

Regional Inspector General for Audit
Cairo, Egypt

Audit of CH2MHILL International Corporation
Relating to Local Expenditures Incurred on Direct
Contract No. 263-0193-C-00-0061-00 under USAID/Egypt's
Cairo Water Supply II Project No. 263-0193

Report No. 6-263-93-06-N
January 7, 1993



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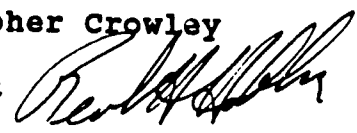
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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

January 7, 1993

MEMORANDUM FOR A/D/USAID/Egypt, Christopher Crowley

FROM : D/RIG/A/C, Reuben Hubbart 
**SUBJECT : Audit of CH2MHILL International Corporation
Relating to Local Expenditures Incurred on
Direct Contract No. 263-0193-C-00-0061-00 under
USAID/Egypt's Cairo Water Supply II
Project No. 263-0193**

The attached report dated November 3, 1992 by Farid Mansour & Co., presents the results of a financial audit of CH2MHILL International Corporation locally incurred costs, under a contract relating to the Water Supply II project, funded by USAID/Egypt. Through the direct contract with USAID/Egypt, CH2MHILL provides necessary assistance to improve the level of services (pressure, quantity and time of availability) of Rod El Farag Water Distribution System, and to ensure the full production capacity of the recently expanded Rod El Farag treatment plant.

The financial audit covers Egyptian pounds expenditures incurred by CH2MHILL of LE.2,250,660 (equivalent to \$754,495) for the period June 14, 1990 to March 31, 1992. The purpose of the audit was to evaluate the propriety of costs incurred during this period. In their report, Farid Mansour & Co. evaluated CH2MHILL's internal controls and compliance with applicable laws, regulations and contract terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Farid Mansour & Co. questioned \$2,844 in costs billed to A.I.D. by CH2MHILL (including \$1,381 in unsupported costs). These questioned costs include, but are not limited to travel, transportation, per diem, and office expense. Farid Mansour & Co. noted no material weaknesses with respect to CH2MHILL's internal control structure or compliance with provisions of laws, regulations, contracts, binding policies and procedures.

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Garden City, Egypt

Farid Mansour & Co. have reviewed CH2MHILL's response to the findings. The response provided by CH2MHILL did not change their understanding of the facts underlying the questioned costs of the fund accountability statement.

Recommendation No. 1: We recommend that USAID/Egypt resolve questioned costs of \$2,844 consisting of ineligible costs of \$1,463 and unsupported costs of \$1,381 as detailed on pages 10 and 11 of the audit report.

This recommendation will be included in the Inspector General's audit recommendation follow-up system. Until we are advised of USAID/Egypt's determination regarding the questioned costs, Recommendation No. 1 is considered unresolved. This recommendation can be resolved when we receive the Mission's formal determination as to the amounts sustained or not sustained and can be closed when any amounts determined to be owed to A.I.D. are paid by CH2MHILL.

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 Farid Mansour & Co. and to our office.

FINANCIAL RELATED AUDIT
OF LOCAL EXPENDITURES OF
CH2M HILL INTERNATIONAL CORPORATION

ON

ROD EL FARAG DISTRIBUTION
UPGRADE SYSTEM

Contract No. 263-0193-C-00-0061-00

For the Period from June 14, 1990
to
March 31, 1992

FINANCIAL RELATED AUDIT
OF LOCAL EXPENDITURES OF
CH2M HILL INTERNATIONAL CORPORATION
ON
ROD EL FARAG DISTRIBUTION
UPGRADE SYSTEM

Contract No. 263-0193-C-00-0061-00

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in association with
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our reference

November 3, 1992

Mr. Philippe L. Darcy
Regional Inspector General for Audit
UNITED STATES AGENCY FOR
INTERNATIONAL DEVELOPMENT
MISSION TO EGYPT
Cairo - Egypt

Dear Mr. Darcy

This report presents the results of our financial audit of local disbursements incurred by the CH2M HILL International Corporation on direct Contract No. 263-0193-C-00-0061-00 under USAID/Egypt's Cairo Water Supply II Project (263-0193).

This contract is cost reimbursable plus fixed fee and is funded by the United States Agency for International Development.

BACKGROUND

USAID/Cairo is assisting the General Organization for Greater Cairo Water Supply (GOGCWS) to improve and expand the Rod El Farag water distribution system in the east bank of Cairo, in the Arab Republic of Egypt. Through the contract with USAID/Cairo, CH2M HILL is to provide necessary assistance to improve the level of services (pressure, quantity and time of availability) to Rod El Farag water distribution system and to utilize the full production capacity of the recently expanded Rod El Farag treatment plant.

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Total committed funds are as follows:

	US\$	
Funds committed in US\$	9,597,969	
Fixed fee in US\$	<u>815,044</u>	
Total funds committed in US\$	<u>10,413,013</u>	

	LE	US\$ EQUIV.
Funds committed in LE	28,846	9,670
Fixed fee in LE	<u>1,153</u>	<u>387</u>
Total funds committed in LE	<u>29,999</u>	<u>10,057</u>

Our scope of audit is concerned only with the locally incurred costs excluding local subcontract costs as follows:

	LE	US\$ EQUIV.
Total local cost (budgeted)	6,636,021	2,224,613
<u>Less:</u> subcontract costs (budgeted)	<u>(4,385,361)</u>	<u>(1,470,118)</u>
Costs within scope of audit	<u>2,250,660</u>	<u>754,495</u>

The total expenditures incurred and subsequently reimbursed by USAID for the period under audit is LE. 893,143 (equivalent to US \$299,411).

AUDIT OBJECTIVES AND SCOPE

The objective of this engagement is to perform a financial audit of the expenditures billed to USAID/Egypt under Contract No. 263-0193-C-00-0061-00 for the period from June 14, 1990 to March 31, 1992. Specific objectives of this audit were determined to be:

1. Express an opinion on whether the fund accountability statement for CH2M HILL presents fairly, in all material respects, project costs incurred and reimbursed under the contract in conformity with generally accepted accounting principles or other comprehensive basis of accounting, including the cash receipts and disbursements basis and the modifications of the cash basis.
2. Determine if the costs reported as incurred under the contract are in fact allowable, allocable and reasonable in accordance with the terms of the contract.

3. Evaluate and obtain a sufficient understanding of the internal control structure of CH2M HILL, assess control risk, and identify reportable conditions, including material internal control weaknesses.
4. Perform tests to determine whether CH2M HILL complied in all material respects with contract terms and applicable laws and regulations.

Preliminary planning and review procedures were performed during June 1992 and consisted of discussions with RIG/A/C personnel and CH2M HILL officials. We reviewed the contract and the accounting system utilized during the period under examination. Audit work commenced in June 1992 at CH2M HILL's office in Nasr City and was completed in August 1992.

Our selection of disbursements to be reviewed was made on a judgmental basis and was structured to test the majority of expenditures. The following are the percentages of audit coverage for each CH2M HILL cost line item:

1. 100% of housing subsistence and short term per diem (LE 497,815);
2. 100% of in-country travel, transportation and per diem (LE 74,941);
3. 98.6% of in-country office costs (LE 315,982).

In total we reviewed LE 888,738 of expenses representing approximately 99.5% of all expenditures for the period covered in this audit.

Our audit procedures included, but were not limited to, the following:

1. Reconciling CH2M HILL's accounting records to invoices issued to USAID and reviewing costs for allowability, reasonability and allocability.
2. Determining that expenditures were appropriate and conformed with the terms of the contract and relevant regulations.
3. Reviewing the costs for appropriate support.

As a part of our examination we performed a study and evaluation of relevant controls and reviewed CH2M HILL's compliance with applicable laws and regulations.

RESULTS OF AUDIT

Fund Accountability Statement

Our examination identified LE 8,479 in questionable costs, including LE 4,120 in unsupported costs.

Internal Control Structure

Based on the information collected and the observations made after having considered the GAO's general internal control standards our overall judgment on the adequacy of the internal control system is that the control risks are low. We did not note matters involving the internal control structure and its operation that we considered to be material weaknesses.

Compliance with Contract Terms and Applicable Laws and Regulations

Our testing of transactions and records selected disclosed no instances of noncompliance with contract terms or applicable laws and regulations.

MANAGEMENT COMMENTS

We have reviewed CH2M HILL's responses to the findings which are included in Appendix A. The responses provided by CH2M HILL have not changed our understanding of the facts underlying the questioned costs of the fund accountability statement as presented in Appendix B.

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our reference

Mr. Philippe L. Darcy
Regional Inspector General for Audit
UNITED STATES AGENCY FOR
INTERNATIONAL DEVELOPMENT
MISSION TO EGYPT
Cairo - Egypt

FUND ACCOUNTABILITY STATEMENT
Report of Independent Accountants

We have audited the fund accountability statement of CH2M HILL International Corporation for the period from June 14, 1990 to March 31, 1992, relating to expenditures incurred in Egypt under Contract No. 263-0193-C-00-0061-00 under USAID/Egypt's Cairo Water Supply II Project (263-0193).

The fund accountability statement is the responsibility of CH2M HILL management. Our responsibility is to express an opinion on the fund accountability statement based on our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and government auditing standards. Those 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 the fund accountability statement. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall presentation of the fund accountability statement. We believe that our audit provides a reasonable basis for our opinion.

We did not meet the continuing education requirements, listed in Paragraph 6 of Chapter 3 of the government auditing standards. Additionally, we did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of government auditing standards since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of government auditing standards is not material because we participate in the Coopers & Lybrand (C&L) worldwide internal quality control program which requires the C&L Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other C&L offices.

In our opinion, except for LE 8,479 identified by us as questionable costs, the fund accountability statement referred to above presents fairly in all material respects CH2M HILL's expenditures for the period from June 14, 1990 to March 31, 1992, in conformity with the cash basis of accounting.

This report is intended solely for the use of the United States Agency for International Development and CH2M HILL's management. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Cairo, Egypt
August 14, 1992


Farid S. Mansour

FINANCIAL RELATED AUDIT
OF LOCAL EXPENDITURES OF
CH2M HILL INTERNATIONAL CORPORATION
ON
ROD EL FARAG DISTRIBUTION
UPGRADE SYSTEM
Contract No. 263-0193-C-00-0061-00

FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD JUNE 14, 1990 THROUGH MARCH 31, 1992

<u>CATEGORY</u>	<u>BUDGET</u>	<u>ACTUAL</u>	<u>QUESTIONED COSTS</u>		<u>REFERENCE</u> <u>TO NOTES</u>
			<u>INELIGIBLE</u>	<u>UNSUPPORTED</u>	
	\$	\$	\$	\$	
Total revenue	<u>744,825</u>	<u>299,411</u>			
<u>Expenditures</u>					
Housing, subsis- tence & short term per diem	572,473	166,883	-	-	
In-country travel, transportation & per diem	56,184	25,123	-	187	Exh 1
In-country office costs	116,168	107,405	1,461	1,194	Exh 2
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	
Total Expenditures	<u>744,825</u>	<u>299,411</u>			
Outstanding Balance			<u>1,461</u>	<u>1,381</u>	

FINANCIAL RELATED AUDIT
OF LOCAL EXPENDITURES OF
CH2M HILL INTERNATIONAL CORPORATION
ON
ROD EL FARAG DISTRIBUTION
UPGRADE SYSTEM

Contract No. 263-0193-C-00-0061-00

NOTES TO THE FUND ACCOUNTABILITY STATEMENT

NOTE 1 - SCOPE OF AUDIT

The fund accountability statement of CH2M HILL includes all locally incurred direct cost expenditures for Cooperative Agreement No. 263-0193-C-00-0061-00 with USAID. The Agreement does not allow for reimbursement of indirect costs.

NOTE 2 - SOURCE OF DATA

The column labeled "Actual Expenditures" is the responsibility of management and represents the cumulative local expenditures incurred for the project for the period from June 14, 1990 through March 31, 1992.

NOTE 3 - BASIS OF PRESENTATION

The fund accountability statement has been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred.

NOTE 4 - EXCHANGE RATE

Expenses incurred in Egyptian pounds have been converted to US dollars at an average exchange rate of 2.983 Egyptian pounds to 1 US dollar for the period from June 14, 1990 through March 31, 1992.

NOTE 5 - QUESTIONED COSTS

Questioned costs are presented in two separate categories - ineligible and unsupported costs - and consist of audit findings proposed on the basis of the terms of the Contract, and the cost principles set forth in AIDAR 752.70.10 and 752.70.17 and FAR 52.216.7 which prescribe the nature and treatment of reimbursable costs not specifically defined in the Contract. Costs in the column labeled 'Ineligible' are supported by vouchers or other documentation but are ineligible for reimbursement because they are not program related, are unreasonable, or prohibited by the Agreement or applicable laws and regulations. Costs in the column labeled "Unsupported" are also formally included in the classification of "questioned costs" and relate to costs that are not supported with adequate documentation or did not have the required prior approvals or authorizations. All questioned costs are detailed in the 'Fund Accountability Statement - Audit Findings' section of this report.

FINANCIAL RELATED AUDIT
OF LOCAL EXPENDITURES OF
CH2M HILL INTERNATIONAL CORPORATION
ON
ROD EL FARAG DISTRIBUTION
UPGRADE SYSTEM

Contract No. 263-0193-C-00-0061-00

FUND ACCOUNTABILITY STATEMENT
AUDIT FINDINGS

QUESTIONED AND UNSUPPORTED COSTS

Exhibit 1. In-Country Travel, Transportation and Per Diem

<u>DATE</u>	<u>QUESTIONED</u> <u>COSTS</u>	<u>UNSUPPORTED</u> <u>COSTS</u>	<u>TOTAL</u>
	LE	LE	LE
Sep 90	-	54	54
Dec 90	-	39	39
Jan 91	-	27	27
Feb 91	-	20	20
May 91	-	40	40
Jun 91	-	262	262
Sep 91	-	43	43
Oct 91	-	44	44
Jan 92	-	11	11
Feb 92	-	14	14
Mar 92	-	4	4
Total in LE	<u>-</u>	<u>558</u> (see Note)	<u>558</u>
Equivalent in US \$		<u>187</u>	<u>187</u>

NOTE

LE 558

The amount represents the cost of various car supplies which have no proper supporting documents.

Exhibit 2. In-Country Office Costs

<u>DATE</u>	<u>QUESTIONED</u>	<u>UNSUPPORTED</u>	<u>TOTAL</u>
	<u>COSTS</u>	<u>COSTS</u>	
	LE	LE	LE
Sep 90	282	318	600
Oct 90	152	413	565
Nov 90	217	60	277
Dec 90	122	259	381
Jan 91	250	514	764
Feb 91	256	194	450
Mar 91	179	128	307
Apr 91	105	13	118
May 91	195	232	427
Jun 91	216	199	415
Jul 91	222	139	361
Aug 91	226	172	398
Sep 91	345	92	437
Oct 91	269	181	450
Nov 91	268	61	329
Dec 91	363	113	476
Jan 92	300	189	489
Feb 92	323	61	384
Mar 92	<u>69</u>	<u>224</u>	<u>293</u>
Total in LE	<u>4,359</u> (Note a)	<u>3,562</u> (Note b)	<u>7,921</u>
Equivalent in US \$	<u>1,463</u>	<u>1,194</u>	<u>2,657</u>

NOTES

a. LE 4,359

The amount represents entertainment expenses (tea - coffee - sugar)

b. LE 3,562

The amount represents costs of various office supplies items which have no proper supporting documents.

our reference

Mr. Philippe L. Darcy
Regional Inspector General for Audit
UNITED STATES AGENCY FOR
INTERNATIONAL DEVELOPMENT
MISSION TO EGYPT
Cairo - Egypt

INTERNAL CONTROL STRUCTURE
Report of Independent Accountants

We have audited the fund accountability statement of CH2M HILL International Corporation for the period from June 14, 1990 to March 31, 1992 relating to expenditures incurred in Egypt under Contract No. 263-0193-C-00-0061-00 under USAID/Egypt's Cairo Water Supply II Project (263-0193) and we have issued our report thereon dated August 14, 1992.

Except as discussed in the following paragraph, 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 statement is free of material misstatement.

We did not meet the continuing education requirements listed in Paragraph 6 of Chapter 3 of the government auditing standards. Additionally, we did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of government auditing standards since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of government auditing standards is not material because we participate in the Coopers & Lybrand (C&L) worldwide internal quality control program which requires the C&L Cairo office to be subjected, every two years, to

an extensive quality control review by partners and managers from other C&L offices.

In planning and performing our audit of CH2M HILL we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Fund Accountability Statement and not to provide assurance on the internal control structure.

The management of CH2M HILL is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide 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 the fund accountability statement in accordance with the cash basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

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

For all the control categories cited 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 statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses as defined above.

This report is intended solely for the use of the United States Agency for International Development and CH2M HILL's management. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Cairo, Egypt
August 14, 1992



Farid S. Mansour

our reference

Mr. Philippe L. Darcy
Regional Inspector General for Audit
UNITED STATES AGENCY FOR
INTERNATIONAL DEVELOPMENT
MISSION TO EGYPT
Cairo - Egypt

COMPLIANCE WITH CONTRACT TERMS
AND APPLICABLE LAWS AND REGULATIONS
Report of Independent Accountants

We have audited the fund accountability statement of CH2M HILL International Corporation for the period from June 14, 1990 to March 31, 1992 relating to expenditures incurred in Egypt under Contract No. 263-0193-C-00-0061-00 under USAID/Egypt's Cairo Water Supply II Project (263-0193) and we have issued our report thereon dated August 14, 1992.

Except as discussed in the following paragraph, 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 statement is free of material misstatement.

We did not meet the continuing education requirements listed in Paragraph 6 of Chapter 3 of the government auditing standards. Additionally, we did not have an external quality control review by an unaffiliated audit organization as required by Paragraph 46 of Chapter 3 of government auditing standards since no such quality review program is offered by professional organizations in Egypt. We believe that the effect of this departure from the financial audit requirements of government auditing standards is not material because we participate in the Coopers & Lybrand (C&L) worldwide internal quality control program

which requires the C&L Cairo office to be subjected, every two years, to an extensive quality control review by partners and managers from other C&L offices.

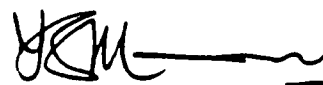
Compliance with applicable laws, regulations, contract, grants and binding policies and procedures applicable to CH2M HILL is the responsibility of CH2M HILL's management. As part of obtaining reasonable assurance about whether the Fund Accountability Statement is free of material misstatement, we performed tests of CH2M HILL's compliance with certain provisions of laws, regulations, contract, grants and binding policies and procedures. However, our objective was not to provide an opinion on compliance with such provisions.

The results of our tests indicated that, with respect to the items tested, CH2M HILL complied, in all material 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 CH2M HILL had not complied, in all material respects, with those provisions.

This report is intended solely for the information of the United States Agency for International Development and CH2M HILL's management. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Cairo, Egypt
August 14, 1992



Farid S. Mansour

APPENDIX A

MANAGEMENT RESPONSE TO AUDITORS' REPORT

CHMIS\ 294
27 August 1992

Farid S. Mansour & Co.
113 El Sawra St.
Heliopolis, Cairo

Attn: Mr. Abdul Aziz Mahmoud

**Ref: Financial Audit of CH2M HILL INTERNATIONAL
Rod El Farag Water Distribution Upgrade
CMC Contract 263-0193-C-00-0061-00**

Dear Mr. Abdul Aziz;

Upon a request from USAID, Farid Mansour & Co. performed a financial audit on CH2M HILL INTERNATIONAL's billings on the Rod El Farag Project during the period: Project inception through March 24, 1992.

On August 13, 1992, Farid Mansour & Co. presented CH2M HILL INT'L (CH2M HILL) with the Audit Findings which can be summarized into 2 categories:

1 - Questioned Office Consumable	LE	4,358.30
2 - "Unofficial" vendors' receipts		4,117.50

Following please find CH2M HILL's answers to the audit findings.

1 - Questioned Office Consumable (LE 4,358.30)

Auditors' Comment:

Coffee Room supplies should not be considered as reimbursable from the Project.

CH2M HILL's Position:

Disregarding the local culture, the above statement would be acceptable to CH2M HILL. But given the Egyptian hospitality and culture and as part of conducting good business in an appropriate atmosphere, it is important to present business visitors with tea, coffee, or other refreshments. In other words, these are necessary consumables with a direct benefit to the Project.

Among others, the visitors to these business meetings were: representatives of various contractors at the pre-tender conference and pre-construction meetings, local government agencies, owners' representatives, important vendors, etc...

There are of course exceptions but attempting to account for each one specifically would be too cumbersome, not cost effective, and would hinder to the said good business atmosphere. CH2M HILL has in the past and will continue to closely monitor these costs in order to keep them at the lowest level.

At an average monthly cost of LE 218 on a project of this magnitude, CH2M HILL feels that the benefits to the Project are far greater than the actual costs. Furthermore and based upon the above understandings, this type of costs were budgeted in our Contract under the Office Consumables line item.

2 - **"Unofficial" Vendors' Receipts (LE 4,117.50)**

Auditors' Comments:

Invoices that do not show the vendor's name and address or documented by a "Price List" are not considered as an official accounting receipt.

CH2M HILL's Position:

The auditors' comments were actually shared by CH2M HILL's Project Management at the start-up of the Project. However and in practice, the nature of these purchases, their special environment, and the cost effectiveness to the Project have proved that these type of isolated transactions cannot be completely avoided and are necessary to the proper functioning of the Project.

The auditor's findings confirmed an important fact: these type of "invoices" were properly approved in our office and that the goods or services were effectively rendered to the Project.

These services were driven by an emergency need where a choice of "proper" vendor is not always available: car towing, minor car repairs, tire repairs, minor office repairs... Most of the goods purchased under this category were minor miscellaneous purchases from the easiest available and most economical source.

The amount questioned by the auditors was supported by 214 receipts or an average purchase less than of LE 20.- per occurrence. Given the accounting and control systems of these small outfits and the nature of these purchases, it is conceivable that a "proper" receipt may not always be available.

The percentage of these type of costs is minimal compared to the overall LE costs. CH2M HILL has in the past, and will continue in the future to keep this type of transactions at a minimal level. Attempting to completely avoid them will undoubtedly result in higher costs to the Contract as well as introducing a certain inefficiency to the operations of a high paced project.

CH2M HILL feels that these costs were necessary, directly allocable to the efficient functioning of the Contract, economical, and justifiable given their special environment.

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CONCLUSION

In conclusion, CH2M HILL appreciates the audit's primary findings and comments. However, CH2M HILL was not expecting any substantial comments to result from the audit as CH2M HILL scrutinized all costs in detail prior to their incorporation in any invoice: all doubtful or questionable costs were taken out of our billing to the Client and added to the company's non-billable charges.

In light of the above clarifications and explanations, CH2M HILL feels that the amounts in question in this audit should be reclassified as allowable under this Contract.

Thank you for your understanding and do not hesitate to contact us if you have any questions or need further clarifications.

Sincerely,



Nejib Chaouch
Finance & Admin. Manager

NC:aa

APPENDIX B

**AUDITORS' COMMENTS ON MANAGEMENT RESPONSE
TO FINDINGS**

FINANCIAL RELATED AUDIT
OF LOCAL EXPENDITURES OF
CH2M HILL INTERNATIONAL CORPORATION
ON
ROD EL FARAG DISTRIBUTION
UPGRADE SYSTEM
Contract No. 263-0193-C-00-0061-00

AUDITORS' COMMENTS ON MANAGEMENT RESPONSE TO FINDINGS

EXHIBIT 1

In our opinion, the supporting documents for the questioned amount cannot be accepted by us as proper documentation.

EXHIBIT 2

Note A

In our opinion, the questioned amount is not under the cost principles set forth in AIDAR 752.70.10 and 752.70.17.

Note B

In our opinion, the supporting documents for the questioned amount cannot be accepted by us as proper documentation.



CAIRO, EGYPT

UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

January 5, 1993

MEMORANDUMRECEIVED
6 JAN 1993

TO: Reuben Hubbard, A/RIG/A/C

FROM: Douglas Franklin, AD/FM *SF*

SUBJECT: NFA Report on CH2MHILL International Corporation
Relating to Local Expenditures Incurred on Direct
Contract No. 263-0193-C-00-0061-00 under USAID/Egypt's
Cairo Water Supply II Project (263-0193) Draft Report

Mission has completed its review of the subject draft audit report, and will review the questioned costs again with the contractor. Given the minimal amount of costs involved, resolution of Recommendation No. 1 is expected soon after issuance of the final report.

Mission believes that no exit conference is required. Please issue the final report.

APPENDIX D

REPORT DISTRIBUTION

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