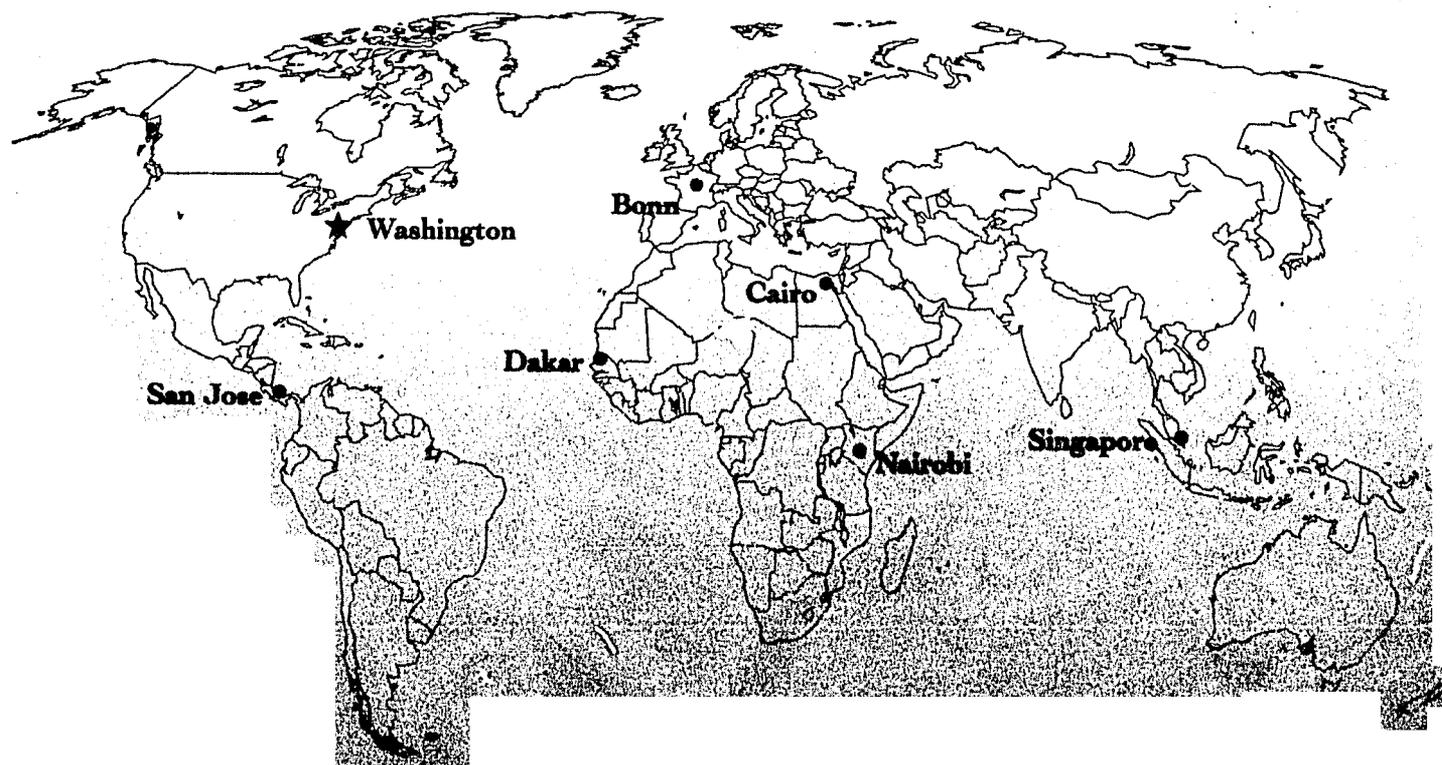

**AUDIT OF
USAID/THAILAND'S CONTRACT WITH
THAI ENGINEERING CONSULTANTS CO., LTD.
CONTRACT NO. 442-0109-C-00-2389-00
THAILAND**

**Audit Report No. 5-399-95-001-N
October 31, 1994**





U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

October 31, 1994

TO: Linda Lion, Mission Director, USAID/RSM

FROM: Richard C. Thabet RIG/A/Singapore *Richard C. Thabet*

SUBJECT: Audit of USAID/Thailand Contract with Thai Engineering
Consultants Co., Ltd.
Report No. 5-399-95-001-N

Enclosed are five copies of the subject audit report (prepared by the accounting firm, Ernst & Young) for your action. The audit covered the period from September 30, 1992, to September 30, 1993. During this period, Thai Engineering Consultants Co., Ltd. (TEC) reported that it spent \$1,049,637. The background information on the contract and the project is presented on pages 2 to 4 of the report.

The audit objectives were to:

- Determine whether TEC's Fund Accountability Statement presents fairly the expenditures incurred under the contract;
- Report on TEC's system of internal controls; and
- Report on TEC's compliance with applicable laws, regulations, and terms of the contract agreement.

The audit report concluded that:

- The Fund Accountability Statement presents fairly, in all material respects, the expenditures incurred under the contract;
- TEC's internal controls had two reportable conditions, which were not considered to be material weaknesses; and
- TEC's operations complied in all material respects with applicable laws, regulations, and terms of the contract agreement.

W

This audit report contains two findings and recommendations and \$5,037 in questioned costs relating to overhead costs. TEC's management comments are presented in its entirety in Appendix A.

USAID/RSM needs to ensure that necessary action is taken to correct the problems noted in this audit. In addition, the following recommendation will be included in the Inspector General's recommendation follow-up system:

Recommendation No. 1: We recommend that USAID/RSM resolve \$5,037 in questioned costs with Thai Engineering Consultants Co., Ltd. and recover any amounts determined to be unallowable.

We appreciate the courtesies and cooperation USAID/RSM and TEC extended to the auditors and our staff during the course of this audit.

Please advise me within 30 days of any actions planned or taken to close the above recommendations.

Attachment: a/s

**NON-FEDERAL AUDIT OF USAID/THAILAND'S CONTRACT WITH
UPHAM INTERNATIONAL CORPORATION AND
THAI ENGINEERING CONSULTANTS CO., LTD.
USAID CONTRACT NO. 442-0109-C-00-2389-00
TITLED THE CAMBODIA EMERGENCY ROADS REPAIR PROJECT**

**PREPARED FOR : REGIONAL INSPECTOR GENERAL/AUDIT/SINGAPORE
PREPARED BY : ERNST & YOUNG (BANGKOK)
DATE : MARCH 31, 1994**

**NON-FEDERAL AUDIT OF USAID/THAILAND'S CONTRACT WITH
UPHAM INTERNATIONAL CORPORATION AND
THAI ENGINEERING CONSULTANTS CO., LTD.
USAID CONTRACT NO. 442-0109-C-00-2389-00
TITLED THE CAMBODIA EMERGENCY ROADS REPAIR PROJECT**

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- / -

March 31, 1994

Mr. Richard C. Thabet
Regional Inspector General for Audit
U.S. Agency for International Development
03-01/04 Tong Building
302 Orchard Road
SINGAPORE 0923

Dear Sir,

This report presents the results of our financial and compliance audit of the costs incurred by Thai Engineering Consultants Co., Ltd. (TEC) under the USAID. contract no. 442-0109-C-00-2389-00 titled "The Cambodia Emergency Roads Repair Project (CERR) "in association with Upham International Corporation (Upham), a U.S. - based for profit organization and TEC. The period covered by our audit was from September 30, 1992 through September 30, 1993.

BACKGROUND

General information and objectives of the project are as follows :-

General information

Contract no.	:	442-0109-C-00-2389-00
Title	:	The Cambodia Emergency Roads Repair Project
Effective dates	:	September 30, 1992 through September 30, 1993
Implementing agency	:	Upham International Corporation and Thai Engineering Consultants Co., Ltd.

Funds budgeted by USAID : USIAD's budgeted contract sum as set out in the respective contract agreement and amendments are US\$ 1,569,688 and consisted of the following items. Conversion to Baht is for memorandum purpose and is based on the exchange rate of US\$ = Baht 25.27 being the average exchange rate throughout the year. Only costs incurred by TEC is to be covered by this audit.

	<u>US\$</u>	<u>BAHT EQUIVALENT</u>
Salaries and wages field staff	374,907	9,473,900
Overhead and social charges	480,649	12,146,000
Field investigations - Surveys	245,389	6,200,980
Allowances & Per diem	121,819	3,078,366
Travel and transportation	139,535	3,526,050
Other direct costs	34,012	859,483
Equipment and materials	<u>25,808</u>	<u>652,168</u>
TOTAL ESTIMATED COST	1,422,119	35,936,947
Fixed fee	<u>129,265</u>	<u>3,266,527</u>
TOTAL ESTIMATED COST PLUS FIXED FEE	1,551,384	39,203,474
Road assessment (Route 3&4)	<u>18,304</u>	<u>462,542</u>
GRAND TOTAL	<u>1,569,688</u>	<u>39,666,016</u>

Project Goals

On September 30, 1992, USAID/Thailand awarded a contract to Upham International Corporation (Upham), a U.S. - based for profit organization, under the Cambodia Emergency Roads Repair Project (CERR). Thai Engineering Consultants Co., Ltd. (TEC), an associate company of Upham, is in partnership with Upham under the same contract. Both companies were to provide engineering and construction management services for the CERR project.

The purpose of the project is to open road access to land available for resettlement in the Northwestern provinces of Banteay Menahcey, Batambang and Siem Reap in Cambodia. The project was part of an international relief effort to repatriate displaced Khmer refugees following the signing of peace agreements in Paris by the principal political factions in Cambodia. The construction works involved determining and rehabilitation works of rural access routes which have fallen into disuse and are in large part unpassable to vehicular traffic. The responsibilities of the contractors include :

- o monitor and report progress and problems with all construction ;
- o determine drainage requirements and bridge repair/construction as work progresses ; and
- o inspect and certify for payment completed road construction work.

TEC, the associate firm of Upham, provides the manpower and office space to Upham under the contract. There are no inter-locking staff or administrative functions between the two parties. Only common costs of office rental and utilities are shared by both organizations.

AUDIT OBJECTIVES AND SCOPE OF WORK

We have conducted a financial audit of the Fund Accountability Statement of TEC, an associate company of Upham, which is in partnership with Upham pertaining to contract number 442-0109-C-00-2389-00. Only costs incurred by TEC from September 30, 1992 through September 30, 1993 is covered by this audit. Costs incurred by Upham is not covered by the audit.

The Fund Accountability Statement comprises of the expenditures of the contract as it relates to TEC operations for the period outlined above, and the note thereon. Receipts and expenditures incurred by Upham are not covered by this audit. The results of our work are reflected in the accompanying Independent Auditors' Reports on the :

- (a) Fund Accountability Statement ;
- (b) System of Internal Control ; and
- (c) Compliance with Agreement Terms, Applicable Laws and Regulations.

The objectives of our work were to :

- (a) Determine whether the Fund Accountability Statement for TEC only presents fairly the expenditures of TEC in respect of the contract received for the audit period noted above in accordance with generally accepted accounting principles and the terms of the Contract Agreement ;
- (b) Report on TEC's internal accounting controls ; and
- (c) Report on TEC's compliance with the applicable laws, regulations and grant terms.

Our audit was conducted in accordance with generally accepted auditing standards and US Government Auditing Standards and, accordingly, included such tests as we considered appropriate to determine whether expenditures charged to the grants were in accordance with the agreement terms, other applicable program documents, and the laws of Thailand.

For this audit, government auditing standards related to an external quality control review program was not met since peer review is not a standard nor practised in Thailand. Nevertheless, we have an excellent internal quality control system in place to ensure audit quality.

The scope of our work primarily included the following general procedures :

- (a) Holding an entrance conference with Upham, TEC, USAID/Thailand and AID Regional Inspector General for Audit/Singapore ("RIG/S") officials.

- (b) Reviewing the following documents to become familiar with the USAID contract to Upham :
- AID Handbook regulations and mandatory standard provisions.
 - The contract agreement between USAID/Thailand, Upham and TEC, including all amendments, Project implementation letter and modifications.
 - The contract proposals submitted by Upham and TEC for the activity in Cambodia.
 - Annual audited financial reports of TEC as prepared by a Certified Public Accounting firm.
 - Federal Acquisition Regulation (FAR) and AID Acquisition Regulations (AIDARs).
- (c) Obtaining an understanding of the accounting, administrative and internal control systems of TEC using questionnaires, interviews and narrative descriptions.
- (d) Devising and performing appropriate tests on the transactions recorded in the Fund Accountability Statement.
- (e) Designing appropriate audit steps and procedures to provide reasonable assurance of detecting errors, irregularities, and illegal acts that could have a direct and material effect on the results of our audit. We were also aware of the possibility of illegal acts that could have an indirect and material effect on the results of our audit ; and
- (f) Testing the effectiveness of administrative controls applied by TEC's management to ensure compliance with applicable laws, regulations and agreement terms.

AUDIT RESULTS

(a) Opinion on the Fund Accountability Statement

In our opinion, the Fund Accountability Statement presents fairly, in all material respects, the expenditures of TEC for the project and period as they pertain to the contract no. 442-0109-C-00-2389-00 titled "The Cambodia Emergency Roads Repair Project".

(b) System of Internal Controls

An adequate internal control structure does not exist for reliance thereon because of the small size of the entity. As a consequence, in order to maintain the efficiency of our audit, we expanded our substantive testing. Our substantive testing revealed some weaknesses which in our opinion, result in a relatively low risk that errors or irregularities in relation to the fund accountability statement may occur and not be detected within a timely period. These findings are considered to be not material and are set out in pages 21 to 23.

(c) Compliance with Agreement Terms, Applicable Laws and Regulations

Our tests for compliance with agreement terms and applicable laws and regulations of selected transactions and records of TEC indicated that TEC has complied in all material respect with the terms of agreement as well as applicable laws and regulations for the period under our review.

With respect to transactions and records not tested by us, nothing came to our attention that caused us to believe that TEC had not complied, in all material respects, with the necessary agreement terms, applicable laws or regulations.

Based on the exercise costs of Baht 127,101 (US Dollar equivalent : US\$ 5,037) had been questioned. These questioned costs represent the difference between the provisional and actual overhead rate.

MANAGEMENT COMMENTS

A copy of the draft report was sent to TEC and discussed in the exit meeting held on 9th September, 1994. In their formal reply to our report included as Appendix A management had disagreed with the questioned costs.

FOLLOW-UP ON PRIOR AUDIT RECOMMENDATIONS

A follow-up on prior audit recommendations had been made whereby it is noted that none relates to the current audit objectives.

ACKNOWLEDGEMENTS

We would like to take this opportunity to express our gratitude for the assistance given to us by the AID Regional Inspector General for Audit/Singapore, USAID/Thailand and the management and staff of TEC during the course of our audit.

Yours faithfully,



PW/ktc

**REPORT ON THE
FUND ACCOUNTABILITY STATEMENT**

**THAI ENGINEERING CONSULTANTS COMPANY LIMITED
PERTAINING TO ITS CONTRACT NO. 442-0109-C-00-2389-00
TITLED THE CAMBODIA EMERGENCY ROADS REPAIR PROJECT**

**INDEPENDENT AUDITORS' REPORT ON THE FUND
ACCOUNTABILITY STATEMENT**

We have audited the Fund Accountability Statement of Thai Engineering Consultants Co., Ltd. (TEC), an associate company and in partnership with Upham International Corporation pertaining to its contract no. 442-0109-C-00-2389-00 titled "The Cambodia Emergency Roads Repair Project (CERR)" with the United States Agency for International Development, Thailand ("USAID/THAILAND"). The period covered by our audit was September 30, 1992 through September 30, 1993.

This Statement, comprising the receipts and expenditures and the note thereon, set out on pages 10 and 11 is the responsibility of TEC's management. Our responsibility is to express an opinion on this Statement based on our audit. The Fund Accountability Statement presents only the transactions of TEC's operations as they pertain to the contract no. 442-0109-C-00-2389-00 and is not intended to present fairly the receipts and expenditures of total project as a whole.

We conducted our audit in accordance with generally accepted auditing standards and US Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 management, as well as evaluating the overall Fund Accountability Statement presentation. We believe our audit provides a reasonable basis for our opinion.

**THAI ENGINEERING CONSULTANTS COMPANY LIMITED
PERTAINING TO ITS CONTRACT NO. 442-0109-C-00-2389-00
TITLED THE CAMBODIA EMERGENCY ROADS REPAIR PROJECT**

**INDEPENDENT AUDITORS' REPORT ON THE FUND
ACCOUNTABILITY STATEMENT**

In our opinion, the Fund Accountability Statement referred to above presents fairly, in all material respects, the receipts and expenditures of TEC for the period covered in conformity with generally accepted accounting principles.

This report is intended solely for the use of USAID and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the AID Regional Inspector General for Audit, Singapore, is a matter of public record.



BANGKOK : March 31, 1994.

**THAI ENGINEERING CONSULTANTS COMPANY LIMITED
PERTAINING TO ITS CONTRACT No. 442-0109-C-00-2389-00
TITLED THE CAMBODIA EMERGENCY ROADS REPAIR PROJECT**

**FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD SEPTEMBER 30, 1992 THROUGH SEPTEMBER 30, 1993**

	<u>BAHT</u>	<u>US\$</u>	<u>QUESTIONED COSTS</u>	
			BAHT	US\$
EXPENDITURES				
Salaries and wages field staff	5,850,393	231,804		
Overhead & social charges	6,932,864	274,694	127,101	5,037
Field investigations - Surveys	3,581,216	141,895		
Allowance & per diem	2,508,929	99,408		
Travel and transportation	2,814,450	111,514		
Other direct costs	2,338,869	92,670		
Equipment and materials	388,626	15,398		
Fixed fee	<u>2,075,974</u>	<u>82,254</u>		
TOTAL EXPENDITURES	<u><u>26,491,321</u></u>	<u><u>1,049,637</u></u>	<u><u>127,101</u></u>	<u><u>5,037</u></u>

The accompanying notes are an integral part of the fund accountability statement.

The above questioned costs represent the difference between actual and provisional overhead rate.

**THAI ENGINEERING CONSULTANTS COMPANY LIMITED
PERTAINING TO ITS CONTRACT No. 442-0109-C-00-2389-00
TITLED THE CAMBODIA EMERGENCY ROADS REPAIR PROJECT**

**NOTES TO THE FUND ACCOUNTABILITY STATEMENT
FOR THE PERIOD SEPTEMBER 30, 1992 THROUGH SEPTEMBER 30, 1993**

1. Significant Accounting Policies

It is the policy of the company to prepare its records for the USAID contract on the basis of expenditures. All expenses are recorded as expenditures when paid.

2. Presentation of Fund Accountability Statement

The Fund Accountability Statement presents only TEC's expenses incurred in Thailand and Cambodia under the contract. The statement is not meant to present transactions involving costs incurred by Upham either in Thailand, Cambodia or the United States.

3. Overhead & social charges

The final indirect cost (i.e. overhead & social charge) rate was calculated to be 116.33 percent of direct cost base (i.e. salaries and incentive bonus). The Schedule of Computation of Indirect Cost Rate is illustrated on pages 13 to 14.

**THAI ENGINEERING CONSULTANTS COMPANY LIMITED
PERTAINING TO ITS CONTRACT No. 442-0109-C-00-2389-00
TITLED THE CAMBODIA EMERGENCY ROADS REPAIR PROJECT**

**REPORT ON SCHEDULE OF COMPUTATION OF INDIRECT COST RATE
FOR THE PERIOD SEPTEMBER 30, 1992 THROUGH SEPTEMBER 30, 1993**

We have reviewed the calculation of actual indirect cost rates for the period of September 30, 1992 through September 30, 1993 of Thai Engineering Consultants Co., Ltd. The applied procedures consist of :

1. the review of the distribution or allocation base as to whether it includes items or costs authorized by the A.I.D. agreements and the applicable cost principles.
2. review of indirect cost pool as to whether it includes cost authorized by the A.I.D. agreements and applicable cost principles.
3. review of the indirect cost rates which was obtained by dividing the indirect cost pool by the base are accurately calculated.
4. review of the costs included in this calculation as to whether it agrees to the expenses shown in the financial statements examined by other Certified Public Accountants whose reports expressed an unqualified audit opinion.

The Schedule of Computation of indirect cost rate is presented on pages 13 to 14.

In our opinion, the Schedule is fairly stated based on the above review procedures.



BANGKOK : March 31, 1994.

**THAI ENGINEERING CONSULTANTS COMPANY LIMITED
PERTAINING TO ITS CONTRACT NO. 442-0109-C-00-2389-00
TITLED THE CAMBODIA EMERGENCY ROADS REPAIR PROJECT**

**SCHEDULE OF COMPUTATION OF INDIRECT COST RATE
FOR THE PERIOD SEPTEMBER 30, 1992 THROUGH SEPTEMBER 30, 1993
(EXPRESSED IN BAHT)**

	1992	1993	Final Rate
<u>Direct cost pool</u>			
Field wages, salaries and incentive bonus (A)	<u>31,012,497</u>	<u>39,970,840</u>	
<u>Bangkok office indirect cost pool - social charges</u>			
Bonus	3,553,283	3,666,107	
Workmen compensation	1,598,620	1,158,730	
Fringe benefit	874,434	1,840,408	
Severance pay	<u>378,500</u>	<u>100,000</u>	
Total social charges (B)	<u>6,404,837</u>	<u>6,765,245</u>	
<u>Bangkok office indirect cost pool - overhead</u>			
Administrative expenses	40,713,552	43,629,876	
Less : Social charges	<u>6,404,837</u>	<u>6,765,245</u>	
Total overhead charges (C)	<u>34,308,715</u>	<u>36,864,631</u>	
Total indirect cost pool (D)	<u>40,713,552</u>	<u>43,629,876</u>	
<u>Social charges rate computation</u>			
Simple average rate : $\frac{\text{Social charges}}{\text{Direct cost pool}} = \frac{B}{A}$	20.65%	16.93%	
Weighted average rate (1992 rate x 3/12) + (1993 rate x 9/12)	5.16%	12.70%	17.86%
Add : Public holidays (17/260 days)			6.54%
: Annual leave (6/260 days)			2.31%
: Business and sick leave (12/260 days)			<u>4.62%</u>
Social charges rate			<u>31.33%</u>
<u>Overhead charges rate computation</u>			
Simple average rate : $\frac{\text{Overhead charges}}{\text{Direct cost pool}} = \frac{C}{A}$	110.63%	92.23%	
Weighted average rate (1992 rate x 3/12) + (1993 rate x 9/12)	27.66%	69.67%	96.83%
Less : Amount in excess of ceiling rate of 85%			<u>11.83%</u>
Overhead charges rate			<u>85%</u>
Total overhead and social charges rate			<u>116.33%</u>

NOTE : The staff assigned to this project in Cambodia and in Thailand had been compensated for public holidays, annual leave and business/sick leave. This is because it was not possible to utilise the leave benefit whilst posted to Cambodia or because of the deadline, such leave were not availed to.

THAI ENGINEERING CONSULTANTS COMPANY LIMITED
PERTAINING TO ITS CONTRACT NO. 442-0109-C-00-2389-00
TITLED THE CAMBODIA EMERGENCY ROADS REPAIR PROJECT

SCHEDULE OF COMPUTATION OF INDIRECT COST RATE
FOR THE PERIOD SEPTEMBER 30, 1992 THROUGH SEPTEMBER 30, 1993
(Expressed in Baht)

Description	Year ended December 31, 1992				Year ended December 31, 1993			
	Expenses	Reclassification		Indirect Cost Pool	Expenses	Reclassification		Indirect Cost Pool
		Exclusions/Unallowable Expenses	Direct Cost Base			Exclusions/Unallowable Expenses	Direct Cost Base	
Work controlling and survey expenses								
Salaries and wages	31,012,497		31,012,497	39,970,840			39,970,840	
Professional fees	29,311,464	-29,311,464		25,000,895	-25,000,895			
Travelling expense	2,522,384	-2,522,384		4,011,394	-4,011,394			
Others	4,521,775	-4,521,775		9,276,846	-9,276,846			
Total	67,368,119	-36,355,622		78,259,975	-38,289,135		39,970,840	
Administrative expenses								
Salaries and wages	19,961,851		19,961,854	17,758,477			17,758,477	
Bonus	3,553,283		3,553,283	3,666,107			3,666,107	
Workmen compensation	1,598,620		1,598,620	1,158,730			1,158,730	
Fringe benefit	868,033	6,401	874,434	1,823,816	16,592		1,840,408	
Severance pay	378,500		378,500	100,000			100,000	
Telecommunication exp	437,981	47,608	485,589	462,521	99,082		561,603	
Rental expenses	4,168,285	200,650	4,368,935	4,709,714	173,905		4,883,619	
Insurance expenses	68,169		68,169	7,062			7,062	
Business tax	2,185,306	-2,185,306	0	343,968	-343,968		0	
Duties	52,903		52,903	248,329			248,329	
Travelling expenses	742,579		742,579	1,044,107			1,044,107	
Stationery expenses	114,314	310,660	424,974	286,643	508,948		795,591	
Motor vehicle expenses	2,378,752	2,515	2,381,267	3,672,555			3,672,555	
Electricity and water exp	615,948	65,895	681,843	855,913	129,886		985,799	
Other fees	169,852	17,671	187,523	571,730	41,062		612,792	
Advertising expenses			0	38,520	-38,520		0	
Entertainment expenses	753,620	-753,620	0	497,597	-497,597		0	
Depreciation expenses	2,736,151		2,736,151	3,478,596			3,478,596	
Library expenses	225,026		225,026	130,642			130,642	
Maintenance and repair	475,547	17,244	492,791	811,858	3,578		815,436	
Donation expenses	8,000	-8,000	0	14,000	-14,000		0	
Computer related expense	466,739		466,739	199,925			199,925	
Office supplies	32,138		32,138	88,836			88,836	
Miscellaneous expenses	197,353	77,774	275,127	310,030	139,578		449,608	
Lawyer & audit fees		112,000	112,000		72,000		72,000	
Proposal expenses		150,787	150,787		314,021		314,021	
Photo & copying supplies		462,320	462,320		745,633		745,633	
Total	42,188,953	-1,475,401	31,012,497	40,713,552	1,350,200		39,970,840	43,629,876

// Agrees to the total expenses shown in the audited financial statements.

**REPORT ON COMPLIANCE WITH AGREEMENT
TERMS, APPLICABLE LAWS AND REGULATIONS**

**THAI ENGINEERING CONSULTANTS COMPANY LIMITED
PERTAINING TO ITS CONTRACT NO. 442-0109-C-00-2389-00
TITLED THE CAMBODIA EMERGENCY ROADS REPAIR PROJECT**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
AGREEMENT TERMS, APPLICABLE LAWS AND REGULATIONS**

We have audited the Fund Accountability Statement of Thai Engineering Consultants Co., Ltd. (TEC) pertaining to its contract no. 442-0109-C-00-2389-00 titled "The Cambodia Emergency Roads Repair Project (CERR)" with the United States Agency for International Development, Thailand (USAID/THAILAND). The period covered by our audit was September 30, 1992 through September 30, 1993. This Statement, comprising the expenditures for the Contract and the note thereon, is set out on pages 10 and 11 and we have issued our report thereon dated March 31, 1994.

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.

Compliance with laws, regulations, contracts, grants and binding policies and procedures applicable to TEC is the responsibility of TEC's management. As part of our audit, we performed tests on selected transactions and records of TEC for compliance with those provisions. However, it should be noted that, whilst we performed those tests of compliance as part of obtaining reasonable assurance about whether the financial statements were free of material misstatement, our objective was not to provide an opinion on compliance with such provisions.

**THAI ENGINEERING CONSULTANTS COMPANY LIMITED
PERTAINING TO ITS CONTRACT NO. 442-0109-C-00-2389-00
TITLED THE CAMBODIA EMERGENCY ROADS REPAIR PROJECT**

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
AGREEMENT TERMS, APPLICABLE LAWS AND REGULATIONS**

The result of our test indicated that with respect to the items tested TEC complied in all material respects with the contract terms and applicable laws and regulations. With respect to items not tested, nothing came to our attention that caused us to believe that TEC had not complied, in all material respects, with those provisions.

This report is intended solely for the use of USAID and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the AID Regional Inspector General for Audit, Singapore, is a matter of public record.



BANGKOK : March 31, 1994

REPORT ON THE SYSTEM OF INTERNAL CONTROLS

**THAI ENGINEERING CONSULTANTS COMPANY LIMITED
PERTAINING TO ITS CONTRACT NO. 442-0109-C-00-2389-00
TITLED THE CAMBODIA EMERGENCY ROADS REPAIR PROJECT**

**INDEPENDENT AUDITORS' REPORT ON THE
SYSTEM OF INTERNAL CONTROLS**

We have audited the Fund Accountability Statement of Thai Engineering Consultants Co., Ltd. (TEC) pertaining to its contract no. 442-0109-C-00-2389-00 titled "The Cambodia Emergency Roads Repair Project (CERR)" with the United States Agency for International Development, Thailand (USAID/THAILAND). The period covered by our audit was September 30, 1992 through September 30, 1993. This Statement, comprising the expenditures for the Contract and the note thereon, is set out on pages 10 and 11 and we have issued our report thereon dated March 31, 1994.

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 TEC, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the Statement and not to provide assurance on the internal control structure of TEC as a whole.

**THAI ENGINEERING CONSULTANTS COMPANY LIMITED
PERTAINING TO ITS CONTRACT NO. 442-0109-C-00-2389-00
TITLED THE CAMBODIA EMERGENCY ROADS REPAIR PROJECT**

**INDEPENDENT AUDITORS' REPORT ON THE
SYSTEM OF INTERNAL CONTROLS**

The management of TEC is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgements by management are required to assess the expected benefits and related costs of internal control structure are to provide management with reasonable, but not absolute assurance that the assets are safe-guarded 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 statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors and 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 :

Accounting Controls :

- Cash receipts
- Cash disbursements
- Payroll

Administrative Controls :

- Monitoring
- Reporting

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**INDEPENDENT AUDITORS' REPORT ON THE
SYSTEM OF INTERNAL CONTROLS**

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

As a result of these procedures, and in accordance with Government Auditing Standards, we have limited our reliance on the internal control structure as, given the small size of the entity, an adequate structure for the purposes of audit reliance was considered not to be in existence. As a consequence, we adopted a substantive testing approach in our audit of the Fund Accountability Statement.

However, during the course of our audit, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to record, process, summarize and report financial data, consistent with the assertions of management, in the fund accountability statement.

Our audit revealed the following reportable conditions, which are described in detail on page 21 to 23.

1. Expense reports submitted to Upham are not reconciled with the cash book/ledger.
2. All supporting documentation had not been effectively cancelled at the time of payment ;

**THAI ENGINEERING CONSULTANTS COMPANY LIMITED
PERTAINING TO ITS CONTRACT NO. 442-0109-C-00-2389-00
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**INDEPENDENT AUDITORS' REPORT ON THE
SYSTEM OF INTERNAL CONTROLS**

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 financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be considered to be reportable condition. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the use of USAID and should not be used for any other purpose. This restriction is not intended to limit the distribution of this report which, upon acceptance by the AID Regional Inspector General for Audit, Singapore, is a matter of public record.



**THAI ENGINEERING CONSULTANTS COMPANY LIMITED
SCHEDULE OF REPORTABLE CONDITIONS**

**1. EXPENSE REPORTS SUBMITTED TO UPHAM ARE NOT RECONCILED
WITH THE CASH BOOK/LEDGER**

Condition

Expense reports submitted to Upham are not reconciled with the cash book/ledger. The cash book/ledger does not classify and summarize according to line items as set out in the association agreement.

Criteria

Adequate internal controls and sound accounting practice require that financial reports are reconciled with the cash book/ledger and that accounting records enable a comparison of actual expenditures with program activities and budget line items.

Effect

The lack of reconciliation could lead to erroneous reporting and reimbursement of costs. It was also not possible to accurately monitor compliance with the 15% ceiling on line item variance included in association agreement.

Cause

TEC did not maintain separate accounts to record direct expenditures under the contract. Project expenses were recorded together with other expenses of the company. In addition, expenditure accounts allocated in the cash book are not classified in accordance with budgeted expenditure items as shown in the contract.

Recommendation

We recommend that project cash book and ledger should be separately prepared and classified the accounts in accordance with those budgeted. In addition, expense reports submitted to Upham should be reconciled to the project cash book and ensure that the expense reports are prepared in accordance with the budget line item categories as set out in the association agreement..

Management's Comments

Certain direct costs (for example, transportation costs, per diem, etc. of necessary additional technical staff to ensure quality performance but not on the Project's original roster and increased differential payments paid to field staff in excess of amount accepted for reimbursement) were absorbed by us and not charged to the Project because we thought that they were not reimbursable, and would result in the discrepancies.

**THAI ENGINEERING CONSULTANTS COMPANY LIMITED
SCHEDULE OF REPORTABLE CONDITIONS**

**2. ALL PAYMENT SUPPORTING DOCUMENTATION HAD NOT BEEN
EFFECITVELY CANCELLED AT THE TIME OF PAYMENT**

Condition

There has been no cancellation of supporting documents for payments made.

Criteria

Adequate internal controls and sound accounting practice require that supporting documents be cancelled after payment are made.

Effect

Non-cancellation of payment supporting documents could lead to the possibility of duplicate payments although no evidence of impropriety was, however, noted by us during the course of our audit as a result of this condition.

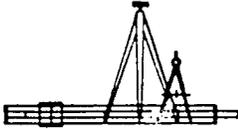
Recommendation

All payment supporting documents should be stamped "PAID" or otherwise cancelled after payment had been made.

Management's Comments

Although our practice of different measures of cancelling the supporting documentation is not the same as your recommended one, we have not, during our long history, encountered any impropriety or duplicate payments as also evidenced during your auditing.

APPENDIX A
AUDITEE MANAGEMENT'S COMMENTS



THAI ENGINEERING CONSULTANTS CO.,LTD.

CONSULTING ENGINEERS

Ref. TEC/E-25/37

September 14, 1994

Mr. Ralph R. Tye
Partner
Ernst & Young
33rd Floor, Lake Rajada Office Complex
193/136 New Rajadapisek Road
Bangkok 10110



Re : Non-Federal Audit of USAID Contract No. 442-0109-C-00-2389-00

Dear Mr. Tye :

Reference is made to the draft of the referenced audit in which comments were requested from Thai Engineering Consultants Co., Ltd. on the following items :

- 1) Expense reports submitted to Upham are not reconciled with the cash book/ledger.
- 2) All payment supporting documentation had not been effectively cancelled at the time of payment.

Our comments are as follows :

- 1) Certain direct costs (for example, transportation costs, per diem, etc. of necessary additional technical staff to ensure quality performance but not on the Project's original roster and increased differential payments paid to field staff in excess of amount accepted for reimbursement) were absorbed by us and not charged to the Project because we thought that they were not reimbursable, and would result in the discrepancies.
- 2) Although our practice of different measures of cancelling the supporting documentation is not the same as your recommended one, we have not, during our long history, encountered any impropriety or duplicate payments as also evidenced during your auditing.

Ref. TEC/E-25/37
Mr. Ralph R. Tye

-2-

September 14, 1994

Additionally, it is our understanding that the basic objective of an audit by the U.S. Government is to verify costs to insure that an unreasonable profit is not made, that is to say that USAID funds are correctly and wisely spent. It is clear from your calculations that actual total overhead (G.A. plus social charges) equaled about 128%, whereas we estimated (in advance) a total of 120%, subject to an audit. We fell compelled to also point out that those services carried out in Cambodia were under very hostile conditions, and with great personal risk to our staff. This fact, together with the knowledge from the audit that we did not make an unreasonable profit, that the funds were correctly spent, makes us insist that full 120% originally estimated should be accepted.

Yours sincerely,

R. Ratanaprakarn

Rangsi Ratanaprakarn
President

APPENDIX B
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