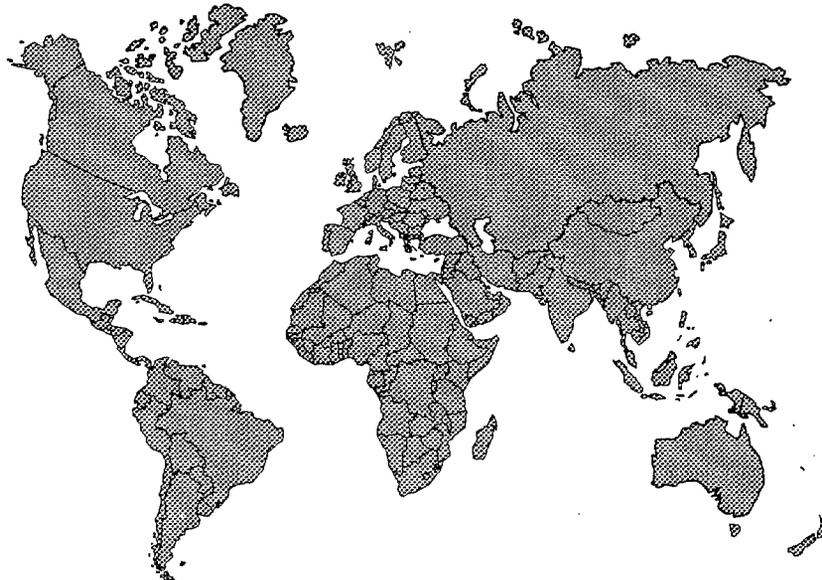

**Report on Agreed-Upon Procedures Applied to
USAID Resources Managed by
Raytheon Ebasco Overseas Limited Under
USAID/Egypt's Power Sector
Support Project No. 263-0215**

**Report No. 6-263-98-002-O
January 6, 1998**



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

**Regional Inspector General for Audit
Cairo, Egypt**

**OFFICE OF INSPECTOR GENERAL
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



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

CAIRO, EGYPT

Report No. 6-263-98-002-O

January 6, 1998

MEMORANDUM

TO : DIRECTOR USAID/Egypt, John R. Westley

FROM: RIG/A/Cairo, Lou Mundy *Lou Mundy*

SUBJECT: Report on Agreed-Upon Procedures Applied to USAID Resources Managed by Raytheon Ebasco Overseas Limited Under USAID/Egypt's Power Sector Support Project No. 263-0215

The attached Allied Accountants report, transmitted on November 27, 1997, presents the results of the application of financial-related agreed-upon procedures to USAID resources managed by Raytheon Ebasco Overseas Limited (Ebasco) under USAID/Egypt's Power Sector Support Project No. 263-0215. The principal activity performed by Ebasco was to provide overall project management for the design, procurement, construction, and initial operation of the El Kureimat Thermal Power Station through an architect-engineering services contract with the Egyptian Electricity Authority. USAID financing was provided through a grant agreement with the Government of Egypt designed to reduce electricity sector subsidies and make other energy sector policy changes by providing capital infrastructure incentives to the Government.

We engaged Allied Accountants to perform agreed-upon procedures relating to certain costs which USAID/Egypt reimbursed to Ebasco for expenditures during the period April 8, 1992 through March 31, 1996. Due to the unavailability of accounting records for costs prior to July 1993, Allied Accountants were only able to review costs for the period July 1, 1993 through March 31, 1996. The agreed-upon procedures were performed on: 1) costs reimbursed by USAID/Egypt for certain expenses for a sample of employees, 2) internal control policies and procedures related to the Cairo imprest fund, and 3) compliance with agreement terms and applicable laws and regulations. These procedures were to assist USAID/Egypt in ensuring the allowability of certain costs and do not constitute an audit conducted in accordance with generally accepted auditing standards. Accordingly, the attached report does not express an opinion on Ebasco's fund accountability statement as would be done under a financial audit.

Based on the procedures applied, Allied Accountants questioned, as ineligible, \$153,078 out of \$1,662,433 in costs reimbursed by USAID/Egypt. These questioned costs related principally to salary costs of Ebasco employees billed to USAID in excess of the salaries

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stated in the individual employees' contracts with Ebasco. Allied Accountants' report also noted a weakness in Ebasco's internal controls due to a lack of separation of duties over its imprest fund. In addition, the report indicated that Ebasco's recordkeeping procedures did not comply with a requirement in its contract with the Egyptian Electricity Authority to keep a complete set of accounting records at its main office in Cairo.

In response to the draft report, Ebasco officials provided additional clarifications to the report findings. Allied Accountants reviewed Ebasco's response and deleted or modified some of their findings accordingly (see Appendices A and B).

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 make a management decision on the questioned (ineligible) costs of \$153,078 detailed on pages 10 through 12 of the Allied Accountants report, and recover from Raytheon Ebasco Overseas Limited the amounts determined to be unallowable.

Recommendation No. 2: We recommend that USAID/Egypt obtain evidence that Raytheon Ebasco Overseas Limited has addressed the internal control weakness (lack of separation of duties) detailed on pages 12 and 13 of the Allied Accountants report.

Recommendation No. 3: We recommend that USAID/Egypt obtain evidence that Raytheon Ebasco Overseas Limited has addressed the noncompliance issue (lack of complete accounting records in Cairo) detailed on page 13 of the Allied Accountants report.

In response to Recommendation No. 1, USAID/Egypt officials indicated that they agreed with the auditors' major finding. However, the Mission was awaiting additional information for some minor findings before rendering a management decision on the questioned costs as a whole. Recommendation No. 1 remains unresolved pending that management decision. In response to Recommendation No. 2, USAID/Egypt officials stated that Ebasco had implemented corrective actions which addressed the finding. Based on that determination, we conclude that a management decision has been reached on Recommendation No. 2. In response to Recommendation No. 3, USAID/Egypt officials provided evidence that Ebasco's contract had been amended to relieve Ebasco of the requirement to maintain complete accounting records in Cairo. Based on that evidence, we conclude that final action has been taken on Recommendation No. 3.

Thank you for the cooperation and assistance extended to the staff on this engagement.

Attachment: a/s

B

Raytheon Ebasco Overseas Limited (REOL)

Contract between REOL and the Egyptian Electricity Authority (EEA)
Agreed Upon Procedures Report for the
Period April 1, 1992 through March 31, 1996

Raytheon Ebasco Overseas Limited (REOL)

Contract between REOL and the Egyptian Electricity Authority (EEA)
Agreed Upon Procedures Report for the
Period April 1, 1992 through March 31, 1996

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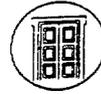
ALLIED ACCOUNTANTS

Ragheb, Istambouli & El Kilany

A Member Firm of ARTHUR ANDERSEN & Co. SC

Public Accountants & Business Advisors

Fellows & Members of the Egyptian Society of Accountants & Auditors



المحاسبون المتضامنون

راغب ، استنبولى والكيلانى

مراسلو آرثر أندرسن وشركاه

محاسبون قانونيون وخبراء تنظيم وإدارة

زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

November 27, 1997

Mr. Lou Mundy
Regional Inspector General for Audit/Cairo
United States Agency for International Development
Cairo, Egypt

Dear Mr. Mundy:

This report presents the results of the agreed-upon procedures which we performed in accordance with Delivery Order No. 22 under Indefinite Quantity Contract No. 263-0000-I-00-3057-00, and applied to resources managed by Raytheon Ebasco Overseas Limited (REOL) under the Power Sector Support Project No. 263-0215, for the period April 1, 1992 through March 31, 1996.

Background

On April 8, 1992 the Egyptian Electricity Authority (EEA) entered into an Architect-Engineer Services Contract (the Contract) with REOL to provide overall project management, design and procurement for the 2 X 600 MW Thermal Power Station at El Kureimat site on the east bank of the Nile, 90 kilometers south of Cairo. On October 26, 1992, via Amendment No. 1, the scope of work was expanded to include construction, management and initial operation services.

The Contract was issued under the Power Sector Support Project, Grant Agreement No. 263-0215. The Grant Agreement was signed between the United States of America and the Arab Republic of Egypt on September 27, 1989. The purpose of the Grant Agreement is to support continued Government of Egypt progress in reducing electricity sector subsidies and in making other energy sector policy changes by providing capital infrastructure incentives to the Government. The project consists of the installation of two 600 MW generating units at El Kureimat. USAID financing was provided through Letter of Commitment No. 263-0215.06-001, signed on October 27, 1992 between USAID/Egypt and REOL. USAID financing was to be used for the US Dollar costs of:

- Consultant services,
- Final design of the plant,
- Preparation of specifications and tender documents, and awarding of contracts for all equipment and construction services for the plant, and
- Equipment.

The balance of foreign exchange financing was to be provided by other bilateral and multilateral financing agencies.

Objective

The objective of this engagement was to apply agreed-upon procedures to resources managed by REOL, through Letter of Commitment No. 263-0215.06-001 under the Power Sector Support Project, Grant Agreement No. 263-0215, for the period April 1, 1992 through March 31, 1996.

Scope of Work and Methodology

The agreed-upon procedures were applied to:

- Costs reimbursed by USAID/Egypt for certain expenses for a sample of six employees;
- Internal control policies and procedures related to the Cairo imprest fund; and
- Compliance with the Agreement terms and applicable laws and regulations.

ALLIED ACCOUNTANTS

Because complete invoice packages were not available for costs billed prior to July 1, 1993, our procedures covered only invoices for the period July 1, 1993 through March 31, 1996 that were available for review.

Using REOL's invoices, we reviewed compensation, non-work related travel, and non-compensation related allowances for a sample of five REOL employees and one sub-contractor employee. The total costs reviewed were:

<u>By Employee*</u>	<u>Amount \$</u>
No. 1	149,427
No. 2	302,250
No. 3	292,361
No. 4	296,458
No. 5	364,762
No. 6	<u>257,175</u>
	<u>1,662,433</u>

* Employees are referred to by Nos. to preserve confidentiality.

<u>By Cost Category</u>	<u>Amount \$</u>
Salaries	1,235,026
Post differential	117,796
Rest and Recreation	17,859
Home leave	36,757
Housing	161,543
Others	<u>93,452</u>
	<u>1,662,433</u>

Please note that the above amounts are only those that were on the invoices that were available for review, and do not necessarily reflect all costs that have been reimbursed for the period covered.

Summary of Findings

<u>Cost Category</u>	<u>Questioned Cost \$</u>	
	<u>Ineligible</u>	<u>Unsupported</u>
Salaries	140,564	
Post differential	791	
Non-compensation allowances (other)	<u>11,723</u>	
	<u>153,078</u>	

Allied Accountants

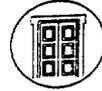
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زملاء وأعضاء جمعية المحاسبين والمراجعين المصرية

Mr. Lou Mundy
Regional Inspector General for Audit/Cairo
United States Agency for International Development
Cairo, Egypt

Independent Accountants' Report on Applying Agreed-Upon Procedures

We have performed the procedures enumerated below, which were agreed to by the United States Agency for International Development Mission in Egypt (USAID/Egypt), solely to assist you in ensuring the allowability of certain costs which USAID/Egypt reimbursed to Raytheon Ebasco Overseas Limited (REOL) for work related to their host country Contract with the Egyptian Electricity Authority (EEA) for Architect-Engineer Services for the El Kureimat Thermal Power Station. Our procedures covered costs reimbursed for five REOL employees and one subcontractor employee as detailed in the Schedule of Transactions Tested of this report. As described in Note 2 to the Schedule of Transactions Tested, the review period was initially intended to be April 8, 1992 through March 31, 1996, however, complete invoice packages were not available for costs billed prior to July 1, 1993, therefore, our procedures included only invoices from July 1, 1993 through March 31, 1996 that were available for review. This agreed-upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

A summary of the procedures and associated results follows:

A. Incurred Costs

1. For the employees selected, determine if all compensation paid was in accordance with Contract terms. Testing will include salary, bonuses, post differential, post adjustments, overtime and any other compensation related payments.

Salaries and post differential paid were in accordance with Contract terms. No bonuses, post adjustments, overtime, or any other compensation payments were paid except for the following:

- Salaries for six employees in the amount of \$140,564 were ineligible.
- Post differential costs for two employees in the amount of \$791 were ineligible.

The details of our findings, are stated in the Findings section of this report.

2. Review of all non-work related travel, including home leave and rest and recreation, to determine compliance with the Contract terms and/or REOL's approved policies.

All non-work related travel including home leave and rest and recreation was in accordance with the Contract terms and/or REOL's policies.

3. Review of all non-compensation allowances, including housing, education and utilities, to determine compliance with the Contract terms.

ALLIED ACCOUNTANTS

Housing, education, temporary subsistence, shipment and relocation of personal effects and household goods, storage, and emergency travel allowances were in compliance with the Contract terms except for the following:

- Educational travel costs for one employee in the amount of \$3,565 were ineligible.
- Initial assignment travel tickets for one employee in the amount of \$5,793 were ineligible.
- Emergency travel costs for one employee in the amount of \$2,365 were ineligible.

No separate allowances for utilities were paid. The details of our findings, are stated in the Findings section of this report.

B. Internal Control Structure

Review and evaluate REOL's internal control structure to obtain a sufficient understanding of the design of relevant control policies and procedures related to the Cairo imprest fund, and whether those policies and procedures have been placed in operation.

One internal control structure weakness was noted. The weakness involves lack of segregation of duties in recording transactions and maintaining custody of assets, for the Cairo imprest fund.

The details of our finding, are stated in the Findings section of this report.

C. Compliance with Agreement Terms and Applicable Laws and Regulations

1. Identify the Contract compliance provisions and pertinent laws and regulations and determine which of those, if not observed could have a direct and material effect on the imprest fund.

We identified the Contract compliance provisions and pertinent laws and regulations, and identified those that could have a direct and material effect on the imprest fund.

2. Determine if payments have been made in accordance with Contract terms and applicable laws and regulations.

Payments have been made in accordance with Contract terms and applicable laws and regulations except for the following:

- REOL did not keep a complete set of records and documents in the Cairo office as required by the Contract.

The details of our finding, are stated in the Finding section of this report.

3. Identify any costs not considered appropriate, explaining why these costs are questioned.

All costs were appropriate except for the following:

- Salaries for six employees in the amount of \$140,564 were ineligible.
- Post differential costs for two employees in the amount of \$791 were ineligible.
- Educational travel costs for one employee in the amount of \$3,565 were ineligible.

ALLIED ACCOUNTANTS

- Initial assignment travel tickets for one employee in the amount of \$5,793 were ineligible.
 - Emergency travel costs for one employee in the amount of \$2,365 were ineligible.
- The details of our findings, are stated in the Findings section of this report.

4. Determine if funds have been expended for purposes not authorized or not in accordance with applicable Contract terms. If so, identify these costs as questioned.

All funds have been expended for purposes authorized or in accordance with applicable Contract terms except for the following: (Note: the following are the same as in No. 3 above).

- Salaries for six employees in the amount of \$140,564 were ineligible.
- Post differential costs for two employees in the amount of \$791 were ineligible.
- Educational travel costs for one employee in the amount of \$3,565 were ineligible.
- Initial assignment travel tickets for one employee in the amount of \$5,793 were ineligible.
- Emergency travel costs for one employee in the amount of \$2,365 were ineligible.

The details of our findings, are stated in the Findings section of this report.

5. Determine that those who received compensation and benefits were eligible to receive them.

We determined that the six employees in our sample who received compensation and benefits were eligible to receive them.

We were not engaged to, and did not, perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the United States Agency for International Development Mission in Egypt, and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes. This restriction is not intended to limit the distribution of this report which is a matter of public record.

Allied Accountants
July 8, 1997.

Allied Accountants

Raytheon Ebasco Overseas Limited (REOL)

Contract between REOL and the Egyptian Electricity Authority (EEA)
Agreed Upon Procedures Report for the
Period April 1, 1992 through March 31, 1996

**Schedule of Transactions Tested by Employee in S
for the Period July 1, 1993 through March 31, 1996**

Employee No.	<u>Salary</u>	<u>Post Differential</u>	<u>Rest and Recreation</u>	<u>Home Leave</u>	<u>Housing</u>	<u>Others</u>	<u>Total</u>
1	115,022	6,467	1,930	4,032	16,619	5,357	149,427
2	207,148	17,982	6,975	13,569	43,712	12,864	302,250
3	234,349	10,711	3,630	3,275	14,871	25,525	292,361
4	193,403	25,101	5,324	5,256	31,963	35,411	296,458
5	281,656	40,220	0	2,616	30,286	9,984	364,762
6	<u>203,448</u>	<u>17,315</u>	<u>0</u>	<u>8,009</u>	<u>24,092</u>	<u>4,311</u>	<u>257,175</u>
	<u>1,235,026</u>	<u>117,796</u>	<u>17,859</u>	<u>36,757</u>	<u>161,543</u>	<u>93,452</u>	<u>1,662,433</u>

Details of this schedule are presented in the Supplemental Schedules, appendices A through F.

See the accompanying notes to the Schedule of Transactions

Raytheon Ebasco Overseas Limited (REOL)

Contract between REOL and the Egyptian Electricity Authority (EEA)
Agreed Upon Procedures Report for the
Period April 1, 1992 through March 31, 1996

**Notes to the Schedule of Transactions Tested by Employee
for the Period July 1, 1993 through March 31, 1996**

Note 1: Background of the USAID/Egypt Funded Project

On April 8, 1992 the Egyptian Electricity Authority (EEA) entered into an Architect-Engineer Services Contract (the Contract) with Raytheon Ebasco Overseas Limited (REOL) to provide overall project management, design and procurement for the 2 X 600 MW Thermal Power Station at El Kureimat site in the east bank of the Nile, 90 kilometers south of Cairo. On October 26, 1992, via Amendment No. 1, the scope of work was expanded to include construction, management and initial operation services.

The Contract was issued under the Power Sector Support Project, Grant Agreement No. 263-0215. The Grant Agreement was signed between the United States of America and the Arab Republic of Egypt on September 27, 1989. The purpose of the Grant Agreement is to support continued Government of Egypt progress in reducing electricity sector subsidies and in making other energy sector policy changes by providing capital infrastructure incentives to the Government. The project consists of the installation of two 600 MW generating units at El Kureimat. USAID financing was provided through Letter of Commitment No. 263-0215.06-001, signed on October 27, 1992 between USAID/Egypt and REOL. USAID financing was to be used for the US dollar costs of:

- Consultant services.
- Final design of the plant.
- Preparation of specifications and tender documents, and awarding of contracts for all equipment and construction services for the plant, and
- Equipment.

The balance of foreign exchange financing was to be provided by other bilateral and multilateral financing agencies.

Note 2: Invoices Reviewed

We reviewed photocopies of invoice packages located in REOL's Cairo office, for a sample of six employees. Of these, five were REOL employees and one was a subcontractor employee. To preserve confidentiality, we refer to the employees by numbers. The review period was initially intended to be April 8, 1992, when the Contract was signed, through March 31, 1996. However, REOL stated that the first invoice was prepared in August 1992. For the forty-four months from August 1992 to March 1996, four invoices were not available, eight did not have a summary of costs and five did not have detailed back-up. Because complete invoice packages were not available for costs billed prior to July 1, 1993, our procedures covered only the invoices from July 1993 through March 31, 1996.

Note 3: Criteria for Allowability of Costs

The criteria for compensation and overseas differential are specified in the Contract. Compensation was to be based on actual cost, based on a 48 hour work-week. Overseas differential was to be 15% of actual compensation. Allowability of other direct costs (allowances) was not specifically discussed in the Contract. However "estimated reimbursable" amounts for housing, rest and

recreation, dependent education, home leave, and household goods shipment, and other items were included in a table which was referenced by the Contract in the section titled "costs payable".

The Contract also, incorporates AID Handbook 11, Chapter 4, by reference. When addressing allowability of direct costs, Handbook 11 either allows the maximum allowable amounts per the contractor's own policies or as agreed to in the Contract. Therefore, if the Contract is silent on the allowability of a specific cost item, that cost item is considered allowable only if it meets REOL's own policies.

Note 4: Questioned Costs:

Incurred questioned costs are presented in the Summary of Questioned Costs Schedule of this report in two separate categories: ineligible and unsupported costs. Questioned costs are expenditures that we have determined are not in accordance with the Contract, REOL's policies or other applicable USAID/Egypt regulations or are not supported by adequate documentation. "Ineligible costs" are deemed to be unallowable because they are not project related, unreasonable, or prohibited by the agreement or applicable laws and regulations. "Unsupported costs" are expenditures which are not supported by adequate documentation or did not have required prior approval or authorizations.

Our review identified \$153,078 ineligible questioned costs. The summary of questioned costs follows and the basis for questioning specific costs are set forth in the "Findings" section of this report.

Raytheon Ebasco Overseas Limited (REOL)

Contract Between REOL and the Egyptian Electricity Authority (EEA)
Agreed Upon Procedures Report for the
Period April 1, 1992 through March 31, 1996

Summary of Questioned Costs

<u>Compensation/Allowance</u>	<u>Finding No.</u>	<u>Questioned Costs \$ (Note 4)</u> <u>Ineligible</u>	<u>Unsupported</u>
<u>Salaries</u>			
Employee No. 1	1	14,432	
Employee No. 2	1	16,204	
Employee No. 3	1	9,536	
Employee No. 4	1	29,224	
Employee No. 5	1	15,633	
Employee No. 6	1	<u>55,535</u>	
Sub-total		140,564	
<u>Post Differential</u>			
Employee No. 4	2	474	
Employee No. 5	2	<u>317</u>	
Sub-total		791	
<u>Non-Compensation Allowances (Other)</u>			
<u>Other</u>			
Employee No. 2	7	3,565	
Employee No. 4	9	5,793	
Employee No. 5	10	<u>2,365</u>	
Sub-total		<u>11,723</u>	
TOTAL		<u>153,078</u>	

Raytheon Ebasco Overseas Limited (REOL)

Contract between REOL and the Egyptian Electricity Authority (EEA)
Agreed Upon Procedures Report for the
Period April 1, 1992 through March 31, 1996

Findings

A. Incurred Costs

1) Compensation:

Finding No. 1 : Salaries

Due to an apparent management oversight, REOL over-billed USAID \$140,564 under Salaries for employees Nos. 1, 2, 3, 4, 5 and 6. Employees' monthly salaries and the dates of their assignment to the project are specified in their contracts with REOL. Additionally, REOL's policies indicate that compensation is to be based on a 48 hour work week, and "additional compensation will not be made to the employee for overtime worked beyond the forty-eight (48) hour work week to suit conditions at the project site". In addition, according to the Cost Accounting Standards Board Disclosure Statement required by Public Law 91-379 filed by Ebasco Services Incorporated, "Each employee's hourly rate for standard time (excluding all overtime) is computed by dividing the employee's annual base salary by the available work hours in the calendar year". As detailed in the table below, all of the over-billing for employees Nos. 1, 2, 3, 5 and 6, and part of the over-billing for employee No. 4, represent amounts billed to USAID in excess of the amounts stated in the employee contracts as payable after taking into consideration all the applicable raises earned by the employee.

For employee No. 4, \$7,982 of the over-billing represents amounts billed for periods preceding the employee's assignment to the project. According to employee No. 4's employment contract, he was assigned to the project on May 3, 1994. Therefore, REOL should not have billed for Employee No. 4's salary for March and April 1994. REOL indicated that, prior to May 3, 1994, employee No. 4 was actually employed on the project in the Home Office (Off-Shore). However, no documents to that effect were provided.

The over-billed amounts are broken down as follows:

<u>Employee</u>	<u>Billed to USAID (\$)</u>	<u>Payable per Employee Contract (\$) *</u>	<u>Ineligible (\$) Excess over Payable Per Employee Contract</u>	<u>Ineligible (\$) Billing Period is Prior to Assignment</u>	<u>Total Ineligible (\$)</u>
No. 1	115,022	100,590	14,432		14,432
No. 2	207,148	190,944	16,204		16,204
No. 3	234,349	224,814	9,536		9,536
No. 4	193,403	165,407	21,242	7,982	29,224
No. 5	281,656	266,023	15,633		15,633
No. 6	<u>203,448</u>	<u>147,913</u>	<u>55,535</u>		<u>55,535</u>
Total	<u>1,235,026</u>	<u>1,095,691</u>	<u>132,582</u>	<u>7,982</u>	<u>140,564</u>

* Each amount presented here was computed by multiplying the hourly rate by the number of work hours billed (vacation and other leave hours were not included). The hourly rate was computed by dividing the employee's annual base salary by the available work hours in the calendar year (48 hour week, 2,496 hours per calendar year), as indicated by the employees' contracts and CAS' Disclosure Statement.

USAID was billed ineligible costs for salaries of \$140,564.

Finding No. 2: Post Differential

Due to an apparent management oversight, REOL over-billed USAID \$791 under Post Differential for employees Nos. 4 and 5. The employees' contracts with REOL indicate a foreign service allowance equal to 15% of the base salary commencing on the date of arrival at post of assignment and continuing during periods away from the post on official business, until the close of business on the day of departure from post of assignment enroute to the US. The over-billing for employees Nos. 4 and 5 represents amounts billed to USAID in excess of the 15% stated in the employees' contracts as payable after taking into consideration all the applicable raises earned by the employee. The over-billed amounts are broken down as follows:

<u>Employee</u>	<u>Billed to USAID (\$)</u>	<u>Pavable per Employee Contract (\$)*</u>	<u>Ineligible (\$) Excess over Pavable Per Employee Contract</u>
No. 4	25.101	24.627	474
No. 5	<u>40.220</u>	<u>39.903</u>	<u>317</u>
Total	<u>65.321</u>	<u>64.714</u>	<u>791</u>

* Each amount presented here was computed by multiplying the hourly rate by the number of work hours billed (vacation and other leave hours were not included) and by 15%. The hourly rate was computed by dividing the employee's annual base salary by the available work hours in the calendar year (48 hour week, 2,496 hours per calendar year), as indicated by the employees' contracts and CAS' Disclosure Statement.

USAID was billed ineligible costs for post differential of \$791.

2) Non-Work Related Travel

Finding No. 3: Rest & Recreation (R&R)

Finding deleted.

Finding No. 4: Home Leave

Finding deleted.

Finding No. 5: Home Leave

Finding deleted.

3) Non-Compensation Allowances (Other)

Finding No. 6: Housing Allowance

Finding deleted.

Finding No. 7: Educational Travel

In July 1993, REOL billed \$3,565 under Home Leave for employee No. 2's child. The airfare was business class. REOL stated that the amount billed was misclassified and should have been billed as educational travel. However, REOL policies indicate that economy class ticket will be provided for educational travel. As a result, REOL billed a cost not in accordance with its own policies. Based on the above eligibility criteria, ultimately only the excess of the business over the economy class round trip airfare is ineligible. However, until REOL provides support for the cost of the trip had economy class been used, the whole amount will be questioned as ineligible.

USAID was billed ineligible costs for educational travel of \$3,565.

Finding No. 8: Vehicle Storage

Finding deleted.

Finding No. 9: Initial Assignment Travel

In June 1994, REOL billed \$6,216 for three airfare tickets for the initial assignment of employee No. 4 and dependents to Cairo; travel took place in May 1994. In October 1994, REOL billed \$5,793 for the same travel. REOL acknowledged that \$5,793 representing the fare for the one way return portion of the round trip tickets should not have been invoiced. Handbook 11, Section A.3.2.2, states "Costs should be reimbursable for actual travel cost and travel allowances of travelers from place of current residence to the post of duty in the host country". REOL stated that the return trip tickets were subsequently returned to the airline for credit prior to their expiration date and that the amount was credited to EEA. However, REOL did not provide any documentation of ultimately crediting USAID/Egypt.

USAID was billed ineligible costs for travel of \$5,793.

Finding No. 10: Emergency Travel

In December 1995, REOL billed \$2,365 for two emergency airplane tickets for employee No. 5 to attend the funeral of the employee's brother. The Contract, in Appendix A, Section 5B, (5), f. indicates that REOL is authorized to approve travel for death or serious illness in the immediate family members (parents and children) of an employee or spouse. Travel will be by economy class. REOL considered the employee's brother an immediate family member which is not allowed by the Contract.

USAID was billed ineligible costs for emergency travel of \$2,365.

B. Internal Control - Imprest Fund

Finding No. 11: Imprest Fund

We noted that a bank account was being used for the imprest fund. Disbursements were made through checks, which were reviewed and approved by the Project Manager. A cash book was kept and monthly reconciliations were prepared. The reconciliation was submitted to the headquarters, where the imprest fund replenishment comes from. The fund has been used to pay expenses incurred in Egypt. Expenses paid out of the imprest fund which are related to the Contract are billed by headquarters. These expenses are:

1. Purchase of airline tickets.
2. Tuition fees for employees' dependents, and
3. Air or surface freight for shipment of personal effects.

During our review of the imprest fund, we noted that the accountant in the Cairo office issues the checks, records the transactions, and prepares the bank reconciliations and reports submitted to the headquarters. For the month selected for review, we noted that the beginning balance in the cash book was less than the balance of the imprest fund reported to the headquarters. The difference in the balance was due to a check which was not recorded when issued. Hence, the imprest fund reported an overstated balance, resulting in a lesser amount to be requested for replenishment. The error was later corrected. We also noted that three checks were not recorded in the cash book. Sound internal control procedures require adequate segregation of duties to allow for timely detection and correction of errors. Had there been a second person performing some of the tasks performed by the accountant, errors and omissions would have been detected and corrected sooner.

Recommendation:

We recommend that REOL ensure that:

1. The cash book is updated on daily basis and shows all checks issued and voided.
2. Bank reconciliations are prepared by a person other than the accountant.
3. Bank reconciliations and reports submitted to the headquarters are reviewed and approved by the Project Manager.

C. Compliance

Finding No. 12: Records and Supporting Documents

REOL did not keep a complete set of records and documents in the Cairo office. According to REOL's management, the project started operating in August 1992. However, the only documents available in the Cairo office were invoice packages consisting of a cover sheet with a summary of the expenses billed and photocopies of supporting documents such as invoices for office supplies, travel expense reports, airplane tickets, and a summary of housing and post differential allowances, by employee.

During the forty-four months from August 1992 to March 1996, we noted that four monthly invoices were missing. In addition, thirteen of the invoice packages were incomplete: eight did not have the summary of expenses, and five did not have photocopies of expense documents. For the month of August 1994 there was no information available. In addition, REOL's subcontractor's invoices, related to employee No. 6, did not provide a breakdown and supporting documents for the expenses billed.

Per the Contract, Chapter II, Section 14, "the Contractor shall keep a complete set of documents, records or other evidence of accounting procedures and practices sufficient to reflect properly all transactions under or in connection with this Contract and make them available to EEA and USAID or representatives at Contractor's main office in Cairo." This requirement is also found in Chapter V, Section B.6 and Section E.4 of the Contract.

REOL indicated that records and supporting documents are kept at the headquarters in the United States. REOL did not provide a reason for not keeping records and supporting documents at its Cairo office and apparently ignored the Contract's requirement.

Recommendation:

We recommend that REOL comply with the Contract's requirement to maintain adequate records and supporting documents at its Cairo office for all costs claimed from USAID/Egypt, or amend the contract to relieve itself from this requirement.

Finding No. 13: Approvals for Removing or Replacing Employees

Finding deleted.

Raytheon Ebasco Overseas Limited (REOL)

Contract between REOL and the Egyptian Electricity Authority (EEA)
 Agreed Upon Procedures Report for the
 Period April 1, 1992 through March 31, 1996

Management Comments

Raytheon Ebasco
 Overseas Ltd.

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Raytheon Engineers &
 Constructors

1 November 1997
 EBC-AID-170

Mr. Dennis Clardy
 USAID/Cairo
 Kamal El-Din Salah Street
 Garden City, Cairo, Egypt

Subject: **EL-KUREIMAT 2 X 600 MW THERMAL POWER PROJECT
 RESPONSE TO USAID'S DRAFT AUDIT REPORT**

Dear Mr. Clardy:

Attached for your review are our responses to the 13 findings from the Draft Report, dated 28 July 1997, resulting from Allied Accountants audit of REOL's invoices for the period July 1993 through March 31, 1996. Each individual response is separated by a numbered tab marker whose number represents the specific finding to which the response is directed. Each numbered tab includes a copy of the finding along with our specific response and related documentation, where appropriate.

In the interest of responding to the draft audit report within the requested time frame, our responses are copies of faxed documents. In some instances, the pages of our responses are not very clear and, therefore, not easily readable. Cleaner copies of the response pages are, however, being expressed mailed from New York to our Cairo office. Upon arrival, I will expedite their delivery to you. In the interim period, though, I believe that most of the attached copies are legible enough to read and I regret any hardship created by the poor quality of a few of the pages.

It is my belief that our responses to each of the findings will clarify the issue(s) in question and eliminate the need for any of the 13 findings. I trust your review will result in the same conclusion. Should there be a need or desire to further discuss any or all of our responses, we are available to meet with you and your auditors at your convenience. It is our goal to resolve each of these issues as quickly as possible.

Please advise if and when you would like to discuss our responses to your audit findings.

Very truly yours,



Fredric J. Bold
Project Manager

Response Required: Yes _____ No X

FJB:hm
Attachment

cc: G. Lemmon (w/o attachment)
 T. Vardaro (w/ attachment)
 Nabil Kamhauri

DRAFT REPORT FOR DISCUSSION PURPOSES ONLY DATED 7/28/97

FINDING NO. 1: Salaries

This finding claims that REOL over-billed USAID US\$144,749 in salaries for employees Nos. 1, 2, 3, 4, 5 and 6. In addition, for employee No. 4 US \$7,982 of the over-billing represents amounts billed for periods preceding the employee's assignment to the project. According to employee No. 4's employment contract, he was assigned to the project on May 3, 1994. Therefore, REOL should not have billed for employee No. 4's salary for March and April 1994.

The amount of over-billing stated in the finding is not correct. All costs invoiced by REOL are proper and eligible as discussed below.

Regarding employee No. 4, the reporting date shown in the employee's contract is the date the employee was assigned to the project in Egypt and not the date first assigned to the project. Prior to the indicated report date, the employee was employed on the project in the Home Office(Off-Shore). Work performed included development of procedures for the project, participation in a workshop in Cairo with EEA personnel on the merits of REOL doing the piping design for the project, and attendance at the project design review meeting in New York with the package contractors. This same employee was then assigned On-Shore in Egypt with a start date as indicated in his personal contract. Further, only when an employee is placed on a foreign assignment as an expatriate is a letter of assignment or contract written. Employees working within the Home Office are not issued contracts when performing services on a project. Therefore, the salary billed for March and April 1994 for employee No. 4 is proper and in accordance with the contract.

Regarding the finding concerning salaries it should be stated that the methodology used in order to determine the ineligible salary cost is inappropriate as discussed below. The Contract between EEA and REOL is based on estimated DIRECT SALARIES as shown in Tables 1, 2, and 3. This "Method of Charging Direct Labor" incorporated into the contract is in accordance with The Cost Accounting Standards Board Disclosure Statement as required by Public Law 91-379 filed by Ebasco Services Incorporated. To quote the document, paragraphs 6.1.0 and 2.5.0, "Each employee's hourly rate for standard time (excluding all overtime) is computed by dividing the employee's annual base salary by the available work hours in the calendar year... By this method the rate applied to each hour of standard time reported will include an allowance for paid holidays. Direct charging of actual vacation and absence time...is not permitted. Instead, the actual vacation and excused absence taken by all personnel is charged to an appropriate accrual account on the time sheet. This vacation and absence is computed All direct labor consists of the individual actual rates of Company's employees (which are increased by a

factor for vacation and absence...)"

The methodology presented by the auditors evaluates on the premise that all available time including vacation, holiday and absence time is directly charged to the project. All invoices submitted to EEA only show hours worked and do not include any direct charged hours for vacation, holiday and absence. However, an allowance for vacation, holiday and absence is added to the employee's salary which is direct salary as noted in the contract. Therefore, it should not be construed that based on the hours billed the employee's are working less than the hours indicated by the auditors. The ineligible salaries determined by the auditors as a result of the method used for calculation is not correct.

In conclusion, the salaries billed are proper, and eligible, and in accordance with the method used to determine the contract costs.

DRAFT REPORT FOR DISCUSSION PURPOSES ONLY DATED 7/24/97

FINDING NO. 2: Post Differential

This finding states that REOL overbilled USAID US \$2,066 under post differential for employees Nos. 4 and 5.

In accordance with the response to Finding No. 1, any reduction to billed amounts based on the assumption that invoiced hours represent other than hours worked on the project is inappropriate.

DRAFT REPORT FOR DISCUSSION PURPOSES ONLY DATED 7/28/97

FINDING NO. 3: Rest & Recreation(R&R)

USAID was billed unsupported R&R travel costs of US \$5,108 for employee No. 2 as follows:

- **US \$1,989 billed in June 1994**
- **US \$3,119 billed in June 1995**

- **The backup documentation for the amount of US \$1989.45 billed in June 1994 for employee No. 2 was included with the original invoice issued to EEA. Another copy is attached for your reference.**

- **The finding states that the amount of US \$3119 billed in June 1995 for employee No. 2 was unsupported with documentation. Please note that the total amount of US \$3119 was only in part attributable to employee No. 2 and partially attributable to employee No. 4. Attached is the detail sheet included with the original invoice, showing the breakdown of costs as follows:**

-Employee No. 2(one expense report):	US \$1232.54
-Employee No. 4(sum of two expense reports):	US \$1886.34

The confusion may have resulted from the fact that the Invoice Supplement incorrectly indicated that both of the above expenses were for employee No. 2. A copy of the pertinent sheet is attached marked-up to indicate the correct employee in accordance with the invoice.

A copy of the supporting documentation transmitted with the original invoice is attached for your reference.

DRAFT REPORT FOR DISCUSSION PURPOSES ONLY DATED 7/22/97

FINDING NO. 4: Home Leave

This finding cites REOL's policies which "indicate that a round trip, economy class ticket for an employee and authorized family members, to and from the employees point of origin shall be provided to the employee upon completion of 12 months of continuous service." This finding also states that REOL did not provide any support for actually incurring the costs or for the criteria used to bill them.

In REOL's transmittal EBN-AID-022 dated April 18, 1997 to USAID, additional information was provided, as requested by USAID to support Allied Accountants completion of the audit, addressing this issue.

The cited section concerning round trip travel in this finding pertains to Home Leave and not travel by a college student. In accordance with employee No. 2's contract, Section XV (Refer to Enclosure No. 1, Attachment No. 1 of letter EBN-AID-022) a college student is entitled to one trip per year between the employees location of foreign assignment and a Company recognized accredited college or university in the US attended full time by the student. At the time of travel employee No. 2 dependent was attending the University of Kansas.

A copy of the supporting documentation of the cost incurred is attached for reference. The criteria used to bill this cost is included in the employee's contract as noted above.

DRAFT REPORT FOR DISCUSSION PURPOSES ONLY DATED 7/28/97

FINDING NO. 5: Home Leave

This finding stipulated that USAID was billed unsupported home leave costs of US \$2958 for employee No. 4.

**The documentation for the subject home leave expenses(sum of two expense reports in the amounts of US \$1443.00 and US \$1515.35) was transmitted with the original Invoice for the month of July 1995. In addition, copies were also provided with the additional information requested by USAID and transmitted by REOL by letter EBN-AID-022 dated April 18, 1997 in Enclosure No. 1, Attachment No. 2.
For your convenience a copy of each expense report is attached.**

DRAFT REPORT FOR DISCUSSION PURPOSES ONLY DATED 7/28/97

FINDING NO. 6: Housing Allowance

This finding claims USAID was billed ineligible costs for housing of US \$9,212. REOL's analysis shown below indicates that USAID was not overbilled.

The computation for housing allowance at \$1,500 per month for 23 months is incorrect. Per the Housing Schedule (Appendix B-5 of the draft audit report) for Employee No.2, the period for February, 1995 accounts for two months. Therefore, the auditor should have multiplied the \$1,500 per month by 24 for an amount of \$36,000. In addition, the schedule in Appendix B-5 did not include the invoiced amount of \$1,500 for June, 1994 for Employee No.2. (See attached sheet from June, 1994 invoice). Therefore, the comparison should have read \$45,212 minus \$36,000 which computes to the same difference of \$9,212.

However, the total amount of \$18,210 shown for December, 1994 incorrectly includes \$7,527 for Foreign Service Incentive (FSI) in addition to the housing allowance. Please refer to Enclosure No.3 of letter EBN-AID-022 dated April 18, 1997 for derivation of the FSI amount of \$7,527. On the invoice (pertinent sheet from the December, 1994 invoice is attached), the line entry reads "Housing, FSI". This reduces the \$9,212 difference to \$1,685. Also the February 1995 invoice (pertinent sheet attached), shows a credit for Employee No.2 of \$2,376, as discussed in Enclosure No.3 of letter EBN-AID-022. The above credit is not included in the schedule of Appendix B-5. Therefore applying this credit results in a net credit to REOL of \$691. This credit results from the fact that REOL invoices did not include the housing allowance for the period ending November 25, 1994. However, this amount will be invoiced and therefore the net difference is \$0.

In summary, the invoiced amount for housing for Employee No.2 was proper and an eligible cost.

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FINDING NO. 7: Educational Travel

This finding states that the airfare for educational travel for employee No. 2's child was business class and not economy class per REOL's policy. Further, until REOL provides support for the cost of the trip had economy class been used, the whole amount of US\$3,565 will be questioned as ineligible.

REOL contacted TWA, issuer of the original ticket, in order to obtain the economy airfare at the time of travel. Attached is a copy of TWA's input. Using the costs provided by TWA, the following computation is provided to reflect the differential in cost between business class and economy airfare. This difference in airfare is US \$548.70.

<u>SEGMENT</u>	<u>INVOICED AMOUNT(S)</u>	<u>ECONOMY AIRFARE(S)</u>	<u>DIFFERENCE(S)</u>
Kansas City-New York	410.00*	410.00	0
New York-Cairo	1716.00	1518.00	198.00
Cairo-New York	1438.70	1088.00	350.70
TOTAL	3564.70	3016.00	548.70

* This segment of the trip was economy class.

DRAFT REPORT FOR DISCUSSION PURPOSES ONLY DATED 7/28/97

FINDING NO. 8: Vehicle Storage

This finding states that for employee No. 3 USAID was billed ineligible costs for vehicle storage of US \$6851 since REOL's policy states that no reimbursement will be provided for the storage of personal automobiles.

Costs for vehicle storage for employee No. 3 over the cited period was proper and in accordance with REOL's contract with employee No. 3 dated June 22, 1993. The authorization for this allowance can be found by referring to Section IV-"Storage," third sentence, of the above noted contract which reads "Reimbursement will be provided for the storage of one personal automobile." A copy of the assignment contract with employee No. 3 can be found in Enclosure No. 1, Attachment No. 1 transmitted by letter EBN-AID-022 dated April 18, 1997.

DRAFT REPORT FOR DISCUSSION PURPOSES ONLY DATED 7/28/97

FINDING NO. 9: Initial Assignment Travel

This finding states that REOL did not provide any documentation of ultimately crediting USAID/Egypt for certain air travel expenses associated with employee No. 4.

As stated in REOL's response transmitting additional information requested by USAID, see Enclosure No. 3-Specific Items of letter EBN-AID-022 dated April 18, 1997, the subject credit received from the airline for the return tickets was applied on Invoice No. 02-J83-46 dated February 28, 1995 covering the period December 31, 1994 thru January 27, 1995 to EEA/USAID.

Attached for your convenience is a copy of the invoice sheet from Invoice No. 02-J83-46 showing the subject credit and a copy of the supporting documentation included in the original invoice.

DRAFT REPORT FOR DISCUSSION PURPOSES ONLY DATED 7/28/97

FINDING NO. 10: Emergency Travel

This finding regards the US\$2,365 billed for emergency airplane tickets for employee No. 5 to attend the funeral of the employee's brother as an ineligible cost since the contract does not specifically mention "Brother" as immediate family.

REOL's policy considers a "Brother" within the definition of immediate family. In REOL's contract with employee No. 5, Section XI "Emergency Leave" reads as follows: "The Company will grant emergency leave and will absorb reasonable travel and travel related costs associated with the death or serious illness of the Employee or member of the immediate family in accordance with established Company policy." (A copy of employee No. 5 assignment contract can be found in the additional audit information provided by letter EBN-AID-022 dated April 18, 1997, Enclosure No. 1, Attachment No. 1.)

Raytheon's policy (as well as Ebasco's policy prior to the acquisition by Raytheon) includes brothers and sisters within the definition of family members. Since this policy pertains to all Raytheon employees, it is not reasonable nor prudent that employees on foreign assignments be excluded. In fact, it becomes more critical or significant for employees on foreign assignments due the constraints and lack of flexibility afforded them because of location. Further, the frequency of occurrence for emergency travel is extremely small.

It appears that the Contract wording on this subject is incomplete, overly restrictive and not in accordance with general industry practice.

FINDING NO. 11: Imprest Fund

Regarding the operation of REOL's Imprest Fund, this finding recommends that REOL ensure that:

1. The cash book is updated on daily basis and shows all checks issued and voided.
2. Bank reconciliations are prepared by a person other than the accountant.
3. Bank reconciliations and reports submitted to the headquarters are reviewed and approved by the Project Manager.

Concerning the above items REOL offers the following comments.

1. The Cairo office procedure is to update the cash book on a daily basis to reflect all checks issued or voided. Daily updates are being implemented. REOL's Project Manager will ensure that this procedure of daily updates continues.
2. The bank account reconciliations are prepared by the accountant in Cairo and as part of the Imprest Fund report is submitted to the Home Office. Each monthly report is reviewed and processed by the Home Office Accountant assigned to the project. Although REOL is of the opinion that the review by the Home Office Accountant accomplishes the objective of the recommendation, if USAID deems it necessary that a person other than the Accountant prepares the bank account reconciliations, REOL requests additional budget for a second person.
3. The Project Manager's review of the monthly Imprest Fund Report, including reconciliations, before transmittal to the Home Office for review by the project Accountant, will be indicated by his signature on the report.

DRAFT REPORT FOR DISCUSSION PURPOSES ONLY DATED 7/28/97

FINDING NO. 12: Records and Supporting Documents

This finding states that accounting documentation was not completely maintained in the Cairo office per contract. However, Amendment No. 4 to the Contract has clarified this item.

It should also be noted that work on Phase I of the project was performed in the Home Office and therefore, one reason why the records were kept there. In addition, these records must be available in the Home Office to support the periodic audits of Raytheon by the US government cognizant audit agencies.

DRAFT REPORT FOR DISCUSSION PURPOSES ONLY DATED 7/28/97

FINDING NO. 13: Approvals for Removing or Replacing Employees

This finding requests documentation to substantiate USAID's and EEA's approval for removing or adding employee No. 2, employee No. 3 and employee No. 5.

Please refer to the attached letters, listed below, which indicate approval by both USAID and EEA for the subject employee changes.

- **USAID letter dated June 12, 1994 addressed to Dr. Mohamed Awad**
- **USAID letter dated January 2, 1996 addressed to Dr. M. M. Awad**
- **EEA letter dated March 17, 1994 addressed to Mr. G. T. Corkle**

Raytheon Ebasco Overseas Limited (REOL)

Contract between REOL and the Egyptian Electricity Authority (EEA)
 Agreed Upon Procedures Report for the
 Period April 1, 1992 through March 31, 1996

Auditor's Response to Management Comments

Our comments below address the responses of the Raytheon Ebasco Overseas Limited (REOL) to the findings on the agreed-upon procedures audit of USAID/Egypt resources managed by REOL, Letter of Commitment No. 263-0215.06-001 under the Power Sector Support Project No. 263-0215, for the period April 1, 1992 through March 31, 1996.

A. Incurred CostsFinding No. 1: Salaries

Regarding employee No. 4, REOL's response indicated that the employee was employed on the project in the Home Office (off-shore) and therefore, the salary billed for March and April 1994 for employee No. 4 is proper and in accordance with the contract. However, REOL did not provide any evidence that employee No. 4 actually worked on the project during that period.

REOL's response to finding No. 1 stated that "Each employee's hourly rate for standard time (excluding all overtime) is computed by dividing the employee's annual base salary by the available work hours in the calendar year. By this method the rate applied to each hour of standard time reported will include an allowance for paid holidays. Direct charging of actual vacation and absence time.. is not permitted. Instead, the actual vacation and excused absence taken by all personnel is charged to an appropriate accrual account on the time sheet. This vacation and absence is computed...All direct labor consists of the individual actual rates of Company's employees (which are increased by a factor for vacation and absence...)"

We calculated the hourly rate based on the above mentioned formula, and based on a 48 hour week as required by the employees' contracts (2,496 available work hours per calendar year). This calculation does not include any direct charged hours for vacation, holiday and absences. Accordingly, the over-billed amounts are broken down as follows:

Employee No. 1 Salary Calculation

	Billed to USAID		Hourly Rate	Payable Per Employee Contract		
	Work Hours	US \$		Base US \$	Increase US \$	Total US \$
July 1, 1994 to August 1, 1995	2,624	71,316	24.20	63,501	2,572	66,073
August 1, 1995 to March 31, 1996	1,360	43,706	24.20	32,912	1,605	34,517
	<u>3,984</u>	<u>115,022</u>		<u>96,413</u>	<u>4,177</u>	<u>100,590</u>

Ineligible excess over payable per
 employee contract 14,432

Employee No. 2 Salary Calculation

	Billed to USAID			Payable Per Employee Contract		
	Work Hours	US \$	Hourly Rate	Base US \$	Increase US \$	Total US \$
July 1, 1993 to October 1, 1993	624	28,959	41.88	26,133		26,133
October 1, 1993 to November 1, 1994	2,208	104,870	41.88	92,471	4,416	96,887
November 1, 1994 to May 1, 1995	1,216	55,986	41.88	50,926	1,277	52,203
May 1, 1995 to July 1, 1995	344	17,333	41.88	14,407	1,314	15,721
	<u>4,392</u>	<u>207,148</u>		<u>183,937</u>	<u>7,007</u>	<u>190,944</u>

Ineligible excess over payable per employee contract 16,204

Employee No. 3 Salary Calculation

	Billed to USAID			Payable Per Employee Contract		
	Work Hours	US \$	Hourly Rate	Base US \$	Increase US \$	Total US \$
July 1993 to February 1, 1995	3,776	142,208	39.94	150,813		150,813
February 1, 1995 to October 31, 1995	1,778	92,141	39.94	71,013	2,987	74,000
	<u>5,554</u>	<u>234,349</u>		<u>221,826</u>	<u>2,987</u>	<u>224,813</u>

Ineligible excess over payable per employee contract 9,536

Employee No. 4 Salary Calculation

	Billed to USAID			Payable Per Employee Contract		
	Work Hours	US \$	Hourly Rate	Base US \$	Increase US \$	Total US \$
March & April 1994	192	7,982	37.41	N/A		N/A
May 1, 1994 to September 1, 1994	587	28,692	37.41	21,960		21,960
September 1, 1994 to September 1, 1995	2,328	99,874	37.41	87,090	2,095	89,185
September 1, 1995 to March 1996	1,384	56,855	37.41	51,775	1,259	53,034
	<u>4,491</u>	<u>193,403</u>		<u>160,825</u>	<u>3,354</u>	<u>164,179</u>

Ineligible excess over payable per employee contract 29,224

Employee No. 5 Salary Calculation

	Billed to USAID			Payable Per Employee Contract		
	Work Hours	US \$	Hourly Rate	Base US \$	Increase US \$	Total US \$
May 1994 to May 1, 1995	2,312	146,708	58.89	136,154		136,154
May 1, 1995 to March 31, 1996	2,136	134,948	58.89	125,789	4,080	129,869
	<u>4,448</u>	<u>281,656</u>		<u>261,943</u>	<u>4,080</u>	<u>266,023</u>

Ineligible excess over payable per employee contract 15,633

Employee No. 6 Salary Calculation

	Billed to USAID		Hourly Rate	Payable Per Employee Contract		
	Work Hours	US \$		Base US \$	Increase US \$	Total US \$
July 1993 to December 1, 1994	1.024	34,727	25	25,600		25,600
December 1, 1993 to December 1, 1994	1.855	65,614	25	46,375	3,120	49,495
December 1, 1994 to December 1, 1995	1.617	60,094	25	40,425	3,276	43,701
December 1, 1995 to March 31, 1996	1.128	43,013	25	28,200	917	29,117
	<u>5.624</u>	<u>203,448</u>		<u>140,600</u>	<u>7,313</u>	<u>147,913</u>

Ineligible excess over payable per employee contract 55,535

Based on the above, the total amount over-billed to USAID/Egypt is \$140,564. The finding has been modified based on REOL's response.

Finding No. 2: Post Differential

The employees' contracts with REOL indicate a foreign service allowance equal to 15% of the base salary commencing on the date of arrival at post of assignment and continuing during periods away from the post on official business, until the close of business on the day of departure from post of assignment enroute to the US. We redid the calculation for employees Nos. 4 and 5 as follows:

Post differential for employee No. 4 = \$164,179*15% = \$24,627
 Amount billed to USAID \$25,101
 Difference = \$474

Post differential for employee No. 5 = \$266,022*15% = \$39,903
 Amount billed to USAID \$40,220
 Difference = \$317

The difference of \$791 represents the amount over-billed to USAID/Egypt. The finding has been modified based on REOL's response.

Finding No. 3: Rest & Recreation

Per the Contract, Chapter II, Section 14, "the contractor shall keep a complete set of documents, records or other evidence of accounting procedures and practices sufficient to reflect properly all transactions under or in connection with this Contract and make them available to EEA and USAID or representatives at Contractor's main office in Cairo." This requirement is also found in Chapter V, Section B.6 and section E.1 of the Contract. Based on that criteria and the additional supporting documents provided by REOL, we determined that:

1. Adequate supporting documents were provided for employee No. 2's R&R for the amount of \$1,989 billed in June 1994. The finding has been deleted.
2. Adequate supporting documents were provided for the total amount of \$3,119, billed in June 1995 which was in part attributable to employee No. 2 and in part attributable to employee No. 4. The finding has been deleted.

Finding No. 4: Home Leave

In November 1993, REOL billed \$486 for a round-trip ticket from New York to Chicago taken by employee No. 2's child in August 1993. Per employee No. 2's contract, Section XV, a college student is entitled to one trip per year between the employee's location of foreign assignment and a company recognized accredited college or university in the US attended full time by the student. At the time of travel, employee No. 2's dependent was attending the university of Kansas. Based on that criteria and the additional supporting documents provided by REOL, the finding has been deleted.

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Finding No. 5: Home Leave

Per the Contract, Chapter II, Section 14, "the contractor shall keep a complete set of documents, records or other evidence of accounting procedures and practices sufficient to reflect properly all transactions under or in connection with this Contract and make them available to EEA and USAID or representatives at Contractor's main office in Cairo." This requirement is also found in Chapter V, Section B.6 and section E.1 of the Contract. Based on that criteria and the additional supporting documents provided by REOL, we determined that adequate supporting documents were provided for employee No. 4's home leave for the amount of \$2,958. The finding has been deleted.

Finding No. 6: Housing Allowance

According to REOL policies "commencing with the first day of occupation of private living quarters at the assignment location, a monthly housing allowances of \$1,500 would be paid to the employee as the Company's contribution toward his/her housing costs at the foreign location." Based on this criteria and the additional supporting documents provided for employee No. 2's housing allowance for the amount of \$9,212. The finding has been deleted.

Finding No. 7: Educational Travel

REOL policies indicate that economy class ticket will be provided for educational travel. Based on that criteria and the additional supporting documents provided by REOL, only the difference between the business and economy class airfares is ineligible. REOL provided support for the price of two one way tickets between New York and Cairo. The price of two separate one way tickets is substantially higher than the price of a round-trip ticket between New York and Cairo. Since the questioned amount relates to a round-trip business class ticket, the round-trip economy fare should be used to determine the ineligible amount. Therefore, until REOL provides support for the cost of the trip had a round-trip economy class ticket been used, the whole amount of \$3,565 will be questioned as ineligible. The finding remains unchanged.

Finding No. 8: Vehicle Storage

Employee No. 3's contract states that the employee will be reimbursed for moving household furniture and personal effects into storage and removal therefrom at the completion of the assignment. The employee will also be reimbursed for the storage charges including insurance for furniture and personal effects incurred during the assignment. Reimbursement will be provided for the storage of one personal automobile. Based on that criteria the vehicle storage of \$6,851 billed to USAID/Egypt is eligible. The finding has been deleted.

Finding No. 9: Initial Assignment Travel

Per Handbook 11, Section A.3.2.2, states "Costs should be reimbursable for actual travel cost and travel allowances of travelers from place of current residence to the post of duty in the host country." REOL stated that the return trip tickets were subsequently returned to the airline for credit prior to their expiration date and that the amount was credited to EEA. The additional supporting documents provided by REOL for the Initial Assignment Travel for employee No. 4 for the amount of \$5,793 did not show the receipt of credit by USAID/Egypt. The finding remains unchanged.

Finding No. 10: Emergency Travel

In December 1995, REOL billed \$2,365 for two emergency airplane tickets for employee No. 5 to attend the funeral of the employee's brother. Per the Contract, Appendix A, section 5B, (5), f, indicates that REOL is authorized to approve travel for death or serious illness in the immediate family members (parents and children) of an employee or spouse. Travel will be by economy class.

REOL considered the employee's brother an immediate family member which is not allowed by the Contract. The finding remains unchanged.

B. Internal Control

Finding No. 11: Imprest Fund

With regard to the operation of REOL's imprest fund we recommended the following:

1. The cash book is updated on daily basis and shows all checks issued and voided.
2. Bank reconciliations are prepared by a person other than the accountant.
3. Bank reconciliations and reports submitted to the headquarters are reviewed and approved by the Project Manager.

REOL agreed with our recommendations and indicated that the above mentioned procedures will be implemented. The finding remains unchanged.

Finding No. 12: Records and Supporting documents

Per the Contract, Chapter II, Section 14, "the contractor shall keep a complete set of documents, records or other evidence of accounting procedures and practices sufficient to reflect properly all transactions under or in connection with this Contract and make them available to EEA and USAID or representatives at Contractor's main office in Cairo." This requirement is also found in Chapter V, Section B.6 and section E.1 of the Contract. REOL indicated that the records were kept in the home office because work on phase I of the project was performed there. In addition, these records had to be made available in the home office to support the periodic audits of Raytheon by the US government cognizant audit agency. Regardless of the reason(s), REOL did not comply with the Contract's requirement. Therefore, the finding remains unchanged.

Finding No. 13: Approvals for Removing or Replacing Employees:

Per the Contract, prior to removing or replacing any employee, REOL must notify EEA 15 days in advance. Any change in key personnel shall require USAID concurrence and must be approved in writing by EEA. Moreover, REOL agreed that no employee shall depart Egypt or begin work under this Contract prior to approval by EEA. With their response, REOL provided documentation of USAID/Egypt and EEA's approvals for removing employees Nos. 2 and 3. In addition, REOL provided USAID/Egypt and EEA's approval for hiring employee No. 5. The finding has been deleted.

Raytheon Ebasco Overseas Limited (REOL)

Contract between REOL and the Egyptian Electricity Authority (EEA)
Agreed Upon Procedures Report for the
Period April 1, 1992 through March 31, 1996

United States Agency for International Development
Mission in Egypt Response to the Audit Report

USAID



UNITED STATES AGENCY for INTERNATIONAL DEVELOPMENT

CAIRO, EGYPT

M E M O R A N D U M

Date : December 31, 1997
To : Lou Mundy, RIG/A/Cairo
From : Shirley Hunter, OD/FM/FA
Subject: Financial-Related Agreed-Upon Procedures Applied to USAID Resources Managed by Raytheon Ebasco Overseas Limited (REOL) Under USAID/Egypt's Power Sector Support Project No. 263-0215

A handwritten signature or set of initials, possibly 'SH', written in dark ink.

Following are the results of Mission review of the subject report:

Recommendation 1:

We Recommend that USAID/Egypt make a management decision on the questioned (ineligible) costs of \$153,078 detailed on pages 10 through 12 of the Allied Accountants report, and recover from Raytheon Ebasco Overseas Limited the amounts determined to be unallowable.

Mission Response:

Finding No. 1 of \$140,564 Salaries:

The amount represents an overbilling of \$132,582 in the employees salaries due to using a "weekly-hour basis" different than the one stated in the assignment letters and due to adding provisions for vacations to the direct hours billed to USAID. The questioned amount also includes \$7,982 for hours performed by a REOL's employee in the Home Office prior to being assigned to Egypt's Project.

Based on Mission review of the employees' "letter of assignment, and Statement of Compensation", Mission agrees with the auditors finding with the following exceptions:

* The employment agreement for employee No. 6 clearly stated the rate of \$30 per/hour and not the rate presented in the audit report of \$25, attachment a. Therefore, the \$30/hour rate is allowable.

* Mission reviewed the timesheets of employee No. 4 which provided evidence that the employee actually worked on EEA project, attachment b. Therefore, \$7,982 is allowed.

106 Kasr El Aini Street
Garden City
Cairo, Egypt

Finding No. 2 of \$791: Post Differential:

The amount represents overbilling for two employees.

* Awaiting receipt of further details from the CPA firm.

Finding No. 7 of \$3,565 for Educational Travel:

The amount represents the total cost of business Airfare for an employee's child.

* Additional information/certification will be requested from REOL.

Finding No. 9 of \$5,793 for Initial Assignment Travel:

The amount represents the value of unused air plane ticket.

* REOL responded that the amount was deducted from their monthly voucher (December 31, 1994 thru January 27, 1995), attachment c. Mission will request REOL to provide more details to insure that the deduction relates to the finding.

Finding No. 10 of \$2,365 for Emergency Travel:

The amount represents two emergency airplane tickets for one employee to attend his brother's funeral.

* Since there is no evidence that the employee's brother was his dependent, we believe that amount is unallowable according to AID Handbook No. 22, attachment d.

Recommendation No. 2:

We recommend that USAID/Egypt obtain evidence that Raytheon Ebasco Overseas Limited has addressed the internal control weakness (lack of segregation of duties) detailed on pages 12 and 13 of the Allied Accountants' report.

Mission Response:

B. Internal Control - Imprest Fund:

Following are the implemented corrective procedures as stated in REOL's response, attachment e.

1. The cash book is now being updated on a daily basis and shows all checks issued and voided;

2. Bank reconciliation are now being prepared by a person other than the accountant; and

3. Bank reconciliation and reports are being reviewed and approved by the Project Manager.

Mission believes that the above corrective actions properly address the finding. However, Mission will request REOL to issue a circular to document those actions and ensure consistency in their application.

Therefore, Mission requests resolution of this recommendation, closure will be requested upon issuance of the circular and verification of implementing the corrective actions.

Recommendation No. 3

We recommend that USAID/Egypt obtain evidence that Raytheon Ebasco Overseas Limited has addressed the noncompliance issue (lack of complete accounting records in Cairo) detailed on page 13 of the Allied Accountants report.

C. Compliance - Records and Supporting Documents:

REOL did not comply with the contract for maintaining a complete set of documents, and records at the Contractor's main office in Cairo.

* In June 1997, REOL/EEA contract was amended to relieve REOL from this requirement. The amendment clearly stated that REOL will maintain its books in their home office in the United States, attachment f.

Therefore, Mission requests closure of this recommendation.