

Regional Inspector General for Audit
Cairo, Egypt

**Audit of Dr. Ahmed Abdel Warith Consulting Engineers (AAW)
Subcontracts with USAID/Egypt Prime Contractors CH2M
HILL - General Organization for Greater Cairo Water Supply,
USAID Grant No. 263-0193, and Wastewater Consultants Group
Alexandria Wastewater Program, USAID Grant No. 263-0100**

**Report No. 6-263-95-004-N
November 17, 1994**



**FINANCIAL INFORMATION CONTAINED IN THIS
REPORT MAY BE PRIVILEGED. THE RESTRICTIONS
OF 18 USC 1905 SHOULD BE CONSIDERED BEFORE
ANY INFORMATION IS RELEASED TO THE PUBLIC.**

INSPECTOR
GENERAL



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

November 17, 1994

MEMORANDUM FOR D/USAID/Egypt, John R. Westley

FROM: A/RIG/A/Cairo, Timothy Cox

SUBJECT: Financial Audit of Dr. Ahmed Abdel Warith Consulting Engineers (AAW) Subcontracts with USAID/Egypt Prime Contractors 1) CH2M HILL - General Organization for Greater Cairo Water Supply, USAID Grant No. 263-0193, and 2) Wastewater Consultants Group - Alexandria Wastewater Program, USAID Grant No. 263-0100

The attached report dated June 18, 1994, by Price Waterhouse, presents the results of a financial audit of the subject subcontracts. AAW's contract with CH2M Hill is to provide professional, technical, nontechnical, and miscellaneous services (primarily engineering related) in connection with CH2M Hill's Rod El Farag Distribution System Construction Management Project in Cairo, Egypt. AAW's contract with WWCG calls for AAW to provide qualified engineers and support staff to assist the Alexandria General Organization for Sanitary Drainage ("AGOSD") in consulting and developing an operation and maintenance plan for Alexandria wastewater program.

We engaged Price Waterhouse to perform a financial audit of the AAW incurred expenditures of LE3,126,641 (equivalent to \$950,347) for the period January 1, 1991 through December 31, 1992. The purpose of the audit was to evaluate the propriety of costs incurred. Price Waterhouse evaluated AAW internal controls and compliance with applicable laws, regulations and contract terms as necessary in forming an opinion regarding the Fund Accountability Statement.

Price Waterhouse identified \$109,706 and \$129,042 in questioned indirect costs in calendar year 1991 and 1992, respectively, including \$2,828 and \$10,384 of unsupported costs. These costs were included within the overhead pool and as such, have the effect

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of increasing the overhead rate applied to direct labor. As a result, AAW billed \$1,286 in excess overhead costs (\$310 for WWCG and \$976 for CH2M Hill) for 1991, and 1992. Price Waterhouse noted two material weaknesses in AAW's internal controls. They noted no instances of material noncompliance.

Price Waterhouse reviewed AAW's response to the findings. Where applicable they have made adjustments in their reports or provided further clarification of their position.

The following recommendations are included in the Office of the Inspector General's recommendation follow-up system.

Recommendation No. 1: We recommend that USAID/Egypt determine AAW's final indirect rates for the years ending December 1991 and 1992 based on the resolution of indirect costs questioned in the audit report.

This recommendation is considered unresolved and can be resolved when RIG/A/C receives the Mission's formal determination as to the final indirect rates. The recommendation can be closed when any amounts determined to be owed to USAID/Egypt are paid by AAW.

Recommendation No. 2: We recommend that USAID/Egypt require the prime contractors to address AAW's material internal control weaknesses detailed on page 27 and 28 of the audit report.

This recommendation is considered unresolved and can be resolved when the Mission provides our office with a copy of its request that AAW address its internal control weaknesses. This recommendation can be closed when RIG/A/C has assessed AAW's response and USAID/Egypt's follow-up for adequacy. With regard to the non-material internal control weaknesses, these can be handled directly between the Mission and the contractor.

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 Price Waterhouse and to our office.

b

DR. AHMED ABDEL WARITH CONSULTING ENGINEERS

**AUDIT OF SUBCONTRACTS WITH
USAID/EGYPT PRIME CONTRACTORS:**

**1) CH2M HILL
GENERAL ORGANIZATION FOR GREATER CAIRO WATER SUPPLY -
ROD EL FARAG DISTRIBUTION SYSTEM
USAID GRANT NO. 263-0193**

**2) WASTEWATER CONSULTANTS GROUP
ALEXANDRIA WASTEWATER PROGRAM
USAID GRANT NO. 263-0100**

**FUND ACCOUNTABILITY STATEMENT
SCHEDULES OF COMPUTATIONS OF INDIRECT COST RATES
AND ADDITIONAL INFORMATION**

**FOR THE PERIOD FROM JANUARY 1, 1991
THROUGH DECEMBER 31, 1992**

C

DR. AHMED ABDEL WARITH CONSULTING ENGINEERS

**AUDIT OF SUBCONTRACTS WITH
USAID/EGYPT PRIME CONTRACTORS:**

1) CH2M HILL

**GENERAL ORGANIZATION FOR GREATER CAIRO WATER SUPPLY -
ROD EL FARAG DISTRIBUTION SYSTEM
USAID GRANT NO. 263-0193**

2) WASTEWATER CONSULTANTS GROUP

**ALEXANDRIA WASTEWATER PROGRAM
USAID GRANT NO. 263-0100**

**FUND ACCOUNTABILITY STATEMENT, SCHEDULES OF COMPUTATIONS OF
INDIRECT COST RATES AND ADDITIONAL INFORMATION**

FOR THE PERIOD FROM JANUARY 1, 1991 THROUGH DECEMBER 31, 1992

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**DR. AHMED ABDEL WARITH CONSULTING ENGINEERS
AUDIT OF SUBCONTRACTS WITH
USAID/EGYPT PRIME CONTRACTORS:**

1) CH2M HILL

**GENERAL ORGANIZATION FOR GREATER CAIRO WATER SUPPLY -
ROD EL FARAG DISTRIBUTION SYSTEM
USAID GRANT NO. 263-0193**

**2) WASTEWATER CONSULTANTS GROUP
ALEXANDRIA WASTEWATER PROGRAM
USAID GRANT NO. 263-0100**

**FUND ACCOUNTABILITY STATEMENT, SCHEDULES OF COMPUTATIONS OF
INDIRECT COST RATES AND ADDITIONAL INFORMATION**

FOR THE PERIOD FROM JANUARY 1, 1991 THROUGH DECEMBER 31, 1992

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Price Waterhouse



August 2, 1994

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

[38]

Dear Mr. Darcy:

This report presents the results of our financial cost-incurred audit of Dr. Ahmed Abdel Warith Consulting Engineers ("AAW") disbursements under sub-contract agreements with United States Agency for International Development Mission to Egypt ("USAID/Egypt") prime contractors CH2M Hill and Wastewater Consultants Group ("WWCG"). AAW's subcontract agreement with CH2M Hill relates to the Rod El Farag Distribution System Construction Management Project, No. 263-0193. The subcontract agreement with WWCG is under the Alexandria Wastewater Project (No. 263-0100). The audit encompassed all disbursements for the period from January 1, 1991 through December 31, 1992.

Background

AAW's contract with CH2M Hill is to provide professional, technical, nontechnical, and miscellaneous services (primarily engineering related) in connection with CH2M Hill's Rod El Farag Distribution System Construction Management Project in Cairo, Egypt. AAW's contract with WWCG calls for AAW to provide qualified engineers and support staff to assist the Alexandria General Organization for Sanitary Drainage ("AGOSD") in consulting and developing an operation and maintenance plan for the Alexandria wastewater program.



Audit Objectives and Scope

The principle objective of this engagement was to perform a financial cost-incurred audit of direct and indirect costs incurred for flexibly priced subcontracts of AAW with USAID/Egypt prime contractors CH2M Hill (pursuant to USAID project No. 263-0193) and WWCG (pursuant to USAID project No. 263-0100).

The audit encompassed costs incurred for the period from January 1, 1991 through December 31, 1992. Specific objectives were to determine whether:

1. The fund accountability statement for AAW presents fairly, in all material respects, project costs incurred and reimbursed under the subcontract agreements in conformity with the applicable accounting principles;
2. The costs reported as incurred under the subcontract agreements are in fact allowable, allocable, and reasonable in accordance with the terms of the subcontracts;
3. The internal controls, accounting systems and management practices of AAW are adequate for USAID/Egypt agreements;
4. AAW is in compliance, in all material respects, with subcontract terms and applicable laws and regulations; and
5. The schedule of computations of indirect cost rates for the calendar years ended December 31, 1991 and December 31, 1992 present fairly, in all material respects, overhead cost rates incurred in conformity with applicable accounting principles or another comprehensive basis of accounting.

Preliminary planning and review procedures began in March, 1994 and consisted of discussions with RIG/A/C personnel and CH2M Hill, WWCG and AAW officials and a review of the subcontract agreements. Fieldwork commenced in April and was completed in June, 1994.



The scope of our work included expenditures incurred and billed as direct costs under the subcontract agreements and costs included in the calculation of an indirect cost rate for AAW. For direct labor billed to the prime contractors, we tested a statistical sample of payroll transactions. The statistical selection was made utilizing the following parameters:

| | |
|---|---|
| Allowable Risk of Incorrect Acceptance: | 5% |
| Maximum Tolerable Deviation Rate: | 10% |
| Conservative Expected Deviation Rate: | 1% |
| Population definition: | Direct labor monthly billing for one employee |

Within each overhead line item, we selected expenditures for testing on a judgmental basis to identify disallowed costs, and extended our testing on line items where we noted a high likelihood of questionable costs. Tested expenditures were incurred during the period from January 1, 1991 through December 31, 1992. Our testing covered overhead balances totalling \$ 969,447 of a total \$ 1,680,256, representing 58% coverage.

AAW was authorized to charge indirect costs to USAID/Egypt prime contractors using provisional rates as follows:

1. CH2M Hill: 158% for the period January 1, 1991 through March 31, 1992 and 163% for the period April 1, 1992 through December 31, 1992 as applied to direct labor costs.
2. WWCG: 158% for the period January 1, 1991 through June 30, 1992 and 163% for the period July 1, 1992 through December 31, 1992 as applied to direct labor costs.

Our tests of expenditures included, but were not limited to, the following:

1. Reconciling AAW's accounting records to invoices submitted to prime contractors and testing of expenditures for allowability, allocability, reasonableness, and appropriate support;
2. Determining that direct payroll costs billed by the subcontractor were appropriate and conformed with the terms of the subcontract and relevant regulations;



3. **Determining the propriety of the indirect overhead rate and the overhead items included therein;**
4. **Determining the adequacy of AAW's controls over USAID/Egypt prime contractor funded expenditures.**

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and the financial audit requirements of 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 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 control 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 Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

As part of our examination, we obtained an understanding of and assessed the internal control structure and reviewed AAW's compliance with applicable laws and regulations.

Results of Audit

Fund accountability statement and schedules of computations of indirect cost rates:

Our testing of direct costs billed to prime contractors under the subcontract agreements identified no items which we considered to be ineligible or unsupported and accordingly, we are able to statistically conclude as to the allowability of the direct costs billed to prime contractors (under the statistical parameters listed above). However, we identified \$ 15,195 and \$ 14,590 reclassified indirect labor, see Note 5, for 1991 and 1992, respectively, and \$ 2,570 of unsupported direct labor of other projects for 1991.



Our overhead costs testing identified \$ 109,706 and \$ 129,042 in questionable costs in calendar year 1991 and 1992, respectively, including \$ 2,828 and \$ 10,384 of unsupported costs. All such costs were included within the overhead pool and as such, effect only the overhead rate applied to direct labor. A provisional overhead rate has been utilized for reimbursement of overhead expense purposes all periods as noted above. The indirect overhead rates calculated by our audit were 155% for 1991 and 163% for 1992. Application of these rates results in a total overbilling to the prime contractors of \$ 1,286 (\$ 310 for WWCG and \$ 976 for CH2M Hill).

Internal control structure:

Our engagement identified six reportable internal control structure weaknesses of which two were also considered material weaknesses.

We recommended that AAW adopt procedures to: 1) improve the segregation of duties in certain areas; 2) address significant weaknesses in its information systems controls; 3) ensure that purchasing is appropriately controlled; 4) improve safeguards of physical assets; 5) improve controls over the payroll function; and 6) enhance interim calculations of indirect overhead rates to exclude known disallowable costs.

Compliance with Agreement terms and applicable laws and regulations:

Our audit found no instances of material noncompliance with subcontract agreements.

Management Comments

AAW management comments have been obtained and are included in Appendix B of this report. AAW provided comments on a majority of the questioned costs and agreed to consider implementation of the internal control recommendations. (Note: only AAW's summary sheets are included in Appendix B due to the volume of supporting documents, etc. that were included in their response. The supporting documents, etc. are retained in our files and are available for inspection upon request.) Where applicable, we have provided further clarification of our position in Appendix C. For those items not addressed in Appendix C, the responses provided by AAW have not changed our understanding of the facts underlying the questioned costs in the financial statements or reportable conditions in the Report on Internal Control Structure.



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

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REPORT OF INDEPENDENT ACCOUNTANTS

June 18, 1994

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We have audited the accompanying fund accountability statement and schedules of computations of indirect cost rates of Dr. Ahmed Abdel Warith Consulting Engineers ("AAW") relating to expenditures incurred for flexibly priced subcontracts with prime contractors of the United States Agency for International Development Mission to Egypt ("USAID/Egypt"); CH2M Hill (pursuant to USAID project no. 263-0193) and WWCG (pursuant to USAID project no. 263-0100); for the period from January 1, 1991 through December 31, 1992. The fund accountability statement and schedules of computations of indirect cost rates are the responsibility of AAW's management. Our responsibility is to express an opinion on the fund accountability statement and schedules of computations of indirect cost rates based upon our audit.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and 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 and schedules of computations of indirect cost rates are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement and schedules of computations of indirect cost rates. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the fund accountability statement and schedules of computations of indirect cost rates. We believe that our audit provides a reasonable basis for our opinion.



We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 of Chapter 3 of Government Auditing Standards since no such quality control 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 Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

As described in Note 2, the accompanying fund accountability statement and schedules of computations of indirect costs have been prepared on the basis of cash disbursements. Consequently, expenditures are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying fund accountability statement and schedules of computations of indirect cost rates are not intended to present results in accordance with accounting principles generally accepted in the United States of America.

Included in the fund accountability statement are indirect overhead costs billed to prime contractor utilizing provisional rates. Included in the schedules of computations of indirect cost rates are questioned costs of \$ 109,706 and \$ 129,042 in 1991 and 1992, respectively. The basis for questioning these costs is more fully described in Note 6 to the financial statements. As discussed in Note 4, we have adjusted the fund accountability statement for charges to the indirect cost rates based on the results of our audit of the schedules of computations of indirect cost rates.

In our opinion, except for the effects of the indirect cost rates as discussed above, the fund accountability statement and schedules of computations of indirect cost rates referred to above present fairly, in all material respects, AAW's expenditures incurred for flexibly priced subcontracts with USAID/Egypt prime contractors for the period from January 1, 1991 through December 31, 1992 in conformity with the basis of accounting described in Note 2.



Our audit was made for the purpose of forming an opinion on the financial statements described in the first paragraph. The supplemental information included in Appendix A is presented for purposes of additional analysis and is not required as part of the basic financial statements of AAW. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

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

Price Waterhouse

DR. AHMED ABDEL WARITH CONSULTING ENGINEERS
FUND ACCOUNTABILITY STATEMENT
SUBCONTRACT AGREEMENTS WITH USAID/EGYPT PRIME CONTRACTORS
CH2M HILL AND WASTEWATER CONSULTANTS GROUP
FOR THE PERIOD FROM JANUARY 1, 1991 THROUGH DECEMBER 31, 1992

| | Budget (Note 2) | Actual Expenditures (Note 2) | Questioned Costs | | | Audit Findings Reference |
|-------------------------|----------------------------|------------------------------------|------------------------|-------------------------|---|--------------------------------|
| | | | Ineligible (Note 6) | Unsupported (Note 6) | Overhead Rate Adjustment (Note 4) | |
| <u>CH2M Hill</u> | | | | | | |
| Direct labor | | \$ 144,167 | - | - | \$ - | - |
| Other direct costs | | 1,982 | - | - | - | - |
| Overhead (Note 6) | | 231,127 | - | - | 887 | Note 4 |
| Fixed fee | | <u>37,530</u> | - | - | <u>89</u> | Note 4 |
| Total | \$ <u>1,035,401</u> | \$ <u>414,806</u> | <u>-</u> | <u>-</u> | \$ <u>976</u> | |
| <u>WWCG</u> | | | | | | |
| Direct labor | | \$ 195,807 | - | - | \$ - | - |
| Other direct costs | | 4,748 | - | - | - | - |
| Overhead (Note 6) | | 312,291 | - | - | 310 | Note 4 |
| Fixed fee | | <u>22,695</u> | - | - | - | - |
| Total | \$ <u>1,724,505</u> | \$ <u>535,541</u> | <u>-</u> | <u>-</u> | \$ <u>310</u> | |
| Totals | \$ <u>2,759,906</u> | \$ <u>950,347</u> | <u>-</u> | <u>-</u> | \$ <u>1,286</u> | |

See accompanying notes to the fund accountability statement
and schedules of computations and indirect cost rates.

DR. AHMED ABDEL WARITH CONSULTING ENGINEERS

SCHEDULE OF COMPUTATION OF
INDIRECT COST RATE
in U. S. Dollars
For the year ended December 31, 1991

| Description | Expenses | Questioned Costs | | Other Direct Costs | Indirect Cost Pool |
|--|-----------------------|------------------------------------|---------------------------------|----------------------|-----------------------|
| | | Ineligible (Note 6) | Unsupported (Note 6) | | |
| Indirect Labor | 280,249 | 15,195 | 0 | 0 | 265,054 |
| Vacation | 30,396 | | | 2,153 | 28,243 |
| Medical Care | 515 | | | 323 | 192 |
| Social Insurance | 51,811 | | | 29,397 | 22,414 |
| Computer Software | 1,955 | 1,914 | | 0 | 41 |
| Computer Supplies | 9,185 | 3,081 | | 68 | 6,036 |
| Copy paper & supplies | 12,131 | | 92 | 3 | 12,035 |
| Stationary & Publication | 11,724 | | | 171 | 11,553 |
| Buffet | 2,389 | 1,344 | | 1,045 | (0) |
| Bid Costs | 564 | | | 8 | 556 |
| Soil & Chemicals boring | 2,676 | | | 456 | 2,220 |
| Maintenance | 12,503 | 670 | | 205 | 11,629 |
| Vehicle expense | 12,905 | | | 4,696 | 8,209 |
| Transportation | 2,952 | | 30 | 1,311 | 1,611 |
| Overseas Travel expense | 17,249 | 2,300 | | 0 | 14,949 |
| Office cleaning | 5,978 | | | 350 | 5,628 |
| Lease Offices | 78,198 | 58,359 | | 1,385 | 18,455 |
| Photocopying & photos | 1,788 | | | 154 | 1,634 |
| Electricity | 16,708 | (27) | | 162 | 16,573 |
| Telephone & Telex | 14,839 | (4,619) | | 72 | 19,386 |
| Post & Courier | 765 | | | 3 | 762 |
| Insurance | 2,566 | | | 39 | 2,527 |
| Bank charges | 2,721 | | | 0 | 2,721 |
| Interest | 11,459 | 11,459 | | 0 | (0) |
| Survey | 2,736 | | | 0 | 2,736 |
| Consulting fees | 27,740 | | | 289 | 27,451 |
| Licenses & Dues | 683 | | | 0 | 683 |
| Lease Residence | 3,757 | | | 3,757 | (0) |
| Subscription | 5,598 | | 1,064 | 18 | 4,516 |
| Advertisement | 2,295 | | | 0 | 2,295 |
| Entertainments | 15,491 | 14,889 | | 602 | 0 |
| Fiscal Stamps | 22,032 | | | 20,843 | 1,189 |
| Training | 3,787 | | 342 | 91 | 3,354 |
| Fire Resistance | 6 | | | 0 | 6 |
| Depreciation | 72,024 | 0 | | 0 | 72,024 |
| Tips | 784 | 78 | | 706 | (0) |
| Donations | 1,405 | 1,389 | | 16 | (0) |
| Miscellaneous | 2,263 | 847 | 65 | 683 | 668 |
| Water | 348 | | | 14 | 334 |
| Local Travel | 14,573 | | 778 | 8,025 | 5,770 |
| Office Guards & Security | 3,419 | | | 0 | 3,419 |
| Rent Cars | 16,688 | | 456 | 14,160 | 2,072 |
| Total Indirect Costs | <u>779,855</u> | <u>106,878</u> | <u>2,828</u> | <u>91,206</u> | <u>578,943</u> |
| Direct Labor (Direct Cost Base) | <u>361,103</u> | <u>(15,195)</u> (Note 5) | <u>2,570</u> (Note 6) | | <u>373,728</u> |
| Indirect Cost Rate Calculation | | | | | |
| Indirect Costs | 578,943 = | | 155% | | |
| Direct Cost Base | 373,728 | | | | |

See accompanying notes to the fund accountability statement and schedules of computations of indirect cost rates.

DR. AHMED ABDEL WARITH CONSULTING ENGINEERS

SCHEDULE OF COMPUTATION OF
INDIRECT COST RATE

in U. S. Dollars

For the year ended December 31, 1992

| Description | Expenses | Questioned Costs | | Other Direct Costs | Indirect Cost Pool |
|--|-----------------------|------------------------------------|-------------------------|-----------------------|-----------------------|
| | | Ineligible (Note 6) | Unsupported (Note 6) | | |
| Indirect Labor | 318,503 | 14,590 | 0 | | 303,913 |
| Vacation | 36,251 | | | 43 | 36,208 |
| Medical Care | 694 | | | 689 | 5 |
| Social Insurance | 52,218 | (438) | | 30,104 | 22,552 |
| Computer Supplies | 13,840 | 2,682 | | 725 | 10,433 |
| Copy Paper & Supplies | 20,416 | | | 3 | 20,413 |
| Stationary & Publication | 13,059 | | | 79 | 12,980 |
| Photocopying & Photos | 12,373 | | | 273 | 12,100 |
| Buffet | 1,960 | 1,323 | | 637 | (0) |
| Consulting Fees | 55,063 | | 7,687 | 304 | 47,072 |
| Bid Costs | 712 | | | 0 | 712 |
| Soil Tests, Chemicals & Boring | 3,515 | | | 0 | 3,515 |
| Maintenance | 14,413 | 364 | | 388 | 13,662 |
| Vehicle Expense | 13,464 | | | 3,818 | 9,645 |
| Transportation | 3,446 | | | 1,209 | 2,236 |
| Overseas Travel Expense | 43,475 | 2,286 | | 0 | 41,189 |
| Office Cleaning & Guards | 5,891 | | | 588 | 5,303 |
| Lease Offices | 84,242 | 64,438 | | 836 | 18,968 |
| Electricity | 17,561 | 27 | | 1,496 | 16,038 |
| Telephone & Telex | 21,798 | 3,677 | | 38 | 18,083 |
| Post & Courier | 2,055 | | | 17 | 2,039 |
| Insurance | 1,883 | | | 0 | 1,883 |
| Computer Software | 8,986 | | | 0 | 8,986 |
| Bank Charges | 2,433 | | | 0 | 2,433 |
| Interest | 17,446 | 17,446 | | 0 | (0) |
| Survey | 1,619 | | | 146 | 1,474 |
| Licenses & Dues | 1,655 | | | 0 | 1,655 |
| Lease Residence | 3,415 | | | 3,333 | 82 |
| Subscription | 3,244 | | | 118 | 3,126 |
| Advertisement | 2,396 | | | 0 | 2,396 |
| Entertainments | 11,451 | 10,774 | | 677 | (0) |
| Fiscal Stamps | 21,886 | | | 16,852 | 5,034 |
| Training | 974 | | 211 | 0 | 763 |
| Fire resistance | 250 | | | 0 | 250 |
| Depreciation | 94,244 | 0 | | 0 | 94,244 |
| Tips | 709 | 81 | | 628 | 0 |
| Donations | 551 | 460 | | 91 | (0) |
| Miscellaneous | 1,407 | 924 | 21 | 357 | 105 |
| Water | 595 | | | 104 | 491 |
| Local Travel | 21,927 | | 625 | 12,996 | 8,305 |
| Office Guard & Security | 3,581 | | | 283 | 3,297 |
| Rent Cars | 23,589 | | 1,838 | 18,425 | 3,326 |
| Penalties | 24 | 24 | | 0 | 0 |
| Total Indirect Costs | <u>959,213</u> | <u>118,658</u> | <u>10,383</u> | <u>95,258</u> | <u>734,914</u> |
| Direct Labor (Direct Cost Base) | <u>435,016</u> | <u>(14,590)</u> (Note 5) | <u>0</u> | | <u>449,605</u> |
| Indirect Cost Rate Calculation | | | | | |
| Indirect Costs | 734,914 = | | 163% | | |
| Direct Cost Base | 449,605 | | | | |

See accompanying notes to the fund accountability statement and schedules of computations of indirect cost rates.

DR. AHMED ABDEL WARITH CONSULTING ENGINEERS
NOTES TO THE FUND ACCOUNTABILITY STATEMENT
AND SCHEDULES OF COMPUTATIONS OF INDIRECT COST RATES

NOTE 1 - SOURCE OF DATA:

The fund accountability statement includes costs incurred by AAW and reimbursed by USAID/Egypt through subcontractor agreements (as amended) with CH2M Hill (pursuant to the Rod El Farag Distribution System Construction Management Project, USAID Grant No. 263-0193) and the Wastewater Consultants Group ("WWCG") (pursuant to the Alexandria Wastewater Project, USAID Grant No. 263-0100) for the period from January 1, 1991 through December 31, 1992.

The column labeled "Actual Expenditures" is the responsibility of AAW - and represents the cumulative expenditures billed to and reimbursed by USAID/Egypt prime contractors through the subcontract agreements. The "Budget" column includes all USAID/Egypt approved costs for the subcontract agreements. The column labeled "Expenses" on the schedules of computations of indirect costs rates is the responsibility of AAW - and represents cumulative expenditures for the respective year as obtained from AAW's accounting records and the audited general purpose financial statements.

NOTE 2 - BASIS OF PRESENTATION:

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

NOTE 3 - EXCHANGE RATE:

Expenditures incurred in Egyptian pounds have been converted to U.S. dollars at the average monthly exchange rate for the twenty four month period January 1, 1991 through December 31, 1992 of 3.29 Egyptian pounds to 1 U.S. dollar.

NOTE 4 - INDIRECT COST AND RATE

A provisional indirect cost rate was authorized for the project by the prime contractors as shown in Note 1 to the financial statements. The indirect cost pool for the years ended 1991 and 1992 consists of allowable expenditures of AAW of a non-direct nature. As calculated in the schedules of computations of indirect cost rates, we have determined that overhead costs represent 155% of direct labor costs for 1991 and 163% of direct labor costs for 1992. Included in the original subcontract agreements with CH2M Hill and WWCG is a "ceiling" of 163% indirect cost application rate for calendar years 1989 and 1990, which we have assumed is to be applied to all periods. The application of the audited rate for the periods results in excess billings to prime contractors totalling \$ 1,286 (\$ 976 related to CH2M Hill and \$ 310 related to WWCG) which is calculated as follows:

CH2M Hill

1991

| | | |
|---------------------------------|-------------|-----------------|
| Direct labor billed | | \$ 59,405 |
| Provisional rate | 1.58 | |
| Audited rate | <u>1.55</u> | |
| Decrease in indirect cost rate | | <u>.03</u> |
| Decrease in overheads allowable | | \$ <u>1,782</u> |

January 1, 1992 through March 31, 1992

| | | |
|---------------------------------|------|-----------------|
| Direct labor billed | | \$ 17,905 |
| Provisional rate | 1.58 | |
| Audited rate | 1.63 | |
| Decrease in indirect cost rate | | <u>(.05)</u> |
| Decrease in overheads allowable | | \$ <u>(895)</u> |

April 1 through December 1992

| | | |
|---|-------------|---------------|
| Direct labor billed | | \$ 66,858 |
| Provisional rate | 1.63 | |
| Audited rate | <u>1.63</u> | |
| Decrease in indirect cost rate | | <u>-</u> |
| Decrease in overheads allowable | | \$ <u>-</u> |
| Total decrease in overheads January 91-December 92 | | \$ 887 |
| Decrease in 10% fee (\$ 887 X .10) | | <u>89</u> |
| (Fixed percentage fee is 10% of direct labor plus overhead) | | |
| Total decrease for CH2M Hill | | \$ <u>976</u> |

NOTE 4 - INDIRECT COST AND RATE (CONT.)

WWCG

1991

| | | |
|---------------------------------|-------------|-----------------|
| Direct labor billed | | \$ 89,514 |
| Provisional rate | 1.58 | |
| Audited rate | <u>1.55</u> | |
| Decrease in indirect cost rate | | <u>.03</u> |
| Decrease in overheads allowable | | \$ <u>2,685</u> |

January 1, 1992 through June 30, 1992

| | | |
|---------------------------------|-------------|-------------------|
| Direct labor billed | | \$ 47,494 |
| Provisional rate | 1.58 | |
| Audited rate | <u>1.63</u> | |
| Decrease in indirect cost rate | | <u>(.05)</u> |
| Decrease in overheads allowable | | \$ <u>(2,375)</u> |

July 1, 1992 through December 31, 1992

| | | |
|---------------------------------|-------------|-------------|
| Direct labor billed | | \$ 58,799 |
| Provisional rate | 1.63 | |
| Audited rate | <u>1.63</u> | |
| Decrease in indirect cost rate | | <u>-</u> |
| Decrease in overheads allowable | | \$ <u>-</u> |

WWCG Summary

| | | |
|---|--|-----------------|
| Total decrease in overheads January 91-December 92 | | \$ 310 |
| Decrease in 8% fee from July-December 92 (0 x .08%) (Fixed percentage fee is 8% of direct labor plus overhead) | | <u>-</u> |
| Total decrease for WWCG | | \$ <u>310</u> |
| Total for CH2M Hill and WWCG | | \$ <u>1,286</u> |

NOTE 5 - RECLASSIFICATION ENTRIES

AAW policy states that an individual is considered to be direct labor if he is billed to a client and indirect if no time is invoiced to a client. During 1991 and 1992, the vice president for projects and an engineer were invoiced to clients while their salaries were recorded as indirect labor.

These amounts have been reclassified from indirect labor to direct labor. The related ineligible amounts and details have been included in Note 6 as items A.1 for 1991 and 1992.

NOTE 6 - QUESTIONED COSTS:

Questioned costs are presented in three separate categories - ineligible costs, unsupported adjustments, and overhead rate adjustment - and consist of audit findings proposed on the basis of the cost principles set forth in the subcontract agreements. 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 subcontract agreements 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 noted during our audit related to items included within the companies overhead pool (see schedules of computations of indirect cost rates) and accordingly, result in variances to actual indirect (overhead) amounts billed the prime contractors. The effects of such rate changes are calculated in Note 4 and are included in the column marked "Overhead Rate Adjustment" in the Fund Accountability Statement. Our audit procedures identified the following costs included in the overhead rate calculation that are ineligible or unsupported:

1991

| <u>Item Description</u> | <u>Questioned Costs</u> | | |
|---|-------------------------|--------------------|--------------------------|
| | <u>Ineligible</u> | <u>Unsupported</u> | <u>As incurred in LE</u> |
| A. Indirect labor: | | | |
| (1) Vice president for projects was charged as direct labor for projects WWISP, WWCG, and Behira and as indirect in Dept. D111. (LE 3,500 X 12 months = 42,000) | | | |
| An engineer was charged as direct labor for Behira project and indirect Dept. D170 (total salary Jan-June LE 7,992) | \$ <u>15,195</u> | \$ <u>-</u> | LE <u>49,992</u> |
| (2) Based on subsequent evidence provided by AAW management subsequent of the issuance of the draft report, this finding has been removed. | \$ <u>-</u> | \$ <u>-</u> | LE <u>-</u> |
| B. Computer Software: | | | |
| Asset purchase recorded as an expense. Batch 239, 12/91 | | | |
| Computer software 6,482 | | | |
| Depreciation (1/12 @25%) <u>(134)</u> | | | |
| 6,298 | <u>1,914</u> | <u>-</u> | <u>6,298</u> |

NOTE 6 - QUESTIONED COSTS, CONT.

| <u>Item Description</u> | <u>1991</u> | | |
|--|-------------------|--------------------|--------------------------|
| | <u>Ineligible</u> | <u>Unsupported</u> | <u>As incurred in LE</u> |
| C. Computer supplies: | | | |
| Several items of a capital nature were expensed. Amounts in excess of allowable depreciation are questioned. | | | |
| 1. Batch 233, 11/91 | | | |
| 2 motherboards | 1,580 | | |
| Depr. 25% X 2/12 | <u>(66)</u> | | 1,514 |
| 2. Batch 190, 1/91 | | | |
| computer hardware | 1,675 | | |
| Depr. 25% x 12/12 | <u>(419)</u> | | 1,256 |
| 3. Batch 233, 11/91 | | | |
| Microsoft mouse | 1,110 | | |
| Depr. 25% x 2/12 | <u>(46)</u> | | 1,064 |
| 4. Batch 232, 11/91 | | | |
| Motherboard & RAM | 2,325 | | |
| Depr 25% x 2/12 | <u>(97)</u> | | 2,228 |
| 5. Batch 238, 12/91 | | | |
| 120MB Hard disk | 2,080 | | |
| 120MB Tape backup | 2,079 | | |
| Depr. 25% x 1/12 | <u>(86)</u> | | 4,072 |
| | \$ <u>3,081</u> | \$ <u>-</u> | LE <u>10,135</u> |
| D. Stationary and publications: | | | |
| Amounts were not supported by invoices or receipts. | | | |
| 1. Batch 280, 8/91 | | | |
| business card printing | 300 | | |
| 2. Batch 219, 7/91 | | | |
| photos | 4 | <u>-</u> | <u>93</u> |
| | | | <u>304</u> |
| E. Buffet: | | | |
| This line item represents entertainment expenses which are disallowed per FAR 31.205-14. | | | |
| | <u>1,344</u> | <u>-</u> | <u>4,421</u> |
| F. Maintenance: | | | |
| An item of a capital nature was expensed. | | | |
| Batch 238, 12/91 | | | |
| 4MB RAM | 2,250 | | |
| Depr. 25% x 1/12 | <u>(47)</u> | | |
| | <u>670</u> | <u>-</u> | <u>2,203</u> |
| G. Car rental: | | | |
| Amounts were not supported by invoices or receipts. | | | |
| Batch 214, 6/91 | 450 | | |
| Batch 291, 12/91 | <u>1,050</u> | <u>-</u> | <u>456</u> |
| | <u>-</u> | <u>456</u> | <u>1,500</u> |

NOTE 6 - QUESTIONED COSTS (CONT.)**1991**

| <u>Item Description</u> | <u>Questioned Costs</u> | | |
|--|-------------------------|--------------------|--------------------------|
| | <u>Ineligible</u> | <u>Unsupported</u> | <u>As incurred in LE</u> |
| H. Local travel: | | | |
| Amounts were not supported by invoices or receipts. | | | |
| Batch 202, 3/91 1,160 | | | |
| Batch 280, 8/91 <u>1,400</u> | <u>-</u> | \$ <u>778</u> | LE <u>2,560</u> |
| I. Overseas travel expense | | | |
| Travel incurred by management exceeded AID limits, Contractor notice 11/92, for lodging in London. | | | |
| 1. Batch 199, 3/91 | | | |
| President, 9 days in London 8,435 | | | |
| Allowed (9 x \$166 x 3.33) <u>(4,975)</u> 3,460 | | | |
| 2. Batch 223, 8/91 | | | |
| President, 5 days in London 5,841 | | | |
| Allowed (5 x \$166 x 3.33) <u>(2,764)</u> 3,077 | | | |
| 3. Batch 224, 9/91 | | | |
| President, 31 days in London 18,165 | | | |
| Allowed (31 x \$166 x 3.33) <u>(17,136)</u> <u>1,029</u> | | | |
| | \$ <u>2,300</u> | <u>-</u> | <u>7,566</u> |
| J. Lease offices | | | |
| FAR 31.205-36 notes that rent charges with related parties should "not exceed the normal costs of ownership, such as depreciation, taxes, insurance". We have estimated the normal ownership costs to be in the range of LE 45,000 to LE 60,000. The amount charged of LE 252,000 less the estimated ownership cost of LE 60,000 equals the disallowed amount of LE 192,000. | | | |
| | <u>58,359</u> | <u>-</u> | <u>192,000</u> |
| K. Interest | | | |
| FAR 31.205-20 specifically disallows all interest expense. | | | |
| | <u>11,459</u> | <u>-</u> | <u>37,701</u> |
| L. Subscriptions | | | |
| Amounts were not supported by invoice or receipt. | | | |
| Batch 210, 5/91 | | | |
| Engineering Journal | <u>-</u> | <u>1,064</u> | <u>3,500</u> |
| M. Entertainment | | | |
| Entertainment expenses are disallowable per FAR 31-205-14. | | | |
| | <u>14,889</u> | <u>-</u> | <u>48,986</u> |

NOTE 6 - QUESTIONED COSTS (CONT.)

1991

| <u>Item Description</u> | <u>Questioned Costs</u> | | |
|---|-------------------------|--------------------|--------------------------|
| | <u>Ineligible</u> | <u>Unsupported</u> | <u>As incurred in LE</u> |
| N. Training Amounts were not supported by invoice or receipt. Batch 233, 11/91 | <u>-</u> | \$ <u>342</u> | LE <u>1,125</u> |
| O. Depreciation Based on subsequent evidence provided by AAW management subsequent of the issuance of the draft report, this finding has been removed. | <u>-</u> | <u>-</u> | <u>-</u> |
| P. Tips Tips are unallowed costs per FAR 31.205-8. | \$ <u>78</u> | <u>-</u> | <u>257</u> |
| Q. Donations Donations are unallowed costs per FAR 31.205-8. | <u>1,389</u> | <u>-</u> | <u>4,571</u> |
| R. Miscellaneous | | | |
| 1. Gifts of flowers and Prophet day are not allowed per FAR 31.205-14: | | | |
| Flowers: Batch Date Amount | | | |
| 202 3/17/91 100 | | | |
| 202 3/21/91 50 | | | |
| 219 7/28/91 50 | | | |
| 223 8/07/91 30 | | | |
| 223 8/15/91 50 | | | |
| 227 9/01/91 50 | | | |
| 227 9/12/91 25 | | | |
| 227 9/01/91 100 | | | |
| 231 10/13/91 50 | | | |
| 231 10/24/91 50 | | | |
| 235 11/11/01 83 | | | |
| Prophet Day, 227, 9/91 <u>2,147</u> | <u>847</u> | <u>-</u> | <u>2,785</u> |
| 2. Amounts were not supported by invoices, receipts or descriptions. | | | |
| Batch 202, 3/5/91 115 | | | |
| Batch 236, 12/31/91 <u>100</u> | <u>-</u> | <u>65</u> | <u>215</u> |
| S. Transportation Payment not supported by invoice or receipt. Batch 210, 5/91 | <u>-</u> | <u>30</u> | <u>100</u> |

NOTE 6 - QUESTIONED COSTS (CONT.)

1991

| <u>Item Description</u> | <u>Questioned Costs</u> | | |
|---|-------------------------|--------------------|--------------------------|
| | <u>Ineligible</u> | <u>Unsupported</u> | <u>As incurred in LE</u> |
| T. Telephone & Telex | | | |
| Payments made in 1992 relating to 1991, not accrued. | | | |
| 1. Batch 243, 1/26/92 | 6,078 | | |
| 2. Batch 243, 2/12/92 | 3,074 | | |
| 3. Batch 247, 2/14/92 | <u>6,046</u> | | |
| | \$ <u>(4,619)</u> | <u>-</u> | LE <u>(15,198)</u> |
| U. Electricity | | | |
| Payment made in 1992 relating to 1991, not accrued. | | | |
| Batch 247, 2/20/92 | <u>(27)</u> | <u>-</u> | <u>(88)</u> |
| V. Direct Labor | | | |
| Payroll lacks support of signature of receipt. | | | |
| January 1991:m | | | |
| <u>Department</u> | <u>LE</u> | | |
| BEH01 | 4,205 | | |
| FAY01 | 1,920 | | |
| P001 | 1,840 | | |
| ROD02 | 290 | | |
| December 1991: | | | |
| <u>Department</u> | <u>LE</u> | | |
| PCD01 | 2,100 | | |
| Less January salary supported but not recorded in the GL; | | | |
| WWISP | <u>(1,900)</u> | <u>-</u> | |
| Net | 8,455 | \$ <u>2,570</u> | <u>8,455</u> |
| 1991 Total questioned costs | \$ <u>106,878</u> | \$ <u>2,828</u> | |
| Total Ineligible and Unsupported | \$ <u>109,706</u> | | |

NOTE 6 - QUESTIONED COSTS (CONT.)

1992

Item Description

Questioned Costs
Ineligible Unsupported As Incurred in LE

A. Indirect labor:

| | | | |
|--|------------------|-------------|------------------|
| (1) Vice president for projects was directly charged to WWCG as well as indirect dept. D111. | \$ <u>14,590</u> | \$ <u>-</u> | LE <u>48,000</u> |
| (2) Based on subsequent evidence provided by AAW management subsequent of the issuance of the draft report, this finding has been removed. | <u>-</u> | <u>-</u> | <u>-</u> |

B. Computer supplies:

Several items of a capital nature were expensed. Amounts in excess of allowable depreciation are questioned.

| | | | |
|---|--------------|----------|--------------|
| 1. Batch 242, BJ, 1/19/92 2MB RAM 1,125 Depr. 25% x 12/12 <u>(281)</u> 844 | | | |
| 2. Batch 246, BJ, 2/6/92 Monitor & Drive 3,000 Depr. 25% x 11/12 <u>(688)</u> 2,312 | | | |
| 3. Batch 242, BJ, 1/92 Software 5,964 Depr 25% x 12/12 <u>(1,491)</u> 4,473 | | | |
| 4. Batch 246, BJ, 2/92 Motherboard 1,550 Depr. 25% x 11/12 <u>(355)</u> <u>1,195</u> | <u>2,682</u> | <u>-</u> | <u>8,824</u> |

C. Buffet:

This line item represents entertainment expenses disallowed per FAR 31.205-14.

| | | |
|--------------|----------|--------------|
| <u>1,323</u> | <u>-</u> | <u>4,352</u> |
|--------------|----------|--------------|

D. Maintenance:

An item of a capital nature was expensed. Amounts in excess of allowable depreciation are questioned

| | | | |
|---|------------|----------|--------------|
| Batch 268, BJ, 8/92 New A/C motor 1,250 Depr. 10% X 5/12 <u>(52)</u> | <u>364</u> | <u>-</u> | <u>1,198</u> |
|---|------------|----------|--------------|

NOTE 6 - QUESTIONED COSTS (CONT.)

| <u>Item Description</u> | <u>1992</u> | | |
|--|-------------------|--------------------|--------------------------|
| | <u>Ineligible</u> | <u>Unsupported</u> | <u>As Incurred in LE</u> |
| E. Transportation: Amounts related to rental car expenses which were not supported by invoice or receipt. Batch 255, CD, 4/92 1,050 Batch 321, CD, 12/92 <u>5,000</u> | \$ - | \$ <u>1,838</u> | LE <u>6,050</u> |
| F. Travel: Local travel amounts were not supported by invoices, receipts or proof of receipt. Batch 255, CD, 4/92 1,625 Batch 251, CD, 3/92 <u>432</u> | - | <u>625</u> | <u>2,057</u> |
| G. Lease offices 1. FAR 31.205-36 states that rent charges with related parties should "not exceed the normal costs of ownership, such as depreciation, taxes, insurance". We have estimated the normal costs of ownership to be in the range of LE 45,000 to LE 60,000 per year. Amount charged LE 252,000 less estimated ownership costs of LE 60,000 equals the disallowed amount of LE 192,000. 2. Sept. 1992 rent entry duplicated <u>20,000</u> | <u>64,438</u> | - | <u>212,000</u> |
| H. Lease Residence: Amounts relate to travel cost in excess of USAID limits for London. (Contractor notice 11/92) Batch 310, 11/92, President. 7 days in London 11,368 Allowed (7 x \$166 x 3.31) <u>3,846</u> | <u>2,286</u> | - | <u>7,522</u> |
| I. Interest: FAR 31.205-20 specifically disallows interest expense. | <u>17,446</u> | - | <u>57,397</u> |
| J. Consultancy fees: Amounts related to a third party consultant were not supported by invoices or a contract. Batch 254, BJ, 4/92 5,000 | | | |

NOTE 6 - QUESTIONED COSTS (CONT.)

1992

| <u>Item Description</u> | <u>Questioned Costs</u> | | |
|--|-------------------------|--------------------|--------------------------|
| | <u>Ineligible</u> | <u>Unsupported</u> | <u>As Incurred in LE</u> |
| Batch 266, BJ, 7/92 10,000 | | | |
| Batch 246, BJ, 2/92 3,763 | | | |
| Batch 246, BJ, 2/92 1,528 | | | |
| Batch 246, BJ, 2/92 <u>5,000</u> | \$ <u>-</u> | \$ <u>7,687</u> | LE <u>25,291</u> |
| K. Entertainment: | | | |
| Entertainment expenses are disallowable per FAR 31-205-14. | <u>10,774</u> | <u>-</u> | <u>35,446</u> |
| L. Training | | | |
| Amounts were not supported by invoices or receipts. | | | |
| Batch 251, CD, 3/92 450 | | | |
| Batch 251, CD, 3/92 <u>245</u> | <u>-</u> | <u>211</u> | <u>695</u> |
| M. Depreciation | | | |
| Based on subsequent evidence provided by AAW management subsequent of the issuance of the draft report, this finding has been removed. | <u>-</u> | <u>-</u> | <u>-</u> |
| N. Tips | | | |
| Tips are unallowed costs per FAR 31.205-8. | <u>81</u> | <u>-</u> | <u>265</u> |
| O. Donations | | | |
| Donations are unallowed costs per FAR 31.205-8. | <u>460</u> | <u>-</u> | <u>1,512</u> |
| P. Miscellaneous | | | |
| 1. Disallowed items such as flowers, sweets, employee meals, | | | |
| Flowers: | | | |
| Batch 247, 2/17/92 25 | | | |
| Batch 306, 10/29/92 50 | | | |
| Batch 313, 11/24/92 <u>30</u> 105 | | | |
| Employee meals: | | | |
| Batch 263, 6/29/92 82 | | | |
| Batch 260, 6/18/92 37 | | | |
| Batch 260, 6/92 <u>168</u> 287 | | | |
| Tips: | | | |
| Batch 301, 8/6/92 54 | | | |
| Prophet day candy: | | | |
| Batch 309, 10/92 <u>2,595</u> | <u>924</u> | <u>-</u> | <u>3,041</u> |

NOTE 6 - QUESTIONED COSTS (CONT.)

| <u>Item Description</u> | <u>1992</u> | | |
|---|-------------------|--------------------|--------------------------|
| | <u>Ineligible</u> | <u>Unsupported</u> | <u>As Incurred in LE</u> |
| 2. Amount of legal expenses were not supported by invoice or receipt. Batch 305, 9/27/92 | \$ <u>-</u> | \$ <u>21</u> | LE <u>70</u> |
| Q. Electricity Payment of 1991 invoice, see item U in 1991. | <u>27</u> | <u>-</u> | <u>88</u> |
| R. Telephone & Telex Payment of 1991 invoices, see item T of 1991 15,198 less 1992 invoices paid in 1993 Batch 7, BJ, 2/1/93 (2,055) Batch 7, BJ, 2/17/93 <u>(1,040)</u> | <u>3,677</u> | <u>-</u> | <u>12,103</u> |
| S. Social Insurance Payment of 1992 invoice paid in 1993 is allowed, Batch 7, BJ, 2/22/93 | <u>(438)</u> | <u>-</u> | <u>(1,441)</u> |
| T. Penalties Penalties are disallowed per FAR 31.205-15 | <u>24</u> | <u>-</u> | <u>79</u> |
| U. Direct Salaries Based on subsequent evidence provided by AAW management subsequent of the issuance of the draft report, this finding has been removed. | <u>-</u> | <u>-</u> | <u>-</u> |
| 1992 Total questioned costs | \$ <u>118,658</u> | \$ <u>10,384</u> | |
| Total Ineligible and Unsupported | \$ <u>129,042</u> | | |

4. Road 261,
New Maadi,
Cairo, Egypt.

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Price Waterhouse



REPORT ON INTERNAL CONTROL STRUCTURE
REPORT OF INDEPENDENT ACCOUNTANTS

June 18, 1994

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We have audited the fund accountability statement and schedules of computations of indirect cost rates of Dr. Ahmed Abdel Warith Consulting Engineers ("AAW") relating to expenditures incurred for flexibly priced subcontracts with USAID/Egypt prime contractors of the United States Agency for International Development Mission to Egypt ("USAID/Egypt"); CH2M Hill (pursuant to USAID Project No. 263-0193) and WWCG (pursuant to USAID Project No. 263-0100); for the period from January 1, 1991 through December 31, 1992, and have issued our report thereon dated June 18, 1994.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and 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 and schedules of computations of indirect cost rates are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement and schedules of computations of indirect cost rates. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the fund accountability statement and schedules of computations of indirect cost rates. We believe that our audit provides a reasonable basis for our opinion.



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 designed operation of the 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 and schedules of computations of indirect cost rates being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our audit disclosed the following conditions which we believe constitute material weaknesses:

MATERIAL WEAKNESSES

Finding 1

There are several areas where appropriate segregation of duties or assigned job responsibilities would serve to improve controls over company funds. In particular, we noted:

- That no written policy and procedural manual exists to direct employees as to their particular responsibilities.
- Payroll procedures are all performed by one individual. Such procedures include approval of timesheets, collection and distribution of payroll, and maintenance of payroll records and personnel files.
- Financial data is entered into the accounting system by the same individual who prepares the basic financial reports.
- Invoices are processed by the same individual who controls the treasury function.

Recommendation 1



We recommend that AAW prepare an action plan for these areas. Specifically, we encourage management to prepare written accounting policy manuals which should ensure that an appropriate segregation of key controls is maintained.

Finding 2

During our review of the controls surrounding the information systems area, we noted several areas where controls should be improved. These areas included the following:

- Certain programming errors in the reporting feature have yet to be corrected after a year of operation. These programming errors relate to misdating and incorrect department codes.
- No controls exist to prevent data entry personnel from changing employee's standing data (i.e. name, department, salary, allowances, etc.).
- No posting (or long term retention) of payroll data is performed, allowing the possibility that data from past periods may be changed.
- No off-site back-up of financial data is maintained.
- The master password for the system is not distinct, and could easily be determined by an unauthorized user.
- No audit trails of changed program items are generated or maintained.
- Extensive use of computer disks in transferring data risks the security of data to computer viruses, loss, etc.

In summary, the integrity of the computer information system is at risk as there is no control over data input, even to key fields, and data is inappropriately protected and stored.

Recommendation 2

We recommend that AAW management perform a stringent control review relating to the CIS function, in order to determine an appropriate system of internal controls in this key area. The control review should address all key control areas including the items noted above.

* * * * *



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 judgment, 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 and schedules of computations of indirect cost rates. Our audit disclosed the following reportable conditions:

REPORTABLE CONDITIONS

Finding 3

Controls over the purchasing function were lacking in the following manner:

- There were no written purchasing policies and procedures.
- Requisition forms were infrequently used and sometimes lack appropriate approval by management.
- Purchase orders were not used.

Recommendation 3

AAW should implement procedures to improve controls over the purchasing function. Specifically, we recommend that AAW:

- Establish purchasing and payroll procedural manuals,
- Utilize requisition forms that require written approval from appropriate management personnel,
- Utilize prenumbered purchase orders to more appropriately control outstanding supply purchases.

* * * * *



Finding 4

Physical assets are not appropriately safeguarded. Specially, we noted that:

- Employees who handle cash and other valuable assets are not secured by fidelity bonds.
- Fixed assets are not physically inspected on a periodic basis and compared with the appropriate records. Also these records were written in pencil and subject to change.
- There were no supply store inventory or periodic count of such items.

Recommendation 4

We recommend that AAW implements the following procedures to safeguard physical assets:

- Employees who handle cash and other valuable assets should be secured by fidelity bonds.
- Fixed assets should physically be inspected on a periodic basis to ascertain the continued utility of the asset. Additionally, the company should utilize a computerized fixed asset register. The current manual system reviewed by us showed evidence of erased entries (though no improprieties were noted in the report).
- A periodic count of items in the supply store should be performed.

* * * * *

Finding 5

Controls over the processing of payroll information should be improved. Specifically we noted:

- Many employees timesheets noted only an arrival time, and not a departure time.
- The payroll register balances are not periodically reconciled to general ledger accounts.
- Certain items relating to "trial projects" were inappropriately recorded in the payroll register.
- Personnel files do not maintain a three year salary history as required by the subcontract agreements.



- The payroll system does not segregate direct labor from vacation and overhead pay.

Recommendation 5

We recommend that management reevaluate controls in these areas.

* * * * *

Finding 6

In calculating preliminary indirect cost rates, the company includes many items that prior audits have addressed as unallowable, such as interest, entertainment, tips and donations.

Recommendation 6

Such items should be excluded from overhead rate calculations in future periods.

* * * * *

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

* * * * *

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REPORT ON COMPLIANCE WITH LAWS AND REGULATIONS
REPORT OF INDEPENDENT ACCOUNTANTS

June 18, 1994

Mr. Philippe Darcy
Regional Inspector General for Audit/Cairo
United States Agency for
International Development

We have audited the fund accountability statement and scheduled of computation of indirect cost rates of Dr. Ahmed Abdel Warith Consulting Engineers ("AAW") relating to expenditures incurred for flexibly priced subcontracts with United States Agency for International Development Mission to Egypt ("USAID/Egypt") prime contractors; CH2M Hill (pursuant to the Rod el Farag Distribution System Construction Management Project No. 263-0193) and Wastewater Construction Group ("WWCG") (pursuant to the Alexandria Wastewater Project No. 263-0100); for the period from January 1, 1991 through December 31, 1992, and have issued our report thereon dated June 18, 1994.

Except as discussed in the next paragraph, we conducted our audit in accordance with generally accepted auditing standards and 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 and schedules of computations of indirect cost rates are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the fund accountability statement and schedules of computations of indirect cost rates. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the fund accountability statement and schedules of computations of indirect cost rates. We believe that our audit provides a reasonable basis for our opinion.



We did not have an external quality control review by an unaffiliated audit organization as required by paragraph 33 of Chapter 3 of Government Auditing Standards since no such quality control 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 Price Waterhouse worldwide internal quality control program which requires the Price Waterhouse Cairo office to be subjected, every three years, to an extensive quality control review by partners and managers from other Price Waterhouse offices and firms.

Compliance with laws, regulations, subcontract agreements and binding policies and procedures applicable to AAW is the responsibility of AAW's management. As part of our audit, we performed tests of AAW's compliance with certain provisions of laws, regulations, subcontracts, and binding policies and procedures. However, it should be noted that we performed those tests of compliance as part of obtaining reasonable assurance about whether the fund accountability statement and schedules of computations of indirect cost rates are free of material misstatement; our objective was not to provide an opinion on compliance with such provisions.

The result of our tests indicate that with respect to the items tested AAW 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 AAW had not complied, in all material respects, with those provisions.

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

Price Waterhouse

DR. AHMED ABDEL WARITH CONSULTING ENGINEERS

ADDITIONAL INFORMATION
FUND ACCOUNTABILITY STATEMENT DETAIL OF AMOUNTS AS INCURRED IN EGYPTIAN POUNDS
FOR THE PERIOD FROM JANUARY 1, 1991 THROUGH DECEMBER 31, 1992

| | <u>Budget</u> | <u>Actual Expenditures</u> | <u>Questioned Costs</u> | | <u>Overhead Rate Adjustment</u> |
|--------------------|---------------------|----------------------------|-------------------------|--------------------|---------------------------------|
| | | | <u>Ineligible</u> | <u>Unsupported</u> | |
| CH2M Hill | | | | | |
| Direct labor | | LE 474,311 | - | - | LE - |
| Other direct costs | | 6,520 | - | - | - |
| Overhead | | 760,408 | - | - | 2,918 |
| Fixed fee | | <u>123,473</u> | - | - | <u>292</u> |
| Total | LE <u>3,406,469</u> | LE <u>1,364,712</u> | <u>-</u> | <u>-</u> | LE <u>3,210</u> |
| WWCG | | | | | |
| Direct labor | | LE 644,206 | - | - | LE - |
| Other direct costs | | 15,622 | - | - | - |
| Overhead | | 1,027,436 | - | - | 1,020 |
| Fixed fee | | <u>74,665</u> | - | - | - |
| Total | LE <u>5,673,622</u> | LE <u>1,761,929</u> | <u>-</u> | <u>-</u> | LE <u>1,020</u> |
| Total Expenditures | LE <u>9,080,091</u> | LE <u>3,126,641</u> | <u>-</u> | <u>-</u> | LE <u>4,230</u> |

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SCHEDULE OF COMPUTATION OF
INDIRECT COST RATE
in Egyptian Pounds
For the year ended December 31, 1991

| Description | Expenses | Questioned Costs | | Other Direct Costs | Indirect Cost Pool |
|--|-------------------------|------------------------------------|---------------------------------|-----------------------|-------------------------|
| | | Ineligible (Note 6) | Unsupported (Note 6) | | |
| Indirect Labor | 922,018 | 49,992 | | | 872,026 |
| Vacation | 100,003 | | | 7,082 | 92,921 |
| Medical Care | 1,693 | | | 1,062 | 631 |
| Social Insurance | 170,457 | | | 96,717 | 73,740 |
| Computer Software | 6,432 | 6,298 | | | 134 |
| Computer Supplies | 30,219 | 10,135 | | 225 | 19,859 |
| Copy paper & supplies | 39,911 | | 304 | 11 | 39,596 |
| Stationary & Publication | 38,571 | | | 563 | 38,008 |
| Buffet | 7,860 | 4,421 | | 3,439 | 0 |
| Bid Costs | 1,855 | | | 27 | 1,828 |
| Soil & Chemicals boring | 8,804 | | | 1,500 | 7,304 |
| Maintenance | 41,135 | 2,203 | | 673 | 38,259 |
| Vehicle expense | 42,456 | | | 15,449 | 27,007 |
| Transportation | 9,712 | | 100 | 4,313 | 5,299 |
| Overseas Travel expense | 56,748 | 7,566 | | | 49,182 |
| Office cleaning | 19,669 | | | 1,153 | 18,516 |
| Lease Offices | 257,270 | 192,000 | | 4,556 | 60,714 |
| Photocopying & photos | 5,883 | | | 507 | 5,376 |
| Electricity | 54,970 | (88) | | 533 | 54,525 |
| Telephone & Telex | 48,819 | (15,198) | | 238 | 63,779 |
| Post & Courier | 2,518 | | | 9 | 2,509 |
| Insurance | 8,443 | | | 128 | 8,315 |
| Bank charges | 8,951 | | | 1 | 8,950 |
| Interest | 37,701 | 37,701 | | | 0 |
| Survey | 9,000 | | | | 9,000 |
| Consulting fees | 91,264 | | | 950 | 90,314 |
| Licenses & Dues | 2,246 | | | | 2,246 |
| Lease Residence | 12,361 | | | 12,361 | 0 |
| Subscription | 18,417 | | 3,500 | 60 | 14,857 |
| Advertisement | 7,549 | | | | 7,549 |
| Entertainments | 50,965 | 48,986 | | 1,979 | 0 |
| Fiscal Stamps | 72,486 | | | 68,572 | 3,914 |
| Training | 12,460 | | 1,125 | 300 | 11,035 |
| Fire Resistance | 20 | | | | 20 |
| Depreciation | 236,958 | | | | 236,958 |
| Tips | 2,581 | 257 | | 2,324 | 0 |
| Donations | 4,621 | 4,571 | | 50 | 0 |
| Miscellaneous | 7,445 | 2,785 | 215 | 2,248 | 2,197 |
| Water | 1,145 | | | 47 | 1,098 |
| Local Travel | 47,945 | | 2,560 | 26,402 | 18,983 |
| Office Guards & Security | 11,250 | | | | 11,250 |
| Rent Cars | 54,902 | | 1,500 | 46,585 | 6,817 |
| Total Indirect Costs | <u>2,565,713</u> | <u>351,629</u> | <u>9,304</u> | <u>300,064</u> | <u>1,904,716</u> |
| Direct Labor (Direct Cost Base) | <u>1,188,029</u> | <u>(49,992)</u> (Note 5) | <u>8,455</u> (Note 6) | | <u>1,229,566</u> |
| Indirect Cost Rate Calculation | | | | | |
| Indirect Costs | <u>1,904,716</u> | | 155% | | |
| Direct Cost Base | <u>1,229,566</u> | | | | |

SCHEDULE OF COMPUTATION OF
INDIRECT COST RATE

in Egyptian Pounds

For the year ended December 31, 1992

| Description | Expenses | Questioned Costs | | Other Direct Costs | Indirect Cost Pool |
|--|-------------------------|------------------------------------|-------------------------|-----------------------|-------------------------|
| | | Ineligible (Note 6) | Unsupported (Note 6) | | |
| Indirect Labor | 1,047,875 | 48,000 | | | 999,875 |
| Vacation | 119,266 | | | 143 | 119,123 |
| Medical Care | 2,283 | | | 2,267 | 16 |
| Social Insurance | 171,796 | (1,441) | | 99,042 | 74,195 |
| Computer Supplies | 45,535 | 8,824 | | 2,386 | 34,325 |
| Copy Paper & Supplies | 67,169 | | | 11 | 67,158 |
| Stationary & Publication | 42,964 | | | 260 | 42,704 |
| Photocopying & Photos | 40,708 | | | 899 | 39,809 |
| Buffet | 6,449 | 4,352 | | 2,097 | 0 |
| Consulting Fees | 181,157 | | 25,291 | 1,000 | 154,866 |
| Bid Costs | 2,343 | | | | 2,343 |
| Soil Tests, Chemicals & Boring | 11,563 | | | | 11,563 |
| Maintenance | 47,420 | 1,198 | | 1,275 | 44,947 |
| Vehicle Expense | 44,295 | | | 12,562 | 31,733 |
| Transportation | 11,336 | | | 3,979 | 7,357 |
| Overseas Travel Expense | 143,033 | 7,522 | | | 135,511 |
| Office Cleaning & Guards | 19,382 | | | 1,934 | 17,448 |
| Lease Offices | 277,155 | 212,000 | | 2,750 | 62,405 |
| Electricity | 57,775 | 88 | | 4,921 | 52,766 |
| Telephone & Telex | 71,718 | 12,103 | | 124 | 59,491 |
| Post & Courier | 6,762 | | | 55 | 6,707 |
| Insurance | 6,196 | | | | 6,196 |
| Computer Software | 29,564 | | | | 29,564 |
| Bank Charges | 8,006 | | | 1 | 8,005 |
| Interest | 57,397 | 57,397 | | | 0 |
| Survey | 5,328 | | | 480 | 4,848 |
| Licenses & Dues | 5,444 | | | | 5,444 |
| Lease Residence | 11,235 | | | 10,965 | 270 |
| Subscription | 10,672 | | | 388 | 10,284 |
| Advertisement | 7,882 | | | | 7,882 |
| Entertainments | 37,674 | 35,446 | | 2,228 | 0 |
| Fiscal Stamps | 72,004 | | | 55,442 | 16,562 |
| Training | 3,205 | | 695 | | 2,510 |
| Fire resistance | 823 | | | | 823 |
| Depreciation | 310,064 | | | | 310,064 |
| Tips | 2,333 | 265 | | 2,068 | 0 |
| Donations | 1,812 | 1,512 | | 300 | 0 |
| Miscellaneous | 4,628 | 3,041 | 70 | 1,174 | 343 |
| Water | 1,957 | | | 341 | 1,616 |
| Local Travel | 72,139 | | 2,057 | 42,758 | 27,324 |
| Office Guard & Security | 11,780 | | | 932 | 10,848 |
| Rent Cars | 77,607 | | 6,050 | 60,614 | 10,943 |
| Penalties | 79 | 79 | | | 0 |
| Total Indirect Costs | <u>3,155,813</u> | <u>390,386</u> | <u>34,163</u> | <u>313,396</u> | <u>2,417,868</u> |
| Direct Labor (Direct Cost Base) | <u>1,431,201</u> | <u>(48,000)</u> (Note 5) | <u>0</u> | | <u>1,479,201</u> |
| Indirect Cost Rate Calculation | | | | | |
| Indirect Costs | <u>2,417,868</u> | | | | |
| Direct Cost Base | <u>1,479,201</u> | | | 163% | |

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A. Costs questioned in 1991

Amounts reported by you as unsupported:

| <u>Your item #</u> | <u>Description</u> | <u>L.E.</u> |
|--------------------|--|-------------|
| A.2 | Unsupported indirect labor We furnished your representative with the necessary documents and he was satisfied . | 32,003 |
| D | Stationary and publication Amount is immaterial | 304 |
| G | Car rental We showed your representative a cash payment receipt signed by recipient. The payee does not have prints or invoices. He is a taxi driver | 1,500 |
| H | Local travel Payment is made on a daily per diem basis according to the company policy. We furnished your representative with the related documents. | 2,560 |
| L | Subscription We showed your representative a cash payment voucher signed by the recipient | 3,500 |
| N | Training We showed your representative the supporting documents and he was satisfied | 1,125 |
| R. 2 | Miscellaneous Immaterial amount | 215 |
| S | Transportation We showed your representative the necessary documents and he was satisfied | 100 |
| V | Direct labor We showed your representative the necessary documents and he was satisfied | 8,455 |



Amounts reported by you as ineligible

| <u>Your item #</u> | <u>Description</u> | <u>L.E.</u> |
|--------------------|---|-------------|
| A.1 | <p>Indirect labor</p> <p>The wording in note (6.A.1) implies that we double charged the Vice President for Projects and an Engineer cost to direct and indirect labor cost, which is not actually the case. We charged their time to indirect labor cost only.</p> <p>In note No. (5) you referred to our policy which states that an individual is considered to be direct labor if he is billed to a client and indirect if no time invoiced to a client. Please note that our policy does not state such covenant. We go according to subcontract agreements, which are approved by the US AID. According to articles No. (3) and (6) of those agreements, the direct labor should have the following features:</p> <p>a: It should be for personnel directly attributed to a specific projects.</p> <p>b: They are personnel who work with those of the main contractor and its other subcontractors as one integrated team, sharing the same office and other facilities, as their duties may require.</p> <p>The Vice President for Projects and the referred to Engineer do not fall under the above categories. According to our policy, we consistently treat them as indirect labor.</p> | 49,992 |
| B | Computer software, | 6,298 |
| C | Computer supplies, and | 10,135 |
| F | Maintenance | 2,203 |
| | <p>Our accounting policies are set according to the International Accounting Standards (IAS) .</p> <p>The IAS No. 16 indicates that entities may consider the following in deciding the capitalization of an expense item.</p> <p>a: The durability of the item</p> <p>b: The relationship to the entity's business</p> <p>c: The realization through future use/benefit</p> <p>d: Materiality</p> | |



| <u>Your item #</u> | <u>Description</u> | <u>L.E.</u> |
|--------------------|---|-------------|
| F (cont'd) | For computer software, our policy is to expense upon purchasing due to the fact that we update it every one or two years. It is then not durable. Those items along with the computer supplies are subject to our policy of materiality concept. Such a policy is that we do not capitalize amounts below L.E. 3,000. All the amounts stated in your analysis are below that level | |
| E | Buffet This item is not entertainment. It is considered necessary for staff work performance. The items listed in FAR 31 - 205 - 14 as entertainment do not include buffet. | 4,421 |
| I | Overseas travel expenses The contractor notice you are referring to relates to 11/92 onwards. It does not cover periods before the date of its issuance. On the other hand, we did not receive a copy of that notice to date. We do not believe that it should bind us, specially, we are providing adequate documentation for the incurred cost. Moreover, \$ 166 is not an amount that will lodge a president in a reasonable hotel in London. On the other hand, per our further investigation, we realized that you took the US AID Guideline for the Fly American Act, which was issued to cover Direct Cost only, and applied it to the Indirect Cost pool. You then assumed that we are reimbursing 100% by AID. However, our overhead is spread on the basis of total company direct labor. This direct labor includes many projects which are not AID financed. Therefore, this exclusion would represent an unreasonable cost allocation. | 7,566 |
| G | Lease office Your comment refers to the normal cost of ownership as covered by FAR 31 - 205 -36. This is irrelevant to our case, as the cost charged is for office lease. The lease is supported by a contract between the lessor (Dr. Ahmed Salem Abdel Warith) and the lessee (AAW) signed in January 1990. (copy attached in Appendix III). It is duly authenticated FAR 31 - 205 - 36 indicated that rental costs under operating leases are allowable to the extent that the rates are reasonable at the time of the lease decision after consideration of (i) rental cost of comparable property, if any (ii) market conditions in the area ..etc. Appendix IV shows our survey made through a reputable real-estate firm to justify allowability according to FAR 31 -205 - 36. It shows that our annual charge is reasonable, but even less than the comparable property. We are at the disposal of AID for any survey to be made by any other firm that AID accepts. | 212,000 |



| | | |
|------------|--|----------|
| G (cont'd) | Also in (Appendix V) you will find a report from US Government contract specialist indicating that the possibility of related party conflict of interest in our case is remote. On the other hand, it should be interesting if you could furnish us with the basis of your estimation of the normal ownership costs for comparable building to be of L.E. 45,000 to L.E. 60,000 | |
| K | Interest This is not presented in our calculation of the indirect cost rate. | 37,701 |
| M | Entertainment This item represents expenses incurred for business purposes, i.e. business lunch or dinner. etc. FAR 31 - 205 -14 does not disallow such expenses. | 48,986 |
| O | Depreciacion The air conditioner is actually owned by the company as it is recorded in its books and fixed assets register. We also have the purchase invoices which support the ownership. | 16,875 |
| P | Tips Immaterial amount and they are not presented in our calculation of the indirect cost rate. | 257 |
| Q | Donations This is not presented in our calculation of the indirect cost rate. | 4,571 |
| R | Miscellaneous Diverse immaterial amounts | 2,785 |
| T | Telephone & Telex We inspected the details and ensured that they are properly recorded in our books. | (15,198) |
| U | Electricity Immaterial amount. | (88) |

Moreover, we disagree with excluding L.E. 300,064 from our indirect costs representing other direct costs. We should go by the subcontract agreements. The subcontract agreements consider all the amounts analyzing this other direct costs as indirect for the purpose of computing the overhead costs rate under those contracts. (Please refer to article (6) of the subcontract agreements).



B. Costs questioned in 1992

Amounts reported by you as unsupported:

| <u>Your item #</u> | <u>Description</u> | <u>L.E.</u> |
|--------------------|---|-------------|
| A.2 | Unsupported indirect labor We furnished your representative with the necessary documents and he was satisfied . | 1,808 |
| F | Travel Payment is made on a daily per diem basis according to the company policy. We furnished your representative with the related documents. | 2,057 |
| J | Consultancy fees The amounts detailing this sum represent fees for consultancy paid to known university professors. We have available in our documents copies of the payment cheques signed by those professors. | 25,291 |
| L | Training Outdoor training to employees. We have payment vouchers signed by the recipient employees as duly approved. | 695 |
| P. 2 | Miscellaneous Immaterial amount | 70 |
| E | Transportation We found the details which you provided under a different account, "Rent cars". The available documents represent receipts signed by the car owner, copies of their ID's and the car licenses. We did not rent from well formed companies as they would cost four times as the paid amounts. | 6,050 |
| U | Direct labor We showed your representative the necessary documents and he was satisfied | 19,288 |



Amounts reported by you as ineligible

| <u>Your item #</u> | <u>Description</u> | <u>L.E.</u> |
|--------------------|---|-------------|
| A.1 | <p>Indirect labor The wording in note (6.A.1) implies that we double charged the Vice President for Projects cost to direct and indirect labor cost, which is not actually the case. We charged his time to indirect labor cost only. In note No. (5) you referred to our policy which states that an individual is considered to be direct labor if he is billed to a client and indirect if no time invoiced to a client. Please note that our policy does not state such covenant. We go according to subcontract agreements, which are approved by the US AID. According to articles No. (3) and (6) of those agreements, the direct labor should have the following features:</p> <p>a: It should be for personnel directly attributed to a specific projects, b: They are personnel who work with those of the main contractor and its other subcontractors as one integrated team, sharing the same office and other facilities, as their duties may require. The Vice President for Projects does not fall under the above categories. According to our policy, we consistently treat him as indirect labor.</p> | 48,000 |
| B | Computer supplies, and | 8,824 |
| D | Maintenance Our accounting policies are set according to the International Accounting Standards (IAS) . The IAS No. 16 indicates that entities may consider the following in deciding the capitalization of an expense item. a: The durability of the item b: The relationship to the entity's business c: The realization through future use/benefit d: Materiality | 4,352 |



Dr. AHMED ABDEL WARITH
Consulting Engineers

| <u>Your item #</u> | <u>Description</u> | <u>L.E.</u> |
|--------------------|---|-------------|
| D (cont'd) | For computer software, our policy is to expense upon purchasing due to the fact that we update it every one or two years. It is then not durable. Those items along with the computer supplies are subject to our policy of materiality concept. Such a policy is that we do not capitalize amounts below L.E. 3,000. All the amounts stated in your analysis are below that level | |
| C | Buffet This item is not entertainment. It is considered necessary for staff work performance. The items listed in FAR 31 - 205 - 14 as entertainment do not include buffet. | 4,352 |
| H | Lease residence The contractor notice you are referring to relates to 11/92 onwards. It does not cover periods before the date of its issuance. On the other hand, we did not receive a copy of that notice to date. We do not believe that it should bind us, specially, we are providing adequate documentation for the incurred cost. Moreover, \$ 166 is not an amount that will lodge a president in a reasonable hotel in London. On the other hand, per our further investigation, we realized that you took the US AID Guideline for the Fly American Act, which was issued to cover Direct Cost only, and applied it to the Indirect Cost pool. You then assumed that we are reimbursing 100% by AID. However, our overhead is spread on the basis of total company direct labor. This direct labor includes many projects which are not AID financed. Therefore, this exclusion would represent an unreasonable cost allocation. | 7,522 |
| G | Lease office Your comment refers to the normal cost of ownership as covered by FAR 31 - 205 -36. This is irrelevant to our case, as the cost charged is for office lease. The lease is supported by a contract between the lessor (Dr. Ahmed Salem Abdel Warith) and the lessee (AAW) signed in January 1990. (copy attached in Appendix III). It is duly authenticated FAR 31 - 205 - 36 indicated that rental costs under operating leases are allowable to the extent that the rates are reasonable at the time of the lease decision after consideration of (i) rental cost of comparable property, if any (ii) market conditions in the area ..etc. Appendix IV shows our survey made through a reputable real-estate firm to justify allowability according to FAR 31 -205 - 36. | 212,000 |

2/2



| <u>Your item #</u> | <u>Description</u> | <u>L.E.</u> |
|--------------------|---|-------------|
| G (cont'd) | <p>It shows that our annual charge is reasonable, but even less than the comparable property. We are at the disposal of AID for any survey to be made by any other firm that AID accepts.</p> <p>Also in (Appendix V) you will find a report from US Government contract specialist indicating that the possibility of related party conflict of interest in our case is remote.</p> <p>On the other hand, it should be interesting if you could furnish us with the basis of your estimation of the normal ownership costs for comparable building to be of L.E. 45,000 to L.E. 60,000</p> | |
| I | <p>Interest</p> <p>This is not presented in our calculation of the indirect cost rate.</p> | 57,397 |
| K | <p>Entertainment</p> <p>This item represents expenses incurred for business purposes, i.e. business lunch or dinner. etc.</p> <p>FAR 31 - 205 -14 does not disallow such expenses.</p> | 35,446 |
| M | <p>Depreciation</p> <p>The air conditioner is actually owned by the company as it is recorded in its books and fixed assets register. We also have the purchase invoices which support the ownership.</p> | 16,875 |
| N | <p>Tips</p> <p>Immaterial amount, and they are not presented in our calculation of the indirect cost rate.</p> | 265 |
| O | <p>Donations</p> <p>This is not presented in our calculation of the indirect cost rate.</p> | 1,512 |
| P.1 | <p>Miscellaneous</p> <p>Diverse immaterial amounts</p> | 3,041 |
| R | <p>Telephone & Telex</p> <p>We inspected the details and ensured that they are properly recorded in our books.</p> | 12,103 |
| S | <p>Social insurance</p> | (1,441) |
| T | <p>Penalties</p> <p>Immaterial amounts</p> | 79 |
| U | <p>Electricity</p> <p>Immaterial amount.</p> | 88 |



Dr. AHMED ABDEL WARITH
Consulting Engineers

APPENDIX B
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Moreover, we disagree with excluding L.E. 313,396 from our indirect costs representing other direct costs. We should go by the sub contract agreements. The subcontract agreements consider all the amounts analyzing this other direct costs as indirect for the purpose of computing the overhead costs rate under those contracts. (Please refer to article (6) of the subcontract agreements).

4/5



C. Material weaknesses

Finding I

Policy / manual for employees responsibilities

Disagreed

A consideration here has to be given to the nature of our work and the size of our organization. We gave your representatives a copy of our chart of organization. It indicates that we have seven departments. The biggest department includes only eight employees. The factors that are evident in directing employees responsibilities are as follows:

- The Senior Vice President exercises proper supervision on all departments and is heavily involved in the day to day work.
- All Division Heads, properly supervise their subordinates and have documented work plans for the operations they are assigned, whereby, they assign tasks to employees, set expectations and target dates.

The policies and procedures to direct employees to their particular responsibilities are there and consistently applied. However, they are not written.

We take your point, that it would be better to document these policies, yet, we do not concur with considering this finding as a material weakness. We never came across a case where an employee was confused about his responsibilities or did not know what to do.

Payroll procedures

Disagreed

There are eight individuals involved in preparing, summarizing, approving and paying the payroll in our company. This goes with the principal of segregating duties.

Please review your documentation of understanding our payroll system.

Data entry / Financial reports

Disagreed

The process of data entry, validation and preparation of financial reports involves three personnel. This is well segregates.



Master password

Disagreed

We should have the liberty to choose whatever password we like. We are sure that our master password is distinct. A consideration has to be given to the fact that our logical security has numerous levels. The system can not be penetrated because of only one password (level).

Audit trail of program changes

Disagreed

Program changes are password protected. We have only one in house developed program. We have one programmer, who affects changes to such program, according to the instructions of the Vice President for Finance and Administration.

The programmer is denied access to data entry or change. Program changes are closely mentioned by the Vice President for Finance and Administration.

Extensive use of computer disks

Disagreed

The use of computer disks is not extensive. It is within the volume required by our operations and controls.

We have a special program for machine viruse check. We are very sensitive for this area. All our programs are original ones and even licensed directly to us.

D. REPORTABLE CONDITIONS

Finding 3

Purchasing policies and procedures

Disagreed

We have the written policies and procedures, which were given to your representatives.



Invoices process / Treasury function

Disagreed

Invoices preparation, processing and treasury are handled by three different personnel.

Finding 2

Programming errors

Not a material weakness

Agreed

Programming errors do not relate to amounts or project allocation. Program error was discovered and corrected in the spot.

We do not take this as a material weakness.

Automated employees' standing data

Not a material weakness

Partially agreed

The lack of this computer control is compensated by a manual control. This is that, an independent checking (documented) is made on the reconciliation of the detailed payroll sheets between a month and the one preceding. This is made on a 100% basis. We are very sensitive regarding payroll.

The program disallows access to a certain month before the one preceding is posted.

The only person who has the password to retroactively change payroll data is the Vice President for Finance and Administration. Payment of change is as per proper approval and paid by an independent employee.

Off-site back-up of financial data

Disagreed

We have all our financial data backed up. We admit, back-up is not stored off-site. A consideration has to be given to the nature of our business and the volume of our transactions. The loss of financial data, if it will take place, does not interrupt our business or prevent us from updating our records.



Purchase requisition / purchase order

Disagreed

Our business does not involve purchasing of raw materials. We only purchase fixed assets, software and computer supplies. These are all subject to purchase requisitions and purchase orders in all cases. For the nominal supply of stationery, we do not normally use purchase requisitions or purchase orders as their value is insignificant and it should be impractical to apply this practice.

Finding 4

Fidelity bonds / fixed assets count and register

Agreed, although we do not know what the valuable assets are.

Supply store inventory

Disagreed

We have a very nominal level of supply stock. Due to insignificance, we expense it on the spot. We should not tolerate the cost of periodic count and inventory keeping.

Finding 5

Employees time sheets

Disagreed

Employees time sheets do not include data pertaining to arrival or departure time.

Payroll register / general ledger

Disagreed

The payroll register is the source for accounting in the general ledger.

Trial projects

Please explain further

Salary history

Disagreed

We have special file for the employees salary history. This is different from the personnel file. This is at least evident by your audit of the payroll sheets pertaining to 1991, while we are in 1994.

4/4



Direct labor / vacations and overhead

Disagreed

Our time sheets register segregates the direct labor from vacation/ overhead. This is used as the basis for the invoicing.

We do not view it to be cost efficient to assign resources to go through monthly extensive calculations in order to segregate the direct labor from vacation and overhead pay. A great deal of this segregation can be achieved with a simple comprehensive calculation.

Finding 6

Unallowable expenses

Disagreed

We repeat that our calculation of the indirect cost rates, which is submitted to your representatives does not include interest, tips or donation (please see appendix I).

As far as entertainment expenses are concerned, again, these are expenses incurred for business purposes, which are not disallowable according to FAR 31 - 205 -14.

If you would like to discuss any point of the above in further details, please do not hesitate to contact.

Best regards,

Salah El Din Ismail
Vice President for
Finance & Administration

ARABIAN AMERICAN REAL ESTATE CO.

"THE PROFESSIONAL REAL ESTATE PEOPLE"



Arabian American Real Estate Company established in 1974 to provide professional real estate services to multinational companies working in Egypt.

Arabian American Real Estate was the first professional real estate company in Egypt and is still the leading firm to date. We are active members of the **American Egyptian Chamber of Commerce** since its inception. We are also members of the **German Egyptian Chamber of Commerce**. Our main office is located in the Maadi Executive Building in Maadi, which is the major expatriate housing area in Egypt, and the primary location for oil services companies working in Egypt. We also have branch offices in the **Pullman Hotel Business Center**.

Our client list is a who's who of the major corporations and embassies in Egypt. We have provided extensive real estate services to General Dynamics, the American Embassy, the British Embassy, Otis engineering, General Motors, Amoco, Conoco, Phoenix, Norsk Hydro, Bechtel, SGE (subway project), Union Carbide - to name a few. We are also listed in the **Runzheimer Directory** as their agent in Egypt and **Employment Conditions Abroad Ltd.**, they use the data we provide to inform their clients of housing and office expenses in Egypt.

We are the only real estate company in Egypt which can provide a totally integrated service to our clients which include over 1000 computerized listings covering all of Egypt, complete in house furnishing and refurbishing services, commercial, industrial and residential property. Orientation services to newcomers is provided to all newcomers as part of our contracting.

Through our business center we provide complete secretarial, travel and communications services, including temporary office space at our main office. We also provide recruitment and staffing services in all fields.

Because of our long and professional experience and extensive contacts, we also have a referral service to our clients, for any requirement including legal, medical, governmental, customs and taxes so that we can guarantee the same level of professional service to our clients.

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ARABIAN AMERICAN REAL ESTATE CO.

"THE PROFESSIONAL REAL ESTATE PEOPLE"

DATE: 24/9/1991.

MR. SALAH EL DIN ISMAIL
FINANCE & ADMINISTRATIVE MANAGER
DR. ABDEL WARITH (CONSULTING ENGINEERS)
37 BABEL ST. DOKKI
CAIRO-EGYPT

DEAR SIR,

AS PER YOUR REQUEST DURING OUR MEETING ON 22nd OF SEPTEMBER 1991 ,
WE ARE ENCLOSED INFORMATION ON OFFICE BUILDINGS SIMILAR TO THE ONE
YOU ARE OCCUPYING NOW.

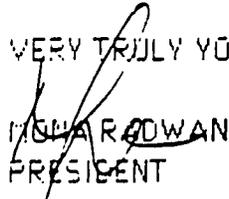
PLEASE NOTE THAT ALL THE OFFICE BUILDINGS REFERRED TO ARE DELIVERED
WITH ADDITIONAL SERVICES INCLUDED IN THE ANNUAL RENT, SUCH AS
ELECTRICITY, MAINTENANCE, CLEANING COMMON AREAS & SECURITY.

FOR YOU TO MAKE PROPER COMPARISON YOU NEED TO INCLUDE YOUR OWN
COSTS FOR THESE SERVICES.

WE HOPE TO HAVE SATISFIED YOUR REQUEST , PLEASE FEEL FREE TO
CONTACT US AT ANY TIME.

THANKING YOU IN ADVANCE.

VERY TRULY YOURS,


M. R. ADWAN
PRESIDENT

- ENC. 1. LIST OF OFFICE BUILDINGS.
2. INFORMATION ABOUT ARABIAN AMERICAN REAL ESTATE CO.

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REPORT ON THE SURVEY OF THE OFFICE SPACE

"IT WAS FOUND THAT OFFICE SPACES IN CAIRO SIMILAR TO THE LEVEL OF AAW OFFICE BUILDING ARE FEW. WE HAVE CAREFULLY SELECTED SIMILAR BUILDINGS AND COLLECTED INFORMATIONS SHOWING THE FEATURES AND THE CORRESPONDING ANNUAL RENTAL COST PER SQUARE METERS FOR EACH.

THE MAIN FEATURES ARE SUMMARISED AS FOLLOWS :

- 1- GOOD AND ACCESSIBLE LOCATION WITH PARKING AREA.
- 2- BUILDING IS DESIGNED FOR OFFICE USE.
- 3- AVAILABLE POWER SUPPLY, TELEPHONE, TELEX, FAX, AIRCONDITIONING, ELEVATORS, ETC.
- 4- CLEANING AND MAINTENANCE OF COMMON AREAS AND SECURITY.
- 5- CLIENT PROVIDES HIS OWN FURNITURES, CARPETS, PAINTING AND FACILITIES.

THE FOLLOWING ARE THE DETAILS OF INFORMATIONS ON SIMILAR BUILDINGS.

- 1 **CAIRO CENTER:** IS A 22 FLOOR OFFICE BUILDING , LOCATED AT TAHRIR SQUARE, HAS LIMITED PARKING FACILITES.HAS 10 TENANTS.

RENT: 220 USD PER ANNUM.PER SQM
INCLUDES: SECURITY & CLEANING IN COMMON AREA,
(DOES NOT INCLUDE RENTED OFFICE SPACE) MAINTENCE & AIRCONDITIONING.
TERMS: 50% IN USD & 50% IN L.E.
CLIENT TO DIVIDE, PAINT ,CARPET & FURNISH.

- 2 **ABOU EL-FETOUH OFFICE BUILDING:** IS A 25 FLOOR BUILDING LOCATED IN MOHANDESIN-NOTE: ALL OFFICE SPACE HAS BEEN SOLD. EXCEPT 350 SQM.
RENT: 230 L.E. PER ANNUM.
INCLUDES: ELECTRICITY, AIR CONDITIONING, CARE SERVICE SECURITY & CLEANING IN COMMON AREAS (DOES NOT INCLUDE RENTED OFFICE SPACE) AND PARKING FACILITIES.
TERMS: CLIENT TO DIVIDE, PAINT, CARPET & FURNISH.

- 3 **MISR-IRAN OFFICE BUILDING:** IS A 48,000 SQM, BUILDING LOCATED IN GIZA STREET.OVER 85% OF ALL SPACE HAS BEEN SOLD TO 17 TENANTS.
RENT: 225 USD PER ANNUM PLUS 2 USD PER MONTH FOR MAINTENANCE & OPERATION.
INCLUDE: ELECTRICITY AIR CONDITIONING, COMMON AREA CLEANING, ETC....(DOES NOT INCLUDE RENTED OFFICE SPACE)
TERMS: CLIENT TO DIVIDE , PAINT, CARPET AND FURNISH
- 4 **ABOU EL FEDA OFFICE BUILDING:**IS A 19 FLOOR OFFICE BUILDING LOCATED IN ZAMALEK.HAS 500 SQM AVAILABLE FOR RENT.
RENT: 312 USD PER ANNUM PER SQM.
INCLUDES: AIR-CONDITIONING , VINYL FLOORS , CLEANING AND SECURITY.OF COMMON AREAS (DOES NOT INCLUDE RENTED OFFICE SPACE)
TERMS: DELEVERED AS A SHELL-CLIENT TO DIVIDE PAINT, FURNISH AND CARPET .



DARRELL J. OYER & CO.

P.O. Box 15524
Alexandria, Virginia 22309
(703) 360-5080

APPENDIX B
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RECEIVED
DEC 30 1991

Ans'd.....

DARRELL J. OYER
Government Contract Specialist

4319 Old Mill Road
Alexandria, Virginia 22309

December 21, 1991

Mr. O. C. "Russ" Tirella
Chief Financial Officer
CH2M Hill International, Ltd.
P. O. Box 24548
Denver, CO 80222

Dear Russ:

Enclosed is the position paper on the issue of common control as related to the Egyptian subcontractor, AAW Company. If you have any questions on this paper, please call me. I will be back in the office on January 8, 1992.

Sincerely,

Darrell J. Oyer
Darrell J. Oyer

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Position Paper on Common Control
AAW Company

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Summary. The prime contractor auditor has alleged that because of the family relationship between the lessor and the lessee/subcontractor (AAW Company), the basis of rental charges should not be the fair market value but rather the ownership cost basis of the lessor. The subcontract clauses and related regulations establish that if common control exists a cost basis must be used to establish allowable costs. However, common control does not exist in this instance. The Armed Services Board of Contract Appeals (ASBCA) decided in a very similar case that family relationships alone do not establish common control. The facts in this instance are substantially similar to those in the decided case (A.S. Thomas). Therefore, I have concluded that common control is not present and the fair market value of the rental costs is an allowable cost.

Facts. The subcontract between WCG (prime contractor) and AAW Company (subcontractor) is a cost plus a fixed fee arrangement established in 1986 and amended in 1989. The applicable regulations that apply to this contract are Federal Acquisition Regulation (FAR) 31.205-36 "Rental Costs" and FAR 52.216-7 "Allowable Cost and Payment."

The lessee, AAW Company, was formed by Dr. Ahmed Abdel Warith in 1957. The business was organized into a partnership in 1983. Dr. Warith and his son, Ahmed Salem Abdel Warith, became the partners. Prior to 1983 the father owned the entire business and after 1983 the father owned two-thirds of the business and the son owned the remaining one-third. The son is Vice-president and a Director of the lessee organization.

The lessor is an individual, Ahmed Salem Abdel Warith. Dr. Ahmed Abdel Warith does not have an ownership interest in and does not participate in the management of, the lessor organization. The lease was entered into in 1988, amended in 1990 and now covers a three year period. The initial lease covered about 1500 square meters and this was increased by expansion of the building to about 2700 square meters in 1990. The rental price was established by a real estate firm who was hired to set an objective value.

Prime Contract Auditor Position. The auditor cites the provisions of FAR 31.205-36 (b) (3) "Charges in the nature of rent for property between any divisions, subsidiaries, or organizations under common control, to the extent that they do not exceed the normal costs of ownership, such as depreciation, taxes, insurance, facilities capital cost of money, and maintenance (excluding interest or other unallowable costs pursuant to Part 31), provided that no part of such cost shall duplicate any other allowed cost..." (Emphasis Added) The auditor position relies on the of the phrase "organizations under common control." According to the auditor, the father/son relationship established common control.

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FAR 52.216-7 (a) states that "The Government shall make payments...in amounts determined to be allowable by the Contracting Officer in accordance with Subpart 31.2 of the Federal Acquisition Regulation." A rewording of this clause to apply to a prime/subcontractor relationship ties this subcontract to the requirement contained in FAR 31.205-36.

What is Common Control? The phrase "common control" is not precisely defined within the regulations. Federal agencies have often applied a liberal interpretation to this phrase, i.e. using the phrase to cover many circumstances. On the other hand, the Boards of Contract Appeals have been more diligent in considering the unique facts and circumstances of each case. Two significant decisions which established an absence of common control were ASBCA No. 26753 (December 27, 1984) Data-Design Laboratories and ASBCA No. 10745 (March 7, 1966) A. S. Thomas, Inc.

In the Data-Design decision, four corporate employees formed a partnership to specifically lease facilities to their employer. Because of the circumstances (i.e., publicly held company, safeguards by the Board, small ownership interest by the employees in the lessee organization, etc.) the Board held that no common control existed. In A. S. Thomas even though the parties alleged to exercise common control were brother, the Board determined that common control did not exist. This latter decision is pertinent to the circumstances involving AAW Company and is discussed in subsequent paragraphs of this paper.

A. S. Thomas, Inc. A. S. Thomas, Inc. had a prime cost reimbursement contract and rented facilities from Thomor, Inc. The case arose in 1964 when the applicable regulation was Armed Services Procurement Regulation (ASPR) 15.205-34 (b) which is the forerunner of the FAR provision cited in FAR 31.205-36 and substantially the same as that regulation. The lease was entered into before the date of the contract.

A. S. Thomas, Inc. (a corporation) issued 800 shares owned by Dr. Abdelnour S. Thomas (730 shares); Eva Thomas, wife of A. S. Thomas (30 shares); Ms. Balling (20 shares); and Mr. Cirame (20 shares). Mr. Tanous J. Thomas, brother of Dr. Thomas, owned no shares but served as general counsel and clerk of A. S. Thomas, Inc.

Thomor, Inc. (a corporation) initially in 1958 issued 530 shares owned by Dr. A. S. Thomas (100 shares); Mr. T. J. Thomas (100 shares); Mr. F. X. Moran (unknown shares); Mr. J. F. Moran (unknown shares); and Ms. Balling (unknown shares). Dr. Thomas was treasurer of Thomor and Mr. F. X. Moran was president. In 1961 Mr. T. J. Thomas became president and ownership of the shares changed to the following: Dr. A. S. Thomas (213 shares); Mr. T. J. Thomas (167 shares); Mr. Haddad (62 shares); and Mr. Riordan (74 shares).

The summary of the decision is concise and relevant. "Two corporations were not 'under common control,' within the meaning of

ASPR provision limiting reimbursement for building rentals between such corporations to an amount equal to the normal costs of ownership, even though the lessee's operator owned 43.5% of the lessor and was its treasurer, and the operator of the lessor was the brother of the operator of the lessee and was the lessee's clerk and general counsel. Although the lessee's operator had once been president of the lessor, and as treasurer was required to countersign the lessor's checks, he offered evidence that he took no interest in the management of the lessor. Similarly, although the lessor's operator, as counsel for the lessee, gave it advice regarding labor relations and corporate law, he received only \$1000 per year and considered the lessee a minor client. The ASBCA held that the mere minority financial interest in the lessor held by the lessee's operator did not constitute 'common control' as contemplated by ASPR."

Comparison of A. S. Thomas, Inc. Decision to AAW Company Circumstances. Both contractual arrangements are cost reimbursement arrangements. In both cases close family relationship exist. In both cases each party had a common interest in but one of the organizations. In both cases one party had a insignificant financial interest (T. J. Thomas's interest in A. S. Thomas, Inc.) or no interest (Dr. Ahmed Abdel Warith's interest in lessor organization) in one of the two organizations involved. In Thomas both parties held management positions in each organization and in this case only one party holds a management position in both organizations.

Conclusion. The principle in the A. S. Thomas, Inc. decision is that individuals seek their own financial objectives. The closeness of any family relationship does not alter this principle. Because no one organization or individual controls both organizations the concept of common control cannot be extended to include family members unless the facts indicate this to be true. No such facts exist in either the A. S. Thomas, Inc. decision or the AAW Company situation. I conclude that the facts in the A. S. Thomas, Inc. decision are sufficiently similar to the AAW Company situation to conclude that common control does not exist and the fair market value of the rental is allowable.

Dr. Ahmed Abdel Warith Consulting Engineers

Auditor Response

Dr. Ahmed Abdel Warith Consulting Engineers ("AAW") management provided comments relating to the Price Waterhouse draft audit report presented at the exit conference held on August 15, 1994. AAW management's comments are included, unedited, in Appendix C to this report. In response to their comments, we reviewed additional supporting documents provided by them. Where applicable, we either adjusted our final audit report or clarified our position relating to items discussed in AAW management's comments. Please note that our response sequence below parallels our audit report's findings.

1991

A. Indirect labor

- 1) On several occasions during our examination, AAW management informed us that their policy was to charge employee payroll as either direct or indirect on a monthly basis, based on whether they were directly billable to a project during the period. As the respective employees were clearly directly billed to various projects, our position remains unchanged.
- 2) AAW Management has provided us documentation including signature of receipt on all of the noted items. We have removed this item from our report.

B. Computer software

AAW management cites materiality as a basis for not capitalizing the noted items, which is not relevant in the compliance setting. Our conclusion on such assets also considered durability and the useful life of the asset. Our position remains unchanged.

C. Computer supplies

AAW management cites materiality as a basis for not capitalizing the noted items, which is not relevant in the compliance setting. Our conclusion on such assets also considered durability and the useful life of the asset. Our position remains unchanged.

D. Stationary and publications

AAW management does not respond to this finding.

E. Buffet

As management has provided no further support for the related items, our position remains unchanged.

F. Maintenance

AAW management cites materiality as a basis for not capitalizing the noted items, which is not relevant in the compliance setting. Our conclusion on such assets also considered durability and the useful life of the asset. Our position remains unchanged.

G. Car travel

The documentation provided by AAW management is considered to be insufficient. Our position remains unchanged.

H. Local travel

The documentation provided by AAW management is considered to be insufficient. Our position remains unchanged.

I. Overseas travel expense

AAW's contentions relate to the fairness of the USAID travel per diem, which is not relevant to our finding. Our position remains unchanged.

J. Lease offices

AAW's management contends that the father/son relationship between the lessor and the president of AAW (the lessee) does not constitute common control, despite the fact that the lessor is also an employee and director of the lessee. AAW further supplies us with documentation as to the rental equivalent of similar office buildings. The rental equivalent is not relevant as the allowable costs under FAR 31.205-36 are the "normal costs of ownership", for example depreciation, taxes, insurance, etc. Our position remains unchanged.

K. **Interest**

AAW management does not disagree with this finding.

L. **Sunscriptions**

The documentation provided by AAW management is considered to be insufficient. Our position remains unchanged.

M. **Entertainment**

AAW management contends that entertainment is not disallowed by FAR 31-205. Our position remains unchanged.

N. **Training**

The documentation provided by AAW management is considered to be insufficient. Our position is unchanged.

O. **Depreciation**

AAW management was able to provide us documentation as to the ownership of the air conditioner in question. The finding has been removed from our report.

P. **Tips**

AAW management does not disagree with this finding.

Q. **Donations**

AAW management does not disagree with this finding.

R. **Miscellaneous**

AAW management does not disagree with this finding.

S. **Transportation**

The documentation provided by AAW management is considered to be insufficient. Our position is unchanged.

T. Telephone & Telex

AAW management does not disagree with this finding.

U. Electricity

AAW management does not disagree with this finding.

V. Direct Labor

AAW Management has provided us documentation including signature of receipt in all of the noted items. We have removed this item from our report.

1992

A. Indirect labor

- 1) On several occasions during our examination, AAW management informed us that their policy was to charge employee payroll as either direct or indirect on a monthly basis, based on whether they were directly billable to a project during the period. As the respective employees were clearly directly billed to various projects, our position remains unchanged.
- 2) AAW Management has provided us documentation including signature of receipt in all of the noted items. We have removed this item from our report.

B. Computer supplies

AAW management cites materiality as a basis for not capitalizing the noted items, which is not relevant in the compliance setting. Our conclusion on such assets also considered durability and the useful life of the asset. Our position remains unchanged.

C. Buffet

AS AAW did not provide us further support regarding these items, our position remains unchanged.

D. Maintenance

AAW management cites materiality as a basis for not capitalizing the noted items. As materiality is not relevant with respect to USAID overhead rate determination, our position remains unchanged.

E. Car travel

The documentation provided by AAW management is considered to be insufficient. Our position remains unchanged.

F. Local travel

The documentation provided by AAW management is considered to be insufficient. Our position remains unchanged.

G. Lease offices

AAW's management contends that the father/son relationship between the lessor and the president of AAW (the lessee) does not constitute common control, despite the fact that the lessor is also an employee and director of the lessee. AAW further supplies us with documentation as to the rental equivalent of similar office buildings. The rental equivalent is not relevant as the allowable costs under FAR 31.205-36 are the "normal costs of ownership", for example depreciation, taxes, insurance, etc. Our position remains unchanged.

H. Lease residence

AAW's contentions relate to the fairness of the USAID travel per diem, which is not relevant to our finding. Our position remains unchanged.

I. Interest

AAW management does not disagree with this finding.

J. Consultancy fees

The documentation that AAW management refers to is internal support generated by AAW employees or provides no details as to the business purpose of the expenditure. Our position is unchanged.

K. Entertainment

AAW management contends that entertainment is not disallowed by FAR 31-205. Our position remains unchanged.

L. Training

The documentation provided by AAW management is considered to be insufficient. Our position remains unchanged.

M. Depreciation

AAW management was able to provide us documentation as to the ownership of the air conditioner in question. The finding has been removed from our report.

6/11

N. Tips

AAW management does not disagree with this finding.

O. Donations

AAW management does not disagree with this finding.

P. Miscellaneous

AAW management does not disagree with this finding.

Q. Electricity

AAW management did not respond to this finding. Our position is unchanged.

R. Telephone & telex

AAW management does not disagree with this finding.

S. Social insurance

AAW management does not disagree with this finding.

T. Penalties

AAW Management does not disagree with this finding.

U. Direct labor

AAW Management has provided us documentation including signature of receipt in all of the noted items. We have removed this item from our report.

Internal Control Comments

We have reviewed AAW management comments with respect to the internal control issues noted during our audit. Notwithstanding managements comments, our observations remain unchanged.

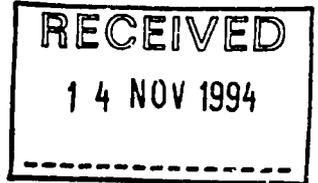


UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO EGYPT

November 14, 1994

MEMORANDUM



TO: Philippe L. Darcy, RIG/A/C

FROM: Syed Ali,  OD/FM/FA

SUBJECT: Financial Audit of Dr. Ahmed Abdel Warith Consulting Engineering (AAW) Subcontracts with USAID/Egypt Prime Contractors 1) CH2M HILL - General Organization for Greater Cairo Water Supply, USAID Grant No. 263-0193, and 2) Wastewater Consultants Group - Alexandria Wastewater Program, USAID Grant No. 263-0100 - Draft Report

Mission has one comment on the subject draft report. For overhead calculations applied to the projects, it is not clear in the report whether both the total company revenues and expenses are being dealt with, or how much of the firms's revenues are involved with the contracts in question, or with AID or the US Government as the ultimate clients. This sort of the information would be very helpful.

Please issue the final report.

APPENDIX E**REPORT DISTRIBUTION**

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