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**DE LAUREAL ENGINEERS, INC.**

**AID Loan No. 263-K-028**

**Audit Report No. AID 84-29**

**May 23, 1984**

Review of Contract Payments under  
de LAUREAL ENGINEERS, INC.  
AID Loan 263-K-028 (Egyptian)

Background

The Regional Inspector General for Audit, Washington (RIG/A/W), completed a review of costs claimed by de Laoreal Engineers, Inc. for work performed under Contract No. AID 263-K-028 during the period July 1, 1979 through December 31, 1983.

Contract No. AID 263-K-028 is a host-country, cost-plus-fixed-fee contract between de Laoreal Engineers, Inc., of New Orleans, Louisiana, and the Arab Republic of Egypt (ARE). When the contract was signed in February 1977, it had a dollar value of \$5,832,134. On January 17, 1984, Amendment No. 9 increased the contract dollar value to \$11,962,438. Under the requirements of the contract, de Laoreal, an architectural and engineering firm, is responsible for the design and construction of two 100,000 ton capacity grain storage silos, one in Shubra (Cairo) and one in Alexandria, Egypt.

Objective, Scope and Methodology

The purpose of this review was to establish final overhead rates for Calendar Years ended December 31, 1979, through December 31, 1983, pursuant to a request received from RIG/A/Cairo. The review was made during March and April, 1984, at the de Laoreal offices in New Orleans, Louisiana.

We reviewed the contractor's reimbursed costs represented by Public Vouchers and the accompanying detailed documentation on a selective basis. These detailed records included employee time sheets, payroll records, travel vouchers, vendors' invoices, subcontractor documentation and other data as deemed necessary. Our examination was conducted in accordance with generally accepted audit standards and included such steps deemed necessary in the circumstances.

FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Contract Costs

Costs claimed and reimbursed during the period July 1, 1979 through December 31, 1983 totaled \$6,749,264. As a result of our audit, we are recommending acceptance of \$7,188,900. The difference of \$439,636 due the contractor is summarized below, and the details are reflected in Exhibit A:

Questioned Direct Costs	\$ 2,943
Unreimbursed Direct Costs	(10,768)
Burden Rate Adjustments	(182,736)
Overhead Rate Adjustments	(306,344)
Fee Adjustment	<u>57,269</u>
Net Total Due Contractor	<u><u>\$ (439,636)</u></u>

During our audit, we reviewed de Laureal's payroll burden and overhead proposals for Calendar Years 1979-1983. During the period under review, de Laureal's business activity decreased substantially. This reduction, plus the transfer of engineering effort to other Divisions, caused their payroll burden and overhead rates to escalate. The results of our review are summarized below:

Payroll Burden Rates

<u>Calendar Year</u>	<u>Proposed Rates (a)</u>	<u>Accepted Rates</u>
1979	32.55%	32.55%
1980	43.54%	43.54%
1981	44.95%	43.98%
1982	61.36%	61.36%
1983	49.92%	49.92%

Overhead Rates

<u>Calendar Year</u>	<u>Proposed Rates (b)</u>	<u>Accepted Rates</u>
1979	76.27%	75.55%
1980	78.04%	77.84%
1981	130.15%	129.46%
1982	151.24%	150.91%
1983	176.38%	170.76%

(a) See Exhibit B.

(b) See Exhibit C.

On April 28, 1980, RIG/A/W issued Audit Report No. 80-5 covering costs incurred by de Laureal under Contract No. AID 263-K-028 for the period February 14, 1977 through June 30, 1979. Recommendation No. 1 of this Audit Report questioned \$73,709, and established final overhead rates from Calendar Years, 1977 and 1978. This recommendation has never been resolved.

**Recommendation No. 1**

**USAID/Egypt and the Arab Republic of Egypt should take appropriate action to:**

- a. ensure settlement of the \$439,636 due the Contractor;**
- b. Finalize payroll burden and overhead rates for Calendar Years 1979 through 1983,**
- c. Resolve Recommendation No. 1 of Audit Report No. 80-5.**

DE LAUREAL ENGINEERS, INC.  
AID Loan No. 263-K-028

Summary of Contract Costs Reimbursed and Questioned  
For the Period February 14, 1977 through December 31, 1983

	Costs Accepted 6/30/79	Current Period Costs (7/1/79-12/31/83)			Total Costs Accepted 12/31/83
		Costs Reimbursed	Costs Questioned	Costs Accepted	
Quay 85 Study	\$ -0-	\$ 24,800	\$ -0-	\$ 24,800	\$ 24,800
Overseas Salaries	254,683	1,060,272	-0-	1,060,272	1,314,955
Overseas Differential	45,714	177,689	155 2/	177,534	223,248
Home Office Salaries and Burden	1,105,189	1,425,800	(142,691) 3/	1,568,491	2,673,680
Insurance	138,573	477,304	-0-	477,304	615,877
Technical Support, Salaries and Other	511,543	1,101,165	19,884 4/	1,081,281	1,592,824
Administrative Support Salaries	90,470	381,527	128 2/	381,399	471,869
Other Direct Costs	32,286	200,462	(5,945) 5/	206,407	238,693
Travel and Per Diem	175,432	278,782	(2,195) 5/	280,977	456,409
Misc. Equipment and Vehicles	34,806	1,590	(1,497) 5/	3,087	37,893
Subcontracts	444,236	22,080	(1,131) 5/	23,211	467,447
Home Office Overhead	937,612	1,170,418	(306,344) 6/	1,476,762	2,414,374
<b>Total Costs</b>	<b>\$3,770,544</b>	<b>\$6,321,889</b>	<b>\$(439,636)</b>	<b>\$6,761,525</b>	<b>\$10,532,069</b>
<b>Fixed Fee</b>	<b>325,439</b>	<b>427,375</b>	<b>-0-</b>	<b>427,375</b>	<b>753,814</b>
<b>Total Cost and Fixed Fee</b>	<b><u>\$4,095,983</u> 1/</b>	<b><u>\$6,749,264</u></b>	<b><u>\$(439,636)</u></b>	<b><u>\$7,188,900</u></b>	<b><u>\$11,284,883</u></b>

Explanatory Notes:

1/ These amounts were tabulated from Audit Report No. 6-263-80-5 (Exhibit A) dated April 28, 1980.

Costs Reimbursed	\$ 4,169,692
Costs Questioned	73,709
Costs Accepted	<u>\$ 4,095,983</u>

DE LAUREAL ENGINEERS, INC.  
AID Loan No. 263-K-028

Summary of Contract Costs Reimbursed and Questioned

Explanatory Notes:

- 2/ Represents medicinal insurance costs that were not incurred.  
3/ Represents the application of contract burden rates to Home Office salaries reimbursed and accepted.

	Calendar Year					Total Costs Questioned
	<u>1979</u> (a)	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	
Salaries Claimed and Accepted	\$ 595,734	\$ 488,200	\$194,832	\$ 91,861	\$ 8,070	
Accepted Burden Rates (b)	<u>32.55%</u>	<u>43.54%</u>	<u>43.98%</u>	<u>61.36%</u>	<u>49.92%</u>	
Accepted Burden	\$ 193,912	\$ 212,562	\$ 85,687	\$ 56,366	\$ 4,029	
Burden Claimed (Reimbursed)	<u>174,400</u>	<u>146,460</u>	<u>58,450</u>	<u>27,558</u>	<u>2,997</u>	
Difference Due Contractor	<u>\$ (19,512)</u>	<u>\$ (66,102)</u>	<u>\$ (27,237)</u>	<u>\$ (28,808)</u>	<u>\$ (1,032)</u>	<u>\$ (142,691)</u>

(a) Includes costs applicable to the first six months of CY 1979 as reflected in Audit Report No. 6-263-80-5 dated April 29, 1980.

(b) See Exhibit B.

DE LAUREAL ENGINEERS, INC.  
AID Loan No. 263-K-028

Summary of Contract Costs Reimbursed and Questioned

Explanatory Notes: (Continued)

4/ Represents the following adjustments:

(a) Application of contract burden rates to technical support salaries reimbursed and accepted.

	Calendar Year					Total Costs Questioned
	<u>1979</u> (1)	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	
Salaries Claimed and Accepted	\$ 136,176	\$ 144,535	\$ 66,442	\$ 21,239	\$ 710	
Accepted Burden Rates (2)	<u>32.55%</u>	<u>43.54%</u>	<u>43.98%</u>	<u>61.36%</u>	<u>49.92%</u>	
Accepted Burden	\$ 44,325	\$ 62,931	\$ 29,221	\$ 3,032	\$ 354	
Burden Claimed (Reimbursed)	<u>39,940</u>	<u>43,360</u>	<u>19,933</u>	<u>4,372</u>	<u>213</u>	
Difference Due Contractor	<u>\$ (4,385)</u>	<u>\$ (19,571)</u>	<u>\$ (9,288)</u>	<u>\$ (6,660)</u>	<u>\$ (141)</u>	\$ (40,045)

(1) Includes costs applicable to the first six months of CY 1979 as reflected in Audit Report No. 6-263-80-5 Exhibit B, dated April 28, 1980.

(2) See Exhibit B.

DE LAUREAL ENGINEERS, INC.  
AID Loan No. 763-K-028

Summary of Contract Costs Reimbursed and Questioned

Explanatory Notes (Continued):

- (b) Contractor erroneously billed an invoice twice (July and August 1981) for service performed by Kidde Consultants, Inc., Baltimore Division (KCI.) \$ 2,660
- (c) Fee billed by KCI and ORR-Schelen-Mayeron & Associates, Inc. (OSM) for work performed on the Egyptian project. Payment of this additional fee results in a double fee.

	<u>Fee Payments</u>		
	<u>KCI</u>	<u>OSM</u>	
Amount Questioned	<u>\$ 5,036</u>	<u>\$ 52,233</u>	\$ 57,269
To: 1			<u>\$ 19,884</u>

5/ Represents unreimbursed costs that were resubmitted for payment on Special Invoice No. 81064 in July 1981. These costs were incurred from inception to June 30, 1979. Of the invoiced costs totaling \$12,405, we have accepted these referenced costs and amounts totaling \$10,768.

6/ Represents adjustment of provisional home office overhead to actual for Calendar Years 1979-1983, inclusive.

Summary of Contract Costs Reimbursed and Questioned

Explanatory Notes (Continued):

6/ Represents adjustment of provisional home office overhead to actual for calendar years 1979-1983, inclusive.

	Calendar Year					Total Costs Questioned
	1979 (a)	1980	1981	1982	1983	
Salaries Claimed and Accepted	\$ 525,734	\$ 438,200	\$ 194,832	\$ 91,861	\$ 8,070	
Accepted Burden Rates (b)	<u>153,912</u>	<u>212,562</u>	<u>85,687</u>	<u>56,366</u>	<u>4,029</u>	
Overhead Base	\$789,646	\$ 700,762	\$ 280,519	\$ 148,227	\$ 12,099	
Overhead Rates (c)	<u>75.55%</u>	<u>77.84%</u>	<u>129.46%</u>	<u>150.91%</u>	<u>170.76%</u>	
Overhead Accepted	\$ 596,578	\$ 545,473	\$ 363,160	\$ 223,689	\$ 20,660	
Overhead Claimed/Reimbursed	<u>606,842</u>	<u>520,422</u>	<u>207,691</u>	<u>97,827</u>	<u>10,434</u>	
Difference Due AID (Contractor)	<u>\$ 10,264</u>	<u>\$ (25,051)</u>	<u>\$ (155,469)</u>	<u>\$ (125,862)</u>	<u>\$ (10,226)</u>	<u>\$ (306,344)</u>

(a) Includes costs applicable to the first six months of CY 1979 as reflected in Audit Report No. 6-263-80-5 (Exhibit A), dated April 28, 1980.

(b) See footnote 3/(a) above.

(c) See Exhibit C.

DE LAUREAL ENGINEERS, INC.  
AID Loan No. 263-K-028

Computation of Payroll Burden Rates  
Calendar Years 1979 - 1983

	Calendar Year				
	<u>1979</u> (a)	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
<u>Indirect Expenses</u>					
Labor Overhead	\$ 183,036	\$ 204,642	\$ 115,228 1/	\$ 149,317	\$ 92,017
Payroll Taxes	80,625	62,143	37,720	33,890	32,838
Employee Benefits	35,146	58,944	22,615	26,107	25,344
Insurance	-0-	10,948	1,119	-0-	-0-
Overtime Premium	-0-	72	2,977	244	39
Proposed Pool Costs	\$ 298,807	\$ 336,749	\$ 179,659	\$ 209,558	\$ 150,238
Costs Questioned	-0-	-0-	3,902 1/	-0-	-0-
Accepted Pool Costs	\$ 298,807	\$ 336,749	\$ 175,757	\$ 209,558	\$ 150,238
<u>Base Costs</u>					
Draftsman Labor	\$ 270,023	\$ 241,012	\$ 140,465	\$ 120,435	\$ 137,328
Engineer Labor	647,932	532,363	259,182	221,092	163,659
Proposed Base	\$ 917,955	773,375	\$ 399,648	\$ 341,527	\$ 300,987
Costs Questioned	-0-	-0-	-0-	-0-	-0-
Accepted Base Costs	\$ 917,955	\$ 773,375	\$ 399,648	\$ 341,527	\$ 300,987

DE LAUREAL ENGINEERS, INC.  
AID Loan No. 263-K-028

Computation of Burden Rates  
Calendar Years 1979 - 1983

	<u>Calendar Year</u>				
<u>Burden Rates</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
Per Contractor	<u>32.55<sup>1</sup></u>	<u>43.54<sup>1</sup></u>	<u>44.95<sup>1</sup></u>	<u>61.36<sup>1</sup></u>	<u>49.92<sup>1</sup></u>
Per Auditor	<u>32.55<sup>1</sup></u>	<u>43.54<sup>1</sup></u>	<u>43.98<sup>1</sup></u>	<u>61.36<sup>1</sup></u>	<u>49.92<sup>1</sup></u>

Explanatory Note:

<sup>1/</sup> Represents labor costs that were erroneously included as non-allocated labor costs in November 1981 (GJ 455).

DE LAUREAL ENGINEERS, INC.  
AID Loan No. 263-K-028

Computation of Overhead Rates  
Calendar Years 1979 - 1983

	Calendar Year				
	1979	1980	1981	1982	1983
<u>Total Indirect Expenses</u>					
Per Contractor	\$654,999	\$596,369	\$488,955	\$ 539,577	\$432,725
Costs Questioned	<u>6,132 1/</u>	<u>1,532 2/</u>	<u>5,842 3/</u>	<u>1,198 4/</u>	<u>13,752 5/</u>
Indirect Costs Accepted	<u>\$648,867</u>	<u>\$594,837</u>	<u>\$483,113</u>	<u>\$538,379</u>	<u>\$418,973</u>
<u>Base Costs</u>					
Engineer Labor	\$647,932	\$532,363	\$259,182	\$221,092	\$163,659
Engineer Burden	<u>210,897</u>	<u>231,818</u>	<u>116,509</u>	<u>135,668</u>	<u>81,684</u>
Proposed Base Costs	<u>\$858,829</u>	<u>\$764,181</u>	<u>\$375,691</u>	<u>\$356,760</u>	<u>245,343</u>
Costs Questioned	<u>-0-</u>	<u>27 6/</u>	<u>2,521 7/</u>	<u>6 6/</u>	<u>(15) 6/</u>
Accepted Basic Costs	<u>\$858,829</u>	<u>\$764,154</u>	<u>\$373,170</u>	<u>\$356,754</u>	<u>\$245,358</u>
<u>Overhead Rates</u>					
Per Contractor	<u>76.27%</u>	<u>78.04%</u>	<u>130.15%</u>	<u>151.24%</u>	<u>176.38%</u>
Per Auditor	<u>75.55%</u>	<u>77.84%</u>	<u>129.46%</u>	<u>150.91%</u>	<u>170.76%</u>

Explanatory Notes:

1/ Represents the following adjustments:

- |   |                       |
|---|-----------------------|
| a. Five percent purchase discount from employment agency's invoice of October 1979 was erroneously credited to miscellaneous income.  | \$ 180                |
| b. Cost of printing brochures detailing services that the New Orleans office of Kidde can provide is an unallowable advertising cost. | <u>5,952</u>          |
| <b>Total Questioned</b>   | <b><u>\$6,132</u></b> |

DE LAUREAL ENGINEERS, INC.  
AID Loan No. 263-K-028

EXHIBIT C  
Page 2 of 3

Computation of Overhead Rates  
Calendar Years 1979 - 1983

Explanatory Notes (Continued):

2/ Represents the following adjustments:

a. Cost of airplane ticket for wife of Kiddle employee accompanying her husband to and from Cairo, Egypt, in December 1980 - January 1981 is considered a personal expense	\$1,393
b. Consultant fees relating to a sugar project are considered a direct charge of that project.	<u>139</u>
Total Questioned	<u>\$ 1,532</u>

3/ Represents the following adjustments:

a. Cost of printing and color xeroxing Kiddle brochures.	\$ 1,904
b. Purchases of 4 color pens and business cards are considered personal expenses.	749
c. Direct project costs (travel and recruitment expenses) that were erroneously charged charged to the overhead pool	<u>3,189</u>
Total Questioned	<u>\$ 5,842</u>

4/ Represents write off project balance receivables that are uncollectible (bad debts).

DE LAUREAL ENGINEERS, INC.  
AID Loan No. 263-1-028

Computation of Overhead Rates  
Calendar Years 1979 - 1983

Explanatory Notes (Continued):

	Calendar Year				
	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>
5/ Represents the following adjustments.					
a. Legal fees relating to settlement of lawsuit that commenced in 1970.					\$7,500
b. Legal fees relating to out-of-court settlement with a former Kidde employee					4,753
c. Purchase of football tickets and church donations are unallowable costs.					440
d. Purchases of Kidde brochure covers are unallowable costs.					<u>1,059</u>
Total Questioned:					<u>\$13,752</u>
6/ These small differences are due to rounding burden rates.					
7/ Represents adjustment of burden, as follows:					
Proposed Amount					\$116,509
Engineering Labor				\$259,182	
Audited Burden Rate (See Exhibit B)				<u>X43.98%</u>	<u>113,988</u>
Total Questioned					<u>\$2,521</u>

DE LAUREAL ENGINEERS, INC.

List of Report Recipients

Assistant to the Administrator for Management (AA/M)	1
Assistant Administrator, Bureau for Near East (AA/NE)	2
Director, USAID/Egypt	2
Controller, USAID/Egypt (AD/FM)	2
Office of Infrastructure Development and Program Support, USAID/Egypt	2
Audit Liaison Office (AA/NE/PMC)	1
Office of Media (XA/PA/M)	i
Office of Legislative Affairs (LEG)	1
Office of General Counsel (GC)	1
Office of Inspector General (IG)	1
RIG/A/Egypt	5
IG/PPP	1
AIG/A	1
AIG/II	1
IG/EMS/C&R	16