



**USAID**  
FROM THE AMERICAN PEOPLE

## OFFICE OF INSPECTOR GENERAL

---

AUDIT OF THE FUND ACCOUNTABILITY  
STATEMENT OF USAID RESOURCES  
MANAGED BY CH2M HILL UNDER  
AWARD NO. 294-C-00-00-00063-00  
“WATER RESOURCES PHASE III” FOR  
THE PERIOD FROM JUNE 21, 2000, TO  
SEPTEMBER 30, 2004

AUDIT REPORT NO. 6-294-06-014-N  
JULY 12, 2006

CAIRO, EGYPT

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.



**USAID**  
FROM THE AMERICAN PEOPLE

**Report No. 6-294-06-014-N**

July 12, 2006

***Office of Inspector General***

**MEMORANDUM**

**TO:** Director, USAID/West Bank and Gaza, James A. Bever

**FROM:** Regional Inspector General/Cairo, David H. Pritchard /s/ [Lloyd Miller for]

**SUBJECT:** Audit of the Fund Accountability Statement of USAID Resources Managed by CH2M Hill Under Award No. 294-C-00-00-00063-00 "Water Resources Phase III" for the Period From June 21, 2000, to September 30, 2004

Enclosed, please find one copy of the report that the independent firm, Ernst & Young, prepared on the subject audit.

The audit was performed in accordance with Generally Accepted Government Auditing Standards except that Ernst & Young did not have an external quality control review by an unaffiliated audit organization because professional organizations in the West Bank and Gaza do not offer such a review program.

USAID awarded CH2M Hill a Cost-Plus Fixed-Fee contract with an estimated cost of \$38,321,263, including the fixed fee, as of the date of the auditor's report. Under this contract, USAID provided funding to develop and implement an updated West Bank Integrated Water Resources Management Plan for the Water Resources Program Phase 3. This project also supports the planning, engineering and construction management of wastewater and solid waste treatment for the Municipality of Hebron, village planning and infrastructure support, and municipal planning and training support. The audit covered expenditures totaling \$17,790,552 for the period from June 21, 2000, to September 30, 2004.

The audit included: (1) expressing an opinion on whether costs were allowable, reasonable, and allocable; (2) obtaining an understanding of the internal control structure and assessing control risk; (3) determining compliance with award terms and applicable laws and regulations; (4) determining whether CH2M Hill appropriately charged indirect costs to USAID; and (5) determining whether CH2M Hill took appropriate action on prior audit report recommendations. The audit tested CH2M Hill's compliance with Executive Order 13224 – *Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten To Commit, Or Support Terrorism*.

The auditors expressed a qualified opinion on the costs incurred by CH2M Hill. The auditors identified questioned ineligible costs of \$1,327,312 for expenditures that were not in compliance with source of origin regulations. The auditors identified five reportable internal controls conditions:

- use of spreadsheets as accounting records,
- procurement procedures promoting competition not followed,

- reconciliations of suppliers' statements not regularly performed,
- no physical verification of assets, and
- not maintaining control procedures over commodities, source of origin and nationality requirements.

In addition, the auditors noted four material instances of noncompliance by CH2M Hill with source of origin agreement terms and applicable laws and regulations related to:

- procurements of equipment,
- long-term leasing of vehicles,
- procurements of furniture and fixtures, and
- documentation of justification for procuring commodities from a non-U.S. origin.

CH2M Hill's management stated that it had complied with source of origin requirements by making requests for waivers with the USAID Contracting Officer. In one instance, management cited an emergency situation necessitating the \$10,530 purchase of gas masks deemed necessary due to an imminent threat of attack by Iraq on all citizens and residents of Israel and Palestine. CH2M Hill agreed with two internal control recommendations regarding suppliers' statements and physical verification of assets.

Based on our review of the report, we are including the following recommendations in USAID's Consolidated Audit Tracking System.

*Recommendation No. 1: We recommend that the Agreement Officer, USAID/West Bank and Gaza, make a management decision regarding the suitability of CH2M Hill's accounting system for the project's purposes. This reportable condition is detailed on page 18 of the Ernst & Young report.*

*Recommendation No. 2: We recommend that the Agreement Officer, USAID/West Bank and Gaza, ensure that CH2M Hill follow established procurement procedures to promote competition to the maximum extent possible. This reportable condition is detailed on page 19 of the Ernst & Young report.*

*Recommendation No. 3: We recommend that the Agreement Officer, USAID/West Bank and Gaza, ensure that CH2M Hill perform regular reconciliations of suppliers' account balances with the underlying accounting records. This reportable condition is detailed on page 20 of the Ernst & Young report.*

*Recommendation No. 4: We recommend that the Agreement Officer, USAID/West Bank and Gaza, ensure that CH2M Hill implement a regular documented program for physical verification of its assets on a regular basis. This reportable condition is detailed on page 21 of the Ernst & Young report.*

*Recommendation No. 5: We recommend that the Agreement Officer, USAID/West Bank and Gaza, ensure that CH2M Hill complies with 22 CFR Chapter II, Part 228.40 for procurement rules governing source of origin and*

*nationality. This reportable condition is detailed on page 22 of the Ernst & Young report.*

*Recommendation No. 6: We recommend that the Agreement Officer, USAID/West Bank and Gaza, ensure that CH2M Hill obtain a waiver for the procurement of commodities that are not of U.S. origin. These instances of material noncompliance are detailed on pages 23 through 24 of the Ernst & Young report.*

*Recommendation No. 7: We recommend that the Agreement Officer, USAID/West Bank and Gaza, ensure that CH2M Hill comply with documentation requirements to properly justify instances of procuring commodities from non-U.S. sources. This instance of material noncompliance is detailed on pages 27 through 38 of the Ernst & Young report.*

*Recommendation No. 8: We recommend that the Agreement Officer, USAID/West Bank and Gaza, make a management decision on the questioned ineligible costs of \$1,327,312 detailed on page 7 and pages 27 through 38 of the Ernst & Young report and recover from CH2M Hill any amounts determined to be unallowable.*

Enclosures: a/s