Financial Audit of the Ministry of Health, Schistosomiasis Research Project Subgrant Agreement Under the Science and Technology for Development Project (USAID/Egypt Project No. 263-0140)

Report No. 6-263-96-16-N
April 9, 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.
MEMORANDUM

TO: DIRECTOR USAID/Egypt, John R. Westley
FROM: RIG/A/C, Lou Mundy
SUBJECT: Financial Audit of the Ministry of Health, Schistosomiasis Research Project Subgrant Agreement Under the Science and Technology for Development Project (USAID/Egypt Project No. 263-0140)

April 9, 1996

The attached report, transmitted on February 15, 1996, by Allied Accountants, presents the results of a financial audit of the Ministry of Health's Schistosomiasis Research Project Secretariat (MOH Secretariat) as it relates to the Schistosomiasis Research Project Subgrant Agreement for Project Implementation Letters (PILs) Nos. 3, 5, and 8 under the Science and Technology for Development Project; USAID/Egypt Project No. 263-0140. The purpose of the PILs is to provide financing for Subgrant Agreement management, research activities in six interrelated areas to develop new, or adapt existing, technologies for schistosomiasis control, and international travel for study in the United States.

We engaged Allied Accountants to perform a financial audit of the MOH Secretariat's incurred expenditures of $2,893,348 (equivalent to LE9,721,650) for the period June 1, 1992 through November 30, 1994. The purpose of the audit was to evaluate the propriety of costs incurred during this period. Allied Accountants also evaluated the MOH Secretariat's internal controls and compliance with applicable laws, regulations and agreement terms as they relate to the Subgrant Agreement and as necessary in forming an opinion regarding the Fund Accountability Statements.

The audit report questions $1,150 (equivalent to LE3,867) in costs billed to USAID/Egypt under the Subgrant Agreement. The questioned costs related primarily to unsupported...
telephone charges, unbudgeted bank charges, and the purchase of an item from a non-free world country. The auditors noted no material weaknesses in the MOH Secretariat's internal control structure and no instances of material noncompliance with applicable laws, regulations, and agreement terms.

In response to the draft report, responsible Secretariat officials basically agreed with the audit findings, therefore, Allied Accountants did not make any adjustments to the report (see Appendices A and B).

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

**Recommendation No. 1:** We recommend that USAID/Egypt resolve the questioned costs of $1,150 (ineligible costs of $501 and unsupported costs of $649) detailed on page 13 of the Allied Accountants audit report, and recover from the Ministry of Health, Schistosomiasis Research Project Secretariat the amounts determined to be unallowable.

Recommendation No. 1 is unresolved and will be considered resolved upon the Mission's determination of the amount of recovery; it will be considered closed upon the recovery of funds, offset of funds, or issuance of a bill for collection.

Please advise this office within 30 days of any action planned or taken to resolve 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
Ministry of Health

Audit of Expenditures Incurred Under the Schistosomiasis Research Project Subgrant Agreement No. 263-0140.02

Fund Accountability Statements
Project Implementation Letters (PILs) Nos. 3, 5 and 8 for the period from June 1, 1992 to November 30, 1994
Ministry of Health

Audit of Expenditures Incurred Under the Schistosomiasis Research Project Subgrant Agreement No. 263-0140.02

Fund Accountability Statements
Project Implementation Letters (PILs) Nos. 3, 5 and 8 for the period from June 1, 1992 to November 30, 1994

Table of Contents

Transmittal Letter

Background 1
Audit Objectives, Scope and Methodology 2
Results of Audit 4
Management Comments 4

Fund Accountability Statements

Report of Independent Public Accountants 5
Fund Accountability Statement PIL No. 3 7
Fund Accountability Statement PIL No. 5 8
Fund Accountability Statement PIL No. 8 9
Notes to the Fund Accountability Statements 10
Audit Findings 13

Internal Control Structure

Report of Independent Public Accountants 14

Compliance with Laws and Regulations

Report of Independent Public Accountants 16

Appendices

Appendix A: Project Secretariat of the Ministry of Health Management Comments

Appendix B: Auditors’ Response to Management Comments

Appendix C: United States Agency for International Development Mission in Egypt’s Response to the Audit Report
February 15, 1996

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

Dear Mr. Mundy:

This report presents the results of the financial audit of the Schistosomiasis Research Project Subgrant Agreement 263-0140.02 for Project Implementation Letters (PILs) Nos. 3, 5 and 8 funded by the United States Agency for International Development Mission in Egypt (USAID/Egypt) for the period from June 1, 1992 to November 30, 1994.

Background

A Grant between the Arab Republic of Egypt and the United States of America for the Science and Technology for Development Project No. 263-0140 was signed on March 31, 1986; the Grant remains in effect until September 30, 1998.

The Subgrant Agreement between the Arab Republic of Egypt and the United States of America for the Schistosomiasis Research Science and Technology for Development Project No. 263-0140.02 (the Project) was signed on September 27, 1988; the Agreement remains in effect until September 30, 1998. The primary purpose of the Project is to develop, through directed research, the tools, methods, and information necessary to assist the Ministry of Health in more effectively controlling schistosomiasis. The secondary purpose is to develop the biomedical research capability of existing medical research institutions to conduct practical and control oriented research.

The Ministry of Health (MOH) established the Schistosomiasis Research Project Secretariat (Project Secretariat) for day-to-day administration, management and technical implementation of the Project.

Project Implementation Letter (PIL) No. 3 between the Ministry of Health and the United States Agency for International Development Mission in Egypt was implemented on March 1, 1989; the PIL remains in effect until December 31, 1995. PIL No. 3 is designed to help finance the Project Secretariat’s costs associated with the management of the Project.

Project Implementation Letter (PIL) No. 5 between the Ministry of Health and the United States Agency for International Development Mission in Egypt was implemented on September 7, 1989; the PIL remains in effect until June 30, 1996. PIL No. 5 is designed to cover the financing of the research activities in six interrelated areas to develop new, or adapt existing, technologies for schistosomiasis control. These interrelated, but distinct, components are: Vaccine Development, Improved Diagnostics, Improved Chemotherapy, Epidemiology, Socio-economic Factors Influencing Transmission and Operations Research. The Project awards research grants to principle investigators and young scientists who study and report on research activities.

Project Implementation Letter (PIL) No. 8 between the Ministry of Health and the United States Agency for International Development Mission in Egypt was implemented on July 9, 1990; the PIL
remains in effect until December 31, 1995. PIL No. 8 provides financing for the international travel of the Project Secretariat, participant training and Egyptian study tour travel to the United States of America.

Audit Objectives, Scope and Methodology

The objective of this audit was to conduct a financial audit of USAID/Egypt resources managed by the Project Secretariat of the Ministry of Health pursuant to PILs Nos. 3, 5 and 8 related to the Schistosomiasis Research Project (the Project). The specific objectives of our engagement were to:

1. Express an opinion on whether the fund accountability statements for the USAID/Egypt financed Project of the Project Secretariat of the Ministry of Health present fairly, in all material respects, funds received and costs incurred for the audit period in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including the cash basis and or modifications of the cash basis;

2. Determine if the costs reported as incurred under the PILs are in fact allowable, allocable, and reasonable in accordance with the terms of the Grant Agreement, Subgrant Agreement and PILs;

3. Evaluate and obtain a sufficient understanding of the internal control structure of the Project Secretariat of the Ministry of Health as it relates to PILs No. 3, 5 and 8, assess control risk, and identify reportable conditions, including material internal control weaknesses; and

4. Perform tests to determine whether the Project Secretariat of the Ministry of Health complied, in all material respects, with the Grant Agreement, Subgrant Agreement, PILs’ terms and applicable laws and regulations.

The scope of our financial cost-incurred audit was all the expenditures remitted and the required counterpart contributions for the Project for the periods from June 1, 1992 to November 30, 1994 for PILs Nos. 3, 5 and 8.

The methodology of the audit consisted of an internal control evaluation, testing of expenditures remitted under the PILs and testing of the Project Secretariat of the Ministry of Health’s compliance with specific provisions/requirements of the Grant Agreement, Subgrant Agreement, PILs and the applicable laws and regulations.

Our testing included a judgmental selection of costs incurred for each budget line element as disclosed in the fund accountability statements. We tested costs as follows:

<table>
<thead>
<tr>
<th>Agreement</th>
<th>Total Cost</th>
<th>Tested Amount</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>PIL No. 3 US $</td>
<td>260,706</td>
<td>81,181</td>
<td>31%</td>
</tr>
<tr>
<td>(Equivalent in LE)</td>
<td>875,976</td>
<td>272,768</td>
<td></td>
</tr>
<tr>
<td>PIL No. 5 US $</td>
<td>2,494,680</td>
<td>404,812</td>
<td>16%</td>
</tr>
<tr>
<td>(Equivalent in LE)</td>
<td>8,382,122</td>
<td>1,360,171</td>
<td></td>
</tr>
<tr>
<td>PIL No. 8 US $</td>
<td>137,962</td>
<td>43,777</td>
<td>32%</td>
</tr>
<tr>
<td>(Equivalent in LE)</td>
<td>463,552</td>
<td>147,092</td>
<td></td>
</tr>
</tbody>
</table>
For our audit, we used judgmental sampling techniques to test whether or not USAID/Egypt funded activity was properly supported in the accounting records and that expenditures were reasonable and in compliance with the provisions of the Grant Agreement, Subgrant Agreement and the PILs. For PIL’s 3 and 8 we selected monthly budget element transactions or disbursements so as to adequately cover the audit period. Since PIL 5 funds research activities performed by principle investigators (PIs), we stratified the sample by funding levels and systematically selected principle investigators. Further, we did not identify any areas which would have required us to expand our scope.

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

1. A review of the Grant Agreement, Subgrant Agreement, Project Implementation Letters Nos. 3, 5 and 8 and their amendments, USAID Handbook 1 Supplement B Chapter 18 and other pertinent laws and regulations applicable to the Project.

2. A review of the direct Project expenditures billed to and reimbursed by USAID/Egypt was performed. General ledger and cash journals were reconciled to billings submitted to USAID/Egypt.

3. A review of the funds provided by USAID/Egypt to ensure that they were deposited in separate bank accounts and that the related transactions were properly recorded. We also performed a review of the procedures used to control cash.

4. A review of training and travel costs to determine if they were adequately documented and approved.

5. A review of procurement procedures to determine that sound commercial practices, including competitive bids, was used.

6. A determination of whether advances of funds were justified, based on the existing documentation, including a reconciliation of funds advanced, disbursed and available.

7. The performance of site visits to selected principle investigators to review additional documentation, as an alternative method, to support costs related to salaries and a physical inspection of the equipment purchased with Egyptian Pounds was performed.

8. A review of direct salaries to ensure charges were in accordance with those approved by USAID/Egypt and are supported by appropriate payroll records.

9. A review of the Project Secretariat of the Ministry of Health’s electronic data processing system to determine the administrations' policies and procedures concerning the system software support, operations, security, internal audit, back up and contingency/recovery plan.

10. A review of the host country contributions records to determine that the Project Secretariat of the Ministry of Health adhered to the requirements as specified in the Grant Agreement and Subgrant Agreement.

We reviewed and evaluated the Project Secretariat of the Ministry of Health’s internal control structure as it relates to PILs Nos. 3, 5 and 8 to obtain an understanding of the design of relevant control policies and procedures, and whether those policies and procedures have been placed in operation. We obtained a sufficient understanding of the internal control structure to plan the audit and to determine the nature, timing and extent of the tests to be performed.
Initial planning began with an entrance conference that was attended by our audit team, RIG/AJC personnel, USAID/Egypt Project Officer and the Project Secretariat of the Ministry of Health's management staff. At the conclusion of the fieldwork a meeting was conducted with the management staff to discuss the unresolved findings identified during our fieldwork.

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

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

Results of Audit

Fund Accountability Statements

Our audit identified US $1,150 (LE 3,867) in aggregate questioned costs, consisting of US $ 649 (LE 2,180) in unsupported costs and US $501 (LE 1,687) in ineligible costs. The details of costs questioned under the respective PILs are presented in the Fund Accountability Statements - Audit Finding section of this report. We considered the questioned costs in forming our opinion on the fund accountability statements. Because the questioned costs represent .04% of total expenses and are isolated instances of noncompliance we have issued an unqualified opinion.

Internal Control

Our evaluations of the internal control structure did not disclose matters which we believe are material weaknesses. We did identify certain other matters that have brought to the attention of the Project Secretariat of the Ministry of Health’s management and USAID/Egypt through a separate management letter.

Compliance with Applicable Laws and Regulations

In performing our engagement, we did not identify any matters of material noncompliance. We did identify certain other matters that we have brought to the attention of the Project Secretariat of the Ministry of Health’s management and USAID/Egypt through a separate management letter.

Management Comments

SRP Management has provided comments on the results of the audit findings. The management response is included in Appendix A. We provided responses to management’s comments in Appendix B. SRP basically agrees with our findings, therefore, our findings remains unchanged.
Report of Independent Public Accountants

We have audited the accompanying fund accountability statements of the Schistosomiasis Research Project for the period from June 1, 1992 to November 30, 1994 relating to revenues received and costs incurred under Project Implementation Letters (PILs) Nos. 3, 5 and 8 of the Project Secretariat of the Ministry of Health pursuant to Subgrant Agreement No. 263-0140.02 financed by the United States Agency for International Development Mission in Egypt (USAID/Egypt). These fund accountability statements are the responsibility of the Project Secretariat of the Ministry of Health’s management. Our responsibility is to express an opinion on these fund accountability statements based on our audit.

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

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

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

In our opinion, the fund accountability statements referred to above present fairly, in all material respects, the Project Secretariat of the Ministry of Health’s revenues received and costs incurred under Project Implementation Letters (PILs) Nos. 3, 5 and 8 for the Schistosomiasis Research Project, Subgrant Agreement 263-0140.02 for the period from June 1, 1992 to November 30, 1994 in conformity with the cash basis of accounting as described in Note 2.
This report is intended for the information of the management and others within the Project Secretariat of the Ministry of Health and the United States Agency for International Development Mission in Egypt. This restriction is not intended to limit the distribution of this report which is a matter of public record.

December 6, 1995

Allied Accountants/Arthur Andersen, Egypt
Ministry of Health

Audit of Expenditures Incurred Under the Schistosomiasis Research Project
Subgrant Agreement No. 263-0140.02

Project Implementation Letter No. 3

Fund Accountability Statement
for the period from
June 1, 1992 to November 30, 1994

<table>
<thead>
<tr>
<th>Budget (Note 5)</th>
<th>Actual</th>
<th>Questioned Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>US $</td>
<td>US $</td>
<td>Ineligible</td>
</tr>
<tr>
<td>(Note 6)</td>
<td></td>
<td>US $</td>
</tr>
</tbody>
</table>

Receipts

Balance 5/31/92  (16,820)
USAID/Egypt   240,393
GOE reimbursement of disallowed costs  2,464

Total funds available  226,037

Expenditures

Salaries  280,219  188,168
Committee meetings  4,643  3,497
Consulting fees  13,728  10,231
Equipment and supplies  56,165  41,887  207  1
Travel  16,923  6,637
Workshops and seminars  23,856  46
Communications  21,403  10,240

Total expenditures  416,937  260,706  207

Balance (Note 4)  (34,669)

See the accompanying notes to the Fund Accountability Statements.
Ministry of Health

Audit of Expenditures Incurred Under the Schistosomiasis Research Project
Subgrant Agreement No. 263-0140.02

Project Implementation Letter No. 5

Fund Accountability Statement
for the period from June 1, 1992 to November 30, 1994

<table>
<thead>
<tr>
<th>Receipts</th>
<th></th>
<th>Expenditures</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Balance 5/31/92</td>
<td>(140,913)</td>
<td>Salaries and consultants</td>
<td>1,518,032</td>
</tr>
<tr>
<td></td>
<td>USAID/Egypt</td>
<td>2,414,379</td>
<td>Local materials and supplies</td>
<td>979,573</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Travel and per diem</td>
<td>333,068</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Training in Egypt</td>
<td>21,236</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Other direct costs</td>
<td>339,410</td>
</tr>
<tr>
<td></td>
<td>Total funds available</td>
<td>2,273,466</td>
<td>Total expenditures</td>
<td>3,191,319</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Advances to the principle investigators</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Balance (Note 4)</td>
<td></td>
</tr>
</tbody>
</table>

| Budget (Note 5) | Questioned Costs | Finding No. (Note 6) |
| US $ | US $ | Ineligible | Unsupported |
| US $ | US $ |

See the accompanying notes to the Fund Accountability Statements.
Ministry of Health

Audit of Expenditures Incurred Under the Schistosomiasis Research Project
Subgrant Agreement No. 263-0140.02

Project Implementation Letter No. 8

Fund Accountability Statement
for the period from
June 1, 1992 to November 30, 1994

<table>
<thead>
<tr>
<th>Receipts</th>
<th>Budget (Note 5) US $</th>
<th>Actual US $</th>
<th>Ineligible US $</th>
<th>Unsupported US $</th>
<th>Finding No. (Note 6)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance 5/31/92</td>
<td></td>
<td>3,527</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USAID/Egypt</td>
<td></td>
<td>164,778</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total funds available</td>
<td></td>
<td>168,305</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenditures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International travel</td>
<td>192,854</td>
<td>137,962</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total expenditures</td>
<td>192,854</td>
<td>137,962</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance (Note 4)</td>
<td></td>
<td>30,343</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

See the accompanying notes to the Fund Accountability Statements.
Ministry of Health

Audit of Expenditures Incurred Under the
Schistosomiasis Research Center
Subgrant Agreement No. 263-0140.02

Project Implementation Letters (PILs) No. 3, 5 and 8
for the period from
June 1, 1992 to November 30, 1994

Notes to the Fund Accountability Statements

Note 1: Program Activities

The United States Agency for International Development Mission in Egypt (USAID/ Egypt) funded the Schistosomiasis Research Project (the Project) under Subgrant Agreement No. 263-0140.02. Project Implementation Letters (PILs) Nos. 3, 5 and 8 were signed on March 1, 1989 through December 31, 1995 for PIL No. 3, September 7, 1989 through June 30, 1996 for PIL No. 5 and July 9, 1990 through December 31, 1995 for PIL No. 8. The primary purpose of the Project is to develop, through directed research, the tools, methods, and information necessary to assist the Ministry of Health in more effectively controlling schistosomiasis. The secondary purpose is to develop the biomedical research capability of existing medical research institutions to conduct practical and control oriented research.

PIL No. 3 is designed to help finance the Schistosomiasis Research Project Secretariat’s cost associated with the management of the Project.

PIL No. 5 is designed to cover the financing for the research activities. The Project awards research grants to principle investigators and young scientists who study and report on research activities.

PIL No. 8 provides financing for the international travel of the Project Secretariat, participant training and Egyptian study tour travel to the United States of America.

Note 2: Basis of Presentation

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

Note 3: Exchange Rate

Expenditures incurred in Egyptian Pounds (LE) have been converted to United States Dollars (US $) at an average exchange rate of LE 3.36 to US $1 for PILs Nos. 3, 5 and 8.

Note 4: Balance

Funds for PILs Nos. 3 and 5 were made available under a line of credit guaranteed by the Ministry of International Cooperation. The line of credit of US $595,238 (LE 2,000,000) is available
through the National Investment Bank. The reconciliation consists of the following:

<table>
<thead>
<tr>
<th>Description</th>
<th>PIL No. 3</th>
<th>PIL No. 5</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding reimbursements due from</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>USAID/Egypt for 10/94</td>
<td>8,590</td>
<td>118,598</td>
<td>127,188</td>
</tr>
<tr>
<td>USAID/Egypt for 11/94</td>
<td>23,615</td>
<td>102,198</td>
<td>125,813</td>
</tr>
<tr>
<td>Disallowed costs deducted twice by USAID/Egypt</td>
<td>2,464</td>
<td>418</td>
<td>2,464</td>
</tr>
<tr>
<td>(Repaid by USAID/Egypt 6/21/95)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disallowed costs not reimbursed by GOE</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Paid by GOE 4/18/95)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Outstanding advances to principle investigators</td>
<td></td>
<td>61,940</td>
<td>61,940</td>
</tr>
<tr>
<td>Balance</td>
<td>34,669</td>
<td>283,154</td>
<td>317,823</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>PIL No. 3</th>
<th>PIL No. 5</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Line of Credit available</td>
<td></td>
<td></td>
<td>595,238</td>
</tr>
<tr>
<td>Less: Line of Credit balance at 11/30/94</td>
<td>(316,774)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disbursements from the Line of Credit</td>
<td>278,464</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>PIL No. 3</th>
<th>PIL No. 5</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Balance per fund accountability statements</td>
<td>(317,823)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Less: Employee telephone charges</td>
<td>(1,113)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Plus: Payables relating to salaries withheld</td>
<td>39,104</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Payables relating to performance guarantees</td>
<td>1,161</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bank charges relating to PIL No. 8</td>
<td>207</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Disbursements from the Line of Credit</td>
<td>(278,464)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The balance available under PIL No. 8 represents cash available in a bank account at the National Bank of Egypt.

**Note 5: Budget**

The budget for each PIL, as presented in the fund accountability statement, is the budget available for the expenses incurred during the audit period. It has been calculated, for reporting purposes only, by deducting from the total budget approved as of November 30, 1994 the expenditures incurred as of May 31, 1992, as follows:

<table>
<thead>
<tr>
<th>PIL No.</th>
<th>Approved Budget 11/30/94</th>
<th>Expenditures 5/31/92</th>
<th>Budget Available</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>US $</td>
<td>US $</td>
<td>US $</td>
</tr>
<tr>
<td>PIL No. 3</td>
<td>707,509</td>
<td>290,572</td>
<td>416,937</td>
</tr>
<tr>
<td>PIL No. 5</td>
<td>4,590,276</td>
<td>1,398,957</td>
<td>3,191,319</td>
</tr>
<tr>
<td>PIL No. 8</td>
<td>244,863</td>
<td>52,009</td>
<td>192,854</td>
</tr>
</tbody>
</table>

**Note 6: Questioned Cost**

Questioned costs are expenditures that we have determined are not in accordance with the Grant Agreement, Subgrant Agreement, Project Implementation Letters, or other applicable USAID/Egypt regulation and are presented in the fund accountability statements in two separate categories: "Ineligible" costs are deemed to be unallowable because they are not program related, unreasonable or
prohibited by the agreement or other applicable law or regulation. "Unsupported costs" are expenditures which are not supported by adequate documentation.

Our audit identified US $1,150 (LE 3,867) in aggregate questioned costs: US $501 (LE 1,687) as ineligible costs and US $649 (LE 2,180) as unsupported costs. The basis for questioning the specific costs are set forth in the Fund Accountability Statements - Audit Findings section of this report.
Ministry of Health

Audit of Expenditures Incurred Under the
Schistosomiasis Research Project
Subgrant Agreement No. 263-0140.02

Project Implementation Letter (PILs) Nos. 3, 5 and 8

Fund Accountability Statement
for the period from
June 1 1992 to November 30, 1994

Audit Findings

PIL No. 3:

Finding No. 1 Ineligible Costs:

Schistosomiasis Research Project (SRP) classified PIL No. 8 bank charges to the PIL No. 3 equipment and supplies account. PIL No. 8 did not have a budget line for such expenses. Expenses incurred under one PIL cannot be paid for with funds of another PIL. SRP believed these charges to be allowable Project expenses. USAID/Egypt has been billed ineligible costs of US $207 or (LE 697).

Total PIL No. 3 ineligible costs: US $207 or (LE 697).

PIL No. 5:

Finding No. 2 Ineligible Costs:

2.a. A principle investigator (PI) purchased a sensitive balance made in the Peoples Republic of China and SRP's review process did not catch this isolated error. Per PIL No. 3, Attachment No. 4, imported items with any component from a non-free world country makes the item ineligible for USAID financing. SRP has agreed that this expense was an ineligible charge. USAID/Egypt has been billed ineligible costs of US $263 or (LE 885).

2.b. SRP was reimbursed by USAID/Egypt for penalties paid. SRP has agreed that this is an ineligible charge. This error was an isolated failure to identify and remove unallowable costs. USAID/Egypt does not allow reimbursement for either fines or penalties. USAID/Egypt has been billed ineligible costs of US $31 or (LE 105).

Total PIL No. 5 ineligible costs: US $294 or (LE 990).

Finding No. 3 Unsupported Costs:

SRP was reimbursed by USAID/Egypt for unsupported payments of international telephone charges because the principle investigator did not maintain a telephone log which would indicate these were Project related. Project Subgrant Agreement, Second Amendment, Section B.5 states, “The Grantee shall maintain accounting books, records, documents and other evidence relating to the Project and to this Agreement, adequate to show without limitation, all costs incurred under the Grant”. USAID/Egypt has been billed unsupported costs of US $649 or (LE 2,180).

Total PIL No. 5 unsupported costs: US $649 or (LE 2,180).
Mr. Lou Mundy  
Regional Inspector General for Audit/Cairo  
United States Agency for International Development  
Cairo, Egypt

Report of Independent Public Accountant  
On Internal Control Structure

We have audited the accompanying fund accountability statements of the Schistosomiasis Research Project (the Project) for the period from June 1, 1992 to November 30, 1994 relating to revenues received and costs incurred under Project Implementation Letters (PILs) Nos. 3, 5 and 8 of the Project Secretariat of the Ministry of Health pursuant to Subgrant Agreement No. 263-0140.02 financed by the United States Agency for International Development Mission in Egypt (USAID/Egypt) and we have issued our report thereon dated December 6, 1995.

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

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

In planning and performing our audit, we considered the Project Secretariat of the Ministry of Health’s internal control structure as it relates to PILs 3, 5 and 8 in order to determine our auditing procedures for the purpose of expressing our opinion on the fund accountability statements and not to provide assurance on the internal control structure.

The management of the Project Secretariat of the Ministry of Health is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the internal control structure policies and procedures. Among the objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management’s authorization and in accordance with the terms of the Agreements; and transactions are recorded properly to permit the preparation of the fund accountability statements referred to above in conformity with the basis of accounting described in Note 2 to the fund accountability statements. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.
Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be a material weakness.

However, we noted certain other matters involving the internal control structure and its operation that we have reported to the management of the Project Secretariat of the Ministry of Health and the United States Agency for International Development Mission in Egypt in a separate management letter dated December 6, 1995.

This report is intended for the information of the management and others within the Project Secretariat of the Ministry of Health and the United States Agency for International Development Mission in Egypt. This restriction is not intended to limit the distribution of this report which is a matter of public record.

December 6, 1995

Allied Accountants/Arthur Andersen, Egypt
Report of Independent Public Accountants
on Compliance with Laws and Regulations

We have audited the accompanying fund accountability statements of the Schistosomiasis Research Project (the Project) for the period from June 1, 1992 to November 30, 1994 relating to revenues received and costs incurred under Project Implementation Letters (PILs) Nos. 3, 5 and 8 of the Project Secretariat of the Ministry of Health pursuant to Subgrant Agreement No. 263-0140.02 financed by the United States Agency for International Development Mission in Egypt (USAID/Egypt) and have issued our report thereon dated December 6, 1995.

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

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

Compliance with laws, regulations, contracts, and grants applicable to PILs Nos. 3, 5 and 8 is the responsibility of the Project Secretariat of the Ministry of Health’s management. As part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatements, we performed tests of the Project Secretariat of the Ministry of Health’s compliance with certain provisions of laws, regulations, contracts, and grants. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests of compliance indicate that with respect to the items tested the Project Secretariat of the Ministry of Health complied, in all material respects, with the provisions referred to in the fourth paragraph of this report. However, we did note certain non-material instances involving noncompliance with those laws and regulations that we have reported to the management of the Project Secretariat of the Ministry of Health and the United States Agency for International Development Mission in Egypt in a separate management letter dated December 6, 1995.
This report is intended for the information of management and others within the Project Secretariat of the Ministry of Health and the United States Agency for International Development Mission in Egypt. This restriction is not intended to limit the distribution of this report which is a matter of public record.

December 6, 1995

Allied Accountants/Arthur Andersen, Egypt
Ministry of Health
Audit of Expenditures Incurred Under the Schistosomiasis Research Project
Subgrant Agreement No. 263-0140.02

Project Implementation Letter (PILs) Nos. 3, 5 and 8
for the period from
June 1 1992 to November 30, 1994

Project Secretariat of the Ministry of Health's Management Comments

Dear Ms. Zeron,

We have the pleasure to respond to the SRP PIL's 3, 5, 8, audit report and covering letter dated February 8, 1996. Please note that we have received this audit report on the morning of Wednesday February 14, with a request that we respond by COB Thursday February 15. However because there are so few points to answer, we are responding immediately.

Finding #1 ineligible cost LE 697 ($207) bank charges.

Bank charges are an allowable cost, but in PIL #8 there is no line item for bank charges, despite the fact that the PIL #8 funds are passed through a commercial bank at the request of USAID. The SRP has charged the PIL #8 bank charges to PIL #3, and we hope that Project Officer approval can be given for this practice to continue.

Finding #2a ineligible cost LE 885 ($263) Chinese balance

The SRP apologizes for this ineligible charge and will reimburse the sum.

Finding #2b ineligible cost LE 105 ($31) incorrect penalties

The SRP apologizes for not spotting this ineligible cost and will reimburse this sum.

Finding #3 Unsupported costs LE 2,108 ($649) Telephone bills without a telephone log to show that the costs were project related.

The two Principal Investigators involved did not keep a log, and the telephone exchange was not at the time computerized to the extent that itemized calls appeared on the bill. The PI's will sign a statement to the effect that the calls were project related, and in the meantime they will compile documentary evidence to support their declaration. This evidence will be in the form of faxes sent to USA during the period in question. The SRP asks that these unsupported costs be waived.

yours sincerely,

Dr. Taha El Khoby
Ministry of Health

Audit of Expenditures Incurred Under the
Schistosomiasis Research Project
Subgrant Agreement No. 263-0140.02

Project Implementation Letter (PILs) Nos. 3, 5 and 8
for the period from
June 1 1992 to November 30, 1994

Auditors’ Response to Management Comments

Our comments below address the Ministry of Health’s Project Secretariat responses regarding the questioned costs as identified in the findings on the Fund Accountability Statements relating to our audit of the Schistosomiasis Research Project (SRP). SRP basically agrees with our Findings Nos. 2.a. and 2.b. For Finding No. 1 they plan to seek USAID/Egypt Project Officer approval. For Finding No. 3 they are continuing to collect evidential matter to support the questioned cost. Our findings remain unchanged.

The Project Secretariat response is presented in Appendix A.

Finding No. 1 Ineligible Costs

SRP is seeking USAID/Egypt Project Officer approval for this charge. SRP did not adequately respond to address this questioned cost. The finding remains unchanged.

Finding No. 2.a. Ineligible Costs

SRP agrees that this is an ineligible cost and agrees to reimburse USAID/Egypt. The finding remains unchanged.

Finding No. 2.b. Ineligible Costs

SRP agrees that this is an ineligible cost and agrees to reimburse USAID/Egypt. The finding remains unchanged.

Finding No. 3 Unsupported Costs

SRP is seeking additional evidential matter to support this questioned cost. SRP did not provide additional support for this questioned cost. The finding remains unchanged.
Ministry of Health

Audit of Expenditures Incurred Under the Schistosomiasis Research Project Subgrant Agreement No. 263-0140.02

Project Implementation Letter (PILs) Nos. 3, 5 and 8

for the period from
June 1 1992 to November 30, 1994

United States Agency for International Development Mission in Egypt’s Response to the Audit Report
DATE : April 2, 1996

TO : Lou Mundy, RIG/A/C

FROM : Shirley Hunter, OD/FM/FAP


Mission is working with the implementing agency to resolve and close Recommendation No. 1 under the subject audit report, and has no comments to offer at this time. Please issue the final report.