these periods $	Total $
PIL No. 4	209,790	555,406	189,378	**954,574**
PIL No. 7	80,309	54,141	167,716	**302,166**
PILNo.13	-----	-----	51,524	**51,524**
PIL No.14	-----	84,798	31,521	**116,319**
PIL No.24	-----	67,854	81,115	**148,969**

Note 8: **Actual Expenditures**

The following schedule summarizes the expenditures reimbursed during the period covered by our audit and the expenditures reimbursed subsequent to the periods audited :

PIL Number	Expenditures reimbursed during the period covered by our audit $	Expenditures reimbursed subsequent to the period covered by our audit $	Total Expenditures $
PIL No.4	555,406	189,378	744,784
PIL No.7	54,141	167,716	221,857
PIL No.13	-----	51,524	51,524
PIL No.14	84,798	31,521	116,319
PIL No.24	67,854	81,115	148,969

FUND ACCOUNTABILITY STATEMENT
DETAILS OF QUESTIONED COSTS

Cost Recovery for Health Project (CRHP)
Project Implementation Letter (PIL) No. 4
Fund Accountability Statement
Details of Questioned Costs

	Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
1)	**Travel & Per diem :**		
a)	Based upon our audit of travel and per diem costs, we noted that, an amount of $ 1,032 representing GOE taxes was paid for the transfer of the ownership of a vehicle to the project (vehicle license # 3946). According to Section 5.9 of the project grant agreement, any assistance provided under the agreement will be free from any taxation or fees imposed under laws in effect in Egypt and the Ministry of Health must pay any taxes, tariffs and custom duties out of funds other than those provided by USAID/Egypt. Accordingly, this amount is considered to be unallowable.	1,032	
b)	Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.	-----	
c)	Based upon our audit of travel and per diem costs, we noted that an amount of $381 representing city taxes, included in hotel bills related to lodging costs of CRHP employees, was billed to USAID/Egypt. According to Section 5.9 of the project grant agreement, any assistance provided under the agreement will be free from any taxation or fees imposed under laws in effect in Egypt and the Ministry of Health must pay any taxes, tariffs and custom duties out of funds other than those provided by USAID/Egypt. Accordingly, this amount is considered to be unallowable.	381	
	Total line item	**1,413**	-----

Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
2) Office Equipment. & Furniture :		
a) Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
b) Based upon our audit of office equipment and furniture costs, we noted that an amount of $881 representing sales taxes included in the cost of purchasing computer supplies and a printer, was billed to USAID/Egypt. According to Section 5.9 of the project grant agreement, any assistance provided under the agreement will be free from any taxation or fees imposed under laws in effect in Egypt and the Ministry of Health must pay any taxes, tariffs and custom duties out of funds other than those provided by USAID/Egypt. Accordingly, this amount is considered to be unallowable.	881	
Total line item	**881**	-----
3) Consultants:		
a) Based upon our audit of consultants costs, we noted that the total amounts billed to USAID/Egypt under this line item were $159,955, however, the total amounts supported by the accounting records were $149,630. That is, an amount of $10,325 billed to USAID/Egypt was not supported by the accounting records. According to OMB Circular A-122, a reimbursable cost should be allowable, reasonable, and allocable. In order to assess these elements, the costs should be supported by the accounting records. Accordingly, this amount is considered to be unsupported.		10,325

Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
b) Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
Total line item		**10,325**
4) **Building Renovations :**		
a) Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
b) Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
Total line item		-----
5) **Office Supplies**		
a) Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
b) Based upon our audit of office supplies costs, we noted that an amount of $29 representing sales taxes included in the cost of purchasing computer diskettes and computer software was billed to USAID/Egypt. According to Section 5.9 of the project grant agreement, any assistance provided under the agreement will be free from any taxation or fees imposed under laws in effect in Egypt and the Ministry of Health must pay any taxes, tariffs and custom duties out of funds other than those provided by USAID/Egypt. Accordingly, this amount is considered to be unallowable.	29	

Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
c) Based on the documents (USAID's project office approval) and clarifications provided to us subsequent to the issuance of the draft report, this finding has been removed.	-----	
Total line item	29	-----
6) Salaries		
a) Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
Total line item		-----
Total questioned costs	2,323	10,325

Cost Recovery for Health Project (CRHP)
Project Implementation Letter (PIL) No. 7
Fund Accountability Statement
Details of Questioned Costs

	Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
1)	**Travel & Per diem :**		
a)	Based upon our audit of travel and per diem costs, we noted that an amount of $2,747, representing sales taxes, included in hotel bills related to lodging costs of CRHP employees, was billed and reimbursed to USAID/Egypt. According to Section 5.9 of the project grant agreement, any assistance provided under the agreement will be free from any taxation or fees imposed under laws in effect in Egypt and the Ministry of Health must pay any taxes, tariffs and custom duties out of funds other than those provided by USAID/Egypt. Accordingly, this amount is considered to be unallowable.	2,747	
b)	Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
c)	Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.	-----	
d)	Based upon our audit of travel and per diem, we noted that the total amounts billed to USAID/Egypt under this line item were $72,849. However, the total amounts supported by the accounting records were $71,617. That is, an amount of $1,232, billed to USAID/Egypt was not supported by the accounting records. According to OMB Circular A-122, a		

Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
reimbursable cost should be allowable, reasonable, and allocable. In order to assess these elements, the costs should be supported by the accounting records. Accordingly, this amount is considered to be unsupported.		1,232
Total line item	2,747	1,232
2) **Trainers and Consultants**		
a) Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		------
b) Based on the documents (USAID's project office approval) and clarifications provided to us subsequent to the issuance of the draft report, this finding has been removed.	-----	
Total line item	----	----
3) **Training Honoraria**		
a) Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
Total line item		----

Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
4) Rental of Conference Space		
a) Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
Total line item		-----
Total questioned costs	2,747	1,232

Cost Recovery for Health Project (CRHP)
Project Implementation Letter (PIL) No.13
Fund Accountability Statement
Details of Questioned Costs

	Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
1)	**Support Services**		
a)	Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
b)	Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
	Total line item		-----
2)	**Commodities**		
a)	Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
b)	Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
	Total line item		-----
	Total questioned costs		-----

Cost Recovery for Health Project (CRHP)
Project Implementation Letter (PIL) No. 14
Fund Accountability Statement
Details of Questioned Costs

	Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
1)	**Transportation & Per diem :**		
a)	Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
b)	Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.	-----	
	Total line item	=====	=====
2)	**Research Studies and Workshops**		
a)	Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
	Total line item		=====
3)	**Office Supplies**		
a)	Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
	Total line item		=====
4)	**Office Furniture**		
a)	Based upon our audit of office furniture costs, we noted that an amount of $12,799, was not supported by adequate supporting documentation (e.g., supplier invoices, payment vouchers). According to OMB Circular A-122, a reimbursable cost should be allowable, allocable and reasonable. In order to assess		

Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
these elements, adequate supporting documentation should be available for us to review. In reply to our enquiry, management indicated that such documentation was either missing or mis-filed. Accordingly, this amount is considered to be unsupported.		12,799
Total line item		**12,799**
5) **Contracted Employees**		
a) Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
Total line item		-----
6) **Consultants**		
a) Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
Total line item		-----
7) **Local Training**		
a) Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
Total line item		-----
Total questioned costs	-----	**12,799**

Cost Recovery for Health Project (CRHP)
Project Implementation Letter (PIL) No.24
Fund Accountability Statement
Details of Questioned Costs

Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
1) Employees Salaries		
a) Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
b) Based upon our audit of employees salaries, we noted that the total amounts billed to and reimbursed by USAID/Egypt under this line item were $57,436. However, the total amounts supported by the accounting records were $56,765. That is, an amount of $ 671 billed to USAID/Egypt, was not supported by the accounting records. According to OMB Circular A-122, a reimbursable cost should be allowable, allocable and reasonable. In order to assess these elements, the costs should be supported by the accounting records. Accordingly, this amount is considered to be unsupported.		671
Total line item		**671**
2) Per diem and Lodging		
a) Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
b) Based upon our audit of travel and per diem costs, we noted that an amount of $164, representing city taxes included in hotel bills related to lodging costs of CRHP employees,		

Item Description	Questioned Costs Ineligible $	Questioned Costs Unsupported $
was billed to USAID/Egypt. According to Section 5.9 of the project grant agreement, any assistance provided under the agreement will be free from any taxation or fees imposed under laws in effect in Egypt and the Ministry of Health must pay any taxes, tariffs and custom duties out of funds other than those provided by USAID/Egypt. Accordingly, this amount is considered to be unallowable	164	
Total line item	164	----
3) **Building Renovations**		
a) Based on the documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.		-----
Total line item		-----
4) **Consultants Fees**		
a) Based upon our audit of consultants costs, we noted that the total amount billed to USAID/Egypt under this line item was $30,658. However, the amounts supported by the accounting records was $ 30,101. That is, an amount of $557, billed to USAID/Egypt was not supported by the accounting records. According to OMB Circular A-122, a reimbursable cost should be allowable, allocable and reasonable. In order to assess these elements, the costs should be supported by the accounting records. Accordingly, this amount is considered to be unsupported.		
Total line item		557
Total questioned costs	164	1,228

INTERNAL CONTROLS

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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 statements of the Cost Recovery for Health Project (CRHP) related to funds received and incurred costs under USAID/Egypt Cooperative Agreement No. 263-0170 through PIL Nos. 4 & 7 for the period July 1, 1994 to January 31, 1996, PIL No. 13 for the period June 1, 1994 through December 31, 1994, PIL No. 14 for the period March 1, 1994 through June 30, 1996 and PIL No.24 for the period February 1, 1996 through June 30, 1996, and have issued our report thereon dated September 12, 1997.

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, 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 management of CRHP is responsible for establishing and maintaining internal controls. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or

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disposition, and that the transactions are executed in accordance with the management's authorization and recorded properly to permit the preparation of the fund accountability statements in accordance with the cash basis of accounting. Because of the inherent limitations in internal controls, errors or irregularities may, nevertheless, occur and not be detected. Also, projection of any evaluation of internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the fund accountability statements of the Cost Recovery for Health Project (CRHP), related to funds received and incurred costs under USAID/Egypt Cooperative Agreement No. 263-0170 through PIL Nos. 4 & 7 for the period July 1, 1994 to January 31, 1996, PIL No. 13 for the period June 1, 1994 through December 31, 1994, PIL No. 14 for the period March 1, 1994 through June 30, 1996 and PIL No.24 for the period February 1, 1996 through June 30, 1996, we obtained an understanding of internal controls. With respect to internal controls, we obtained an understanding of the design of relevant policies and procedures and whether they had been placed in operation, and we assessed control risk, in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statements but not to provide an opinion on internal controls. Accordingly, we do not express such an opinion.

We noted certain matters involving internal controls and their operation that we consider to be reportable conditions under the 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 internal controls that, in our judgment, could adversely affect the entity'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 :

Cash management

Based upon our review of the bank reconciliation for the months of December 31, 1994, January 31, 1996 and June 30, 1996, we noted the following :

- We were unable to agree the balance as per book in the bank reconciliation to the cash book,
- We selected a sample of outstanding items noted in the bank reconciliation and we requested the supporting documentation related to these items. CRHP management was not able to provide us with the supporting documents due to the incompleteness of the information recorded in the cash book and bank reconciliations. In addition, we were informed by CRHP management that certain documents were either mis-filed or lost,

- We noted that the bank reconciliations were not subject to supervisory review or approval by a person other than the preparer.

We were informed by CRHP management that these deficiencies resulted from the fact that they started maintaining a cash book and preparing bank reconciliation just recently in response to the USAID/Egypt FAST Team Report No. 97-39. We recommend that CRHP reemphasize to the applicable employees, the importance of recording the information in a complete and accurate manner in the cash book and also preparing the bank reconciliations in a complete and accurate manner. We also recommend that bank reconciliations be subject to supervisory review and approval by a person other than the preparer.

Procurement Procedures

Based upon our audit of consultants fees, rental of conference space and commodities, we noted that the CRHP management contracted, with a number of individual consultants to provide technical consulting services, with hotels to rent space for conferences, and with suppliers to purchase commodities, for a total amount of $114,448 (equivalent to LE388,185). During our review of the related procurement files, we did not find documentary evidence that competitive bidding or price analysis had been performed to justify the selection of the individual consultants and the suppliers or to ascertain the reasonableness of the price paid for their services/commodities nor a waiver for negotiations with single source from USAID/Egypt. According to USAID/Egypt regulations set forth in Handbook 11, Chapter 2.4.2, contracts with individual consultants require procurement procedures necessary to determine the reasonableness of the price or, when the contractor desires to utilize a contractor previously engaged in the project without performing a competitive bidding, a waiver should be obtained from a USAID/Egypt authorized project officer. We recommend that CRHP management emphasize to applicable employees the importance of adhering to established policies and procedures with respect to the performance of the proper competitive bidding and prices analysis procedures where applicable, and, also, obtaining USAID/Egypt approval before executing contracts where such approval is required.

A material weakness is a reportable condition, in which the design or operation of one or more of the specific internal control 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.

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 do not believe that the reportable conditions described above are material weaknesses. These conditions were considered in determining the nature, timing and extent of the procedures to be performed in our audit of the fund accountability statements of CRHP.

This report is intended for the information of CRHP's management and others within the organization and the United States Agency for International Development. However, this report is a matter of public record, and its distribution is not limited.

KMPG Hazem Hassan
Cairo, Egypt
September 12, 1997

COMPLIANCE WITH LAWS AND REGULATIONS

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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 statements of the Cost Recovery for Health Project (CRHP) related to funds received and incurred costs under USAID/Egypt Cooperative Agreement No. 263-0170 through PIL Nos. 4 & 7 for the period July 1, 1994 through January 31, 1996, PIL No. 13 for the period June 1, 1994 through December 31, 1994, PIL No. 14 for the period March 1, 1994 through June 30, 1996 and PIL No.24 for the period February 1, 1996 through June 30, 1996, and have issued our report thereon dated September 12, 1997.

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, 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.

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

The results of our tests disclosed the following material instance of noncompliance that are required to be reported herein under Government Auditing Standards:

Ineligible and Unsupported Expenses Reimbursed with Project Funds

As discussed more fully in the Fund Accountability Statements - Details of Questioned Costs Section - of this report our audit identified the following questioned costs :

PIL	Ineligible		Unsupported		Total questioned costs	
No.	LE	$	LE	$	LE	$
PIL No. 4	7,874	2,323	35,000	10,325	42,874	12,648
PIL No. 7	9,314	2,747	4,175	1,232	13,489	3,979
PIL No.13	-----	-----	-----	-----	-----	-----
PIL No.14	-----	-----	43,388	12,799	43,388	12,799
PIL No.24	555	164	4,176	1,228	4,731	1,392
Total	**17,743**	**5,234**	**86,739**	**25,584**	**104,482**	**30,818**

The questioned costs noted above principally relate to costs billed to USAID/Egypt for which the associated supporting documentation was incomplete and inaccurate or had been lost and/or mis-filed. We believe that this situation is the result of the absence of sound record retention policies and procedures. We recommend that management immediately establish and implement policies, procedures and controls necessary to ensure that accounting and related records are maintained in a complete and accurate manner and, also, in accordance with applicable USAID/Egypt rules and regulations.

We also, recommend that CRHP management review expenses billed to USAID/Egypt prior to their submission of payment vouchers in order to ensure that they are in compliance with the terms of the PILs and applicable laws and regulations.

****

We considered this instance of noncompliance in forming our opinion on whether the fund accountability statements, related to USAID/Egypt PIL Nos. 4, 7, 13, 14 and 24, are presented fairly in conformity with the cash basis of accounting, and this report does not affect our report, dated September 12, 1997 on the fund accountability statements.

This report is intended for the information of CRHP's management and others within the organization and the United States Agency for International Development. However, this report is a matter of public record, and its distribution is not limited.

KPMG Hazem Hassan
Cairo, Egypt
September 12, 1997

FOLLOW-UP ON PREVIOUS NFA REPORT

Follow-up on previous NFA Report

We have followed up on the findings and recommendations identified in the previous NFA report for PIL Nos.4 and 7 for the period June 1, 1991 through June 30, 1994, as required by paragraph 10 of Chapter 4 of Government Auditing Standards.

With respect to questioned costs noted in the previous NFA report, our follow-up indicated that, subsequent to resolution and closure procedures performed by USAID/Egypt, such questioned costs had been reimbursed by CRHP to USAID/Egypt where required.

The following schedule identifies the current status of internal control and compliance matters, noted in the previous NFA report, which required corrective actions on the part of CRHP :

	Summary of findings related to the previous audit report	Current status according to USAID/Egypt final audit resolution and closure memorandum	Comments of KPMG Hazem Hassan
1.	Material weakness on the internal control structure The Ministry of Health commingled funds from project implementation letter (PIL) Nos. 4 and 7 with funds from other PIL under the Project and did not perform reconciliations, by PIL, of cash receipts and disbursements to cash available in the bank.	Bank reconciliations through December 31, 1996, have been completed and reviewed. In addition, the Ministry of Health will continue to do monthly reconciliations by individual PIL to allow monitoring of funds separately. Therefore, this finding is closed.	Based upon the audit procedures performed, we noted that bank reconciliations were prepared but not in a complete and accurate manner. In addition, we noted certain deficiencies with respect to the cash records maintained by the project. Therefore, this finding was included in our report on the internal control structure.

Summary of findings related to the previous audit report	Current status according to USAID/Egypt final resolution and closure memorandum	Comments of KPMG Hazem Hassan
2. Material non-compliance with laws, rules and regulations		
The disbursements under PIL Nos. 4 and 7 were in excess of the cash available for the PIL's activities.	CRHP was provided one bank account to be used for the various PILs, and believes this is an acceptable practice. However, the mission does agree that monitoring of funds and bank reconciliations are required by individual PIL, to preclude using funds from one PIL to finance another. Accordingly, the mission FAST team has provided assistance to the project to establish written procedures in this regard. Therefore, this finding is closed.	Based upon the audit procedures performed, we noted that this finding is no longer applicable. Therefore, this finding was not included in the report on compliance with laws, rules and regulations.
3. Immaterial non-compliance with laws, rules and regulations		
This finding addresses the ineligible and unsupported expenses reimbursed with project funds.	Our follow-up indicated that, subsequent to resolution and closure procedures performed by USAID/Egypt, such questioned costs had been reimbursed by CRHP to USAID/Egypt where required.	Based upon the audit procedures performed, we noted that the questioned costs had been reimbursed by CRHP to USAID/Egypt where required. Therefore, this finding was not included in the report on compliance with laws, rules and regulations.

APPENDIX I
MANAGEMENT RESPONSE

ARAB' REPUBLIC OF EGYPT
MINISTRY OF HEALTH

جمهورية مصر العربية
وزارة الصحة

مشروع إسترداد تكاليف العلاج

COST RECOVERY FOR HEALTH PROJECT
CRHP

USAID PROJECT NO.: 263-0170

من أجل مستشفى أفضل

Towards a Better Hospital

Our Ref : رقم الصادر :

Date : تاريـــــخ :

November 17,1997

From : Project Director, Dr. A.Moneim Mansour
To :Hazem Hassan Office.
Subject : Audit Report

Moneim Mansour
Abeer Farouk

Dear Hazem Hassan :

This is in response to your draft report on PIL 4,7,13,14and 24

PIL (4)

1. Travel & Perdiem :

A) A letter from the Project to the Accounting Department in the MOHP (Financial Controller) to pay back the amount of LE 3500. Please find attached the letter with the amount.
B) Regarding the Breakfast and the 10% you disallowed which comes to LE 3246.Please be informed that nothing mentioned regarding these Breakfast meals in the invoices, we believe that you will remove it as you can not disallow this amount.
C) A letter from the Project to the Accounting Department in the MOHP (Financial Controller) to pay back the amount of LE 4537.Please find attached the letter with the amount.

2.Office Equipment & Furniture :

A) All documents for trans. No.282 check No.459014 in Aug.25,94 by an amount of LE 19,898 are available.
B) A letter from the Project to the accounting department in the MOHP (Financial Controller) to pay back the amount of LE 2986 as Sales Taxes (trans.No.67,95 & 922).Please find attached the letter with the amount.

3.Consultants:

A) Regarding the amount of L.E.35000 which is the difference between the AID report and the Accounting books, Kindly be informed that the following table shows the difference :

Month	Book	Report	Invoices
July 94	24250	26880	24250
Aug.94	16050	19488	15318
Sep.94	39661	48876	45396
Oct.94	29693	33033	28893
Nov.94	21117.60	23587.60	21117.60
Dec.94	29935.66	16382.66	18282.66
Jan.95	16246	19302	16752
Feb.95	16778	45206	28811
March95	46198	42158	34888
April95	34145.80	42415.80	36897.10
May95	8985.50	12553.50	8985.50
June 95	31369	32888.30	32538.50
July 95	22350	25525.50	22846.10
Aug.95	39477.9	40427.9	36535.9
Sep.95	23527	24477	23527
Oct.95	37876.3	47376.3	16977
Nov.95	17817	18767	32542.3
Dec.95	33214.3	33214.3	20152.3
Jan.96	20154	21886.3	
Total	**507247.00**	**574446.00**	**500954.26**

Total amount in the Fiscal Report increases than the book by L.E. 67199.00
(-) Disallowances L.E 36199.00
(+)Reclaim L.E. 4000.00
This amount reported to AID but not reported in the books L.E. 35000

In the same time the amount of L.E. 96556.70 has not been reported to AID but recorded in the books

So, there is misallocation regarding L.E. 35000.00 by mistake and related to salary line item which will be defined and adjusted as soon as possible.

Salaries :

Month	Report	Book
July 1994	31774.37	34404.37
Aug.94	36898.07	36898.07
Sep.94	44208.77	54181.77
Oct.94	50885.87	55825.87
Nov.94	51186.16	53666.16
Dec.94	52362.68	42889.68
Jan.95	50751.44	57720.94
Feb.95	59862.68	91865.68
March95	58210.4	56845.4
April95	55692.6	68545.6
May 95	55671.8	59239.8

June 95	53166	60711
July 95	52494.65	56457.55
Aug.95	55657.9	56607.9
Sep.95	54970.95	60333.95
Oct.95	51394.9	61212.9
Nov.95	54445.4	55395.4
Dec.95	57804.3	57804.3
Jan.96	58571.00	65624.35
Total	**986019.94**	**1086230.69**

(-) Disallowances by AID	3654.00
Difference between AID reports and FSR	**96556.70**
Book Balance increases than Fiscal Report by	96556.70

B) Regarding Trans. No.540 &54 by the total amount of LE 17255 all documents are complete and available.

4.Building Renovation :

A) Regarding Trans.No 586& 874 by the amounts of LE 71316,we found all the needed documents .

B) Regarding Trans. No.796,check No. 495698 by an amount of LE 42485 we found that the amount in the book is the same as the trans. So there is no deduction.

5.Office Supplies :

A) Regarding trans. No.1515 check No.590452 dated July 6,1996 by an amount of LE 1830,we found all the needed documents.

B) Regarding trans. No. 281 check No. 434238 Aug.25,1995 by an amount of LE 97.00,please find attached the letter with the amount.

C) Regarding Trans.1505 which is regarding the opening of Kafr El Dawar clinics. Please find out a letter from AID to allow the Project to advertise for the mentioned activities.

D) Regarding trans.No.1189,check No.551208 by the amount of LE 1500 please find attached a letter from AID to allow the project to advertise for (4 pages) in Health Magazine.

6. Salaries :

A) Regarding trans.No.80& 540 by a total amount of LE 78134, We found all the needed documents for the two transactions.

PIL (7)

1.Travel & Perdiem :

A) Regarding the amount of LE 9314 representing sales taxes included in Hotel bills trans. No. 759 in November,1995.kindly find attached the letter with the amount.
B) Regarding trans. No. 476& 628& 910& 136 by the total amount of LE 29300, We found all the needed documents.
C) Regarding trans. No. 354,check No. 458975 in Sep.94 by total amount of LE 560 representing over charge for 14 persons for 2 nights attended the Quality Assurance conference in Marriote Hotel in Cairo, and this rate is the lowest rate could be offered from the Hotel and for the purpose of the success of the conference, the Project has to keep those people at the Hotel. Kindly find attached a letter from AID to allow this extra charge.
D) Regarding the difference between the amounts billed to AID and the accounting books, which (as your report) is LE 4175. Kindly be informed that the difference is not for the USAID since the amount of the book is greater than the amount of the report, therefor the difference is for us, So you will find the difference at the training honoraria line item.

Book	Report
11979.85	11955.85
9234.40	9234.40
13767.93	13767.93
25362.90	25362.90
11298	11298
6295	6295
10454.20	14654.20
17034	17033.65
6107	6107
9599	9599
8510	8510
3774	3774
16226	16226
208	208
43549.50	43549.50
398	398
47584.90	47584.90
614	614
783	783
242780	**246955**

2.Trainers & Consultants :

A) Regarding trans. No.604 check No. 495508 dated Nov.94 by the amount of LE 500. We found all the needed documents.
B) Regarding trans. No. 880 check No.669213 dated Dec.12,1995 by the amount of LE 1450.Please be informed that this amount has been paid to some experts attended some meetings for the opening of 15 of May Hospital, so we consider them as consultants, find attached a letter with the AID approval.

3.Training Honoraria :

A) Regarding trans. No. 506 check No.459086 dated oct.94 by the amount of LE 3218.We found all the needed documents.

4.Rental of Conference Space :

A) Regarding trans. No.487 check No.652777 dated Sep.95 by the amount of L.E. 11415.We found all the needed documents.

PIL # 13

1.Support Services :

A) Regarding trans. No. 557 check No. 459130, dated Oct.25,1994 by the amount of LE 700 ,kindly be informed that we found all the needed documents.
B) Regarding trans. No. 785 check No. 495508 dated Dec.94,by the amount of LE 500 and trans. No. 649 check No. 495569 dated Dec.94,by the amount of LE 2200,Kindly be informed that we found all the needed documents.
C) Regarding the difference between the book and the vouchers by an amount of LE 19400 there is no difference with that amount as we found all their transactions . Trans. No. 790 by the amount of LE 22000,trans. No. 772 by the amount of LE 500,trans. No.776 by the amount of LE 500 & trans. No. 954 by the amount of LE 3300.

2.Commodities :

A) Regarding trans. No. 399 check No. 458994,dated Sep.28,1994 by the amount of LE 3000,kindly be informed that this amount has been adjusted in Aug.,1997 CFR send to AID.
B) Regarding trans. No.790 check No. 495691,dated Dec.29,1994 by the amount of LE 22000. Kindly be informed that all documents are available.

PIL # 14

1.Transportation & Perdiem :

A) Regarding trans. No. 33 check No. 624203 dated July 1,1995 by an amount of LE 648 and trans. No. 1223 check No. 551240 dated March 20,1995 by an amount of LE 1072.Please be informed that all documents are available.

B) Regarding trans. No. 1064 check No. 720368 dated Feb.25,1996 by an amount of LE 106 representing breakfast, personal calls and coffee costs. We would like to inform you that this amount has been already deducted from their perdiem before receiving it.

2.Research Studies & Workshops:

A) Regarding trans. No. 1594 check No. 590521 dated June 19,1995 by an amount of LE 5681.Please be informed that this was an advanced amount for a workshop concerning cost-effectiveness analysis field, and this amount was adjusted by supporting documents and was reported at CFR of June, 1996 at the same month of receiving the check.

3.Office Supplies :

A) Regarding trans. No. 696 dated Nov.95 by an amount of LE 2000.Please be informed that this was advanced amount for office supplies and this amount was justified by supporting documents and all the documents are available.

4.Office Furniture :

A) Regarding trans. No. 284 check No. 434208 dated Aug.14,1994 by an amount of LE 43388. Kindly be informed that this transaction has been reviewed by Sahar Mourad from (FAST TEAM) prior to your audit & because of misfiling we could not find the whole documents.

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5.Contracted Employees :

A) Regarding trans. No.879 check No. 669227 dated Dec.28,1995 by an amount of LE 2700.Please find attached a list of contractors names and their salaries signed by the Project Director. Also attached is the contractors signatures approving that they have received their salaries for this month.

6.Consultants :

A) Regarding trans. No. 983 check No. 669299 dated Jan.25,1996 by an amount of LE 2617. Please be informed that we found all the needed documents.

7.Local Training :

A) Regarding the amount of LE 8579.Please note that by mistake we receive this amount so, this amount is deducted from July report for PIL 14 from local training line item.

PIL# 24

1.Employees salaries :

A) Regarding trans. No.1048 check no.669400,dated Feb.15,1996 by the amount of LE 57786. Kindly be informed that all documents are available.
B) Regarding the amount of LE 2281 which is the difference between the fiscal reports sent to AID & the accounting book. Kindly be informed that the following table shows the difference :

Book	Report	Invoices
59001.30	57166.30	69363.30
38077.20	32759.20	40185.30
36330.45	35602.45	36330.45
34228.20	38061.30	34288.20
31854.55	31693.05	31693.05
199491.7	195282.3	211800.3

The difference in consultants is (Report = 94238.1 , Invoices. = 91250.2)
So according to the salaries we have LE 16518 difference between the book & the report , this difference for us & according to the consultants we have difference (2987.9) for AID.

2.Perdiem & Lodging :

A) Regarding trans. No.1026 check No.669379,dated Feb.7,1996 by the amount of LE 2643,trans. No. 1127 check No. 720403,dated Mar.25,1996 by the amount of LE 1376 & trans. No. 1300 check No. 720610,dated May 12,1996 by the amount of LE 1682.Kindly be informed that all documents are available.
B) A letter from the Project to the accounting department in the MOHP (Financial Controller) to pay back the amount of LE 555 as City taxes,(transactions No.1028& 1265& 1196& 1406 & 1493) Please find attached the letter with the amount.

3.Building Renovations :

A) Regarding trans. No. 1069 check No. 720411 dated Feb,25,1996 by an amount of LE 51354 representing a delay penalty deducted from the subcontractor. This amount

still over in the Project bank account and not paid neither to the contractor or the GOE account. (Please find attached a copy from Aug.1997 CFR. that shows the deduction.)

4.Consultants Costs :

A) Regarding the amount of LE 1895 the difference between the book and the report, actually there is no difference since the difference is existing in the same item of the salaries on the book and the transactions.

APPENDIX II
AUDITOR'S COMMENTS

Auditor's Comments on
Project Implementation Letter (PIL) No.4
Fund Accountability Statement
Detailed of Questioned Costs

Finding No.1 (a)

Management agrees with our finding and has informed us that the amount questioned will be refunded to USAID. However, such amount has not been refunded to USAID as of the date of the issuance of our report. Therefore, our position remains the same.

Finding No.1 (b)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.1 (C)

Management agrees with our finding and has informed us that the amount questioned will be refunded to USAID. However, such amounts has not been refunded to USAID as of the date of the issuance of our report. Therefore, our position remains the same.

Finding No.2 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.2 (b)

Management agrees with our finding and has informed us that the amount questioned will be refunded to USAID. However, such amount has not been refunded to USAID as of the date of the issuance of our report. Therefore, our position remains the same.

Finding No.3 (a)

Management's response to our finding was inadequate and, therefore, our position remains the same. Management indicated that the questioned costs were misclassified in the accounting records as salaries rather as consultants fees. We requested an analysis of the salaries account in the general ledger which clearly identifies these classification errors. However, no such analysis was provided to us.

Finding No.3 (b)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.4 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.4 (b)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.5 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.5 (b)

Management agrees with our finding and has informed us that the amount questioned will be refunded to USAID. However, such amount has not been refunded to USAID as of the date of the issuance of our report. Therefore, our position remains the same.

Finding No.5 (c)

Based on documents (USAID's project officer approval) and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.6 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Auditor's Comments on
Project Implementation Letter (PIL) No.7
Fund Accountability Statement
Detailed of Questioned Costs

Finding No.1 (a)

Management agrees with our finding and has informed us that the amount questioned will be refunded to USAID. However ,such amounts has not been refunded to USAID as of the date of the issuance of our report. Therefore, our position remains the same.

Finding No.1 (b)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.1 (c)

Based on documents and clarifications provided to us, subsequent t issuance of the draft report, this finding has been removed.

Finding No.1 (d)

Management's response to our finding is inadequate and, therefore, our position remains the same. Management indicated that the questions costs were misclassified in the accounting records as training honoraria rather than travel and per diem. We requested an analysis of the training honoraria account in the general ledger clearly identifies these classification errors. However no such analysis was provided to us.

Finding No.2 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.2 (b)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.3 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.4 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Auditor's Comments on
Project Implementation Letter (PIL) No.13
Fund Accountability Statement
Detailed of Questioned Costs

Finding No.1 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.1 (b)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.2 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.2 (b)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Auditor's Comments on
Project Implementation Letter (PIL) No.14
Fund Accountability Statement
Detailed of Questioned Costs

Finding No.1 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.1 (b)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.2 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.3 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.4 (a)

Management indicated that the UAID/Egypt "FAST TEAM" has reviewed this transaction prior to our audit. However, the supporting documentation related to the questioned costs was missing and not available for us to audit. Due to the fact that we were unable to perform audit procedures over this transaction and, also, due to the fact that the supporting documentation is missing our position remains the same.

Finding No.5 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.6 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.7 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Auditor's Comments on
Project Implementation Letter (PIL) No.24
Fund Accountability Statement
Detailed of Questioned Costs

Finding No.1 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No 1 (b)

Management's response to our finding was inadequate and, therefore, our position remains the same. Management indicated that the questioned costs were misclassified in the accounting records as salaries rather as consultants fees. We requested an analysis of the salaries account in the general ledger which clearly identifies these classification errors. However, no such analysis was provided to us.

Finding No.2 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No.2 (b)

Management agrees with our finding and has informed us that the amount questioned will be refunded to USAID. However, such amount has not been refunded to USAID as of the date of the issuance of our report. Therefore, our position remains the same.

Finding No.3 (a)

Based on documents and clarifications provided to us, subsequent to the issuance of the draft report, this finding has been removed.

Finding No 4 (a)

Management's response to our finding was inadequate and, therefore, our position remains the same. Management indicated that the questioned costs were misclassified in the accounting records as salaries rather as consultants fees. We requested an analysis of the salaries account in the general ledger which clearly identifies these classification errors. However, no such analysis was provided to us.

Auditor's Comments on
Management Response to the
Report on the Internal Control Structure and
Report on Compliance with Laws and Regulations

Management did not respond to audit findings in our draft report on the internal control structure nor those in our report on compliance with laws and regulations. Therefore, our position remains the same.

APPENDIX III
MISSION'S COMMENTS

USAID

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

January 6, 1997

MEMORANDUM

TO: Lou Mundy, RIG/A/C

FROM: Shirley A. Hunter, Division Chief, FM/FA

SUBJECT: Financial Audit of the Ministry of Health, Expenditures Incurred under Project Implementation Letters Nos. 4, 7, 13, 14 and 24 of the USAID/Egypt's Cost Recovery for Health Project (CRHP) No. 263-0170
Draft Report dated November 30, 1997

Since April 1995, five financial reviews were conducted on CRHP by the Mission's Financial Analysis Support Team (FAST). The reviews resulted in Reports No. 95-22 dated 04/26/1995, 96-23 dated 10/21/1996, 97-20 dated 01/27/1997, 97-18 dated 03/05/1997, 97-39 dated 07/08/1997, and 97-21 dated 07/14/1997.

The above assignments included direct assistance, provided by Financial Analysts to address the audit recommendations under the Financial Audit No. 263-96-19-N dated 4/16/1996, which related to preparation of bank reconciliations and commingling of PILs funds. Direct assistance was also provided by a Financial Analyst to address recommendations under the Performance Audit No. 263-96-11 dated 8/29/1996.

In addition, two financial training courses were provided by FAST to the CRHP staff. The courses were held in December 1995 and March 1997, and were attended by one key person, and by 26 CRHP employees respectively. The training aimed to protect the future USAID investment in the Project through its completion date of September 1998.

In spite of the above assistance, there are continuing weaknesses in the project accounting system. According to the Technical Office, these weaknesses are due, in large part, to the significant staff turn over during the past two years. The high staff turn over is an internal control weakness which needs to be addressed by CRHP.

106 Kasr El Aini Street
Garden City
Cairo, Egypt

Following is the Mission response to Recommendation Nos. 1 and 2:

Recommendation No. 1:

We recommend that USAID/Egypt make a management decision on the questioned costs of $30,818 ($5,234 ineligible and $25,584 unsupported) detailed on pages 18 through 29 of the audit report, and recover from the Ministry of Health the amounts determined to be unallowable.

Mission Response: Mission has reviewed the findings under this recommendation, held meetings with CRHP, obtained working papers from the CPA firm (attachment No. 2), and obtained a written response from CRHP (attachment No. 3). Based on the Mission's review, a number of findings have been agreed upon. However, Mission has yet to conduct further analysis of the available documents, as well as field review, before a final determination can be made. The questioned costs of $30,818 (LE 104,482) consist of the following three categories:

- **$ 5,234 (LE 17,743)** Ineligible amounts representing sales and city taxes, agreed to be refunded by CRHP

- **$12,785 (LE 43,351)** representing salaries, consultants, and travel/per diem costs unsupported by the accounting records, where the General Ledger amounts are lower than the billings to USAID. CRHP stated that these amounts resulted from line item mis-classifications. CRHP submitted analysis of the relevant line items. Furthermore, Mission obtained the working papers for the questioned amounts from the CPA firm. However, further field review of CRHP records is required before final determination can be made.

- **$12,799 (LE 43,388)** Unsupported office furniture costs. CRHP has not provided documentation in support of this amount.

Recommendation No. 2.:

We recommend that USAID/Egypt obtain evidence that the Ministry of Health has addressed the material non-compliance issue (lack of sound record retention policies and procedures) detailed on page 35 of the audit report.

Mission Response: This finding relates to the questioned costs under recommendation No. 1. Considering the previous USAID assistance provided to CRHP, and that the Project expiration date is September 30, 1998, Mission believes that resolution of the questioned costs will form a sufficient basis to resolve/close this recommendation.

Please issue the final report.