

PC-ABJ-197

Regional Inspector General for Audit  
Cairo, Egypt

**Audit of the Engineering Consultants Group (ECG)  
Subcontracts with USAID/Egypt Prime Contractors  
Metcalf & Eddy - Canal Cities Water and Sewage System,  
USAID Grant No. 263-0174, and Waste Water Consultants  
Group - Alexandria Wastewater Project No. 263-0100**

Report No. 6-263-95-005-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  
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT



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

A handwritten signature in black ink that reads "Timothy Cox" with a stylized flourish at the end.

SUBJECT: Financial Audit of Engineering Consultants Group (ECG) Subcontracts with USAID/Egypt Prime Contractors 1) Metcalf & Eddy - Canal Cities Water and Sewage Systems, USAID Grant No. 263-0174 2) Waste Water Consultants Group - Alexandria Wastewater Project No. 263-0100

The attached report dated June 18, 1994, by Price Waterhouse, presents the results of a financial audit of the subject subcontracts. ECG's subcontract with Metcalf & Eddy calls for ECG to provide resident professional services represented in technical, non-technical, and administrative personnel necessary to support Metcalf & Eddy's Canal Cities Water and Sewage Systems project. ECG's subcontract with WWCg calls for ECG 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 USAID/Egypt funded waste water system in Alexandria.

We engaged Price Waterhouse to perform a financial audit of the ECG incurred expenditures of LE8,306,871 (equivalent to \$2,517,233) 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 ECG 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 \$55,695 and \$48,807 in questioned indirect costs in calendar year 1991 and 1992, respectively, including \$23,698 and \$14,218 of unsupported costs. These costs were included within the overhead pool and as such, have an effect on the overhead rate which the subcontractor applies to direct labor.

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For 1991, the audit did not result in overbilling for overhead because the subcontractor was using a rate less than the ceiling rate. Thus when the questioned costs are considered, the subcontractor still undercharged the prime contractors by \$16,505. For 1992, the questioned overhead costs caused ECG to overbill the prime contractor \$92,243.

Price Waterhouse noted one material weakness in ECG's internal controls. They noted no instances of material noncompliance.

Price Waterhouse reviewed ECG'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 ECG'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 ECG.

**Recommendation No. 2:** We recommend that USAID/Egypt require the prime contractors to address ECG's material internal control weakness detailed on page 28 and 29 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 ECG address its internal control weaknesses. This recommendation can be closed when RIG/A/C has assessed ECG'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.

**ENGINEERING CONSULTANTS GROUP  
AUDIT OF SUBCONTRACTS WITH  
USAID/EGYPT PRIME CONTRACTORS:**

**1) METCALF & EDDY  
CANAL CITIES WATER AND SEWAGE SYSTEMS  
USAID GRANT NO. 263-0174**

**2) WASTE WATER 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**

**ENGINEERING CONSULTANTS GROUP**

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

**1) METCALF & EDDY  
CANAL CITIES WATER AND SEWAGE SYSTEMS  
USAID GRANT NO. 263-0174**

**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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**ENGINEERING CONSULTANTS GROUP**

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

**1) METCALF & EDDY**

**CANAL CITIES WATER AND SEWAGE SYSTEMS  
USAID GRANT NO. 263-0174**

**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, 1992

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

Dear Mr. Darcy:

This report presents the results of our financial cost-incurred audit of Engineering Consultants Group ("ECG") disbursements under sub-contract agreements (as amended) with United States Agency for International Development Mission to Egypt ("USAID/Egypt") prime contractors Metcalf & Eddy and Wastewater Consultants Group (WWCG). ECG's subcontract with Metcalf & Eddy is pursuant to the Canal Cities Water and Sewage Systems Grant (No. 263-0174). The subcontract with WWCG is pursuant to the Alexandria Wastewater Grant (No. 263-0100). The audit encompassed all disbursements for the period from January 1, 1991 through December 31, 1992.

#### Background

ECG's subcontract with Metcalf & Eddy calls for ECG to provide resident professional services represented in technical, non-technical, and administrative personnel necessary to support Metcalf & Eddy's Canal Cities Water and Sewage Systems Project. ECG's subcontract with WWCG calls for ECG 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 USAID/Egypt funded waste water system in Alexandria.

#### Audit Objectives and Scope

The principle objective of this engagement was to perform a financial audit of direct and indirect costs incurred for flexibly priced subcontracts of ECG with USAID/Egypt prime contractors Metcalf & Eddy (pursuant to USAID/Egypt Grant No. 263-0174) and WWCG (pursuant to USAID/Egypt Grant 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 ECG presents fairly, in all material respects, project costs incurred and reimbursed under the subcontract agreements in conformity with the applicable accounting principles or any other comprehensive basis of accounting;
2. The costs reported as incurred under the sub-contract agreements are allowable, allocable, and reasonable in accordance with the terms of the subcontracts;
3. The internal controls, accounting systems and management practices of ECG are adequate for USAID/Egypt agreements;
4. ECG is in compliance, in all material respects, with subcontracts terms and applicable laws and regulations; and
5. The schedules 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 the applicable accounting principles.

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

The scope of our work included all expenditures incurred and billed as direct costs under the subcontract agreements and expenditures included in the calculation of the indirect cost rates for ECG. For direct labor billed to the prime contractors, we tested a statistically chosen 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 judgemental 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 procedures covered \$ 793,250 of \$ 2,891,740 in total overhead expenses, or 27% of overhead expenses.

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

1. Metcalf & Eddy: 173% since the project commencement (August 6, 1991) through December 31, 1992, as applied to direct labor costs.
2. WWCG: 173% for the period January 1, 1991 through June 30, 1992 and 178% 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 ECG'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 to the prime contractors were appropriate and conformed with the terms of the subcontract agreements and relevant regulations;
3. Determining the propriety of the indirect overhead rates and the overhead items included therein;  
and
4. Determining the adequacy of ECG's controls over USAID/Egypt prime contractors 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 financial statements are 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 ECG'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 referred to above 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 charged to the prime contractors (under the statistical parameters listed above).

Our audit identified \$ 55,695 and \$ 48,807 in questionable costs in calendar years 1991 and 1992, respectively, including \$ 23,698 and \$ 14,218 of unsupported costs. All such costs were included within the overhead rate calculation and, therefore, affected only the overhead rate applied to direct labor (provisional rates have been utilized for reimbursement purposes by ECG as noted above). The overhead rates were determined to be 193% and 156%, respectively for the calendar years 1991 and 1992. The original subcontract agreements with Metcalf & Eddy and WWCG contain a "ceiling" rate of 178% for indirect labor cost allocations, which we have assumed is in effect for 1991 and 1992 for all subcontractors.

As the overhead rate determined by our audit for 1991 exceeded the "ceiling" rates contained within the subcontract agreements, we have utilized the "ceiling" rates for 1991 in determining the allowable billing of overheads to prime contractors. As the provisional rate utilized by ECG was less than the ceiling rate for 1991, the application of the ceiling rates results in additional allowable billings of \$ 16,505 to the prime contractors.



As the overhead rate determined by our audit for 1992 was less than the "ceiling" rate and "provisional rates" utilized by the subcontractors, we have utilized the rate determined by our audit for 1992 in determining the allowable billing of overheads to prime contractors. The application of the rate determined by our audit results in excessive overheads billed to prime contractors totalling \$ 92,243 for 1992.

**Internal control structure:**

Our engagement identified seven reportable internal control structure weaknesses of which one was also considered a material weakness.

We recommended that ECG adopt procedures to: 1) address significant weaknesses in information systems controls; 2) improve controls over petty cash; 3) improve controls and procedures surrounding bank reconciliations; 4) ensure that the purchasing function is appropriately controlled; 5) improve safeguards over physical assets; 6) update employee files; and 7) implement tighter controls with respect to employee medical expenditures.

**Compliance with Subcontract terms and applicable laws and regulations:**

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

**Management Comments**

ECG management comments have been obtained and are included in Appendix B of this report. ECG provided comments on a majority of the questioned costs and agreed to consider implementation of the internal control recommendations. (Note: only ECG's summary sheets are included in Appendix B due to the volume of the 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 ECG 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 solely for the information of ECG'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 Engineering Consultants Group ("ECG") relating to expenditures incurred for flexibly priced subcontracts with prime contractors of the United States Agency for International Development Mission to Egypt ("USAID/Egypt"); Metcalf & Eddy (pursuant to USAID Grant No. 263-0174) and Waste Water Consultants Group (pursuant to USAID Grant 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 ECG's management. Our responsibility is to express an opinion on these financial statements 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 the 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 financial statements. 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 3, the accompanying fund accountability statement and schedules of computations of indirect cost rates 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 contractors utilizing provisional rates. Included in the schedules of computations of indirect cost rates are questioned costs of \$ 55,695 and \$ 48,807 in 1991 and 1992, respectively. The basis for questioning these costs is more fully described in Note 5 to the financial statements. As discussed in Note 4, we have calculated the adjustment to the fund accountability statement for changes 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, ECG'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 statement 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 financial statements of ECG. 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 ECG'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*

**ENGINEERING CONSULTANTS GROUP**

**FUND ACCOUNTABILITY STATEMENT  
SUBCONTRACT AGREEMENTS WITH USAID/EGYPT  
PRIME CONTRACTORS METCALF & EDDY AND WWCG**

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

	<u>Budget</u>	<u>Actual Expenditure (Note 1)</u>	<u>Questioned Costs</u>		<u>Overhead Rate Adjustment (Note 4)</u>	<u>Audit Finding Reference</u>
			<u>Ineligible (Note 5)</u>	<u>Unsupported (Note 5)</u>		
<b><u>Metcalfe &amp; Eddy</u></b>						
Direct labor		\$ 80,208	-	-	\$ -	-
Other direct costs		-	-	-	-	-
Overhead (Note 6)		138,758	-	-	10,686	Note 4
Fixed fee		<u>21,895</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Total Metcalfe &amp; Eddy</b>	<b>\$ 1,419,097</b>	<b>\$ 240,861</b>	<b>-</b>	<b>-</b>	<b>\$ 10,686</b>	
<b><u>WWCG</u></b>						
Direct labor		\$ 743,009	-	-	\$ -	-
Other direct costs		154,270	-	-	-	-
Overhead (Note 6)		1,270,075	-	-	64,870	Note 4
Fixed fee		<u>109,018</u>	<u>-</u>	<u>-</u>	<u>-</u>	
<b>Total WWCG</b>	<b>\$ 6,637,912</b>	<b>\$ 2,276,372</b>	<b>-</b>	<b>-</b>	<b>\$ 64,870</b>	
<b>Total</b>	<b>\$ 8,057,009</b>	<b>\$ 2,517,233</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 75,556</b>	

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

# ENGINEERING CONSULTANTS GROUP

## SCHEDULE OF COMPUTATION OF INDIRECT COST RATE ( IN U.S. DOLLARS )

FOR THE YEAR ENDED DECEMBER 31, 1991

DESCRIPTION	EXPENSES	QUESTIONED COST		DIRECT LABOR COST BASE	OTHER DIRECT COSTS	INDIRECT COST POOL
		INELIGIBLE	UNSUPPORTED			
Direct labor	682,825			682,825		0
Field investigation	12,238				12,238	0
Outside services	42,502				42,502	0
Payroll Burden						
- Social insurance & medical care	137,996					137,996
- Jobs completed						0
- Free meals and cafeteria	4,153	1,512				2,641
Administrative Time	676,832					676,832
Supplies and Services						
- Telephone and telex	14,380	1,110				13,270
- Xerox and computer	58,165					58,165
- Postage	2,024					2,024
- Guides & manuals reproduction	6,135					6,135
- Supplies	20,859	3,285				17,574
- Building maintenance	16,074					16,074
Heat and Light	37,284					37,284
Insurance	2,292					2,292
Committees and Societies	3,552	671				2,881
Depreciation and Amortization	53,769	39				53,730
Recruiting	5,363	1,218				4,145
Legal and Audit	14,545					14,545
Business Development	41,783	12				41,771
Travel	112,020	23,300	6,300			82,420
License Fees	3,469	114				3,355
Auto and Employees Transportation	60,877		14,908			45,969
Technical Consultants	69,258		1,182			68,076
Professional Papers	25,288		1,308			23,980
Miscellaneous						
- Bank Charges	4,534					4,534
- Miscellaneous	932	736				196
Other	321					321
<b>Total</b>	<b>2,109,470</b>	<b>31,997</b>	<b>23,698</b>	<b>682,825</b>	<b>54,740</b>	<b>1,316,210</b>
<b>Indirect cost calculation:</b>						
Indirect Costs	1,316,210	=	193%			
Direct Cost Base	682,825					

See accompanying notes to the financial statements.

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# ENGINEERING CONSULTANTS GROUP

## SCHEDULE OF COMPUTATION OF INDIRECT COST RATE ( IN U.S. DOLLARS )

FOR THE YEAR ENDED DECEMBER 31, 1992

DESCRIPTION	EXPENSES	QUESTIONED COST		DIRECT LABOR COST BASE	OTHER DIRECT COSTS	INDIRECT COST POOL
		INELIGIBLE	UNSUPPORTED			
Direct labor	942,728			942,728		0
Field investigation	57,982				57,982	0
Outside services	41,568				41,568	0
Payroll burden						
- Social insurance & medical care	160,148			29		160,118
- Jobs completed	0					0
- Free meals and cafeteria	3,675	2,711				964
Administrative Time	701,637					701,637
Supplies and Services						
- Telephone and telex	18,773	2,163				16,610
- Xerox and computer	78,094		7,023			71,071
- Postage	3,086					3,086
- Guides & manuals reproduction	8,968					8,968
- Supplies	30,928	9,636				21,292
- Building maintenance	14,858					14,858
Rent and Light	51,623					51,623
Insurance	2,152					2,152
Committees and Societies	4,520	1,059				3,461
Depreciation and Amortization	54,623	48				54,575
Recruiting	6,510					6,510
Legal and Audit	15,991					15,991
Business Development	72,083	5				72,079
Travel	72,934	13,852				59,082
Auto and Employees Transportation	102,694			5,817		96,877
License Fees	1,914	222		120		1,571
Technical Consultants	62,595			1,229		61,366
Professional Papers	43,542	4,140				39,401
Miscellaneous						
- Bank Charges	6,227					6,227
- Miscellaneous	1,536	753				783
Other	727					727
<b>Total</b>	<b>2,562,093</b>	<b>34,589</b>	<b>14,218</b>	<b>942,728</b>	<b>99,530</b>	<b>1,471,028</b>
<b>Indirect cost calculation:</b>						
Indirect Costs	1,471,028	=	156%			
Direct Cost Base	942,728					

See accompanying notes to the financial statements.

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**ENGINEERING CONSULTANTS GROUP**

**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 ECG and reimbursed by USAID/Egypt through subcontractor agreements (as amended) with Metcalf & Eddy (under the Canal Cities Water and Sewage Systems, USAID Grant No. 263-0174) and WWCG (under 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 ECG - and represents the cumulative expenditures billed to and reimbursed by USAID/Egypt through prime contractor agreements with Metcalf & Eddy and WWCG. 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 is the responsibility of ECG - and represents cumulative expenditures for the respective year as obtained from ECG's accounting records and 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 3.30 Egyptian pounds to 1 U.S. dollar.

**NOTE 4 - INDIRECT COST RATES**

A provisional indirect cost rate was authorized for the project by the prime contractors as indicated in Note 1. The indirect cost pool for the years ended December 31, 1991 and 1992 consists of all allowable expenditures of ECG of a non-direct nature. As calculated in the schedules of computations of indirect cost rates, we have determined that overhead costs represent 193% of direct labor costs for 1991 and 156% of direct labor costs for 1992. Per the subcontract agreements with WWCG, the application of indirect costs to direct labor is limited to a "ceiling" of 178% for 1989 and 1990. In calculating allowable overheads billed to subcontractors, we have assumed that such limits remained in effect for 1991 and 1992. For Metcalf & Eddy, a contractual "ceiling" of 178% is in effect for the duration of the contract (August 6, 1991 through December 31, 1992).

For 1991, the overhead provisional rates utilized were less than the ceiling rate and the rate as determined by our audit. The application of the adjusted rate (the "ceiling" rate of 178%) results in additional allowable billings to prime contractors totaling \$16,505 (\$629 related to Metcalf & Eddy and \$15,876 related to WWCG), which are calculated as follows:

**Metcalf & Eddy**

Direct labor billed		\$ 12,580
Ceiling of rate	1.78	
Provisional rate	<u>1.73</u>	
Increase in overhead rate allowable		<u>.05</u>
Available overheads for billing		\$ <u>629</u>

**WWCG**

Direct labor billed		\$ 337,525
Ceiling of rate	1.78	
Provisional rate	<u>1.73</u>	
Increase in overhead rate allowable		<u>.05</u>
Available overhead for billing		\$ <u>15,876</u>

For 1992, the provisional rates utilized exceeded the ceiling rate and the rate as determined by our audit. The application of the adjusted rate (the audit determined rate of 156%) results in excess billings of indirect costs to prime contractors totaling \$92,243 (\$11,497 relating to Metcalf and Eddy and \$80,746 relating to WWCG), which is calculated as follows:

**Metcalf & Eddy**

Direct labor billed		\$ 67,628
Provisional rate	1.73	
Audited rate	<u>1.56</u>	
Decrease in overhead rate		<u>.17</u>
Overbilled amount		\$ <u>11,497</u>

**WWCG**

(1) January 1 - June 30, 1992

Direct labor billed		\$ 190,256
Provisional rate	1.73	
Audited rate	<u>1.56</u>	
Decrease in overhead rate		<u>.17</u>
Overbilled Amount		\$ <u>32,344</u>

(2) July 1 - December 31, 1992

Direct labor billed		220,009
Provisional rate	1.78	
Audited rate	<u>1.56</u>	
Decrease in overhead rate		<u>.22</u>
Overbilled amount		\$ <u>48,402</u>

Total overbilled amount \$ 80,746

**Summary:**

**Metcalf and Eddy:**

1991 under billed		\$ (629)
1992 over billed		<u>11,497</u>
Net over billed		\$ <u>10,868</u>

**WWCG:**

1991 under billed		\$(15,876)
1992 over billed		<u>80,746</u>
Net over billed		\$ <u>64,870</u>

**NOTE 5 - QUESTIONED COSTS:**

Questioned costs are presented in three separate categories - ineligible, unsupported costs, and overhead rate adjustments - 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 USAID/Egypt approvals or authorizations. All questioned costs are related to items included within the company's overhead pool (see schedules of computations of indirect cost rates) and accordingly, they result in variances to actual amounts billed to the prime contractors. The effects of such rate changes are calculated in Note 6 and are included in the column labeled "Overhead Rate Adjustment" in the Fund Accountability Statement. Our audit procedures identified the following costs included in the overhead cost pool for 1991 and 1992 that are ineligible or unsupported:

<u>Item Description</u>	<u>1991 Questioned Costs</u>		<u>As incurred</u>	
	<u>Ineligible</u>	<u>Unsupported</u>	<u>in LE</u>	
<b>A. Free Meals and Cafeteria:</b>				
(1) Amounts paid for hospitality are disallowed.				
<u>Date</u>	<u>Center</u>	<u>Code</u>	<u>Vr. No.</u>	<u>Amount</u>
09-09-91	7800	A1	C002	84
09-19-91	7800	A1	C014	83
09-24-91	7800	A1	C003	110
09-11-91	7800	A1	C006	79
11-12-91	7800	A1	C008	82
09-04-91	8000	A1	C010	237
12-31-91	8000	A1	B044	486
11-28-91	8110	A1	A024	1,069
04-10-91	9100	A1	C002	993
12-28-91	9100	A1	A014	125
12-31-91	9100	A1	C017	200
02-21-91	9100	3B	C001	127
02-21-91	9100	3B	C001	361
03-28-91	9100	3B	C004	200
	7800	A1		220
	7800	A1		<u>264</u>
				<u>4,720</u>
				\$ 1,430
				-
				LE 4,720



**NOTE 5 - QUESTIONED COSTS (CONT.):**

**Item Description**

**1991 Questioned Costs  
Ineligible    Unsupported**

**As incurred  
in LE**

**E. Committees and Societies:**

(1) Expediting and donations costs are generally disallowed.

<u>Account</u>	<u>Center</u>	<u>Amount</u>			
3377	7800	87			
3377	9000	9,823			
3377	9100	300			
3377	9332	53			
3377	9333	45			
3377	9335	78			
3377	9336	359			
3377	9337	10			
3377	9338	15			
3570	9000	250			
3570	9100	700			
		<u>11,720</u>	\$	<u>671</u>	
		<u>(9,507)</u>			
		<u>2,213</u>			
					LE 2,213

As a portion of the noted amounts relate to Bairam bonuses for office help, they are allowable (LE 9,507)

**F. Depreciation and Amortization:**

(1) An error in recording date for computer equipment resulted in excess depreciation.

<u>Date</u>	<u>Center</u>	<u>Amount</u>			
07-25-91	2000	6,600			
245 MBV fixed disk					
@ 23.5% x 5/12 = 646 - 776 =					
		130		<u>39</u>	
					130

**G. Recruiting:**

(1) Advertising and promotional costs in the "Construction Guide" are disallowed.

<u>Date</u>	<u>Vr. No.</u>	<u>Amount</u>			
02-14-91	B015	2,054			
07-08-91	B035	1,966			
		<u>4,020</u>		<u>1,218</u>	
					4,020

**H. Business Development:**

(1) Tips are an unallowable cost  
Location: 3B, Account: 3377

	<u>12</u>			38
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**NOTE 5 - QUESTIONED COSTS (CONT.):**

<u>Item Description</u>	<u>1991 Questioned Costs</u>		<u>As incurred</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>in LE</u>
<b>L. Travel:</b>			
(1) Personal telephone charges from the U.S. by the ECG president are disallowed.			
<u>Date</u> <u>Center</u> <u>Vr. No.</u> <u>Amount</u>			
03-31-91    9100            A012    6,289	\$ 1,906	-	LE 6,289
(2) Unsupported travel expenditures are disallowed.			
<u>Date</u> <u>Location</u> <u>Vr. No.</u> <u>Amount</u>			
06-05-91    1A                C006      500			
12-31-91    1A                B031      158			
01-31-91    3B                C008      132			
03-12-91    1A                B007     9,000			
02-20-91    1A                B026     6,000			
07-25-91    1A                B017     5,000			
			<u>20,790</u>
	-	\$ 6,300	20,790
(3) Travel on non U.S. flag carriers or Egypt Air are disallowed.			
<u>Date</u> <u>Vr. No.</u> <u>Amount</u>			
10-24-91                      B019                      10,797			
10-31-91                      A015                      7,031			
11-11-91                      B024                      5,398			
05-29-91                      B022                      7,343			
06-30-91                      B004                      4,868			
07-08-91                      B041                      7,572			
10-31-91                      A015                      3,537			
11-28-91                      A020                      5,694			
03-31-91                      A012                      13,909			
			<u>66,149</u>
	20,045	-	66,149
(4) Per diem charges in excess of AID allowable rates are disallowed.			
a. 2 staff for 18 days in the U.S.			
\$ 34 x 18 x 2 x 3.33 =			LE 4,076
amount paid 06-13-91 VR.A011			<u>5,994</u>
Difference			1,918
b. 1 staff for 15 days to Libya			
\$ 99 x 15 x 3.31 =			LE 4,915
amount paid 09-01-91 VR.B020			<u>7,448</u>
Difference			<u>2,533</u>
Net disallowed			<u>4,451</u>
	<u>1,349</u>	-	4,451
	<u>23,300</u>	<u>6,300</u>	



**NOTE 5 - QUESTIONED COSTS (CONT.):**

**Item Description**

**1991 Questioned Costs  
Ineligible    Unsupported**

**As incurred  
in LE**

**J. License Fees:**

(1) Fines and tips paid for license renewal of ECG vehicles are not allowed.

<u>Date</u>	<u>Vr. No.</u>	<u>Amount</u>
03-17-91	A010	2
05-25-91	A006	5
11-14-91	A018	11
02-17-91	C008	6
05-07-91	C001	5
06-16-91	A001	122
07-11-91	A021	31
07-16-91	C001	5
08-29-91	A008	5
10-24-91	A004	15
12-05-91	A005	108
12-05-91	A005	5
12-21-91	A009	11
12-31-91	A026	5
08-29-91	C002	5
12-05-91	C002	5
12-15-91	U02	<u>31</u>
		<u>377</u>

\$ 114                      -                      LE 377

**K. Auto and Employees Transportation:**

(1) Total oil and gas costs for ECG vehicles for which no operating logs exist to support business related purposes are questioned.

<u>Account</u>	<u>Center</u>	<u>Location</u>	<u>Amount</u>
3210	9332	1A	1,325
3210	9336	1A	45,434
3210	9336	3B	2,397
3551	9336	1A	<u>42</u>
			49,198

-                      \$ 14,908                      49,198

**L. Technical Consultants:**

(1) Annual salary for a technical consultant who has no employment contract is disallowed.

12 months x 325 =                      3,900

-                      1,182                      3,900

**NOTE 5 - QUESTIONED COSTS (CONT.):**

<u>Item Description</u>	<u>1991 Questioned Costs</u>		<u>As incurred</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>in LE</u>

**M. Professional Papers:**

(1) Unsupported expenses for two ECG architects travel to U.S.A. (see finding 1.(4) a above)

<u>Date</u>	<u>Vr. No.</u>	<u>Amount</u>			
05-30-91	VR.A022	4,316	-	\$ <u>1,308</u>	LE 4,316

**N. Miscellaneous:**

(1) Checks issued in 1991 were not cashed and were reversed in 1993.

<u>Check</u>	<u>Amount</u>			
143	60			
508	<u>59</u>			
	119	\$ <u>36</u>	-	119

(2) Gifts and expediting expenses are not allowable.

<u>Date</u>	<u>Center</u>	<u>Voucher</u>	<u>Amount</u>			
05-29-91	7800	C009	60			
08-15-91	7800	C001	50			
10-24-01	7800	C004	50			
01-27-91	9100	A003	145			
06-20-91	9100	C007	50			
07-09-91	9100	C006	50			
09-09-91	9100	C002	40			
10-24-91	9100	C004	30			
11-12-91	9100	C008	40			
12-26-91	9100	C011	782			
08-04-91	9100	C007	275			
11-27-91	9000	C004	679			
07-07-91	9000	A019	25			
11-21-91	9000	A004	<u>35</u>			
			2311	<u>700</u>	-	2,311
				<u>736</u>		

**1991 Total Questioned Costs  
Total Ineligible and Unsupported**

\$ <u>31,997</u>	\$ <u>23,698</u>
	\$ <u>55,695</u>

**NOTE 5 - QUESTIONED COSTS (CONT.):**

<u>Item Description</u>	<u>1992 Questioned Costs</u>		<u>As incurred</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>in LE</u>

**A. Medical Care:**

(1) Cost of medical charge was unsupported.

<u>Date</u>	<u>Account</u>	<u>Vr. No.</u>	<u>Amount</u>			
08-31-92	3121	C002	97	-	\$	29
						LE 97

**B. Free Meals and Cafeteria:**

(1) Hospitality expenses are disallowed as per FAR 31-205-14.

<u>Date</u>	<u>Center</u>	<u>Voucher</u>	<u>Amount</u>			
04-08-92	9100	C007	1,594			
06-28-92	9100	C005	241			
12-29-92	9100	C012	430			
	9100		319			
12-31-92	9337	A079	2,960			
01-30-92	8010	A023	229			
07-30-92	8010	A019	292			
09-30-92	8010	A006	229			
10-31-92	8010	A015	563			
	8010		795			
06-01-92	9337	C007	235			
06-29-92	9337	C002	180			
08-13-92	9337	C002	150			
08-31-92	9337	C002	150			
	9337		578			
			<u>8,945</u>	\$	<u>2,711</u>	-
						8,945

**C. Administrative Time:**

(1) Based on subsequent evidence provided by AAW management subsequent to the issuance of the draft report, this finding has been removed.

-                      -                      -

(2) Based on subsequent evidence provided by AAW management subsequent to the issuance of the draft report, this finding has been removed.

-                      -                      -

**D. Telephone and Telex:**

(1) Annual charges for ECG Chairman's personal car phone are disallowed.

<u>Date</u>	<u>Voucher</u>	<u>Amount</u>			
01-22-92	815	1,872			
07-19-92	89	<u>2,124</u>			
		3,996	1,211	-	3,996

**NOTE 5 - QUESTIONED COSTS (CONT.):**

<u>Item Description</u>	<u>1992 Questioned Costs</u>		<u>As incurred</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>in LE</u>

**D. Telephone and Telex (Cont.):**

- (2) Personal telephone charges from the U.S. by the ECG president are disallowed.

<u>Date</u>	<u>Voucher</u>	<u>Amount</u>			
01-30-92	A 25	3,143	\$ 952	-	LE 3,143
			<u>2,163</u>		

**E. Xerox and Computer:**

- (1) Computer software purchases from the U.S. lacked appropriate support.

<u>Date</u>	<u>Center</u>	<u>Vr. No.</u>	<u>Amount</u>			
10-18-92	2000	B 17	23,177	-	\$ 7,023	23,177

**F. Supplies:**

- (1) Advertising and promotional related costs are not allowed to the extent that they are distributed to third parties. As 13% of the issues are distributed to employees, this percentage of costs are allowed.

<u>Date</u>	<u>Voucher</u>	<u>Amount</u>			
05-24-92	B 10	3,492			
07-08-92	B 11	3,492			
09-07-92	B 18	6,984			
11-09-92	B 5	3,773			
10-07-92	B 37	2,750			
10-19-92	B 19	2,750			
11--3-92	B 29	5,390			
09-09-92	B 18	<u>7,920</u>			
		36,551			
		* 87%			
		<u>31,799</u>	<u>9,636</u>	-	31,799

**G. Committees and Societies:**

- (1) Donations and expending expenses are disallowed as per FAR 31-205-8.

<u>Account</u>	<u>Center</u>	<u>Amount</u>			
3377	9000	12,775			
3377	9336	455			
3377	8010	886			
3570	9100	<u>800</u>			
		14,916			
		(11,420)	<u>1,059</u>	-	3,496
		<u>3,496</u>			

As a portion of the noted amounts relate to Bairam bonuses for office help, they are allowable (LE 11,420)

**NOTE 5 - QUESTIONED COSTS (CONT.):**

<u>Item Description</u>	<u>1992 Questioned Costs</u>		<u>As incurred</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>in LE</u>
<b>H. Depreciation and Amortization:</b>			
(1) An error in the recording date for computer equipment resulted in excess depreciation			
Personal computer MD 386-25			
9,500 x 20% x 11/12 = 1740 - 1900	\$ <u>48</u>	-	LE 158
<b>I. Business Development:</b>			
(1) Tips paid are disallowed.			
<u>Account</u>	<u>Amount</u>		
3377	15	<u>5</u>	15
<b>J. Travel:</b>			
(1) Travel on non U.S. flag carriers or Egypt Air is disallowed.			
<u>Date</u>	<u>Voucher</u>	<u>Amount</u>	
05-31-92	A016	4,683	
09-22-92	B030	2,162	
02-25-92	B024	2,360	
08-17-92	B009	2,890	
11-09-92	A005	9,670	
12-31-92	A064	8,121	
03-29-92	B005	3,840	
05-19-92	B026	3,842	
05-19-92	B026	4,126	
11-30-92	A014	<u>4,017</u>	
		45,711	
		<u>13,852</u>	45,711
<b>K. Auto and Employees Transportation:</b>			
(1) Total oil and gas costs for ECG vehicles, account 3210, for which no operating logs exist.			
<u>Vehicle No</u>			
29908			
315354			
715354			
29915			
29215			
728289			
727924			
715678			
716659			
209845			
183422			
42697			
in Alexandria		<u>5,817</u>	19,196

**NOTE 5 - QUESTIONED COSTS (CONT.):**

**Item Description**

**1992 Questioned Costs  
Ineligible    Unsupported**

**As incurred  
in LE**

**L. License Fees:**

- (1) Unsupported costs in ECG's Dubai office are disallowed.

<u>Date</u>	<u>VR. No.</u>		
06-18-92	A016	\$ <u>120</u>	LE 396

- (2) Unallowable costs relating to ECG vehicles including fines, tickets, tips.

<u>Date</u>	<u>Vouche:</u>	<u>Amount</u>		
02-09-92	A009	62		
02-09-92	A009	60		
02-11-92	C006	5		
02-17-92	C002	11		
02-27-92	A015	26		
05-18-92	C006	5		
07-02-92	C009	10		
07-11-92	A010	52		
07-19-92	A001	62		
07-23-92	C005	16		
07-30-92	A013	35		
07-30-92	C009	5		
08-06-92	C004	11		
08-09-92	A009	31		
10-08-92	A020	31		
10-08-92	A020	22		
10-11-92	A001	21		
10-22-92	A023	81		
11-01-02	A019	10		
11-29-92	A008	10		
12-03-92	C010	10		
12-10-92	C005	10		
12-31-92	A029	133		
01-30-92	C002	5		
11-26-92	C008	<u>10</u>		
		734	\$ <u>222</u>	-            734

**M. Technical Consultants:**

- (1) Annual salary for a consultant who had no employment contract is unsupported.

8 x 325 =	2600		
4 x 364 =	<u>1456</u>		
	4056	<u>1,229</u>	4056

**NOTE 5 - QUESTIONED COSTS (CONT.):**

<u>Item Description</u>	<u>1992 Questioned Costs</u>		<u>As incurred</u>
	<u>Ineligible</u>	<u>Unsupported</u>	<u>in LE</u>

**N. Professional Papers:**

(1) Gifts and donations are disallowed.

<u>Date</u>	<u>Account Center</u>	<u>VR.No.</u>	<u>Amount</u>			
01-05-92	3323	B004	10,000			
02-10-92	3378	A012	2,256			
	3378	9100	543			
12-17-92	3378	C011	<u>600</u>			
			13,399	\$ 4,060	-	LE 13,399

(2) Club membership in Abu Dhabi is disallowed.

<u>Date</u>	<u>VR.No.</u>	<u>Amount</u>			
06-18-92	A016	264	<u>80</u>	-	264
			<u>4,140</u>		

**O. Miscellaneous:**

(1) Check issued in 1992 was never cashed and entry reversed in 1993.

<u>Date</u>	<u>CK.No.</u>	<u>Amount</u>			
05-20-92	975	2,486	<u>753</u>	-	2,486

<b>1992 Total Questioned Costs</b>	<b>\$ 34,589</b>	<b>\$ 14,218</b>
<b>Total Ineligible and Unsupported</b>	<b>\$ 48,807</b>	

4. Road 261,  
New Maadi,  
Cairo, Egypt

TELEPHONE 3520 123 3530 837  
FAX (02) 3530 915  
TELEX 20121 PW UN  
23432 PW UN  
TELEGRAPH PRICEWATER  
CAIRO C.R. 226786

*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 Engineering Consultants Group ("ECG") 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"); Metcalf & Eddy (pursuant to USAID project no. 263-0174) and Wastewater Consultants 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 financial statements are free of material misstatement.

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.





In planning and performing our audit of ECG, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements, and not to provide assurance on the internal control structure.

The management of ECG is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that the assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of reliable financial reports and to maintain accountability over the entity's assets. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we determined the significant internal control structure policies and procedures to be in the categories of cash receipts and disbursements, general accounting, payroll, fixed asset procurement and U.S. A.I.D. compliance. For these internal control structure categories cited, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might constitute 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 specific internal control structure elements does not reduce to a relatively low level, the risk that errors or irregularities in amounts that would be material in relation to the fund accountability statement and schedules of computations of indirect cost rates being audited may occur and not being 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 and reportable conditions:



## **MATERIAL WEAKNESSES**

### **Finding 1**

**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:**

- ECG accounting department personnel have access to the computerized accounting system so that they can alter, add or delete sub accounts without approval. Moreover, ECG's accounting manager can create sub accounts, on an as needed basis, without approval from the financial controller or the EDP manager.
- No segregation of duties exist within the CIS department, as the systems division employees perform a variety of functions, and have access to all programs and data, and application programmers have access to and can change live financial data.
- No formal policies, procedures and standards exist as related to the review and approval of the design, testing, or implementation of new application systems. This situation is compounded by the fact that existing manuals are not updated, employees are unaware of their existence, and that they do not incorporate a disaster recovery plan for the systems and financial data.
- Inadequate physical and logical access controls to the systems and application programs exist. Furthermore, passwords on all systems are identical, and accordingly provide no barrier for unauthorized usage.
- ECG is utilizing unauthorized, non-original software.
- ECG Accounting System accepts posting of transactions that are not in balance. It also allows the accounting manager to change final account balances after they have been finalized.



**Recommendation 1**

**We recommend that AAW management performs a stringent controls review relating to the CIS function in order to determine an appropriate system of internal controls.**

\* \* \* \* \*

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 Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgement, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the fund accountability statement and schedules of computations of indirect cost rates. Our audit disclosed the following reportable conditions:

**REPORTABLE CONDITIONS**

**Finding 2**

**ECG maintains no minimum or maximum level for petty cash amounts. Accordingly, there is no stated replenishment level. Additionally, the individual assigned to cash handling responsibilities is not bonded.**

**Recommendation 2**

**We recommend that ECG should establish a minimum and a maximum level for the petty cash funds maintained in its different locations as well as establishing set replenishment levels for such funds. The different petty cash amounts should also be counted on a regular basis and reconciled to ECG accounting records by an independent person (i.e. the accounting manager). ECG should also assign an individual(s) who is covered by fidelity insurance to be responsible for handling cash.**

\* \* \* \* \*



### **Finding 3**

**During our review of ECG bank reconciliations, we noted the following:**

- There is a lack of segregation of duties, such that bank reconciliations are prepared by the accountant responsible for preparing journal entries.
- Bank account reconciliations are not approved by the Executive Director.
- In certain instances, we noted bank reconciliations that did not reconcile with the general ledger.

### **Recommendation 3**

**We recommend that ECG implement the following controls with regards to the preparation of bank reconciliations:**

- Segregation of duties related to bank reconciliation preparation and recording activities should be maintained.
- Bank reconciliations should be reviewed and approved by a responsible management official.
- Accurate and complete bank reconciliations should be performed for all accounts on a monthly basis.

\* \* \* \* \*

### **Finding 4**

**We noted deficiencies in the ECG procurement procedures as listed below:**

- Prenumbered purchase orders are not used to control all purchasing, receiving, and payment activities.
- Improper segregation of duties exists in this area as one individual can issue a purchase order and receive the purchased item, even though that person is ultimately responsible for the custody of such item.

- No tenders or price offers are obtained for assets purchased.
- ECG operating manuals are not updated to reflect current purchasing procedures.
- Voucher packages are not prenumbered and are not cancelled when they are paid.



#### Recommendation 4

**We recommend that ECG implement the following procedures and controls with regard to procurement and purchasing activities:**

- Prenumbered purchase orders, receiving reports, and voucher packages should be utilized to maintain better control over ordering, receiving, and payment activities. Vouchers should be stamped PAID once a disbursement is processed.
- Proper segregation of duties should be maintained to prevent one individual from initiating a purchase order, receiving the purchased item, and maintaining custody of the item.
- Tenders or price offers should be obtained and studied before the purchase of any material asset or service.
- Operating manuals should be updated to reflect current organizational status and procedures. This should be supplemented with periodic reviews to ensure that such manuals are adhered to.

\* \* \* \* \*

#### Finding 5

**During the course of our examination of fixed assets, we noted the following weaknesses:**

- No identifying labels were affixed to the company's assets.
- No periodical physical counts were performed.
- No insurance policy was maintained for ECG's head office building and fixtures.

**Recommendation 5**



**ECG should consider implementation of improved controls in these areas in order to more adequately safeguard company assets.**

\* \* \* \* \*

**Finding 6**

**ECG employee files are incomplete as they do not include employee official documents, the employee contract and three year salary history as required by the contract and are not updated with changes in employee work status.**

**Recommendation 6**

**We recommend that ECG employee files should contain all necessary official documents, and they should be regularly updated to reflect current employee status with regards to post, salary, etc.**

\* \* \* \* \*

**Finding 7**

**In the area of Medical Care we noted that in some cases employees charged surgical fees in excess of rates designated in ECG's contract with its hospital. Additionally, no approval was obtained for medical care in a hospital other than the one designated by ECG to its employees.**

**Recommendation 7**

**We recommend that ECG adopts procedures to assure that employees adhere to rates stipulated in its medical care contract. In addition, instances where medical care is obtained in hospitals other than that designated by ECG should be subject to strict rules, and should be subject to review and approval of a responsible official.**

\* \* \* \* \*

**This report is intended for the information of ECG'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.**

*Pricewaterhouse*

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*Price Waterhouse*



**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 schedules of computations of indirect cost rates of Engineering Consulting Group ("ECG") relating to expenditures incurred for flexibly priced subcontracts with United States Agency for International Development Mission to Egypt ("USAID/Egypt") prime contractors Metcalf & Eddy (pursuant to the Canal Cities Water and Sewage Systems, Grant No. 263-0174) and Wastewater Consultants Group ("WWCG") (pursuant to the Alexandria Wastewater Project, Grant 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 financial statements are free of material misstatement.

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 ECG is the responsibility of ECG's management. As part of our audit, we performed tests of ECG's compliance with certain provisions of laws, regulations, subcontract agreements 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, ECG 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 ECG had not complied, in all material respects, with those provisions.

This report is intended for the information of ECG'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.*



ENGINEERING CONSULTANTS GROUP

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 Expenditure</u>	<u>Questioned Costs</u>		
			<u>Ineligible</u>	<u>Unsupported</u>	<u>Overhead Rate Adjustment</u>
<b><u>Metcalf and Eddy</u></b>					
Direct labor		LE 264,685	-	-	LE -
Other direct costs		-	-	-	-
Overhead		457,902	-	-	35,264
Fixed fee		<u>72,254</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Metcalf & Eddy	LE 4,683,020	LE 794,841	-	-	LE 35,264
<b><u>WWCG</u></b>					
Direct labor		LE 2,451,931	-	-	LE -
Other direct costs		509,090	-	-	-
Overhead		4,191,249	-	-	214,071
Fixed fee		<u>359,760</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total WWCG	LE 21,905,109	LE 7,512,030	-	-	214,071
Totals	<u>LE 26,588,129</u>	<u>LE 8,306,871</u>	<u>-</u>	<u>-</u>	<u>LE 249,335</u>

**ENGINEERING CONSULTANTS GROUP**  
SCHEDULE OF COMPUTATION OF INDIRECT COST RATE  
( IN EGYPTIAN POUNDS )

FOR THE YEAR ENDED DECEMBER 31, 1991

DESCRIPTION	EXPENSES	QUESTIONED COST		DIRECT LABOR COST BASE	OTHER DIRECT COSTS	INDIRECT COST POOL
		INELIGIBLE	UNSUPPORTED			
Direct labor	2,253,321			2,253,321		0
Soil investigation	40,385				40,385	0
Outside services	140,256				140,256	0
<b>Payroll Burden</b>						
- Social insurance & medical care	455,387					455,387
- Jobs completed	-					0
- Free meals and cafeteria	13,706	4,989				8,717
Administrative Time	2,233,544					2,233,544
<b>Supplies and Services</b>						
- Telephone and telex	47,454	3,664				43,790
- Xerox and computer	191,943					191,943
- Postage	6,679					6,679
- Guides & manuals reproduction	20,247					20,247
- Supplies	68,836	10,839				57,997
- Building maintenance	53,043					53,043
Rent and Light	123,036					123,036
Insurance	7,562					7,562
Committees and Societies	11,720	2,213				9,507
Depreciation and Amortization	177,439	130				177,309
Recruiting	17,699	4,020				13,679
Legal and Audit	47,999					47,999
Business Development	137,885	38				137,847
Travel	369,666	76,889	20,790			271,987
License Fees	11,448	377				11,071
Auto and Employees Transportation	200,893		49,198			151,695
Technical Consultants	228,550		3,900			224,650
Professional Papers	83,449		4,316			79,133
<b>Miscellaneous</b>						
- Bank Charges	14,961					14,961
- Miscellaneous	3,077	2,430				647
Other	1,059					1,059
<b>Total</b>	<b>6,961,244</b>	<b>105,589</b>	<b>78,204</b>	<b>2,253,321</b>	<b>180,641</b>	<b>4,343,489</b>

Indirect cost calculation:

<u>Indirect Costs</u>	<u>4,343,489</u>	=	193%
<u>Direct Cost Base</u>	<u>2,253,321</u>		

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# ENGINEERING CONSULTANTS GROUP

## SCHEDULE OF COMPUTATION OF INDIRECT COST RATE ( IN EGYPTIAN POUNDS )

FOR THE YEAR ENDED DECEMBER 31, 1992

DESCRIPTION	EXPENSES	QUESTIONED COST		DIRECT LABOR COST BASE	OTHER DIRECT COSTS	INDIRECT COST POOL
		INELIGIBLE	UNSUPPORTED			
Direct labor	3,111,002			3,111,002		0
Soil investigation	191,276				191,276	0
Outside services	137,173				137,173	0
Payroll burden						
- Social insurance & medical care	528,487		97			528,390
- Jobs completed	0					0
- Free meals and cafeteria	12,128	8,945				3,181
Administrative Time	2,315,402					2,315,402
Supplies and Services						
- Telephone and telex	61,951	7,139				54,812
- Xerox and computer	257,710		23,177			234,533
- Postage	10,184					10,184
- Guides & manuals reproduction	29,593					29,593
- Supplies	102,083	31,799				70,284
- Building maintenance	49,030					49,030
Rent and Light	170,357					170,357
Insurance	7,102					7,102
Committees and Societies	14,916	3,496				11,420
Depreciation and Amortization	180,256	158				180,098
Recruiting	21,483					21,483
Legal and Audit	52,769					52,769
Business Development	237,875	15				237,860
Travel	240,681	45,711				194,970
Auto and Employees Transportation	338,890		19,196			319,694
License Fees	6,315	734	396			5,185
Technical Consultants	206,564		4,056			202,508
Professional Papers	143,687	13,663				130,024
Miscellaneous						
- Bank Charges	20,549					20,549
- Miscellaneous	5,088	2,486				2,582
Other	2,399					2,399
<b>Total</b>	<b><u>8,454,908</u></b>	<b><u>114,146</u></b>	<b><u>46,922</u></b>	<b><u>3,111,002</u></b>	<b><u>328,449</u></b>	<b><u>4,854,389</u></b>

Indirect cost calculation:

<u>Indirect Costs</u>	<u>4,854,389</u>	=	156%
Direct Cost Base	3,111,002		

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ENGINEERING CONSULTANTS GROUP  
1991 QUESTIONED COSTS

Appendix B  
1 of 12

ITEM DESCRIPTION		INELIGIBLE L.E.	UNSUPPORTED L.E.	AGREED L.E.	DISAGREED L.E.	ECG COMMENTS RE-DISAGREED ITEMS																																			
A	Free Meals and Cafeteria																																								
	1 Amounts paid for hospitality	4 720		4 720																																					
	2 Business lunch	269		269																																					
B	Administrative Time																																								
	1 The billings exceeded the general ledger amounts for salaries and transportation allowances by L.E. 32 799 and L.E. 1 572.		34 371		34 371	<p>No amounts were overbilled as the questioned differences represent the salary and transportation allowance (T.A.) adjustments made by the following journal entries which were posted to the general ledger (copies of G/L are attached) but were not included in PW calculations to determine the billed salaries:</p> <table border="1"> <thead> <tr> <th>NO</th> <th>Date</th> <th>Salaries</th> <th>T.A.</th> <th>Cost center</th> </tr> </thead> <tbody> <tr> <td>A23</td> <td>28.12</td> <td>20760</td> <td>-</td> <td>8110</td> </tr> <tr> <td>A29</td> <td>31.12</td> <td>1759</td> <td>-</td> <td>8110</td> </tr> <tr> <td>A37</td> <td>31.12</td> <td>7380</td> <td>1260</td> <td>9336</td> </tr> <tr> <td>A37</td> <td>31.12</td> <td>2940</td> <td>300</td> <td>9338</td> </tr> <tr> <td></td> <td></td> <td><u>32839</u></td> <td><u>1560</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td>=====</td> <td>=====</td> <td></td> </tr> </tbody> </table>	NO	Date	Salaries	T.A.	Cost center	A23	28.12	20760	-	8110	A29	31.12	1759	-	8110	A37	31.12	7380	1260	9336	A37	31.12	2940	300	9338			<u>32839</u>	<u>1560</u>				=====	=====	
NO	Date	Salaries	T.A.	Cost center																																					
A23	28.12	20760	-	8110																																					
A29	31.12	1759	-	8110																																					
A37	31.12	7380	1260	9336																																					
A37	31.12	2940	300	9338																																					
		<u>32839</u>	<u>1560</u>																																						
		=====	=====																																						

ENGINEERING CONSULTANTS GROUP

1991 QUESTIONED COSTS

Appendix :B  
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ITEM DESCRIPTION		INELIGIBLE L.E.	UNSUPPORTED L.E.	AGREED L.E.	DISAGREED L.E.	ECG COMMENTS RE-DISAGREED ITEMS
C	Telephone and Telex					
1	Donations to the Syndicate of National Council and the Transportation Authority.	600		600		
	Annual charges for ECG chairman's personal car phone.	3 064			3 064	ECG Policy is to provide the chairman with a company car equipped with a telephone unit for business use, because of the unavailability of a suitable car he is using his personal one while ECG provide the required telephone unit.
D	Supplies					
1	Costs of gifts from ECG to its clients	1 443		1 443		
2	Annual cost of ECG magazine	10 800		9 180	1 620	In order to increase the awareness of ECG staff with regard to the recent technical news, a 15% of the magazine issued copies are regularly distributed among them. therefore 15% of the questioned costs are to be allowed.
E	Committees and Societies					
1	Expediting donations	11 720		2 213	9 507	Bairam bouns for nonprofessional workers (Drivers, office boys, ....etc.)

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ENGINEERING CONSULTANTS GROUP

1991 QUESTIONED COSTS

Appendix B

3 of 12

ITEM DESCRIPTION		INELIGIBLE L.E.	UNSUPPORTED L.E.	AGREED L.E.	DISAGREED L.E.	ECG COMMENTS RE-DISAGREED ITEMS
F	Depreciation and Amortization					
1	date for computer equipment resulted in excess depreciation	130		130		
G	Recruiting					
1	Advertising and Promotional Costs in the "Construction Guide"	4 020		4 020		
H	Business Development					
1	Tips	38		38		
I	Travel					
1	Personal telephone charges from the U.S. by the ECG president	1 906			1 906	Charges are not for a personal telephone but for business phone calls made by the president during his stay at his son's home in U.S.A.
2	Unsupported travel expenditures		20 790	20 790		

ENGINEERING CONSULTANTS GROUP

1991 QUESTIONED COSTS

Appendix B  
4 of 12

	ITEM DESCRIPTION	INELIGIBLE L.E.	UNSUPPORTED L.E.	AGREED L.E.	DISAGREED L.E.	ECG COMMENTS RE-DISAGREED ITEMS
3	Travel on non U.S. flag carriers or Egypt Air	66 149			66 149	<p>- These are not directly related to USAID projects, and are charged to General Overheads, same as source/origin of all other supplies and services to the firm.</p> <p>- Price Waterhouse was requested, but not able to provide a specific FAR reference to cover this deduction. P.W. has taken the USAID Guideline for the Fly America Act, which was issued to cover Direct Cost only, and applied it to the Indirect Cost pool without a substantiated basis.</p> <p>P.W. position is that ECG's overhead is reimbursed 100% by AID. However, the overhead for ECG is spread on the basis of total company direct labour. This direct labour includes many projects which are not AID financed. Therefore, this exclusion would represents an unreasonable cost allocation.</p>

ENGINEERING CONSULTANTS GROUP

1991 QUESTIONED COSTS

Appendix B  
5 of 12

ITEM DESCRIPTION		INELIGIBLE L.E.	UNSUPPORTED L.E.	AGREED L.E.	DISAGREED L.E.	ECG COMMENTS RE-DISAGREED ITEMS
	4 Per diem charges in excess of AID allowable rates	4 451		4 451		
J	License Fees					
	1 Fines and tips for license renewal of ECG vehicles	377		377		
K	Auto and Employees Transportation					
	1 Total oil and gas costs for ECG Vehicles for which no operating logs exist to support business related purposes		49 198		49 198	This is a business related expenditure. Lack of logs is not ground to refusal.
L	Technical Consultants					
	1 Annual salary for a technical consultant who has no employment contract		3 900		3 900	Saidah Maged was employed as a consulting librarian on a part-time basis, she received regularly her net due remunerations after the deduction of due taxes which were paid regularly to her tax file.



ENGINEERING CONSULTANTS GROUP

1991 QUESTIONED COSTS

ITEM DESCRIPTION		INELIGIBLE L.E.	UNSUPPORTED L.E.	AGREED L.E.	DISAGREED L.E.	ECG COMMENTS RE-DISAGREED ITEMS
M	Professional Papers					
1	unsupported expenses for two ECG architects travel to USA		4 316		4 316	Shrif Bahir & Hazem Borai of the Architecture Section were sent to attend a seminar on Shopping Malls in Washington DC.
II	Miscellaneous					
1	Checks issued in 1991 were not cashed and were reversed in 1993	119		119		
2	Gifts and expediting expenses	2 311		2 311		
	Total 1991	112 117	112 575	50 661	174 031	

ENGINEERING CONSULTANTS GROUP

1992 QUESTIONED COSTS

ITEM DESCRIPTION		INELIGIBLE L.E.	UNSUPPORTED L.E.	AGREED L.E.	DISAGREED L.E.	ECG COMMENTS RE-DISAGREED ITEMS
A	Medical Care					
	1 Cost of medical charge was unsupported.		97	97		
B	Free meals and cafeteria					
	1 Hospitality expenses	8 945		8 945		
C	Administrative Time					
	1 Double billing of salaries and transportation allowances for 17 employees	94 381			94 381	No double billing incurred, because those costs are not directly identifiable with a single project based on the job nature of the 17 employees, therefor their salaries and transportation allowances were reallocated by the journal entries (L7 & L8) from the direct costs to the indirect costs.
	12 months L7	41 848				
	12 months L8	28 444				
	Transferred vacation	24 089				
		<u>94 381</u> =====				
						Regarding the transferred vacation, the transactions represent the costs of the used annual vacations by the staff assigned to Alexandria Wastewater Project during 1992 which were never been billed to the client according to the contract

ENGINEERING CONSULTANTS GROUP

1992 QUESTIONED COSTS

ITEM DESCRIPTION		INELIGIBLE L.E.	UNSUPPORTED L.E.	AGREED L.E.	DISAGREED L.E.	ECG COMMENTS RE-DISAGREED ITEMS																				
2	Billing exceeded the general ledger amounts for transportation allowances by L.E. 1242		1 242		1 242	<p>provisions and which were wrongly charged to the direct costs, as a correction action the costs of those used vacations were transferred at the end of the fiscal year (1992) to the indirect costs.</p> <p>No billing exceeded the general ledger as the questioned transportation allowances amount represent adjustments made by the following journal entries which were posted to the general ledger (copies of G/L are attached) but were not included in PW calculations to determine the billed transportation allowances.</p> <table border="0"> <thead> <tr> <th><u>No.</u></th> <th><u>Date</u></th> <th><u>T.A.</u></th> <th><u>Cost Center</u></th> </tr> </thead> <tbody> <tr> <td>A44</td> <td>31.12</td> <td>840</td> <td>9336</td> </tr> <tr> <td>A44</td> <td>31.12</td> <td>400</td> <td>9338</td> </tr> <tr> <td></td> <td></td> <td><u>1240</u></td> <td></td> </tr> <tr> <td></td> <td></td> <td>====</td> <td></td> </tr> </tbody> </table>	<u>No.</u>	<u>Date</u>	<u>T.A.</u>	<u>Cost Center</u>	A44	31.12	840	9336	A44	31.12	400	9338			<u>1240</u>				====	
<u>No.</u>	<u>Date</u>	<u>T.A.</u>	<u>Cost Center</u>																							
A44	31.12	840	9336																							
A44	31.12	400	9338																							
		<u>1240</u>																								
		====																								
D	Telephone and Telex																									
1	Annual charges for ECG chairman's personal car phone	3 966			3 966	<p>ECG policy is to provide the chairman with a company car equipped with a telephone unit for business use, because of the unavailability of a suitable car he is using his personal one while ECG provide the required telephone unit.</p>																				

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ENGINEERING CONSULTANTS GROUP

1992 QUESTIONED COSTS

Appendix B  
9 of 12

ITEM DESCRIPTION		INELIGIBLE L.E.	UNSUPPORTED L.E.	AGREED L.E.	DISAGREED L.E.	ECG COMMENTS RE-DISAGREED ITEMS
	from the U.S. by the ECG president	3 143			3 143	telephone calls but for a business phone calls made by the president during his stay at his son's home in U.S.A.
E	Xerox and Computer					
	1 Computer software purchases from the U.S. lacked appropriate support		23 177	23 177		
F	Supplies					
	1 Advertising and promotional related costs	36 551		31 068	5 483	In order to increase the awareness of ECG staff with regard to the recent technical news, a 15% of the magazine issued copies are regularly distributed among them. Therefore 15% of the questioned costs are to be allowed.
G	Committees and Societies					
	1 Donations and expediting expenses	14 916		3 496	11 420	Bairam bonus for nonprofessional workers (Drivers, office boys, ....etc.)
H	Depreciation and Amortization					
	1 An error in the recording date for computer equipment resulted in excess depreciation	158		158		

ENGINEERING CONSULTANTS GROUP  
1992 QUESTIONED COSTS

ITEM DESCRIPTION		INELIGIBLE L.E.	UNSUPPORTED L.E.	AGREED L.E.	DISAGREED L.E.	ECG COMMENTS RE-DISAGREED ITEMS
I	Business Development					
	1 Tips	15		15		
J	Travel					
	1 Travel on non U.S. flag carriers or Egypt Air	45 711			45 711	<p>- These are not directly related to USAID projects, and are charged to General Overheads, same as source/origin of all other supplies and services to the firm.</p> <p>- Price Waterhouse was requested, but not able to provide a specific FAR reference to cover this deduction. P.W. has taken the USAID Guideline for the Fly America Act, which was issued to cover Direct Cost only, and applied it to the Indirect Cost pool without a substantiated basis.</p> <p>P.W. position is that ECG's overhead is reimbursed 100% by AID. However, the overhead for ECG is spread on the basis of total company direct labour. This direct labour includes many projects which are not AID financed. Therefore, this exclusion would represents an unreasonable cost allocation.</p>

# ENGINEERING CONSULTANTS GROUP

## 1992 QUESTIONED COSTS

Appendix B  
11 of 12

ITEM DESCRIPTION		INELIGIBLE L.E.	UNSUPPORTED L.E.	AGREED L.E.	DISAGREED L.E.	ECG COMMENTS RE-DISAGREED ITEMS
K	Auto and Employees Transportation					
1	Total oil and gas for ECG Vehicles for which no operating logs exist in Alexandria.		19 196		19 196	This is a business related expenditure. Lack of logs is not ground to refusal
L	License Fees					
1	Unsupported costs in ECG's Dubai Office		396	396		
2	Unallowable costs relating to ECG vehicles including fines, tickets, tips	734		734		
M	Technical consultants					
1	Annual salary for a consultant who had no employment contract		4 056		4 056	Saidah Maged was employed as a consulting librarian on a part-time basis, she received regularly her net due remunerations after the deduction of due taxes which were paid regularly to her tax file.

ENGINEERING CONSULTANTS GROUP

1992 QUESTIONED COSTS

ITEM DESCRIPTION		INELIGIBLE L.E.	UNSUPPORTED L.E.	AGREED L.E.	DISAGREED L.E.	ECG COMMENTS RE-DISAGREED ITEMS
N	Professional Papers					
	1 Gifts and donations	13 399		13 399		
	2 Club membership in Abu Dhabi	264		264		
O	Miscellaneous					
	1 Check issued in 1992 was never cashed and entry reversed in 1993.	2 486		2 486		
		224 669	48 164	84 235	188 598	

Engineering Consultants Group

Auditor Response

Engineering Consultants Group ("ECG") management provided comments relating to the Price Waterhouse draft audit report presented at the exit conference held on August 15, 1994. ECG management's comments are included, unedited, in Appendix B 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 ECG management's comments. Please note that our response sequence below parallels our audit report's findings.

1991

A. Free meals and cafeteria

- 1) ECG management does not disagree with this finding.
- 2) ECG management does not disagree with this finding.

B. Administrative time

Based on our review of information provided by the auditee subsequent to the issuance of the draft report, we have removed this finding from our report.

C. Telephone and telex

- 1) ECG management does not disagree with this finding.
- 2) Detail support for the use of the car phone was not made available to us to support the use of the car phone for business purposes. Our position remains unchanged.

D. Supplies

- 1) ECG management does not disagree with this finding.
- 2) ECG management contend that 15% of the copies of the produced magazine are distributed to employees. Our calculations indicated that 13% of the copies actually are distributed to employees. We have accordingly adjusted our finding to disallow 87% of the related costs.



E. Committees and societies

Management was able to provide us support that LE 9,507 of the finding related to bairam bonuses paid to nonprofessional office employees. We reviewed the related support for the distribution, and have removed the related amounts from our finding. Management does not disagree with the remaining amount.

F. Depreciation and amortization

ECG management does not disagree with this finding.

G. Recruiting

ECG management does not disagree with this finding.

H. Business development

ECG management does not disagree with this finding.

I. Travel

- 1) ECG management was unable to provide us further documentation supporting the business nature of the telephone charges; our finding remains the same.
- 2) ECG management does not disagree with this finding.
- 3) ECG management contends that the provisions of the Fly America Act do not extend to indirect costs. Our position is not correctly stated in management's response in that we realize that less than 100% (although a significant percentage) of overhead costs are reimbursed by AID. After discussing this issue with RIG employees, our position remains unchanged.
- 4) ECG management does not disagree with this finding.

J. License fees

ECG management does not disagree with this finding.

K. Auto and employees transportation

ECG management contends that the absence of operating logs for company vehicles is not adequate grounds for questioning the related costs. As no further support was made available as to the business purpose of the expenditures, our position remains unchanged.

L. Technical consultants

ECG management provides no further documentation supporting these expenditures. Our position remains unchanged,

M. Professional papers

ECG management was unable to provide us with any further documentation as to the business purpose of the expenditures. Our position remains unchanged.

N. Miscellaneous

ECG management does not disagree with this finding.

1992

A. Medical care

ECG management does not disagree with this finding.

B. Free meals and cafeteria

ECG management does not disagree with this finding.

C. Administrative time

- 1) Based on our review of information provided by the auditee subsequent to the issuance of the draft report, we have removed this finding from our report.
- 2) Based on our review of information provided by the auditee subsequent to the issuance of the draft report, we have removed this finding from our report.

D. Telephone and telex

- 1) Detail support for the use of the car phone was not made available to us to support the use of the car phone for business purposes. Our position remains unchanged.
- 2) ECG management was unable to provide us further support for the business purpose of the expenditures, our position remains unchanged.

E. Xerox and computer

ECG management does not disagree with this finding.

F. Supplies

ECG management contend that 15% of the copies of the produced magazine are distributed to employees. Our calculations indicated that 13% of the copies actually are distributed to employees. We have accordingly adjusted our finding to disallow 87% of the related costs.

G. Committees and societies

Management was able to provide us support that LE 11,420 of the finding related to bairam bonuses paid to nonprofessional office employees. We reviewed the related support for the distribution, and have removed the related amounts from our finding. Management does not disagree with the remaining amount.

H. Depreciation and amortization

ECG management does not disagree with this finding.

G. Recruiting

ECG management does not disagree with this finding.

I. Business development

ECG management does not disagree with this finding.

J. Travel

ECG management contends that the provisions of the Fly America Act do not extend to indirect costs. Our position is not correctly stated in management's response in that we realize that less than 100% (although a significant percentage) of overhead costs are reimbursed by AID. After discussing this issue with RIG employees, our position remains unchanged.

K. Auto and employees transportation

ECG management contends that the absence of operating logs for company vehicles is not adequate grounds for questioning the related costs. As no further support was made available as to the business purpose of the expenditures, our position remains unchanged.

L. License fees

Management does not disagree with this finding.

M. Technical consultants

ECG management provides no further documentation supporting these expenditures. Our position remains unchanged.

N. Professional papers

- 1) Management does not disagree with this finding.
- 2) Management does not disagree with this finding.

O. Miscellaneous

ECG management does not disagree with this finding.



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO EGYPT


November 14, 1994

MEMORANDUM

RECEIVED

14 NOV 1994

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

**FROM:** Syed Ali,  A/OD/FM/FA

**SUBJECT:** Financial Audit of Engineering Consultants Group (ECG) Subcontracts with USAID/Egypt Prime Contractors 1) Metcalf & Eddy - Canal Cities Water and Sewage Systems, USAID Grant No. 263-0174, 2) Waste Water Consultant Group - Alexandria Wastewater Project No. 263-0100 - Draft Report

Mission has the following two comments on the subject draft report:

First: 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.

Second: It is stated in the report that the overhead ceiling in the original subcontracts is "assumed" to be in effect for 1991 and 1992. Mission believes that this assumption holds if neither the primes nor the sub said otherwise.

During the course of the audit resolution, Mission will request further information and/or clarification on the above issues.

Please issue the final report.

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**APPENDIX E****REPORT DISTRIBUTION**

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