

Regional Inspector General for Audit
Cairo, Egypt

**Audit of Local Expenditures By
Camp Dresser & McKee International Inc.
Under USAID/Egypt's Cairo Sewerage II
Contract No. 263-0.73-C-00-8073-00
Project No. 263-0173**

Report No. 6-263-92-02-N
November 5, 1991



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

November 5, 1991

MEMORANDUM FOR D/USAID/Egypt, Henry H. Bassford

FROM : RIG/A/C, Phillip L. Darcy

SUBJECT: Audit of Camp, Dresser & McKee's Local Expenditures
Under Contract No. 263-0173-C-00-8073-00

The attached report dated February 26, 1991 by Shawki & Co., an Arthur Andersen & Co. affiliate, presents the results of a financial audit of Contract No. 263-0173-C-00-8073-00 with Camp, Dresser & McKee (CDM) under USAID/Egypt's Cairo Sewerage II project (Project No. 263-0173). This project provides funding for construction, engineering services and training for large sewer projects on the West Bank of the Nile.

Shawki's audit was designed to determine whether CDM's Fund Accountability Statement fairly presents project revenues and costs incurred. Shawki also evaluated CDM's internal control structure and compliance with applicable laws, regulations and agreement terms as part of determining whether the Fund Accountability Statement is free of material misstatement. The audit, which examined local expenditures between May 15, 1988 and October 31, 1990, covered a total of \$662,095 consisting of \$302,781 and LE903,315.

The auditors concluded that with the exception of \$4,757 in questioned costs, CDM's Fund Accountability Statement fairly presented local revenues and costs. Shawki questioned \$4,757 in unreasonable salaries paid to Egyptian employees. While the audit report does not note any internal control findings, it does state that CDM classified two of its employees as subcontractors without following the competitive bidding procedures required by its contract with USAID/Egypt.

CDM responded to the questioned costs by stating it would discuss them with USAID/Egypt. In the area of compliance, CDM agreed that in the future, it would follow A.I.D. required subcontract procedures.

Recommendation No. 1: We recommend that USAID/Egypt resolve the questioned costs identified on page 6 of the audit report.

This recommendation will be included in the Inspector General's audit recommendation follow-up system. Until we are advised of the USAID/Egypt Contracting Officer's determination regarding the questioned and unsupported costs, Recommendation No. 1 is considered "unresolved." This recommendation can be resolved when we are notified by the Contracting Officer that s/he has formally sustained or allowed all or part of the costs questioned. The recommendation can be closed when any amounts determined to be owed to A.I.D. are paid by CDM.

Please advise this office within 30 days of any actions planned or taken to close the recommendations. We appreciate the courtesies extended to the staff of Shawki & Co. and to our office.

AUDIT OF LOCAL EXPENDITURE BY
CAMP DRESSER & MCKEE INTERNATIONAL INC. (CDM)
UNDER USAID/EGYPT'S CAIRO SEWERAGE II
CONTRACT NO. 263-0173-C-00-8073-00

SHAWKI & CO.

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Khaled El Ghanam
Tarek El Menshaw
Rashed Hosay
Hala Rashed

Mr. P. L. Darcy
Regional Inspector General for Audit
United States Agency for International
Development
Cairo, Egypt

Dear Sir:

This report presents the results of our financial audit of direct contract No. 263-0173-C-00-8073-00 between Camp Dresser & McKee International, Inc. (CDM) and USAID/Egypt under Cairo Sewerage II (Project No. 263-0173).

Our audit was made in accordance with the requirements in the work order dated December 1st, 1990.

Background

A contract was negotiated between Camp Dresser & McKee International Inc. and USAID/Egypt for phase I of Abu Rawash Wastewater Treatment Plant (WWTP) which will provide a primary wastewater treatment process with interim disposal to the Barakat drain.

Phase I includes electrical power supply, stand-by generators and generator buildings, permanent chlorination facilities, primary effluent pump station, interim effluent discharge facilities and miscellaneous works such as roads, fencing and general site works. Also administration and maintenance buildings will be provided.

Camp Dresser & McKee International, Inc. (CDM) will be responsible for providing all personnel, equipment (other than that provided by the design/build contractor), materials, supplies and facilities necessary to complete the scope of work in a timely and acceptable manner.

CDM shall provide construction management services for design/build activities for the Abu Rawash WWTP. These services are provided in three stages: Pre-Award Engineering Services; Construction Monitoring; and Warranty, Operation and Maintenance Assistance.

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Objectives

The objectives of our audit are to determine whether:

1. The fund accountability statement for CDM presents fairly, in all material respects, project revenues and costs incurred and reimbursed for the contract in conformity with the applicable accounting principles;
2. the costs reported as incurred under this contract are in fact allowable, allocable, and reasonable in accordance with the terms of the contract and A.I.D. Handbook 14;
3. the internal controls, accounting systems and management practices of CDM were adequate; and
4. CDM complied with the contract terms (including standard contract provisions) which may have affected the costs incurred under the contract.

Audit scope and Methodology

We have performed an audit for the fund accountability statement, a review of the internal control, accounting and management practices. Our work included compliance with applicable standards.

During our work we were alert to situations or transactions that could be indicative of fraud, abuse or illegal acts.

Our audit was limited to examining costs incurred and documented in Egypt. Accordingly, our audit coverage of the total contract value was as detailed below:

	<u>Note</u>	<u>US\$</u>
Total contract		9,660,600
Total expenditures		3,146,473
Total costs available to be audited (local expenditures)	A	662,095

Note A:

The total dollar value of expenses under audit was US\$ 662,095 and was tested as follows:

	<u>US\$</u>	<u>%</u>	<u>L.E.</u>	<u>%</u>
Costs tested	214,483	70 %	(1) 903,315	100 %
Costs not tested	88,298	30 %	-	-
	-----	---	-----	---
Total cost as of October 31, 1990	302,781	100 %	903,315	100 %
	=====	===	=====	===

(1) Equivalent to \$ 359,314 at an average exchange rate of L.E. 2.514/\$.

Results of the audit

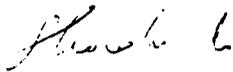
We audited \$ 662,095 in locally incurred costs out of total contract costs amounting to \$ 3,146,473. Costs of \$ 4,757 were questioned as being unreasonable.

CDM has established appropriate procedures to ensure that expenditures are properly authorized and approved. Limited segregation of duties is achieved even though there are few employees. Although CDM does not maintain written policies and procedures, the system of internal accounting controls is adequate except for certain minor weaknesses which are discussed in the management letter dated August 12, 1991 and was separately provided to CDM management. However, they do not modify the opinions expressed in our report.

CDM complied in all material respects with the contract provision, applicable AID regulations and local laws.

Management has agreed to discuss and resolve the reasonableness of questioned staff costs with USAID/Egypt.

Yours faithfully,



Shawki & Co.

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February 26, 1991

Mr. P. L. Darcy
Regional Inspector General for Audit
United States Agency for International
Development
Cairo, Egypt

FUND ACCOUNTABILITY STATEMENT
FOR THE LOCAL COSTS INCURRED
REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the fund accountability statement for the local costs incurred by Camp Dresser & McKee International Inc. (CDM) for direct contract No. 263-0173-C-8073-00 under USAID/Egypt's Cairo Sewerage II project No. 263-0173 for the period May 15, 1988 to October 31, 1990. The fund accountability statement is the responsibility of CDM management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

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

CDM uses the cash basis of accounting. Accordingly, cost invoiced are not recognized when a liability is incurred, but rather when cash disbursements are made.

Except for \$ 4,757 (finding A, page 7), in our opinion, the fund accountability statement for the local costs incurred, present fairly, in all material respects, the fund position of Camp Dresser & McKee International Inc. for period May 15, 1988 to October 31, 1990 relating to project number 263-0173 in conformity with the cash basis of accounting.

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This report is intended solely for the use of the United States Agency for International Development and may not be appropriate for any other purpose.

Shawki & Co.

Shawki & Co.

FUND ACCOUNTABILITY STATEMENT (NOTE 1)
LOCAL COSTS INCURRED IN EGYPTIAN POUNDS
DIRECT CONTRACT 263-0173-C-00-8073-00
EGYPTIAN POUNDS

For the period May 15, 1988 to October 31, 1990

<u>Cost Element</u>	<u>Expenditure reported</u>	<u>Reclass.</u>	<u>Proposed Adjustment</u>	<u>Reference to notes/findings</u>
Staff billings	-0-	25,960	(11,960)	(A)
Travel & transport	-0-	-0-	-0-	
Allowances	2,489	-0-	-0-	
Other direct costs	353,537	-0-	-0-	
Furniture & equipment	125,668	-0-	-0-	
Subcontractors	421,621	(25,960)	-0-	
	-----	-----	-----	
Total in LE	903,315	-0-	(11,960)	
	=====	=====	=====	
Total in US\$	359,314	-0-	(4,757)	(2)
	=====	=====	=====	

FUND ACCOUNTABILITY STATEMENT (NOTE 1)
LOCAL COSTS INCURRED IN U.S. DOLLARS
DIRECT CONTRACT 263-0173-C-00-8073-00
US DOLLARS

For the period May 15, 1988 to October 31, 1990

<u>Cost Element</u>	<u>Expenditure reported</u>	<u>Expenditure to date</u> (US\$)
Travel & transport	94,148	94,148
Allowances	49,580	49,580
Other direct costs	101,860	101,860
Furniture & equipment	5,871	5,871
Subcontractors	51,322	51,322
	-----	-----
Total in US\$	302,781	302,781
	=====	=====

(2) These amounts are converted at an average exchange rate of L.E. 2.514/\$.

FINDING

- A. As per our review we found that the personnel were hired noncompetitively and without contracts required by the USAID contract. Consequently the personnel (office manager and driver) were hired at higher rates than appears to be necessary for these positions.

This situation is described as follows:

<u>Ten months costs</u>	
Office manager	LE 19,960
Driver	LE 6,000

Total	LE 25,960
	=====

We found that these costs are more than the salary of employees with similar experience, qualifications and job responsibilities. For instance, the salaries of similar employees at other companies are LE 1,000 monthly for the secretary and LE 400 monthly for the driver. Our inquiries found the work performed by the "office manager" is that of a secretary rather than an office manager. Therefore we are questioning the reasonableness of LE 11,960 of this cost.

Recommendation

We recommend CDM management to observe a competitive bidding process, obtain approval and to maintain a contract when hiring additional personnel.

Management comment

We will discuss the costs of the office manager and driver with the USAID/Egypt in order to resolve these questioned costs.

CAMP DRESSER & MCKEE INTERNATIONAL, INC. (CDM)
=====

Note to Fund Accountability Statements

1. Basis of Presentation

The accompanying fund accountability statement has been prepared on the basis of cash disbursement, consequently, expenditure invoices are recognized when submitted for payment rather than when the liability is incurred. Additionally, the statements have been prepared in accordance with the cost principles set forth in "USAID Handbook 14", which prescribes the nature of reimbursable expenditures not specifically defined in the contract.

We were engaged to audit the locally incurred costs, amounting to US\$ 662,095 for Camp Dresser & McKee Inc. (CDM) Direct contract No. 263-0173-C-00-8073-00 for the period May 15, 1988 to October 31, 1990. Total expenditures under this contract for U.S. incurred costs and locally incurred costs are US\$ 3,146,473.

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February 26, 1991

Mr. P. L. Darcy
Regional Inspector General for Audit
United States Agency for International
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Cairo, Egypt

REPORT ON INTERNAL CONTROL STRUCTURE REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the fund accountability statements of Camp Dresser & McKee International Inc. (CDM) Contract No. 263-0173-C-00-8073-00 for the period May 15, 1988 to October 31, 1990 and have issued our report thereon dated February 26, 1991. We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. In planning and performing our audit of costs incurred and billed by CDM, we considered its internal control structure 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 CDM is responsible for establishing and maintaining a system of internal accounting control. In fulfilling this responsibility, estimates and judgments by the management are required to assess the expected benefits and related costs of control procedures. The objectives of the system are to provide the management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of fund accountability statements in accordance with generally accepted accounting principles.

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions, or that the degree of compliance with the procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures in the following categories:

o Cycles

Purchases/disbursements
Revenues/receipts

o Accounting applications

Billings
Cash receipts
Purchasing and receiving
Cash disbursements
Payroll

For all of the control categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

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 material weaknesses as defined above. However, we noted certain matters involving the internal control structure and its operation that we have reported to the management of CDM in a separate letter dated August 12, 1991.

This report is intended for the information of CDM management, and others within the organization and USAID. The restriction is not intended to limit the distribution of this report which is a matter of public record.



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February 26, 1991

Mr. P. L. Darcy
Regional Inspector General for Audit
United States Agency for International
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Cairo, Egypt

REPORT ON COMPLIANCE WITH AGREEMENT TERMS
AND APPLICABLE LAWS AND REGULATIONS
REPORT OF INDEPENDENT ACCOUNTANTS

We have audited the fund accountability statements of Camp Dresser & McKee International Inc. (CDM) Direct contract No. 263-0173-C-00-8073-00 under USAID/Egypt's Cairo Sewerage II project No. 263-0173 for the period May 15, 1988 to October 31, 1990 and have issued our report thereon dated February 26, 1991.

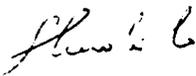
We conducted our audit in accordance with generally accepted auditing standards and the standards for financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the fund accountability statements are free of material misstatement.

Compliance with laws, regulations and the terms of the above mentioned direct contract, is the responsibility of CDM management. As part of our audit, we performed tests of compliance with certain provisions of laws, regulations, and the grants. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the fund accountability statements are free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

Our testing of transactions, and records selected disclosed instances of noncompliance with those laws and regulations. All instances of noncompliance that we found and the programs to which they relate, are identified in the accompanying schedule of findings and questioned costs.

Except as described in the finding stated on page 13, the result of our tests indicate that with respect to the items tested CDM complied, in all material respects, with the provisions referred to in the third paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that CDM had not complied, in all material respects, with those provisions.

This report is intended for the information of CDM management and others within the organization and USAID. This restriction is not intended to limit the distribution of this report which is a matter for public record.



Shawki & Co.

FINDINGS

1. Subcontractors

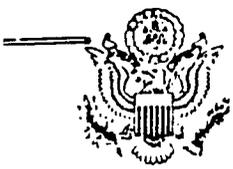
We noted that the company has classified two of its employees as subcontractors (direct hire), without following the official bidding procedure as requested by USAID/Egypt. Also we found that there is no formal contract established between CDM and these subcontractors.

Recommendation

We recommend that the company follow the A.I.D. requirements for selecting subcontractors in the future and formal contract be established when hiring subcontractors.

Management comment

Agreed.



CAIRO, EGYPT

APPENDIX A

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

OCT 30 1991

MEMORANDUM

RECEIVED
31 OCT 1991

TO: Philippe Darcy, RIG/A/C

FROM: George Wachtenheim, D/DIR

SUBJECT: Draft NFA Report on Costs Incurred by Camp Dresser
& McKee Under USAID/Egypt's Contract
No. 263-0173-C-00-8073-00

Following are the Contracting Officer's comments on the recommendation to disallow LE 25,960 in salary costs paid to two Egyptian employees - a driver and an office manager.

1. Driver: The report recommends disallowing LE 6,000 of salary which was deemed unreasonably high by the non-federal auditor. The Contracting Officer disagrees with this recommendation. AIDAR 722.170(b) states that compensation for cooperating country nationals must not exceed the prevailing compensation paid to personnel performing comparable work in the cooperating country as determined by the AID Mission. It is our usual practice to use the U.S. Mission's Local Compensation Plan as a guide in this respect. This plan is based on a salary survey of employers in Egypt with whom USAID and the Embassy compete for qualified personnel.

The Driver in question began in December, 1989 at LE 600/month which was equivalent to a Grade 3, Step 8 on the Local Compensation Plan in effect at that time. Under the Mission's personnel system, Drivers are within Grade 3. On this basis, the salary paid to this Driver is considered fair and reasonable. Note that as of March 11, 1990, when the compensation plan was revised, he was earning the equivalent of an FSN 1/1.

2. **Office Manager:** The report also identifies the office manager as receiving an unreasonably high salary of L.E. 2,200/month and recommends disallowing L.E. 19,960. The Contracting Officer disagrees with this amount. In the absence of any further explanation from CDM at this time, I believe no more than L.E. 5,475 can be disallowed. The Contracting Officer's basis for this opinion are similar to those discussed above.

The Office Manager was hired in October, 1989, at the rate of L.E. 26,900/annum, which is comparable to an FSN Grade 12, Step 3 on the Compensation Plan in effect at that time. This is exceptionally high for an office manager of any type. With the revision of the Compensation Plan on March 11, 1990, the Office Manager's rate became equivalent to an FSN Grade 8, Step 6. This level is more reasonable and consistent with her duties with CDM.

In arriving at the revised disallowance, the Contracting Officer subtracted the monthly rate of an FSN Grade 8, Step 6 as of 10/89 (L.E. 1,105/month) from the Office Manager's salary (L.E. 2,200/month) and multiplied the difference by the five months between October and March. This amounted to L.E. 5,475.

Please note that the Contractor Officer's conclusions may be revised upon further discussion with CDM.

APPENDIX B**Report Distribution**

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