

Report of Audit

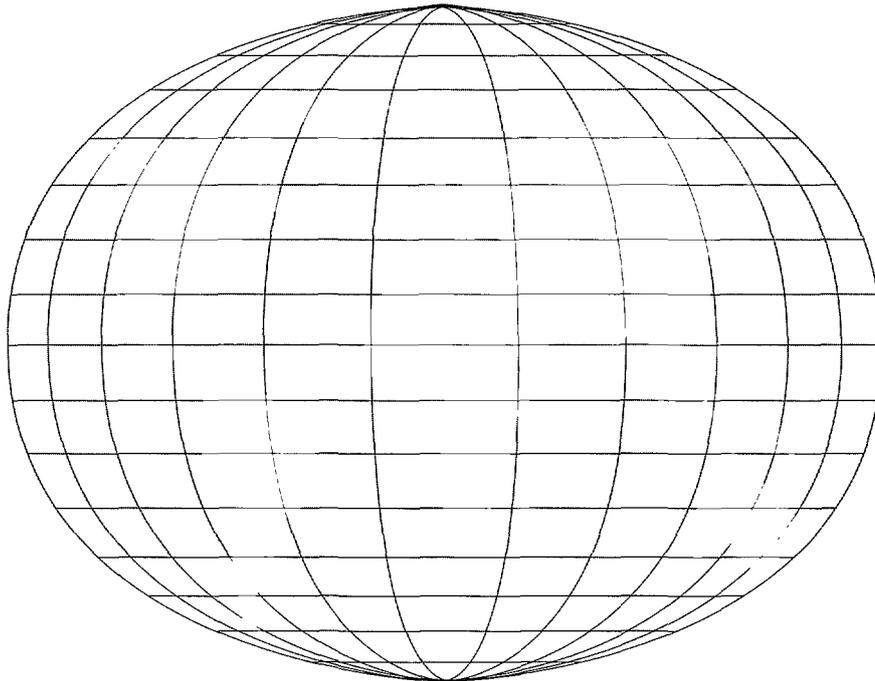
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Financial Audit of the Ministry of Health and Population, Expenditures Incurred Under Implementation Letter No. 2 Under USAID/Egypt's Technical Support for Health Policy Support Program (Project No. 263-0254)

Report No. 6-263-01-002-N
November 20, 2000



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.

Cairo, Egypt

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



CAIRO, EGYPT

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

Report No. 6-263-01-002-N
November 20, 2000

MEMORANDUM

TO: USAID/Egypt Director, Willard J. Pearson, Jr.
Michael W. Clinebell

FROM: Acting RIG/Cairo, Michael W. Clinebell

SUBJECT: Financial Audit of the Ministry of Health and Population, Expenditures Incurred Under Implementation Letter No. 2 Under USAID/Egypt's Technical Support for Health Policy Support Program (Project No. 263-0254)

The attached report, transmitted on October 11, 2000, by KPMG Hazem Hassan, presents the results of a financial audit of the Health Policy Support Program (HPSP) related to expenditures under the subject Implementation Letter (IL). USAID/Egypt provides funds to HPSP to improve the quality, effectiveness, and use of reproductive and child health services in public and private facilities and households. IL No. 2 provides funds to establish and operate a Technical Support Office (the Office) which manages policy and institutional reform activities.

We engaged Hazem Hassan to perform a financial audit of USAID/Egypt resources managed by the Office related to expenditures under IL No. 2. Expenditures subject to the audit included \$237,483 (equivalent to LE 807,445) during the period July 1, 1997 through June 30, 1999. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Hazem Hassan also evaluated the Office'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 firm's report did not identify any questioned costs nor did the auditors identify any reportable internal control conditions or instances of material noncompliance with applicable laws and regulations.

No response is required from USAID/Egypt since no recommendations were included in USAID's Consolidated Audit Tracking System. 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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Financial Audit of
Health Policy Support Program (HPSP)
Implementation Letter No. 2
USAID/Egypt Project No. 263-0254
For the Period July 1, 1997 through June 30, 1999

"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
Health Policy Support Program (HPSP)
Implementation Letter No. 2
USAID/Egypt Project No. 263-0254
For the Period July 1, 1997 through June 30, 1999

Table of Contents

	<u>Page</u>
 <u>Introduction</u>	
Background	1
Audit Objectives and Scope	2
Results of Audit	4
 <u>Fund Accountability Statement</u>	
Independent Auditor's Report	5
Fund Accountability Statement	7
Notes to the Fund Accountability Statement	9
 <u>Internal Control Structure</u>	
Independent Auditor's Report	11
 <u>Compliance with Laws and Regulations</u>	
Independent Auditor's Report	14
 <u>Appendices</u>	
Appendix I	Mission's Comments
Appendix II	Management's Comments
Appendix III	Auditor's Comments

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Mr. Darryl Burris
Regional Inspector General/Cairo
United States Agency for International Development
Cairo, Egypt.

October 11, 2000

Dear Mr. Burris,

This report represents the results of our financial audit of USAID resources managed by the Ministry of Health and Population under Implementation Letter (IL) No. 2 of USAID/Egypt's Technical Support for Health Policy Support Program (HPSP) Project No. 263-0254.

Background

USAID/Egypt provides funding under the Technical Support for Health Policy Support Program (HPSP) to improve the quality, effectiveness and use of reproductive and child health services in public and private facilities and households. Under Implementation Letter (IL) No.2, USAID/Egypt approved funds to establish and operate a Health Policy Support Program Technical Support Office TSO. The TSO manages policy and institutional reform activities in the areas of (1) management of curative care facilities and programs, (2) management information systems and (3) field surveys and data collection. Implementation Letter (IL) No. 2 financed operating costs of the TSO such as technical assistance, equipment, and furnishings.

1.

Audit Objectives and Scope

The objective of this engagement was to conduct a financial audit of Technical Support for Health Policy Support Program's expenditures incurred under IL No. 2 for the period July 1, 1997 through June 30, 1999. The audit encompassed an examination of HPSP'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 IL and applicable USAID/Egypt rules and regulations. We also reviewed internal controls associated with HPSP's management of resources funded by USAID/Egypt through the IL.

The specific objectives were to:

1. Express an opinion on whether the fund accountability statement for the USAID financed program of HPSP presents fairly, in all material respects, project revenues received and costs incurred for the period under audit, in conformity with generally accepted accounting principles or other comprehensive basis of accounting;
2. Determine if the costs, reported as incurred under the IL, are, in fact, allowable, allocable, and reasonable in accordance with the terms of the agreement;
3. Evaluate and obtain a sufficient understanding of the internal controls of HPSP, assess control risk, and identify reportable conditions, including material internal control weaknesses; and
4. Perform tests to determine whether HPSP complied, in all material respects, with the terms and conditions of the IL and, also, applicable laws and USAID/Egypt rules and regulations;

Preliminary planning and review procedures started in August 2000 and consisted of:

- Discussions with RIG/Cairo;
- A review of the IL;
- Interviews and discussions with HPSP's key personnel concerning the status of the IL, accomplishments during the period, the statutory reporting requirements, the IL's budget, procedures governing actual expenditures incurred by HPSP's office in Egypt and billed to USAID/Egypt; and

- Review of HPSP's organizational structure and HPSP'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 August 24, 2000. The scope of our work was to audit costs incurred by HPSP and reimbursed by USAID/Egypt under IL No. 2. Within each budget line item, we selected transactions on a judgmental basis in order to perform a substantive test of details. We tested expenditures of \$66,019 (equivalent to LE 224,466) out of total expenditures amounting to \$237,483 (equivalent to LE 807,445).

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

1. Reconciling HPSP's accounting records to invoices issued to USAID/Egypt and testing costs for allowability, allocability, reasonableness, and adequate supporting documentation;
2. Determining whether salaries and wages, other direct costs, commodities, travel and transportation, technology transfer, allowances and grants were appropriate and consistent with the terms of the IL and applicable rules and regulations and were adequately supported and approved.

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

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

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

Results of Audit

Fund Accountability Statement

Our audit did not identify any questioned costs.

Internal Controls

Our audit did not identify any reportable conditions associated with HPSP's internal controls.

Compliance with Laws and Regulations

Our audit did not identify any material instances of noncompliance with applicable laws and regulations.

Supplementary Information

A supplementary Fund Accountability Statement, presented in the functional currency was communicated to HPSP's management and is available upon request.

Management Comments

Since KPMG Hazem Hassan did not identify any questioned costs, nor any reportable internal control conditions or material non compliance with applicable laws and regulations, management officials did not provide any comments for inclusion in the final audit report.

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



KPMG Hazem Hassan
Cairo, Egypt

FUND ACCOUNTABILITY STATEMENT



Hazem Hassan

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Report on the Fund Accountability Statement Independent Auditor's Report

Mr. Darryl Burris
Regional Inspector General/Cairo
United States Agency for International Development
Cairo, Egypt.

We have audited the accompanying fund accountability statement of funds received and costs incurred by the Technical Support for Health Policy Support Program (HPSP), USAID/Egypt Project No. 263-0254, under Implementation Letter (IL) No. 2 for the period July 1, 1997 through June 30, 1999. This fund accountability statement is the responsibility of HPSP's management. Our responsibility is to express an opinion on this fund accountability statement based upon our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards, issued by the Comptroller General of the United States. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statement is free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the presentation of the overall fund accountability statement. We believe that our audit provides a reasonable basis for our opinion.

We did not have an external quality control review by an unaffiliated audit organization, as required by paragraph 33 of Chapter 3 of Government Auditing Standards, because no

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KPMG Hazem Hassan

such quality control review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of Government Auditing Standards is not material because we have participated in the KPMG worldwide internal quality control program. This program requires our office to be subjected, every two years, to an extensive quality control review by partners and managers from other KPMG offices.

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

In our opinion, the fund accountability statement, referred to above, presents fairly, in all material respects, the amounts received and the costs incurred by HPSP pursuant to USAID/Egypt Project No. 263-0254 under IL No. 2 for the period July 1, 1997 through June 30, 2000 in conformity with the basis of accounting described in Note 1.

Our audit was performed for the purpose of forming an opinion on the fund accountability statement. The accompanying schedule of USAID/Egypt direct procurement is presented for purposes of additional analysis and is not a required part of the fund accountability statement. Such information has been subjected to the auditing procedures applied in the audit of the fund accountability statement and, in our opinion, is fairly stated, in all material respects, in relation to the fund accountability statement.

KPMG Hazem Hassan

KPMG Hazem Hassan
Cairo, Egypt

August 24, 2000

Health Policy Support Program (HPSP)
Fund Accountability Statement
Implementation Letter (IL) No. 2
Under USAID/Egypt Project No. 263-0254
For the Period July 1, 1997 through June 30, 1999

	<u>Budget</u>	<u>Actual</u>
	\$	\$
Cash received from USAID		347,393
 <u>Expenditures</u>		
Contracted Employees	255,882	130,305
Consultant Fees	79,412	16,496
Supplies	57,353	2,937
Equipment/Furnishings	127,353	2,225
Maintenance & Administrative	48,235	2,843
Transportation	88,235	1,798
Per Diem/Lodging	61,765	70,339
Renovation	132,353	0
Training Allowances	17,647	9,247
Training Services	52,941	1,293
Total	921,176	237,483
 Balance as of June 30, 1999		 109,910

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

Health Policy Support Program (HPSP)
Schedule of Direct Procurement of Technical assistance Provided by USAID
Implementation Letter (IL) No. 2
Under USAID/Egypt Project No. 263-0254
For the Period July 1, 1997 through June 30, 1999

<u>Description</u>	<u>Budget</u>	<u>Actual</u>
	\$	\$
Technical assistance provided by ABT associates	<u>9,000,000</u>	<u>6,577,597</u>

Financial Audit of
Health Policy Support Program (HPSP)
USAID/Egypt Project No. 263-0254
Implementation Letter (IL) No. 2
For the Period July 1, 1997 through June 30, 1999

Notes to the Fund Accountability Statement

Note 1: Accounting Basis

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

Note 2: Source of Data

The column labeled "Actual" is the responsibility of HPSP management and represents the cumulative costs billed to USAID/Egypt for the period July 1, 1997 through June 30, 1999.

Note 3: Translation Rate

Expenditures paid in Egyptian Pounds (LE) have been translated into US Dollars (\$). The period average exchange rate method was used. This rate was \$1 = LE 3.4.

Note 4: USAID/Egypt Funds Received

Revenues reported in the fund accountability statement included an amount of \$108,779 (equivalent to LE369,847) which represents reimbursements of costs incurred by HPSP and billed to USAID/Egypt during the reporting period and received from USAID/Egypt subsequent to the end of the reporting period.

Note 5: Budget

The column labeled "Budget" includes USAID/Egypt's approved budget in accordance with the most recent budget amendment of the IL, which was made during the reporting period, and have been reported in the fund accountability statement for presentation purposes only.

INTERNAL CONTROLS



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Internal Controls Independent Auditor's Report

Mr. Darryl Burris
Regional Inspector General/Cairo
United States Agency for International Development
Cairo, Egypt.

We have audited the accompanying fund accountability statement of locally incurred costs of Technical Support for Health Policy Support Program (HPSP) Project No. 263-0254, under IL No. 2 for the period July 1, 1997 through June 30, 1999, and have issued our report thereon dated August 24, 2000.

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

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

The management of HPSP is responsible for establishing and maintaining an 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 internal controls are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or 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 statement 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 statement of HPSP related to funds received and costs incurred under USAID/Egypt IL No. 2 for the period July 1, 1997 through June 30, 1999, we obtained an understanding of the internal controls associated with HPSP's operations in Egypt. With respect to the internal controls associated with HPSP's operations, we obtained an understanding of the design of relevant polices 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 our opinion on the fund accountability statement and not to provide an opinion on the internal controls. Accordingly, we do not express such an opinion.

Our consideration of internal controls would not necessarily disclose all matters in the internal controls that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of one or more of the specific internal control elements does not reduce to relatively low level the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the

 KPMG Hazem Hassan

internal controls and their operation that we consider to be material weaknesses as defined above.

This report is intended for the information of HPSP'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

August 24, 2000

COMPLIANCE WITH LAWS
AND REGULATIONS



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

Mr. Darryl Burris
Regional Inspector General/Cairo
United States Agency for International Development
Cairo, Egypt.

We have audited the accompanying fund accountability statement of costs incurred by HPSP USAID/Egypt Project No. 263-0254, under IL No.2 for the period July 1, 1997 through June 30, 1999 and have issued our report thereon dated August 24, 2000.

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

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

Compliance with laws, regulations, contracts and grants applicable to HPSP is the responsibility of HPSP's

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KPMG Hazem Hassan

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

The results of our tests disclosed no material instances of noncompliance that are required to be reported herein under Government Auditing Standards. However, We noted one immaterial matter involving the compliance with applicable laws and regulations that we have communicated to the management of HPSP in a separate letter dated August 24, 2000.

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

KPMG Hazem Hassan

KPMG Hazem Hassan
Cairo, Egypt

August 24, 2000

APPENDIX I
MISSION'S COMMENTS

**The audit report contains no recommendations
for Mission action.**

APPENDIX II
Management's COMMENTS

Management's Comments

Since KPMG Hazem Hassan did not identify any questioned costs, nor any reportable internal control conditions or material non compliance with applicable laws and regulations, management officials did not provide any comments for inclusion in the final audit report.

APPENDIX III
Auditor's COMMENTS

Auditor's Comments

Since KPMG Hazem Hassan did not identify any questioned costs, nor any reportable internal control conditions or material non compliance with applicable laws and regulations, management officials did not provide any comments for inclusion in the final audit report.