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**Audit of Consultants' Use of
Project Vehicles under USAID/Egypt's
Alexandria Wastewater System Expansion
Project No. 263-0100**

**Audit Report No. 6-263-91-02
November 29, 1990**

The project's consultant engineer, Wastewater Consultants Group, has 39 project vehicles, which its expatriate and local staff use extensively for personal purposes, and 20 other A.I.D.-financed vehicles, whose total far exceeds its legitimate transportation needs under the project. USAID/Egypt should ensure that the consultant's vehicular fleet size matches its legitimate transportation needs and that its method of reimbursing A.I.D. for personal use of project vehicles reflects Mission policy and actual personal usage rates.

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

November 29, 1990

MEMORANDUM FOR D/USAID/Egypt, Marshall D. Brown
DIR/CS, Fred Will

FROM : RIG/A/C, F.A. Kalhammer



SUBJECT: Audit of Consultants' Use of Project Vehicles under USAID/Egypt's
Alexandria Wastewater System Expansion Project No. 263-0100
Audit Report No. 6-263-91-02

Enclosed are 10 copies of the subject report. In preparing this report, we reviewed your comments on the draft report and included them as an appendix to this report. Based on your comments, all the recommendations are considered resolved; in addition, Recommendation Nos. 1 and 2.2 are closed upon report issuance. Please respond to this report within 30 days, indicating any other actions planned or already taken to implement the recommendations. We appreciate the cooperation and courtesies extended to our staff during the audit by the personnel of USAID/Egypt and Wastewater Consultants Group.

Background

The Alexandria Wastewater System Expansion (AWW) Project is designed to improve public health conditions in Alexandria, Egypt's second largest city and principal seaport, by expanding and upgrading its wastewater collection, treatment, and disposal facilities. To achieve these ends, A.I.D. has authorized \$328 million in life-of-project funding, of which \$191 million had been expended as of March 31, 1990. Begun in August 1979, the AWW project is now scheduled to end on December 31, 1992.

Wastewater Consultants Group (WWCG), a joint venture comprising two U.S. engineering firms: Metcalf and Eddy, Inc. and CH2M Hill Corporation, has been the project's consulting engineer since 1980. Originally under a host country contract, WWCG has worked since 1986 under an A.I.D.-direct, cost-reimbursable contract through which USAID/Egypt is financing WWCG's Egyptian pound (LE) and dollar costs. As of June 30, 1990 USAID/Egypt had obligated \$35,461,840 for this contract and disbursed \$30,072,407. To carry out its project responsibilities, WWCG has procured 39 vehicles financed by USAID/Egypt at a cost of about \$435,000. In addition, project construction contractors working under fixed-price, host country contracts have provided and fully maintain 20 additional vehicles for WWCG's use during the life of their contracts.

AUDIT OBJECTIVES

In conjunction with our audit of USAID/Egypt's Alexandria Wastewater System Expansion Project (Audit Report No.6-263-91-01), we conducted a performance audit of WWCG's vehicular fleet to answer the following audit objectives:

1. Has USAID/Egypt ensured that WWCG uses project vehicles in accordance with Mission policy, restricting personal use of such vehicles? Has USAID/Egypt ensured that WWCG properly reimburses A.I.D. for personal use of project vehicles?
2. Has USAID/Egypt ensured that the size of WWCG's vehicular fleet does not exceed Mission policy guidelines and the contractor's need for vehicles?

In answering these audit objectives we tested whether USAID/Egypt: (1) followed applicable internal control procedures and (2) complied with certain provisions of laws, policies, grants, and contracts. Our tests were sufficient to provide reasonable, but not absolute, assurance of detecting abuse or illegal acts that could significantly affect the audit objectives. Our discussion of the scope and methodology for this audit is at Appendix I, and our reports on internal controls and compliance are at Appendices III and IV, respectively.

AUDIT FINDINGS

Has USAID/Egypt ensured that WWCG uses project vehicles in accordance with Mission policy, restricting personal use of such vehicles? Has USAID/Egypt ensured that WWCG properly reimburses A.I.D. for personal use of project vehicles?

WWCG's 39 project vehicles are used extensively by expatriate and local staff for personal purposes. USAID/Egypt Mission Order No. 1-7 (Procurement, Disposition and Use of AID Project Vehicles) of February 15, 1990 advises that personal use of project vehicles should be "incidental" and should "not exceed 25 percent on a fleet-wide basis." However, we found that 66 percent of all recorded project vehicle usage during a recent selected month was for personal purposes. A 1983 Inspector General audit also found that WWCG expatriates and their dependents had used project vehicles extensively for non-project purposes. Until 1989, however, WWCG's contracts with both the Government of Egypt (GOE) and A.I.D. neither addressed nor regulated personal use of project vehicles.

WWCG's contract currently authorizes personal use of project vehicles, for which the contractor reimburses at a flat rate of LE68 per month per expatriate employee. This reimbursement methodology does not conform with current USAID/Egypt policy as described in Mission Order No. 1-7 nor does it even remotely reflect actual personal usage rates. Although a contract provision on personal use of project vehicles became effective on March 23, 1989, WWCG only began to compensate for such use in June 1989.

WWCG's Personal Use of Project Vehicles Exceeds Work-Related Use

We selected the month of March 1990, the most recent available month at the time of our review, to compare WWCG's personal versus work-related use of project vehicles. Daily logs for each of WWCG's 39 vehicles were reviewed, as available. We found that vehicle logs were not always maintained; some were missing; and others were incomplete. Eleven vehicles had complete daily logs, 13 had incomplete logs, and 12 had no logs at all. The remaining 3 vehicles were out of order during the month of March. USAID/Egypt Mission Order No. 1-7 states that, "The contractor shall maintain records which clearly identify project and personal use, including home to office commuting."

The daily logs do not explicitly identify "personal" or "project" use. However, in most cases we were able to determine the purpose of vehicle usage from available records. In some cases, however, we had to ask WWCG personnel what the purpose of a trip was to determine whether it was for a project or personal purpose. Using the definition of personal use contained in Mission Order No. 1-7, we considered home-to-office commuting by WWCG employees to be personal use of a project vehicle.

We found that 66 percent of all recorded project vehicle usage for the month of March was for personal purposes. (See our summary of personal and work-related use of 24 WWCG vehicles with partial or complete records for March 1990 in Appendix II.) Mission Order No. 1-7, however, states that "Personal use shall be incidental and shall not exceed 25 percent on a fleet-wide basis."

Recommendation No. 1:

We recommend that USAID/Egypt:

- 1.1 modify Wastewater Consultants Group's contract to change the basis upon which it reimburses the project for personal use of project vehicles to more accurately reflect actual rates of personal usage and the prevailing effective U.S. government rate for personal use, and**
- 1.2 direct Wastewater Consultants Group to keep such records for all its project vehicles as the contracting officer deems necessary to enforce the Mission's policy on vehicle usage.**

WWCG's contract with USAID/Egypt currently authorizes personal use of project vehicles by contractor personnel and specifies that WWCG reimburse USAID for such usage at a flat rate of LE68 per month for each expatriate employee regardless of actual rates of personal usage for the month. According to the contract, which was signed in April 1989, this flat rate was based on an estimate of 342 kilometers of personal use by each expatriate each month at a rate of

LE0.20 per kilometer. However, these assumptions are inaccurate or incomplete because they (1) exclude personal use of project vehicles by WWCG's local employees and by expatriates' dependents, and (2) use a reimbursement rate below the prevailing U.S. government rate for personal use which was LE0.35 per kilometer.

To understand how USAID/Egypt derived, justified, and approved the rate of LE68 per month, we searched Mission files but could not find the pertinent contract negotiation memorandum. Mission personnel advised that the contracting officer who executed the contract amendment, but has since left post, had been contacted in order to locate the negotiation memorandum or to have him produce one. We have also attempted to contact that officer to obtain the negotiation memorandum. (See Appendix VIII) However, the sought-after document has yet to be provided, and no response was received from the former contracting officer.

WWCG's contract requires it to reimburse for personal use of project vehicles at a flat rate of LE68 per month per expatriate. This reimbursement methodology does not conform with current USAID policy as described in Mission Order No. 1-7, which requires reimbursement based on actual mileage, nor does it even remotely reflect actual rates of personal use of project vehicles, which far exceed the estimated rates contained in WWCG's contract with USAID. We believe WWCG's contract should be modified to more accurately reflect actual personal usage rates and Mission policy on personal use of project vehicles. We also believe WWCG should be directed to keep adequate records for project vehicles which distinguish between project-related and personal use.

Management Comments and Our Evaluation

USAID/Egypt provided a copy of a signed Modification No. 6 to its contract with WWCG, which changed the basis on which the contractor reimburses the project for its staff's personal use of project vehicles. The modification requires the contractor to reimburse the project account at rates in effect under the standard U.S. Government Travel Regulations (currently set by the Mission at LE0.32 per kilometer) and to establish a record-keeping system that reflects project use and personal use for all project vehicles.

The Mission noted that the modification does not limit the extent of WWCG employees' personal use of project vehicles because limiting such usage could result in the contractor's demand to lift the prohibition on importing privately owned vehicles (POVs) for its expatriate employees and cost the project considerable shipping charges. (See the following report section for a discussion of this prohibition.) The Mission "was also mindful of the fact that the Egyptian Labor Code requires employers... to provide suitable transportation to employees wherever the work site is not accessible by regular (public) means of transportation." (See Appendix VII, item 3, for our comments on the requirements of this law and WWCG's vehicle usage practices.)

The Mission stated that it did not accept the draft report's estimate that implementing Recommendation No. 1.1 could result in yearly savings of about \$22,000 because the savings "would have been quickly wiped out if the project now had to begin reimbursing POV shipping

charges." Nevertheless, we believe the increased rate of reimbursement for personal use of project vehicles required by contract Modification No. 6 should result in considerable project savings. For example, in March 1990 each WWCG vehicle was driven on average 702 kilometers for personal purposes (see Appendix II). Using this average and the rate of reimbursement for personal use of project vehicles established by contract Modification No. 6 - i.e., LE0.32 per kilometer -- results in a monthly reimbursement rate of LE224.64 per vehicle. WWCG proposes to reduce the number of its project vehicles from 39 to 34 (see below page 9). Multiplying 34 times LE224.64 gives a monthly total of LE7,637.76, which is LE5,688.20 (about \$2,163) more than the amount WWCG actually reimbursed for personal use in March 1990 (LE1,949.56) using the rate of LE68 per month per expatriate employee. Multiplying this savings -- LE5,688.20 or about \$2,163 -- times 12 gives an estimated yearly savings of LE68,258.40 or about \$25,954. During the project's remaining scheduled two years, these savings could total LE136,516.80 or about \$51,908.

Based on the execution of Modification No. 6 to USAID/Egypt's contract with WWCG, we consider Recommendation Nos. 1.1 and 1.2 to be closed upon report issuance.

See Appendix VI for the Mission's entire comments.

**WWCG Should Reimburse A.I.D. for Its
Personal Use of Project Vehicles
For the Period March through May 1989**

Since beginning work on the AWW project in 1980, WWCG personnel have apparently used project vehicles extensively for personal purposes. Such usage was neither prohibited nor regulated in WWCG's contracts with the GOE and A.I.D. until March 23, 1989, when a contract modification permitted personal use of project vehicles. Although WWCG began to compensate for personal use in June 1989, it did not pay for such use for the period March 23 through May 1989. Based on the contract's authorized rate, we believe USAID/Egypt should recover approximately LE4,000 (about \$1,500) from WWCG and credit this amount to the project's account. WWCG's contract also contained apparently contradictory provisions authorizing and prohibiting the importation of privately owned vehicles by WWCG expatriate staff. We believe this contradiction should be resolved.

Recommendation No. 2:

We recommend that USAID/Egypt:

- 2.1 assess and recover from Wastewater Consultants Group the amount it should have reimbursed the project for personal use of project vehicles for the period March 23, 1989 through May 31, 1989 in accordance with the provisions of its contract with USAID/Egypt; and**

2.2 review Wastewater Consultants Group's contract and resolve the contradiction between clauses 52.252-04 (C.2.) and 752.7002-70 (L)(1), which both authorize and prohibit the importation of privately owned vehicles.

Before the third modification of its contract with USAID/Egypt authorizing personal use of project vehicles effective in March 1989, WWCG had apparently used project vehicles for personal purposes since 1980 without explicit contractual authorization or prohibition. In February 1983, an Inspector General audit report noted that WWCG expatriates and their dependents were using project vehicles extensively for non-project purposes. Later that year, USAID/Egypt issued Mission Order No. 5-8 stating: "Project-funded vehicles should only be used for official purposes relating directly to the specific project under which the vehicle was purchased. No other use should be authorized, unless specifically authorized in the project documentation."

Despite the Inspector General report and the Mission Order, USAID/Egypt's 1986 contract with WWCG neither addressed nor authorized personal use of project vehicles. It did permit reimbursement for the transportation cost of one privately owned vehicle (POV) for each regular employee. However, we were advised that WWCG's own policy discouraged the importation of POVs, and only two or three expatriates had POVs while in Egypt. WWCG's contract currently states (clause 52.252-04 (C.2.)) that, "the contractor will prohibit its employees from exercising this option [importation of POV]." The contract also authorizes (clause 752.7002-70 (L)(1)) reimbursement for the two-way transportation cost of one POV for each regular employee. We view these provisions to be contradictory.

From January 1986, when it first contracted with WWCG, until June 1989, when WWCG first began to compensate for personal use of project vehicles, USAID/Egypt has financed all costs associated with the contractor's personal use of project vehicles. USAID and WWCG signed a contract modification authorizing personal use in April 1989 with an effective date of March 23, 1989. We believe USAID/Egypt should assess and recover the amount WWCG should have paid for personal use of project vehicles from March 23 through May 1989 and credit such amount to the project's account. We also believe USAID/Egypt should resolve the contradictory provisions in WWCG's contract permitting and prohibiting the importation of POVs.

Management Comments and Our Evaluation

Modification No. 6 of WWCG's contract resolves the contradiction between contract clauses 52.252-04 (C.2.) and 752.7002-70 (L)(1), by deleting the latter clause which authorized payment for the contractor's two-way transportation cost of one POV for each regular employee. Based on this deletion, we consider Recommendation No. 2.2 to be closed upon report issuance.

Regarding Recommendation No. 2.1, the Mission stated that WWCG has agreed to reimburse the project the LE equivalent of about \$1,500 or LE4,000 for personal use of project vehicles for the period March 23 through May 31, 1989 and that this agreement "is included in Contract

Modification #06." We found no mention of this agreement in the copy of Modification No. 6 submitted by the Mission. Eased on WWCG's agreement to reimburse the project about LE4,000 for personal use of project vehicles for the cited period, we consider Recommendation No. 2.1 to be resolved. We will close the recommendation when we receive confirmation that this reimbursement has been made.

See Appendix VI for the Mission's entire comments.

Has USAID/Egypt ensured that the size of WWCG's vehicular fleet does not exceed Mission policy guidelines and the contractor's need for vehicles?

USAID/Egypt has financed WWCG's procurement of 39 project vehicles. In addition, under A.I.D.-funded host country contracts, the Fru-Con Construction Company and MacLean Grove and Company have provided and fully maintain 20 additional vehicles for WWCG's sole use. These 59 vehicles far exceed the number of WWCG expatriate employees, of whom there were 30 in March 1990. USAID/Egypt policy cautions that, "under no circumstances should contractors expect to achieve parity between vehicles and expatriate employees." WWCG assigns a vehicle to each expatriate for his/her personal use during non-working hours. In addition, 10 project vehicles are used as shuttles to transport local Egyptian employees from home-to-office each day -- a practice USAID/Egypt policy defines as personal use of project vehicles. In the light of WWCG's practices, the number of vehicles at its disposal, the number of its expatriate employees, and USAID/Egypt policy on personal use of project vehicles, we believe WWCG's vehicular fleet size far exceeds its current legitimate transportation needs under the AWW project.

Recommendation No. 3:

We recommend that USAID/Egypt:

- 3.1 finance no additional vehicles, directly or indirectly, for Wastewater Consultants Group under the Alexandria Wastewater System Expansion Project until Wastewater Consultants Group's legitimate needs for vehicles are assessed and justified in conformance with Mission policy, which specifies that no less than 75 percent of project vehicle usage shall be for project purposes, and**

3.2 based on this assessment and justification, adjust the size of the Wastewater Consultants Group's vehicular fleet and notify Wastewater Consultants Group that A.I.D. will not pay the cost of operating and maintaining any vehicles deemed to be in excess of its justifiable needs, or which have been turned over to the project's implementing agency, the Alexandria General Organization for Sanitary Drainage, after a date to be specified by the contracting officer.

WWCG has 39 project vehicles and 20 other vehicles -- all A.I.D. funded -- that construction contractors Fru-Con and MacLean Grove are providing to WWCG for its use during the periods of their fixed-price host country contracts. (USAID/Egypt Mission Order No. 1-7 does not consider the 20 vehicles to be project vehicles since their cost was not directly financed or reimbursed by A.I.D., and they do not figure in the cost/benefit calculations in this report.) In March 1990, WWCG had about 30 expatriate employees and about 40 local professional employees. A comparison of the 59 vehicles to the number of professional staff results in a ratio of almost one vehicle for each professional staff member. Comparing these vehicles to the number of expatriates produces a ratio of about 2 vehicles for each expatriate. Mission Order No. 1-7 advises that contractors should not expect to achieve "parity" between vehicles and expatriate employees. By contrast, USAID/Egypt has about 200 professional personnel, both expatriates and locals, and 58 vehicles, or about 3 to 4 professionals for each vehicle based in Cairo. USAID/Egypt has many projects to monitor throughout Egypt, while WWCG is responsible for one project with several locations in Alexandria.

We found that WWCG uses 10 project vehicles as shuttles to transport local employees from home-to-office each day, and occasionally for personal trips during working hours. WWCG also uses one van exclusively to transport expatriates' dependents from home to school. Each expatriate is assigned a vehicle for his/her personal use during non-working hours.

Several of WWCG's 39 project vehicles are over 6 years old, and their maintenance costs are alleged to be significant. WWCG personnel advised that they would like to turn some of these vehicles over to the project's implementing agency, the Alexandria General Organization for Sanitary Drainage (AGOSD). During March 1990, WWCG had in fact assigned 3 of its 39 vehicles to AGOSD for that agency's use. WWCG charged the costs of operating and maintaining these vehicles, like the costs of operating and maintaining its other project vehicles, to A.I.D.

Based on our analysis of WWCG's vehicle usage during March 1990 and USAID policy contained in Mission Order No. 1-7, we believe WWCG needs about 18 vehicles for its official and personal transportation needs under the AWW project. Our estimate is based on the following computation:

-- The number of kilometers driven for project purposes during March 1990 was about 8,500. Total kilometers driven was 25,362. (See Appendix II.)

- According to Mission Order No. 1-7, personal use of project vehicles should not exceed 25 percent of total use. Thus, project use should not be less than 75 percent.
- Since project use during March was 8,500 kilometers, the expected total use would be $8,500/.75 = 11,333$ km., as compared with 25,362 (actual total use).
- If expected total use under USAID/Egypt policy is compared with actual total use during March 1990, we find that expected total use is only 45 percent ($11,333/25,362$) of actual total use.
- Multiplying 45 percent times the total number of project vehicles ($.45 \times 39 = 17.55$) would indicate that WWCG needs about 18 vehicles if USAID policy on vehicle usage is applied in this case. ¹

In our opinion, the size of WWCG's vehicular fleet far exceeds its legitimate needs for transportation under the AWW project. We believe USAID/Egypt should finance no other vehicles, either directly as project vehicles or indirectly through construction contracts, for WWCG until the contractor's need for vehicles has been assessed and justified. A.I.D. should not pay the costs of operating and maintaining any vehicles found excess to WWCG's justifiable needs or which have been turned over to AGOSD.

Management Comments and Our Evaluation

The Mission stated that WWCG submitted a vehicle usage plan to the Mission on October 29, 1990, which presents the contractor's justification for the number of vehicles it needs for the project. In this regard, we note that Modification No. 6 to WWCG's contract states that, "[t]he vehicle usage plan through the end of project (12/31/92) dated 29 October 1990 is incorporated herein to the contract by reference. Any change to this usage plan must be approved in writing by the Contracting Officer."

According to the Mission, the plan reduces the size of WWCG's vehicular fleet from 59 to 48 vehicles. The plan calls for removing 13 of the oldest project vehicles from the fleet and purchasing 8 new vehicles, leaving 34 project vehicles. It also reduces the number of contractor supplied vehicles from 20 to 14. According to the Mission, WWCG did not consider personal use as a factor in determining its project vehicle requirements. However, "WWCG did not count home to office to home commuting as personal use" because WWCG expatriates are not allowed to import POVs and "Egyptian Law requires WWCG, as the employer, to provide some home to office transportation for this contract..." (We disagree with this interpretation of

¹ Applying the percentage of personal use for March 1990 (66 percent) or the percentage of project use for that month (34 percent) rather than the number of kilometers, gives about the same result.

Egyptian law. See Appendix VII, item 3, for our comments on the requirement of this law and WWCG's vehicle usage practices.)

The Mission stated that it believes 48 vehicles are reasonable and necessary for WWCG to perform its contract in a satisfactory manner. The Mission will continue to monitor WWCG's vehicle requirements in the future and, wherever possible, reduce the size of the contractor's vehicle fleet.

The Mission did not comment on our draft report's statement that each project vehicle removed from WWCG's fleet could result in yearly savings of about LE5,300 or about \$1,900. We based this estimate on the average monthly cost of operating each WWCG vehicle (see Appendix V). If WWCG removes 5 project vehicles from its fleet as proposed in the vehicle usage plan, savings during the project's remaining scheduled two years could total LE53,000 (LE5,300 X 5 X 2) or about \$19,000 (\$1,900 X 5 X 2).

Based on the Mission's comments, we consider Recommendation Nos. 3.1 and 3.2 to be resolved upon report issuance. We will close the recommendations when we receive and have had an opportunity to review WWCG's vehicle usage plan, which has been incorporated by reference in Modification No. 6 to WWCG's contract.

See Appendix VI for the Mission's entire comments.

SCOPE AND METHODOLOGY

Scope

In conjunction with our audit of USAID/Egypt's Alexandria Wastewater System Expansion Project, we audited the Wastewater Consultants Group's (WWCG's) use of project vehicles and the size of its vehicular fleet in accordance with generally accepted government auditing standards. We conducted the audit from November 30, 1989 through May 10, 1990 and covered the 39 project vehicles procured by WWCG and 20 other vehicles construction contractors have provided under their contracts for WWCG's sole use. We conducted our field work in the offices of USAID/Egypt, WWCG, and other project contractors.

Methodology

To accomplish the audit objectives, we examined USAID/Egypt's policy on personal use of project vehicles as contained in Mission Order No. 1-7 on "Procurement, Disposition and Use of AID Project Vehicles" and in earlier documents such as Mission Order No. 5-8 on "Procurement & Accounting for Project-Funded Vehicles" and an August 1988 Contractor Notice on "Use of Project Vehicles." We also examined clauses in WWCG's and other project contractors' A.I.D.-direct or host country contracts relating to vehicles and vehicle usage and compensation. We obtained lists of project vehicles and other vehicles from WWCG and from construction contractors Fru-Con and MacLean Grove. We also obtained information on WWCG's vehicle operating costs for the period February 1989 through March 1990.

We selected the month of March 1990, the most recent available month at the time of our review, to compare WWCG's work-related versus its personal use of project vehicles and obtained available daily vehicle logs or records for that month. We reviewed the logs to determine when vehicles were used for personal or project purposes. When the logs were unclear, we had WWCG personnel explain the purpose of the recorded travel. Using USAID/Egypt's definition of personal use of project vehicles as contained in Mission Order No. 1-7, we considered home to office commuting by WWCG employees to be personal use of a project vehicle. We also discussed vehicle assignments with WWCG personnel to obtain additional information on how vehicles were assigned and used.

**Summary of WWCG Project Vehicle Usage+
during March 1990**

WWCG Fleet #	Period Covered		Kilometers			Personal Use
	From	To	Project	Personal	Total	
2	3/01/90	3/31/90	474.0	637.0	1111	57.34%
3	3/04/90	3/29/90	173.0	852.0	1025	83.12%
4	3/04/90	3/20/90	188.0	156.0	344	45.35%
5	3/01/90	3/31/90	272.0	1283.0	1555	82.51%
6	3/01/90	3/31/90	519.0	1101.0	1620	67.96%
8	3/20/90	3/28/90	271.0	414.0	685	60.44%
9	3/01/90	3/31/90	214.0	1257.0	1471	85.45%
10	3/04/90	3/29/90	0.0	392.0	392	100.00%
12	3/01/90	3/31/90	92.0	1049.0	1141	91.94%
13	3/01/90	3/31/90	1720.0	633.0	2353	26.90%
15	3/04/90	3/10/90	185.	220.0	405 *	54.32%
16	3/04/90	3/29/90	111.0	1534.0	1645	93.25%
17	3/01/90	3/31/90	131.0	1151.0	1282	89.78%
23	3/04/90	3/21/90	507.0	88.0	595 *	14.79%
26	3/04/90	3/15/90	92.0	474.0	566	83.75%
28	3/01/90	3/31/90	383.0	1136.0	1519	74.79%
30	3/11/90	3/29/90	313.0	448.0	761	58.87%
31	3/01/90	3/31/90	769.0	520.0	1289	40.34%
34	3/01/90	3/31/90	961.5	454.5	1416	32.10%
36	3/01/90	3/31/90	0.0	1287.0	1287	100.00%
37	3/11/90	3/29/90	485.0	554.0	1039	53.32%
38	3/04/90	3/29/90	361.0	387.0	748	51.74%
39	3/20/90	3/29/90	154.0	99.0	253	39.13%
40	3/08/90	3/22/90	<u>134.0</u>	<u>726.0</u>	<u>860</u>	<u>84.42%</u>
			8509.5	16852.5	25362	66.45%
	Average use per vehicle		355	702	1057	

* Miles converted to kilometers using 1.609 as multiplier.

+ This analysis includes 24 WWCG vehicles. The contractor's 15 other project vehicles were either out of order or had no daily records.

<p style="text-align: center;">REPORT ON INTERNAL CONTROLS</p>

In conjunction with our audit of USAID/Egypt's Alexandria Wastewater System Expansion Project, we audited the use of project vehicles by the project's consultant engineer, the Wastewater Consultants Group (WWCG), and the size of its vehicular fleet and have issued our report thereon dated November 29, 1990.

We conducted our audit from November 30, 1989 through May 10, 1990 in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the objectives of the audit. Those standards also require that we:

- assess the applicable internal controls when necessary to satisfy the audit objectives and
- report on the controls assessed, the scope of our work, and any significant weaknesses found during the audit.

In planning and performing our audit, we considered A.I.D.'s internal control structure to determine our auditing procedures in order to answer the audit objectives and not to provide assurance on the internal control structure.

The management of A.I.D., including USAID/Egypt, is responsible for establishing and maintaining adequate internal controls. Recognizing the need to re-emphasize the importance of internal controls in the Federal Government, Congress enacted the Federal Manager's Financial Integrity Act in September 1982. This Act, which amends the Accounting and Auditing Act of 1950, makes the heads of executive agencies and other managers as delegated legally responsible for establishing and maintaining adequate internal controls. Also, the U.S. General Accounting Office has issued "Standards for Internal Controls in the Federal Government" to be used by agencies in establishing and maintaining such controls.

In response to the Integrity Act, the Office of Management and Budget has issued guidelines for the "Evaluation and Improvement of Reporting on Internal Control Systems in the Federal Government." According to these guidelines, management is required to assess the expected benefits versus related costs of internal control policies and procedures. The objectives of

internal control policies and procedures for federal foreign assistance programs are to provide management with reasonable -- but not absolute -- assurance that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports. Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Moreover, predicting whether a system will work in the future is risky because (1) changed conditions may require additional procedures or (2) the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purposes of this report, we have classified significant internal control policies and procedures applicable to the audit objectives by categories. For each category, we obtained an understanding of the design of relevant policies and procedures and determined whether they had been placed in operation -- and we assessed control risk. In doing this work, we found certain conditions that we consider reportable under standards established by the Comptroller General of the United States. Reportable conditions are those relating to significant deficiencies in the design or operation of the internal control structure which we become aware of and which, in our judgment, could adversely affect USAID/Egypt's ability to assure that resource use is consistent with laws, regulations, and policies; resources are safeguarded against waste, loss, and misuse; and reliable data are obtained, maintained, and fairly disclosed in reports.

Audit Objectives

These audit objectives relate to the use and number of project vehicles and other vehicles. In planning and performing our audit of project vehicles, we considered applicable internal control policies and procedures cited in Mission Orders Nos. 1-7 (Procurement, Disposition and Use of AID Project Vehicles) and 5-8 (Procurement & Accounting for Project-Funded Vehicles) and in USAID/Egypt Contractor Notice No. 17-88 (Use of Project Vehicles). We also considered A.I.D.'s direct contract with the project's consultant engineer, WWCG, and the GOE's contracts with certain project construction contractors. For the purposes of this report we have classified the relevant policies and procedures into two categories: authorized use of project vehicles and the appropriate number of project vehicles.

We noted the following internal control weaknesses in the categories of use and number of project vehicles.

- Despite a 1983 Inspector General audit report alerting the Mission to WWCG's personal use of project vehicles, the Mission did not enforce its policy of prohibiting personal use of project vehicles by the project's consultant engineer during the period from 1983 through March 1989 when the consultant's contract was modified to authorize such use.
- When personal use of project vehicles was authorized, the Mission failed: (1) to apply the prevailing U.S. Government rate in calculating reimbursement rates, and (2) to determine the actual rate of personal use of project vehicles by the consultant's personnel.

- The Mission did not follow established policies when it allowed: (1) the amount of personal use to exceed the approved limit of 25 percent of total project vehicle use, and (2) the consultant to exceed "parity" between vehicles and expatriate employees.
- The Mission did not follow established procedures when it did not require the consultant to keep complete records for its use of project vehicles that clearly identify project and personal use.

REPORT ON COMPLIANCE

In conjunction with our audit of USAID/Egypt's Alexandria Wastewater System Expansion Project, we have audited the use of project vehicles by the project's consultant engineer, the Wastewater Consultants Group (WWCG), and the size of its vehicular fleet and have issued our report thereon dated November 29, 1990.

We conducted our audit from November 30, 1989 through May 10, 1990 in accordance with generally accepted government auditing standards, which require that we plan and perform the audit to fairly, objectively, and reliably answer the audit objectives. Those standards also require that we:

- assess compliance with applicable requirements of laws and regulations when necessary to satisfy the audit objectives and
- report all significant instances of noncompliance and abuse and all indications or instances of illegal acts that could result in criminal prosecution that were found during or in connection with the audit.

Noncompliance is a failure to follow requirements, or a violation of prohibitions, contained in statutes, regulations, contracts, grants and binding policies and procedures governing entity conduct. Noncompliance constitutes an illegal act when the source of the requirement not followed or prohibition violated is a statute or implementing regulation. Noncompliance with internal control policies and procedures in the A.I.D. Handbooks generally does not fit into this definition and is included in our report on internal controls. Abuse is furnishing excessive services to beneficiaries or performing what may be considered improper practices, which do not involve compliance with laws and regulations.

Compliance with laws, regulations, contracts, and grants applicable to the project is the overall responsibility of USAID/Egypt's management. As part of fairly, objectively, and reliably answering the audit objectives, we performed tests of USAID/Egypt, contractor, and host-government compliance with certain provisions of Federal laws and regulations, contracts and

grants. However, our objective was not to provide an opinion on overall compliance with such provisions.

The results of our tests of compliance disclosed the following significant instances of noncompliance:

- USAID/Egypt did not enforce WWCG's compliance with the requirement of its contract to reimburse for personal use of project vehicles for the period March 23, 1989 through May 31, 1989. (Section I, Clause 52.252-04 (C.2.))
- USAID/Egypt's contracts office did not prepare and maintain a record of negotiation covering modification No. 3 of USAID/Egypt's contract No. 263-0100-C-00-6051-00 with the Wastewater Consultants Group as required by the Federal Acquisition Regulation sections 4.802 and 4.804 on "contract files" and "contents of contract files," respectively.

Except as described, the results of our tests of compliance indicate that, with respect to the items tested, USAID/Egypt, contractors, and the Government of Egypt complied, in all significant respects, with the provisions referred to in the fourth paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that USAID/Egypt, contractors, and the Government of Egypt had not complied, in all significant respects, with those provisions.

Cost of Operating W WCG Vehicles from February 1989 thru March 1990

<u>Month</u>	<u># of Vehicles in use</u>	<u>Total Costs</u> LE	<u>Monthly average per vehicle</u> LE
February 1989	32	8483.94	265.12
March 1989	32	17020.69	531.90
April 1989	32	7136.87	223.03
May 1989	31	22644.47	730.47
June 1989	31	11780.39	380.01
July 1989	31	6542.15	211.04
August 1989	31	8464.19	273.04
September 1989	31	21048.21	678.98
October 1989	31	21368.47	689.31
November 1989	31	10391.49	335.21
December 1989	31	15611.45	503.60
January 1990	31	16427.70	529.93
February 1990	34	12586.47	370.19
March 1990	36	<u>18213.04</u>	<u>505.92</u>
Total		197719.53	6227.75
Average monthly cost per vehicle for 14 months			444.84



CAIRO, EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

RECEIVED
29 NOV 1991

MEMORANDUM

TO : Fred Kalhammer, RIG/A/C

FROM : Marshall Brown, Mission Director

SUBJECT : Draft Report on the Audit of the Alexandria
Wastewater System Expansion, Project No. 263-0100,
Audit Report Number 6-263-91-02

The Mission's response to the subject draft report is in three parts. In response to recommendations 1 and 2, see Annex 1, the Contracting Officer's final determination, pursuant to Handbook 14, Appendix H and authorities cited therein. In response to recommendation 3, see Annex 2. The Mission's Overview Statement is at Annex 3. Please include all three annexes in the final report.

Annex 1

November 18, 1990

MEMORANDUM FOR THE RECORD:

Reference: Contract Number 263-0100-c-00-6051-00 with
Wastewater Consulting Group (WWCG)

Subject: Audit of Alexandria Wastewater System Expansion
Project No. 263-0100; Audit Report No. 6-263-91-02

In accordance with the AIDAR - Appendix H Response to Audit Recommendations the following information is submitted concerning the above referenced Audit Report. Also, attached is a copy of Contract Modification #06 which addresses draft audit report recommendations 1 and 2. This memorandum will address the two audit recommendations, the action taken by this office, the rationale for that action and the Contracting Officer's decision on the two recommendations.

Recommendation No. 1

We recommend that USAID/Egypt:

- 1.1 Modify Wastewater Consultants Group's contract to change the basis upon which it reimburses the project for personal use of project vehicles to more accurately reflect actual rates of personal usage and the prevailing effective U.S. government rate for personal use; and

Please see the attached Contract Modification #06 to the WWCG contract. This Modification changes the rate to be reimbursed to the Project by WWCG for personal usage of project vehicles. In accordance with Mission Policy, the current rate is L.E. 0.32 per kilometer. That rate is reflected in the contract modification and WWCG has agreed to incorporate any future changes to the current L.E. 0.32 rate per kilometer into the contract. Note that the Modification does not change the prohibition on importing personal vehicles at project expense.

The Modification does not set any limit on the amount of personal use WWCG employees may make of the project vehicles. I am aware that Mission Order 1-7 defines personal use as including home to office commuting and limits personal use to no more than 25% of total vehicle usage. However, Mission policies cannot be unilaterally imposed on contractors after the fact. They must be negotiated. In my judgment, it was more advantageous to the U.S. Government to maintain the prohibition on importing private vehicles (which saves us

approximately \$4700 per employee) and increase the rate of reimbursement for personal use than to attempt to negotiate a limitation on the amount of personal use.

In reaching this decision, I was also mindful of the fact that the Egyptian Labor Code requires employers (in this case, WWCG) to provide suitable transportation to employees wherever the work site is not accessible by regular (public) means of transportation. As set forth in the draft audit report the nearest public transportation to the WWCG office is over one kilometer. At the more remote job sites, public transportation is even further away. If USAID were to take away the WWCG shuttle services for their Egyptian employees, WWCG would have to provide a transportation allowance similar to what our own FSN employees receive each year. This would cost the project roughly LE 67,000 per year. (125 local WWCG and sub-contractor employees X LE 537 per annum = LE 67,000.)

I do not accept the estimate in the draft audit report that implementing recommendation 1.1 could generate approximately \$22,000 annually for the project because it ignores the fact the WWCG employees are not allowed to import personal vehicles at project expense. Had I insisted on the higher reimbursement rate and reduced personal usage, as the draft audit report recommends, WWCG would surely have demanded that the import prohibition be lifted or refused to consider any adjustment. A \$22,000 savings would have been quickly wiped out if the project now had to begin reimbursing POV shipping charges.

- 1.2 direct Wastewater Consultants Group to keep such records for all its project vehicles as the contracting officer deems necessary to enforce the Mission's policy on vehicle usage.

During our negotiations with WWCG, the Contracting Officer pointed out that adequate records must be kept on each project vehicle. WWCG has agreed to put into place a vehicle usage record keeping system acceptable to USAID.

WWCG has been directed by the Contracting Officer and has agreed to keep accurate records on all project vehicles. This item has also been included in Modification #06 to the WWCG contract.

Recommendation #2

We recommend that USAID/Egypt:

- 2.1 assess and recover from Wastewater Consultants Group the amount it should have reimbursed the project for personal use of project vehicles for the period March 23, 1989 through May 31, 1989 in accordance with the provisions of its contract with USAID/Egypt; and

21

WWCG has agreed to reimburse the project the LE equivalent of approximately \$1500, or LE 4,000, to cover the personal use of project vehicles for the period March 23 through May 31, 1989.

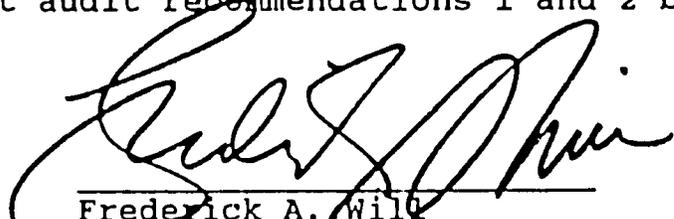
This agreement is included in Contract Modification #06.

2.2 review Wastewater Consultants Group's contract and resolve the contradiction between clauses 52.252-04 and 752-7002-70,L., which both authorize and prohibit the importation of privately owned vehicles.

The contract has been amended by Modification #06 to correct the contradiction between contract clauses FAR 52.252-04 and AIDAR 752.7002-70(L). There is now no ambiguity; importation of POVs is prohibited.

The contract's stated intent, and as agreed to by USAID and WWCG, was that WWCG would not allow their expatriate staff to import one privately owned vehicle for each employee. At the time of the contract signing and reportedly during negotiations of Modification #03, it was determined that it would cost the U.S. Government less money if WWCG would not import POV's. It was agreed between USAID and WWCG that WWCG project staff could use project vehicles at the fixed rate of LE 68 per month per expatriate staff instead. This policy has now been amended as reflected in Modification #06.

WWCG has agreed to comply with recommendations 1 and 2 in the draft audit report to the extent set forth in the attached Contract Modification #06. I believe the modification is responsive to the recommendations and advantageous to the U.S. Government. Accordingly, based on the authority granted to me as a certified Contracting Officer and as set forth under the Federal Acquisition Regulations Part 33 and the Contract Disputes Act of 1978, I hereby determine that those recommendations in the above referenced audit report have been settled as witnessed by Contract Modification #06 to the WWCG contract, and recommend that audit recommendations 1 and 2 be closed.


Frederick A. Will
Contracting Officer

2. MODIFICATION NO. 06	3. EFFECTIVE DATE 10 OCT. 90	4. CASE REQ. NO. 263-0100-3-906	5. PROJECT NO. (if applicable) 263-0100
6. ISSUED BY Office of Contract Services USAID/Egypt 106 Kasr El Aini Street Cairo, Egypt	7. XXXXXXXXXXXXXXXXXXXXXXXXXXXX	TECH. OFFICE: DR/LAD USAID/Egypt	APPENDIX VI Page 5 of 16

1. NAME AND ADDRESS OF CONTRACTOR (No., street, county, State and ZIP Code) WVCG A Joint Venture PO Box 2351 End of Kafr Abdou Street Roushdi, Alexandria Egypt DUNS: 02-762-0574-CH2M Hill 06-659-7147-M & E	(/)	9A. AMENDMENT OF SOLICITATION NO.
		9B. DATED (SEE ITEM 11)
	X	10A. MODIFICATION OF CONTRACT/ORDER NO. 263-0100-C-00-6051-00
		10B. DATED (SEE ITEM 13) 01/01/86

11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS

The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers is extended is not extended.

Offer must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods:

(a) By completing Items 8 and 15, and returning _____ copies of the amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.

12. ACCOUNTING AND APPROPRIATION DATA (if required)
72-117/8107 QES78727263KG13 72-11M1037 NESA7923263KG18

13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.

(/)	A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.
	B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).
	C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF: FAA of 1961 as amended; E.O. 11223; FAR and AIDAR
	D. OTHER (Specify type of modification and authority)

IMPORTANT: Contractor is not, is required to sign this document and return all copies to the issuing office.

DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.)

The purpose of this Modification is to change clause 52.252-04 Alterations in Contract (APR1984) in Contract Modification #3 to delete that part of Section C.2 Travel and Transportation - Personal Use of Project Vehicles that reads "The contractor will reimburse the project LE 68 per month for each expatriate staff member based on the extensions shown on exhibit J7-LE/9 (REV. 1). The reimbursement will be in the form of a credit to the vehicle operating costs."

As provided herein, all terms and conditions of the document referenced in Item 9A or 10A, as heretofore changed, remains unchanged and in full force and effect.

A. NAME AND TITLE OF SIGNER (Type or print) PROJECT DIRECTOR, WVCG	16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print) Frederick A. Will
B. CONTRACTOR/OFFEROR William L. Dunham (Signature of person authorized to sign)	16B. UNITED STATES OF AMERICA (Signature of Contracting Officer)
15C. DATE SIGNED 27 Nov 90	16C. DATE SIGNED 28 Nov 90

23

Page 2
Contract No. 263-0100-C-00-6051-00
Modification #06

Add the following to Section C.2:

The Contractor will reimburse the Project account for personal use of Project vehicles by WWOG staff. The Contractor will reimburse the Project account at rates in effect under the standard U.S. Government Travel Regulations. The rate in effect at the date of this contract modification is LE 0.32 per kilometer. It is understood and agreed that this rate changes from time to time and WWOG will increase this rate as those changes occur. The USAID Contracting Officer will notify WWOG of those rate changes. The Contractor will establish a record keeping system acceptable to the USAID Contracting Officer that reflects project use and personal use for all project vehicles assigned to the WWOG Contract for the Alexandria Wastewater System expansion.

WWOG will provide the USAID Contracting Officer with a copy of a monthly reconciliation of the Project Vehicle Usage Report which should indicate the kilometers driven for each project vehicle and a breakdown between official project usage, unofficial use of project vehicles and the amount WWOG has reimbursed the project account.

The vehicle usage plan through the end of project (12/31/92) dated 29 October 1990 is incorporated herein to the contract by reference. Any change to this usage plan must be approved in writing by the Contracting Officer.

This Modification also deletes that part of Contract Clause 752.7002-70 Section L (1) that states that USAID will pay the Contractor "Transportation, including packing and crating costs, will be paid for shipping from the point of origin in the United States (or other location as approved by the contracting officer) to post of duty in the cooperating country and return to point of origin in the United States (or other location as approved by the contracting officer):

- 1) of one privately-owned vehicle for each regular employee,

All other language contained in 752.7002-70 other than that deleted in Section (L)(1) remains in full force and effect.

This Contract Modification also deletes page 18 of Modification #05 - Table J-4 in its entirety.

Annex 2

Recommendation No. 3.1

We recommend that USAID/Egypt finance no additional vehicles, directly or indirectly, for Wastewater Consultants Group under the Alexandria Wastewater System Expansion Project until Wastewater Consultants Group's legitimate need for vehicles is assessed and justified in conformance with Mission policy, which specifies that no less than 75 percent of project vehicle usage shall be for project purposes; and

Recommendation No. 3.2

based on this needs assessment and justification, adjust the size of the Wastewater Consultants Group's vehicular fleet and notify Wastewater Consultants Group that A.I.D. will not pay the cost of operating and maintaining any vehicles deemed to be in excess of its justifiable needs, or which have been turned over to the Alexandria General Organization for Sanitary Drainage, after a date to be specified by the contracting officer.

The response to Recommendation No. 3 is combined because 3.1 and 3.2 are related.

- 25 -

-2-

As a result of the draft Audit Report, WWCG was asked to provide a vehicle usage plan for the remainder of the project. The plan was submitted to the Mission on 29 October 1990. The plan presents justification for the number of vehicles needed by WWCG for the project.

There are thirty nine (39) vehicles currently assigned to WWCG and fourteen (14) supplied to WWCG by various contractors working on the project. Two vehicles are being turned over to AGOSD, leaving WWCG with a pool of fifty one (51) vehicles. Twenty-six of these vehicles were purchased in 1981 or before. WWCG intends to purchase eight new vehicles, where were approved in Modification #5 to the contract, and turn eleven more vehicles over to AGOSD, leaving a total of forty eight (48) vehicles for use through the end of the project.

In establishing their vehicle requirements, WWCG has taken into consideration the following criteria as set forth in USAID/Egypt Mission Order 1-7:

- A. Personal use was not a factor in determining project vehicle requirements. However, because WWCG employees are not allowed to import POVs and Egyptian Law requires WWCG, as the employer, to

26

- 3 -

provide some home to office transportation for this contract, WWCG did not count home to office to home commuting as personal use.

- B. Project needs take priority over personal use.
- C. Personal use (again, excluding commuting) shall be incidental and shall not exceed 25% on a fleet wide basis. WWCG will reimburse USAID monthly for all personal use, including commuting, at a rate consistent with the current USAID rate.
- D. Personal use is subject to USAID Audit.
- F. The project is developing a computerized report to record project versus personal use.

The plan submitted by WWCG reduces the size of the vehicle fleet as stated in the draft audit report from fifty-nine (59) to forty-eight (48), a reduction of eleven vehicles. The plan also calls for taking the oldest vehicles in the worst mechanical condition out of the fleet.

21

- 4 -

The Contracting Officer, the Project Officer and members of the Project Committee visited the Alexandria Wastewater System Expansion Project on 28 and 29 October 1990. They visited most of the project sites during their visit.

Based on those visits USAID believes that the forty-eight (48) vehicles called for in the WWCG vehicle usage plan are necessary in order to perform the contract in a satisfactory manner. As noted above, the plan is based on a thorough analysis of project requirements only.

Moreover, because of the age of the WWCG vehicle fleet (twenty-six vehicles are ten years old and older); the fact that the Government of Egypt has prohibited the use of a two-way radio system for the Project, which makes the pooling of vehicles difficult; and the fact that project sites are dispersed over a very long and narrow city, we believe the proposed forty eight (48) vehicle fleet size is reasonable.

We also accept WWCG's rationale for not counting commuting as personal use for purposed of the 25% usage limitation in Mission Order 1-7. The Mission Order must be flexible for exceptional circumstances and we agree with the Contracting Officer that if WWCG is willing to increase the rate of

28

- 5 -

reimbursement and maintain the prohibition on importation of POVs it is in the best interest of USAID to allow WWCG to use project vehicles for commuting as before.

Finally this figure has been accepted with the understanding that the Mission will continue to monitor WWCG vehicle requirements in the future and, wherever possible, reduce the size of the WWCG vehicle fleet.

Based on these actions, the Mission requests closure of audit recommendation 3.

We also submit the following comments for inclusion or modification of the draft report and to clarify misconceptions. If you believe further discussion is necessary to clarify these points, please contact the Audit Liaison.

General Comments. We note that the draft audit report does not 1.
identify the nature of the audit (i.e., financial/financial

* IG responses are in Appendix VII.

29

- 6 -

related, performance/efficiency). As we were not apprised as to the nature of the audit at the entrance conference, we are unable to clarify this point. Based on the fact that the recommendations address WWCG's compliance with Mission policy and address "value-for-money", we believe this audit may appropriately be classified as a financial related audit.

As noted in Annex 1, the computation of cost saving associated with changing the basis for reimbursement for personal use of project vehicles ignored the cost saving from denying WWCG contract employees the option to ship a vehicle to Egypt at A.I.D. expense. It is very misleading not to mention this important cost savings, which is unchanged by Modification #6, in the audit report. 2.

As also noted in Annex 1, the draft audit report fails to mention that the Egyptian Labor Code requires an employer to provide home to office transportation when the public transportation system does not provide adequate service. Commuting may be personal use as far as the Mission Order is concerned, but Mission policy cannot anticipate every situation and it is misleading not to state that home to office transportation is required by Egyptian Law for this project. 3.

20

- 7 -

Page 2, Audit Objective 1. "Has WWCG used project vehicles in accordance with A.I.D. policy?" As indicated by Mission staff at several meetings, the terms of the WWCG contract are contained in the contract. We believe that WWCG's usage of vehicles must be reviewed in the context of the terms of the contract and not AID policy as set forth in Mission Orders, particularly those issued subsequent to execution of the contract. 4

Page 5-6. "WWCG's contract with USAID/Egypt currently authorizes personal use of project vehicles by contractor personnel and specifies that WWCG reimburse USAID for such usage at a flat rate of LE 68 per month for each expatriate regardless of actual rates of personal usage for the month." 5

In April 1989 the exchange rate was 1 US\$ = LE 2.45. Accordingly, the LE 0.20 per kilometer rate translated to approximately US\$ 0.13 per mile. Given that a majority of the automobiles used by WWCG had accumulated over 60,000 miles, the per mile rate exceeded that permitted by the IRS for tax purposes.

Page 12, line 1. "By contrast, USAID/Egypt has about 200 professional personnel, both expatriates and locals, and 58 6.

- 8 -

vehicles, or about 3 to 4 professionals for each vehicle. USAID/Egypt has many projects to monitor throughout Egypt, while WWCG is responsible for one project with several locations in Alexandria." We believe this comparison is extremely misleading. First, the primary function of the 70 WWCG professionals identified in the draft report is to monitor implementation of this more than \$350 million project. Of the 200 professional USAID employees identified in the draft report, less than 70 are directly involved in project implementation. Moreover, these project officers often rely on contractors, such as WWCG, to perform the hands on monitoring function for them. Furthermore, these project officers also use other forms of transportation, such as trains and planes to visit project sites. Accordingly, we believe the comparison is misleading and should be omitted.

- 92 -

Annex 3

Mission Overview Statement

Although we have had many discussions with the auditors on the relevance and applicability of Mission policies to AID-financed contracts, we appear to have reached a stalemate. Whether policies adopted by the Mission become applicable per se to contracts depends upon the terms of the contract. Unless the contractor agreed in the contract to be bound by Mission policies, they can only be imposed with the agreement of the contractor. Although the Mission seeks to obtain such agreement through contract negotiations, we are not legally able to dictate contract terms unilaterally. In some cases, a policy may be so fundamental that, in order to convince the contractor to accept it, we must make concessions on other contract terms. In other cases, such as this one, negotiations may produce results that are contrary to a strict reading of the policy, but which benefit the United States Government.

33

- 2 -

Had the Contracting Officer insisted on applying the first audit recommendation strictly to the WCG contract we believe there would have been greater costs to the United States Government, because the cost calculations in the draft audit report ignore the fact that WCG's employees are contractually prohibited from importing vehicles at A.I.D.'s expense. The negotiations with WCG produced agreement to increase the monthly rate of reimbursement and maintain the prohibition on importing vehicles for WCG employees, in exchange for a broader definition of the term "personal use" than appears in the Mission Order. Mission Orders are not set in concrete and when, as here, their strict application would cause unintended results -- such as greater costs -- they should not blindly be applied.

24

IG Response to Management's General Comments

1. We conducted a performance audit of WWCG's use of project vehicles under USAID/Egypt's Alexandria Wastewater System Expansion Project.
2. Until execution of Modification No. 6 to WWCG's contract, WWCG employees were not denied "the option to ship a vehicle to Egypt at A.I.D. expense." As the report states, WWCG's contract authorized "reimbursement for the two-way transportation cost of one POV for each regular employee." Since Mission contract files do not contain a record of negotiation covering Modification No. 3 of WWCG's contract, which first permitted personal use of project vehicles, we could not verify or confirm what understanding USAID/Egypt and WWCG may have reached regarding any such cost savings (see report page 4). See also our comments on page 5 regarding estimated cost savings.
3. We disagree with the Mission's statements that "home to office transportation is required by Egyptian law for this project" and that "the Egyptian Labor Code requires an employer to provide home to office transportation when the public transportation system does not provide adequate service." This law (article 123) states that, "An employer employing workers shall provide them suitable means of transport in case public transport does not exist." Egyptian legal experts have interpreted the requirements of this law as follows.

If the work site is in a place where usual means of transportation (such as trams, buses, trains) do not reach, the legislator obligates the employer to provide suitable means of transportation for his workers to transport them to and from the work site. The determining factor is the remoteness of the work site from usual means of transportation, not the worker's home. However, if the usual means of transportation reaches the work site, the employer's obligation to provide transportation no longer exists.

Reaching the work site by transportation does not mean that the transportation should end exactly at the work site, it means that transportation ends at a nearby place which a normal person could walk each day. One legal interpretation stated that if this distance does not exceed 1/2 kilometer, the employer's obligation no longer exists.

In our opinion, this law does not require WWCG or any other employer to provide employees transportation from their homes to a work site. To the extent an obligation exists, it is to provide transportation to an inaccessible work site from the point where "usual transportation" ends if this point is not "a nearby place which a normal person could walk each day." According to the above Egyptian legal experts, "the determining factor is the remoteness of the work site from usual means of transportation, not the worker's home."

35

Our audit found that WWCG uses 10 project vehicles to transport its local Egyptian employees from home-to-office each day. Although several project work sites are indeed inaccessible to or poorly serviced by public transportation, it is highly debatable whether WWCG's headquarters, which is located in Alexandria's well-serviced Roushdi district, qualifies as a location where public transportation "does not exist." This headquarters is several blocks from a major east/west thoroughfare, El Horreya, which has ample public transportation. Even if WWCG's headquarters is judged to be beyond the reach of public transportation, the contractor's obligation to provide transportation would apply, in our opinion, only from the point where "public transport does not exist" -- i.e., between the major thoroughfare and the contractor's headquarters if the distance between the thoroughfare and the headquarters is not judged to be "a nearby place which a normal person could walk each day" -- and not between employees' homes and the headquarters.

4. We agree with the Mission's statement that, "the terms of the WWCG contract are contained in the contract." We disagree, however, with the Mission's belief that any review of WWCG's use of vehicles "must" be done only with reference to "the terms of [its] contract" with USAID/Egypt and not also with regard to relevant Mission policy. We believe it is appropriate and valid to inquire whether Mission personnel have acted to ensure contractor compliance with the performance expectations specified in Mission policies. In this regard, Mission Order No. 1-7 states that, "under existing contracts, contractors will be required to certify compliance with the above conditions [of Section VIII.A. on authorized use of project vehicles] before personal use of project vehicles will be permitted. If an existing contract allows personal use of project vehicles, the contractor will be requested to accept the above conditions."
5. We believe additional explanation is needed to establish a connection between these comments and the cited quotation.
6. It is debatable how many WWCG and USAID/Egypt personnel have project monitoring and implementation duties. Given the varying scopes and locations of Mission projects, it is also debatable how many vehicles are needed for hands-on monitoring or other oversight responsibilities. Although USAID/Egypt's and WWCG's duties and responsibilities differ, we believe a rough comparison can be made between these organizations' vehicles and numbers of professional staff. With a March 31, 1990 life-of-project authorization of \$328 million, the Alexandria Wastewater Project is one of USAID/Egypt's largest projects. The Missions's current active project portfolio includes projects whose aggregate authorizations total about \$6.5 billion.

- 2/6

ORIGIN RIGA INFO DCM CNT2

APPENDIX VIII
Page 1 of 3

VZCZC
PP RUEHWN
DF RUEHFG #5633 219 **
ZNR UUUUU 774
P 062658Z AUG 90
FM AMEMBASSY CAIRO
TO AMEMBASSY BRIDGETOWN PRIORITY 0001
BT
UNCLAS CAIRO 15633

CLASS: UNCLASSIFIED
CHRG: 08/05/1990
APPRV: RIG/A/C FAKALHAMME
DRFTD: RIG/A/C FAKALHAMME
NN
CLFAR: NONP
DISTR: RIGA
ORGIN: OCR

ADM AID

FOR REGIONAL CONTRACTING OFFICER JAMES DZIERWA FROM
RIG/A/C

E.O.: 12356:N/A
SUBJECT: AUDIT OF ALEXANDRIA WASTEWATER SYSTEM
EXPANSION PROJECT

REFS: CAIRO 2301 (2/11/90), BRIDGETOWN 117 (2/14/90),
CAIRO 9821 (5/2/90)

- 1) DURING SUBJECT AUDIT WE HAVE INQUIRED INTO THE ACTIVITIES OF THE PROJECT DESIGN/SUPERVISION CONTRACTOR, WASTEWATER CONSULTANTS GROUP (WWCG) AND, SPECIFICALLY, THE CONTRACTOR'S USE OF AND ACCOUNTABILITY FOR PROJECT-FUNDED VEHICLES.
- 2) IT HAS COME TO OUR ATTENTION THAT IN APRIL 1989 YOU EXECUTED A SUBSTANTIAL AMENDMENT TO THAT CONTRACT WHICH INCLUDED A PROVISION REQUIRING WWCG TO REIMBURSE AID FOR PERSONAL USE OF PROJECT-FUNDED VEHICLES AT A FLAT RATE OF 1669 (ABOUT DOLS. 27) PER MONTH PER EXPATRIATE CONTRACT EMPLOYEE.
- 3) SINCE WE HAVE FOUND THAT ACTUAL PERSONAL USE BY SUCH EXPATRIATE EMPLOYEES HAS SUBSTANTIALLY EXCEEDED EXPECTED PERSONAL USE, WE HAVE BEEN ATTEMPTING TO VERIFY THE BASIS UPON WHICH THE RATE AT WHICH PERSONAL USAGE OF PROJECT VEHICLES BY WWCG PERSONNEL WAS CALCULATED OR NEGOTIATED AT THE TIME THE CONTRACT WAS AMENDED. TO DATE, HOWEVER, WE HAVE BEEN UNABLE TO LOCATE A MEMORANDUM OF NEGOTIATIONS COVERING THAT CONTRACT ACTION. FURTHERMORE, IT WOULD APPEAR FROM ALL INDICATIONS THAT NO SUCH MEMORANDUM WAS PREPARED OR PLACED IN THE CONTRACT FILE AT THE TIME THE AMENDMENT WAS EXECUTED OR BEFORE YOU DEPARTED POST. MOREOVER, IT IS OUR UNDERSTANDING THAT YOU HAVE BEEN REQUESTED ON SEVERAL OCCASIONS IN THE PAST TO PRODUCE A COPY OF THAT MEMORANDUM OR AN EXPLANATION AS TO WHY ONE WAS NOT PREPARED (NOTE REFTELS ABOVE). TO DATE, HOWEVER, NO NEG MEMO HAS BEEN RECEIVED BY USAID/EGYPT.
- 4) YOU ARE HEREBY ADVISED THAT THIS MATTER WILL BE INCLUDED IN A DRAFT AUDIT REPORT TO BE SUBMITTED FOR USAID/EGYPT'S REVIEW AND COMMENT VERY SHORTLY. IF THE NEG MEMO IN QUESTION DOES IN FACT EXIST, PLEASE FAX A

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COPY THEREOF TO RIG/A/C AS SOON AS POSSIBLE. THE
NUMBER OF THE FAX MACHINE IN RIG/A/CAIRO'S OFFICE IS
(202) 355-4318.

APPENDIX VIII
Page 2 of 3

5) THANK YOU FOR YOUR COOPERATION WITH THIS AUDIT
REQUEST.

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APPENDIX VIII

Page 3 of 3

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FM AMEMBASSY CAIRO

TO AMEMBASSY BRIDGETOWN PRIORITY 0002

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UNCLAS CAIRO 17776

CLASS: UNCLASSIFIED

CHRG: AID 09/03/90

APPRV: RIG/A/C:FAKALHAMMER

DRFTD: RIG/A/C:FAKALHAMMER

CLEAR: NONE

DISTR: RIGA

ORGIN: OCR

ADM AID

FOR REGIONAL CONTRACTING OFFICER JAMES DZIERWA FROM RIG/A/C

E.O. 12356:N/A

SUBJECT: AUDIT OF AWW PROJECT

REF: CAIRO 15533 (6 AUG 90) AND PREVIOUS TELEGRAMS FROM USAID/EGYPT

AS OF C.O.B. 2 SEPT 1990, NO RESPONSE FROM YOU TO REFTEL HAS BEEN RECEIVED BY RIG/A/C DRAFT REPORT ON WWCG VEHICLE USAGE HAS BEEN ISSUED AND A COPY IS BEING SENT FYI VIA DHL COURIERS. PLEASE FEEL FREE TO PROVIDE ANY COMMENTS YOU WISH DIRECTLY TO RIG/A/C.

WISNER

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APPENDIX IX**Report Distribution****No. of Copies**

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40