



USAID

FROM THE AMERICAN PEOPLE

Office of Inspector General

August 10, 2006

MEMORANDUM

TO: USAID/Afghanistan Director, Leon Waskin

FROM: RIG/Manila, Catherine M. Trujillo *Catherine Trujillo*

SUBJECT: Audit of Treatment of Specified Costs Incurred by Camp, Dresser & McKee Constructors, Inc. Under the Afghanistan Water and Sanitation Program, USAID/Afghanistan Contract No. 306-C-00-04-00568-00, for the Period from September 30, 2004, to February 25, 2006; Audit Report No. 5-306-06-004-D

Please find attached one copy of the subject audit report covering specified costs incurred by Camp, Dresser & McKee Constructors, Inc. (CDM) under USAID/Afghanistan's Afghanistan Water and Sanitation program, for the period from September 30, 2004, to February 25, 2006. The audit was conducted by the Defense Contract Audit Agency (DCAA).

The USAID Regional Inspector General in Manila reviewed the report and found that the work was performed, where applicable, in accordance with *Government Auditing Standards* issued by the Comptroller General of the United States.

The objective of the audit was to determine whether direct and indirect costs billed to USAID relating to post differential pay, danger pay, and per diem costs in excess of 180 days constitute allowable costs in accordance with the applicable requirements of the Federal Acquisition Regulations, USAID Acquisition Regulations, Standardized Regulations, and contract terms.

The above costs examined by DCAA were included in CDM's invoice numbers 1 through 15 and covered a total of \$261,390 in specified program costs. By performing tests for compliance against the above requirements, DCAA concluded that all examined costs of \$261,390 as ineligible. The total consisted of \$156,275 of direct costs and \$105,115 of indirect costs which represented application of CDM's provisional indirect cost rates to the disallowed direct costs for differential and danger pay. DCAA found, however, that of the total \$261,390 ineligible costs, USAID had already disallowed and withheld from payment \$39,880, representing a portion of the direct costs. Therefore, the net total questioned costs identified were \$221,509, consisting of \$116,394 in direct costs and \$105,115 in indirect costs.

CDM disagreed with the net questioned costs and provided reasons why they disagreed. DCAA did not agree with the CDM's rebuttal and questioned the costs as unallowable.

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

Recommendation No. I: We recommend that USAID/Afghanistan determine the allowability and recover, as appropriate, questioned costs of \$221,509 (ineligible) detailed on pages 3 through 9 of the report.

This recommendation will require a management decision by USAID/Afghanistan. The Mission's management decision should be prepared in accordance with Automated Directives System (ADS) 595.3.1.1a and 595.3.1.2. A determination of final action for these recommendations will be made by the Office of the Chief Financial Officer, Audit Performance and Compliance Division (M/CFO/APC), when planned actions are completed.

Please advise this office within 30 days of actions planned or already taken to reach a management decision on the above recommendation.

Attachment: a/s

cc: USAID/Afghanistan Controller
USAID/IG/HLC
USAID/M/CFO/APC
USAID/IG/M
USAID/IG/I
RIG Files



DEFENSE CONTRACT AUDIT AGENCY

AUDIT REPORT NO. 2171-2006J17900007



August 1, 2006

PREPARED FOR: U.S. Agency for International Development
Office of Procurement
ATTN: Mr. Harry Pimpong, Branch Chief
M/OAA/CAS, Room 7.08-051
1300 Pennsylvania Avenue, NW
Washington, DC 20523-7802

PREPARED BY: DCAA Boston Branch Office
495 Summer Street, Suite 336
Boston, MA 02210-2192
Telephone No. (617) 753-3777
FAX No. (617) 753-3404
E-mail Address dcaa-fao2171@dcaa.mil

SUBJECT: Audit of Treatment of Specified Costs Under
Contract No. 306-C-00-04-00568-00

REFERENCES: Task No. IG-0-06-016; FCID No. 0710
Relevant Dates: See Page 12

CONTRACTOR: CDM Constructors, Inc.
One Cambridge Place, 50 Hampshire Street
Cambridge, MA 02139-1548

REPORT RELEASE RESTRICTIONS: See Page 13

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SUBJECT OF AUDIT

As requested by the U. S. Agency for International Development, Office of Inspector General, on April 18, 2006, we examined Camp, Dresser & McKee Constructors, Inc. (CCI) costs incurred pertaining to post differential pay, danger pay and per diem costs in excess of 180 days as stipulated in USAID's request for audit from September 30, 2004 (inception of contract/invoice number 1) through February 25, 2006 (invoice number 15) under USAID contract no. 306-C-00-04-00568-00. The cost-plus-fixed-fee contract was awarded to CCI on September 30, 2004 in the amount of \$41,333,430.45 and provided for Afghanistan Water and Sanitation Program. The purpose of the examination was to determine the allowability of direct and related indirect costs pertaining to post differential pay, danger pay and per diem costs in excess of 180 days.

The books and records are the responsibility of the contractor. Our responsibility is to express an opinion on the books and records based on our examination.

EXECUTIVE SUMMARY

Our examination of the contractor's cost incurred through February 25, 2006 pertaining to post differential pay, danger pay, per diem costs in excess of 180 days, and associated indirect costs disclosed \$221,509 of questioned costs which include foreign allowance payments, travel costs and applicable indirect costs. Details of our questioned costs are presented in Exhibit A, page 3 of this report.

SCOPE OF AUDIT

We conducted our examination in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether the data and records examined are free of material misstatement. An examination includes:

- evaluating the contractor's internal controls, assessing control risk, and determining the extent of audit testing needed based on the control risk assessment;
- examining, on a test basis, evidence supporting the amounts and disclosures in the data and records evaluated;
- assessing the accounting principles used and significant estimates made by the contractor;
- evaluating the overall data and records presentation; and
- determining the need for technical specialist assistance.

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We evaluated post differential pay, danger pay, per diem costs in excess of 180 days, and associated indirect costs from September 30, 2004 through February 25, 2006 using the applicable requirements contained in the:

- Federal Acquisition Regulation (FAR),
- Agency for International Development Acquisition Regulations (AIDAR),
- Department of State Standardized Regulations (DSSR), and
- USAID Contract Requirements.

Our assessment of control risk reflects that we have not specifically tested the effectiveness of CDM Constructors, Inc.'s system and related internal controls. The scope of our examination reflects our assessment of control risk and includes those tests of compliance with laws and regulations that we believe provide a reasonable basis for our opinion.

RESULTS OF AUDIT

In our opinion, the contractor's claimed direct and indirect costs are acceptable as adjusted by our examination. We questioned \$156,275 of direct costs and \$105,115 of indirect costs incurred and billed to USAID under contract number 306-C-00-04-00568-00 from September 30, 2004 (invoice number 1) through February 25, 2006 (invoice number 15). Details of our evaluation are presented in Exhibit A, page 3 of this report.

Direct costs not questioned are provisionally approved pending final acceptance. Final acceptance of amounts proposed under Government contracts does not take place until performance under the contract is completed and accepted by the cognizant authorities and the audit responsibilities have been completed.

The contractor's provisional indirect rates for CDM Constructors, Inc., CDM, Inc., and CDM International are acceptable subject to audit of the final indirect cost rates.

We discussed the results of our examination with Mr. Carlton Brown, Lead Contract Administrator, throughout our fieldwork and with Mr. Robert McCarthy, Treasurer and Vice President, and Mr. Frederick Babin, Associate in a formal exit conference held on July 18, 2006. In response to our examination, the contractor did not accept our findings and recommendations in total as discussed in the explanatory notes to Exhibit A and as included in the contractor's written response. The complete text of the contractor's response appears as Appendix 1, page 14 of this report.

We provided a draft copy of the audit report to the contractor's representative on July 18, 2006.

EXHIBIT A

Description - Invoices 1-15	CDM			Consultants	Claimed Total	Questioned	Note
	CCI	International	Inc.				
6th Day Danger Pay	\$ 8,186	\$ 17,009	\$2,931	\$ 17,006	\$ 45,132	\$ 45,132	Note 1
6th Day Post Differential	\$ 7,697	\$ 19,129	\$1,577	\$ 15,598	\$ 44,002	\$ 44,002	Note 1
Sub Total	\$ 15,883	\$ 36,139	\$4,509	\$ 32,604	\$ 89,134	\$ 89,134	
Fringe Benefits	\$ 5,082	\$ 12,721	\$ 1,776	\$ -	\$ 19,580	\$ 19,580	Note 2
Labor Overhead	\$ 24,336	\$ 53,160	\$ 6,222	\$ -	\$ 83,718	\$ 83,718	Note 2
G&A	\$ 1,817	\$ -	\$ -	\$ -	\$ 1,817	\$ 1,817	Note 2
Sub Total	\$ 31,235	\$ 65,881	\$ 7,999	\$ -	\$105,115	\$ 105,115	
Travel in Excess of 180 Days	\$ 14,560	\$ 36,941	\$ -	\$ 15,640	\$ 67,141	\$ 67,141	Note 3
Sub Total					\$261,390	\$ 261,390	
Amount Disallowed by USAID						\$ 39,880	Note 4
Net Questioned Amount						\$ 221,509	

Explanatory Notes:

1. 6th Danger Pay and Post Differential Pay

a. Summary of Conclusions:

We questioned \$89,143 of foreign allowance payments for post danger pay and post differential pay in accordance with AIDAR 752-7028(a) and (j). The questioned amount is related to CDM employees (i.e., CDM Constructors, Inc., CDM, Inc., and CDM, International) and consultants who were paid danger post differential pay allowance of 25 percent of hours worked beyond a 40 hour a week while working in Afghanistan. USAID regulation AIDAR 752-7028(a) and (j) provides that danger pay and post differential pay be paid in accordance with Department of State and Standardized Regulations (DSSR). The DSSR allows payment of danger pay and post differential of 25 percent to be paid on 40 hours of work per week. The questioned amount represents the 8 hours worked (i.e., 6th day danger and post differential) by both CDM employees and consultants in excess of 40 hours per week at the standard labor rate times the 25 percent differential rate from invoices 1 through 15.

b. Basis of Contractor's Cost:

The contractor claimed 6th day danger pay and 6th day post differential pay in the amount of \$89,134 for the period of September 30, 2004 (inception of contract/invoice number 1) through February 25, 2006 (invoice number 15) and is based on the contractor's general ledger records for this same period. The claimed amount represents payments for the 8 hours worked in excess of the 40 hour work week, which were made to both CDM employees and consultants.

c. Audit Evaluation:

We requested a detailed analysis from the contractor of total 6th day danger pay and post differential pay that was paid to all employees and consultants as claimed in invoices 1 through 15. We selected a sample of foreign allowance payments during this time period (September 30, 2004 through February 25, 2006) and requested supporting documentation to review the payments for compliance with FAR, AIDAR, DSSR, contract requirements and the contractor's policies and procedures.

d. Contractor's Reaction:

The contractor does not agree with our findings. The contractor contends that the contract stipulates a 48-hour work week for overseas staff and that annual salary of the overseas staff assigned to the project is based on a 48-hour work week. Since post differential and danger pay are a function of salary, the contractor contends that the foreign allowance payments are also based on a 48-hour work week and are therefore, reimbursable per the contract terms and conditions. The complete text of the contractor's response is included as Appendix 1, page 14.

e. Auditor's Response:

We disagree with the contractor's reaction. Although section H.8(g)(2) (Personnel Compensation – Work Week – Overseas Employees) of the CCI contract states that “the work week for the Contractor's overseas employees shall not be less than 48 hours and shall be scheduled to coincide with the work week of those employees of the USAID Mission and the Cooperation Country associated with the work of this contract.”, we maintain our opinion that foreign allowance payments for danger pay and post differential are reimbursable on the basis of a 40-hour basic compensation work week as opposed to a 48-hour work week.

The definition of basic compensation is defined in section 040(k) included in the general provisions part of the DSSR. In section 040(k), we found wording that we believe provides a link to 5 USC 5504 that requires the use of a 40 hour work week for purposes of defining basic compensation. The definition at section 040(k)(3) of the DSSR states that “rate of compensation fixed (3) administratively in conformity with rates paid by the Government for work of a comparable level of difficulty and responsibility in the continental United States, before any deduction is made and without taking into consideration any additional compensation such as overtime pay, night pay differential, hazard differential, extra pay for work on holidays, post differential, and allowances; except that for teachers defined in subsection n, hereof, basic compensation means the rate of compensation fixed by the military departments of the Department of Defense for the position held by an individual (including any appropriate increments for having completed a higher level of academic preparation) before any deduction is made and exclusive of all allowances, differentials, or other additional compensation.” In our opinion the hours upon which the “rates paid by the Government for work of a comparable level of difficulty and responsibility in the continental United States” are subject to the laws established in 5 USC 5504 which define a weekly computation of base pay using 40 hours and therefore the DSSR regulations would require the use of a 40 hour basic compensation workweek. Any allowances would, therefore, be applied to base pay using a 40 hour workweek.

Also, the definitions at section 910 (Explanations and Instructions) of the DSSR specifically state that both danger pay and post differential is only paid for hours for which basic compensation is paid.

In addition, for the employees that we selected for review, we determined that the contractor's calculation and reimbursement of the basic compensation was based on a 2080 hour work year (40 hours times 52 weeks), or a 40-hour work week on this contract. If the contractor contends that the contract stipulates a 48 work week, then the rate of compensation should have been calculated on a 48-hour work week or a 2,496 (48 hours times 52 weeks) hour work year, which would have resulted in a lower hourly rate. The contractor's calculation of danger pay and post differential for the period under review is calculated by applying the 25 percent foreign allowance for post differential and danger pay to the basic compensation rate.

Furthermore, during our fieldwork, we determined that the contractor held several correspondences with the contracting officer (via meeting, telephone and e-mail) specifically instructing CDM to reimburse all staff located in Afghanistan for danger pay and post differential on a 40-hour work week, not a 48-hour work-week. On March 1, 2005, CDM issued a letter to the USAID that claimed that their staff should be reimbursed for such allowances on a 48-hour work week and formally submitted a claim for this amount on March 3, 2005. On April 13, 2006, the USAID contracting officer issued a letter to CDM which specifically stated that "6th day post differential and danger pay is not permitted in accordance with Procurement Executive Bulletin No. 2005-03 issued on March 30, 2005...". We reviewed the referenced bulletin and determined that the USAID is clear on the reimbursement of post differential and danger pay, which states in part that "USAID contracting officers awarding and administering cost reimbursement contracts that include performance in Afghanistan are to calculate post differential and danger pay under AIDAR clause 752.7028 by applying the percentages established by the Department of State for U.S. Government employees for each allowance to a maximum 40 hour workweek, regardless of whether the contractor has been authorized a workweek in excess of 40 hours. If the contracting officer has authorized a workweek in excess of 40 hours, then additional non-premium pay salary and related fringe benefits may be paid for hours worked, but payments for post differential and danger pay are limited to the percentage rates applied to a maximum of 40 hours."

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2. Indirect Costs (Fringe Benefits, Labor Overhead and G&A)

a. Summary of Conclusions:

We questioned \$105,115 of indirect costs, which represents the application of the provisional indirect rates for CDM Constructors, Inc. CDM, Inc. and CDM International to questioned foreign allowance base costs of \$89,134 for the period of September 30, 2004 through February 25, 2006. The contractor did not apply indirect rates to the claimed consultant costs.

b. Basis of Contractor's Cost:

The claimed provisional indirect rates are based on the following:

- CDM Constructor's Inc. (CCI) – the contractor has applied the FY 2003 provisional indirect rates that were prepared by the contractor's certified public accountants on June 5, 2003 to invoices 1 through 15. These rates were approved by USAID at the time the contract was negotiated.
- CDM International – the FY 2003 proposed indirect rates that were applied to invoices 1 through 15 are based on a negotiated indirect cost rate agreement letter, dated October 27, 2004. The agreement was issued through the contractor's cognizant Administrative Contracting Officer at the U.S Agency for International Development.
- CDM, Inc. - the FY 2003 proposed indirect rates that were applied to invoices 1 through 15 are based on a negotiated indirect cost rate agreement letter, dated July 29, 2003. The agreement was issued through the contractor's cognizant Administrative Contracting Officer at the U.S Environmental Protection Agency.

The contractor claims they have applied the FY 2003 provisional rates for CCI, CDM, International and CDM, Inc. to invoices 1 through 15 as they have not received authorization to apply updated provisional rates to interim vouchers.

The FY 2003 provisional rates by CDM division are as follows:

<u>CDM Division</u>	<u>Fringe</u>	<u>Overhead</u>	<u>Combined</u>	<u>G&A</u>
CDM, Inc.	39.40%	138.00%	177.40%	N/A
CDM, International	35.20%	147.10%	182.30%	N/A
CCI (CDM Constructors, Inc.)	32.00%	116.08%	148.08%	4.01%

c. Audit Evaluation:

We verified the contractor correctly applied the FY 2003 negotiated rates to the subject contract for invoices 1 through 15 in accordance with the applicable indirect cost rate agreements with USAID for the CDM International claimed allocation costs and with the EPA for the CDM, Inc. claimed allocation costs. We also verified the contractor applied the FY 2003 CCI provisional indirect rates to the claimed allocation costs.

d. Contractor's Reaction:

The contractor agrees with the methodology we used to arrive at the questioned amount, but disagrees with the questioned costs since they do not agree with the questioned base costs as discussed in note 1 above. The complete text of the contractor's response is included as Appendix 1, page 14.

e. Auditor's Response:

As discussed in note 1 above, it is our opinion that foreign allowance payments for danger pay and post differential are reimbursable on the basis of a 40-hour basic compensation work week as opposed to a 48-hour work week. Therefore, we contend that applicable overhead costs associated with the questioned allocation base should also be disallowed by the contracting officer.

3. Travel in Excess of 180 Days

a. Summary of Conclusions:

We questioned \$67,141 in travel costs, which represents per diem costs (i.e., meals and incidentals only) that were reimbursed to all CDM employees and consultants after they were located in Afghanistan in excess of 180 days as stipulated in the USAID request for audit. The questioned amount represents per diem costs in excess of 180 days as reimbursed in invoices 1 through 15 in accordance with AIDAR 752.7028(b), Living Quarters Allowance. In accordance with AIDAR 752.70028(b), "Living quarters allowance is an allowance granted to reimburse an employee for substantially all of his/her cost for either temporary or residence quarters whenever Government-owned or Government-rented quarters are not provided to him/her at his/her post without charge. Such costs are those incurred for temporary lodging (temporary quarters subsistence allowance) or one unit of residence quarters (living quarters allowance) and include rent, plus any costs not included therein for heat, light, fuel, gas, electricity and water. The temporary quarters subsistence allowance and the living quarters allowance are never both payable to an employee for the same period of time. The Contractor will be reimbursed for payments made to employees for a living quarters allowance for rent and utilities if such facilities are not supplied."

Due to the unique security situation in Afghanistan, CDM was authorized to renovate a compound to use as the staff housing arrangement for all CDM employees and consultants during contract performance in Afghanistan. CDM was reimbursed for all actual costs associated with the renovation of the compound as well as all costs incurred to run the compound on a monthly basis.

During our audit, we determined that all CDM employees and consultants were paid per diem amounts in accordance with the Federal Travel Regulations (FTR) as soon as they arrived in Afghanistan and continued to be reimbursed per diem amounts after working in Afghanistan in excess of 180 days. The per diem amounts were paid to compensate for meals and incidentals in and out of the compound since CDM was separately reimbursed for all other actual living costs to maintain the compound in Afghanistan. We also determined that the per diem costs paid to employees and consultants were also used to reimburse costs such as food supplies, preparation of meals, maid and laundry service, maintenance of the compound grounds, and other incidental costs. All employees and consultants are required to reimburse CDM for these costs on a monthly basis using the per diem costs.

Accordingly, we have questioned the total per diem amounts that were paid to employees and consultants that were located in Afghanistan in excess of 180 days as the amounts do not meet the definition of the living quarters allowance in accordance with DSSR 131.1 and 131.2.

In accordance with DSSR 131.1, "Living quarters allowance-", hereinafter referred to as LQA, means a quarters allowance granted to an employee for the annual cost of suitable, adequate, living quarters for the employee and his/her family." In accordance with DSSR 131.2, "Rent-", exclusive of heat, light, fuel (including gas and electricity), water and taxes, means the annual cost of suitable, adequate living quarters for an employee and his/her family. When approved by the head of agency as necessary to provide such living quarters, rent may include in addition to the basic annual rental, the cost of: (1) rental of garage space for one car only for each employee, at not to exceed 25 percent of the employee's applicable maximum annual quarters allowance rate, regardless of whether such space is included with the quarters; (2) separate rental of necessary furniture at not to exceed 25 percent of the applicable maximum annual quarters allowance rate, meaning rental of necessary basic furniture and/or equipment, etc., but exclusive of pianos, other musical instruments, radios, television sets, etc. from sources other than the landlord (rental of furniture and/or space from the same source under two agreements or contracts is considered to be rental of "furnished quarters"); (3) insurance on the property and/or furnishings so rented, if such insurance is required by local law to be paid by the lessee; (4) agent's fee with authorizing officer certifying that fee is customary, reasonable, and legal under local law, (5) interest on a loan from an American institution to finance "key money" paid to a landlord; (6) garbage and trash disposal; and (7) mandatory as opposed to optional fees required for maintenance of common areas ("condominium fees").

The costs of the following may not be included in rent: (1) concierge or notary's fees; (2) agent's fee except under conditions stated above; (3) telephone installation or maintenance; (4) deterioration of property or furnishings; (5) servant's wages or maintenance; (6) tips; (7) cleaning; (8) storage; (9) garden or lawn service (except as stated above); (10) servants' quarters, unless considered part of the same property with the living quarters; and (11) any other extraneous expenses not directly related to rent as such."

b. Basis of Contractor's Cost:

Proposed per diem costs in excess of 180 days represent actual per diem costs (i.e., meals and incidentals only) that were reimbursed to all employees and consultants in accordance with the Federal Travel Regulations as reflected in invoices 1 through 15 and the contractor's general ledger records from September 30, 2004 through February 25, 2006. The actual per diem meal and incidental rate for the period of September 30, 2004 through February 25, 2006 was \$40 per day.

c. Audit Evaluation:

We requested a detailed analysis from the contractor of the total per diem costs that was paid to all employees and consultants in excess of 180 days as stipulated by the USAID request and as claimed in invoices 1 through 15. We selected a sample of the per diem payments during this time period (September 30, 2004 through February 25, 2006) and requested supporting documentation to review the payments for compliance with FAR, AIDAR, DSSR, and contract requirements.

d. Contractor's Reaction:

The contractor does not agree with our findings. The contractor contends that the living situation in Afghanistan is not conducive to eating outside the compound. In the interest of the safety of all staff located in Afghanistan, the contractor prepares all meals in the residential compound. Therefore, CDM believes that the cost of the meals is appropriate as a direct cost to the contract as long as there is a safety risk for their employees. The complete text of the contractor's response is included as Appendix 1, page 14.

e. Auditor's Response:

We disagree with the contractor's reaction. During our audit, we determined that the contractor instructed all employees and consultants located in Afghanistan to reimburse the company for actual meal costs on a monthly basis that were associated with preparing meals within the compound as well as other related expenses, such as food supplies, preparation of meals, maid and laundry service, maintenance of the compound grounds, and other incidental costs. Based on the sample of employees we reviewed, we also determined that the actual expenses on a monthly basis were far less than the per diem amounts that were reimbursed to employees during contract performance. As a result, the employee kept the difference between the actual and the daily per diem amounts that were in effect at the time of contract performance. Furthermore, we also determined that AIDAR provision 752.7028 (b) (living quarters allowance) and (c) (temporary quarters subsistence allowance) were both included in the contract terms and conditions and neither provision allows for the reimbursement of per diem rates in excess of 180 days.

Based on the unique security situation in Afghanistan, we recommend the contracting officer negotiate a method to reimburse employees and consultants for actual meal costs so as to ensure that unallowable costs under this contract are not subsequently reimbursed to the contractor through other methods in accordance with the contract terms and conditions.

4. Amount Disallowed by USAID

a. Summary of Conclusions:

We reviewed interim vouchers 1 through 15 and determined that the Contracting Officer disallowed a total of \$39,880 from these vouchers. Accordingly, we have reduced our total questioned amount of \$261,390 for the amount that was previously disallowed by the Contracting Officer for a total net questioned amount of \$221,509. The amount that was disallowed represents a portion of the total 6th day post differential and danger pay foreign allowance as reviewed and disallowed by the contracting officer during contract performance.

b. Basis of Contractor's Cost:

The cumulative costs as reflected in invoices 1 through 15 are based on the contractor's general ledger records from September 30, 2004 through February 25, 2006.

c. Audit Evaluation:

We verified the current and cumulative amounts from invoice number 15 to the contractor's general ledger records as of February 25, 2006 and determined that there were no differences. We also verified that the contractor did not receive a total of \$39,880 from the applicable USAID payment office as reflected in invoices 1 through 15.

d. Contractor's Reaction:

The contractor agrees that USAID has reduced the requested current amounts on selected invoices by a total of \$39,880. The complete text of the contractor's response is included as Appendix 1, page 14.

CONTRACTOR ORGANIZATION AND SYSTEMS

1. Organization:

CDM Constructors, Inc. (CCI) was incorporated in the Commonwealth of Massachusetts in 1992. CCI is a majority owned subsidiary of Camp Dresser & McKee, Inc. Sales for fiscal year ended December 31, 2005 were \$177 million, approximately 31 percent of which were applicable to Federal Government contracts. The company operates as a general contractor, design/builder, and contract manager specializing in environmental and infrastructure improvement projects.

2. Accounting System:

CCI's accounting period ends on the Saturday closest to December 31. CCI maintains an accounting system on the accrual basis in accordance with generally accepted accounting principles. CCI's accounting system is posted on a current basis. Appropriate adjusting entries are made at the end of each month and at year end. CCI uses Oracle software for its accounting system. CCI prepares audited financial statements on an annual basis.

CCI maintains a job cost accounting system wherein contracts are assigned individual project numbers that are used to accumulate associated direct costs. Indirect costs are identified with and accumulated under individual account numbers, which in turn are identified to the various indirect cost pools. The following is a schedule of CCI's indirect cost pools and applicable allocation bases:

<u>Indirect Cost Pool</u>	<u>Allocation Base</u>
Non-Craft Fringe Benefits	Non-craft Direct Labor
Craft Fringe Benefits	Craft Direct Labor
Non-craft Overhead	Non-craft Direct Labor plus Direct Non-Craft Fringe Benefits
Craft Overhead	Craft Direct Labor plus Direct Craft Fringe Benefits
General & Administrative	Total Cost Input

DCAA PERSONNEL

	<u>Telephone No.</u>
Primary contacts regarding this audit:	
Karen K. Redmond, Auditor	(617) 753-3691
Joyce M. McKenna, Supervisory Auditor	(617) 753-3702
Other contact regarding this audit report:	
David J Blake, Branch Manager	(617) 753-3777
	<u>FAX No.</u>
Boston Branch Office	(617) 753-3404
	<u>E-mail Address</u>
Boston Branch Office	dcaa-fao2171@dcaa.mil

General information on audit matters is available at <http://www.dcaa.mil/>.

RELEVANT DATES

Request for Audit: Contracting Officer–dated March 29, 2006; received April 18, 2006

AUDIT REPORT AUTHORIZED BY:

/Signed/
DAVID J. BLAKE
Branch Manager
DCAA Boston Branch Office

AUDIT REPORT DISTRIBUTION AND RESTRICTIONS

DISTRIBUTION

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U.S. Agency for International Development Office of Inspector General ATTN: Mr. Andrew Katsaros, Director, Financial Audits Division OIG/A/FA Room 8.10-001 1300 Pennsylvania Avenue, NW Washington, DC 20523-7802	faudit@usaid.gov sshea@usaid.gov ctrujillo@usaid.gov PDLamade@usaid.gov
CDM Constructors, Inc. ATTN: Mr. Robert McCarthy, Treasurer and Vice President One Cambridge Place, 50 Hampshire Street Cambridge, MA 02139-1548 (Copy furnished thru ACO)	
DCAA Northeastern Regional Office 59 Composite Way Lowell, MA 01851-5150 ATTN: Mr. Ronald Meldonian, Deputy Regional Director ATTN: Mr. Lew Sullivan, Regional Audit Manager ATTN: Ms. Chris Coughlin, Technical Programs Specialist	DRD-2 RAMB-2 RST-2

RESTRICTIONS

1. Information contained in this audit report may be proprietary. It is not practical to identify during the conduct of the audit those elements of the data which are proprietary. Make proprietary determinations in the event of an external request for access. Consider the restrictions of 18 U.S.C. 1905 before releasing this information to the public.
2. Under the provisions of Title 32, Code of Federal Regulations, Part 290.7(b), DCAA will refer any Freedom of Information Act requests for audit reports received to the cognizant contracting agency for determination as to releasability and a direct response to the requestor.
3. Do not use the information contained in this audit report for purposes other than action on the subject of this audit without first discussing its applicability with the auditor.



One Cambridge Place, 50 Hampshire Street
Cambridge, Massachusetts 02139
tel: 617 452-6000
fax: 617 452-8000

July 26, 2006

Karen K. Redmond, Auditor
DCAA-Boston Branch Office
495 Summer Street
Boston, MA 02210

Subject: Comments on Draft Audit Report, DCAA Audit Report No. 2171-2006J17900007, Audit of Treatment of Specified Costs Under Contract No. 306-C-00-04-00568-00

Dear Ms. Redmond:

CDM offers the following comments on the subject draft audit report. Please feel free to contact me or Bob McCarthy if you have any questions or require additional information.

1. 6th Day Danger Pay and Post Differential Pay

We disagree with DCAA's conclusions. The contract stipulates a minimum 48-hour work-week for overseas staff. The annual salary of the overseas staff assigned to the project is based on a 48-hour work-week. The post differential and danger pay allowances are a function of salary. Hence, paying the allowances based on a 48-hour work-week is compliant with contract terms.

2. Indirect Costs (Fringe Benefits, Labor Overhead, G&A)

We take no exception to DCAA's questioning the indirect costs associated with validly questioned direct costs. To the extent that we disagree with questioned direct costs, we also disagree with the application of associated indirect costs.

3. Travel in Excess of 180 Days

We disagree with DCAA's conclusion. The situation in Afghanistan is not one in which contractor employees can eat at restaurants and visit the local grocery store to purchase food. In the interest of employee safety, essentially all meals are provided at the residential compound. We believe, therefore, that the cost of these meals is appropriate as a direct expense under the contract for as long as the safety risks exist for our staff.

4. Amount Disallowed by USAID

We agree that USAID has reduced payments on selected invoices. Whether these amounts have been disallowed remains to be determined.

Very truly yours,


Frederick G. Babin
Camp Dresser & McKee Inc.